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United States Department of State

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**FOREIGN
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1958-1960

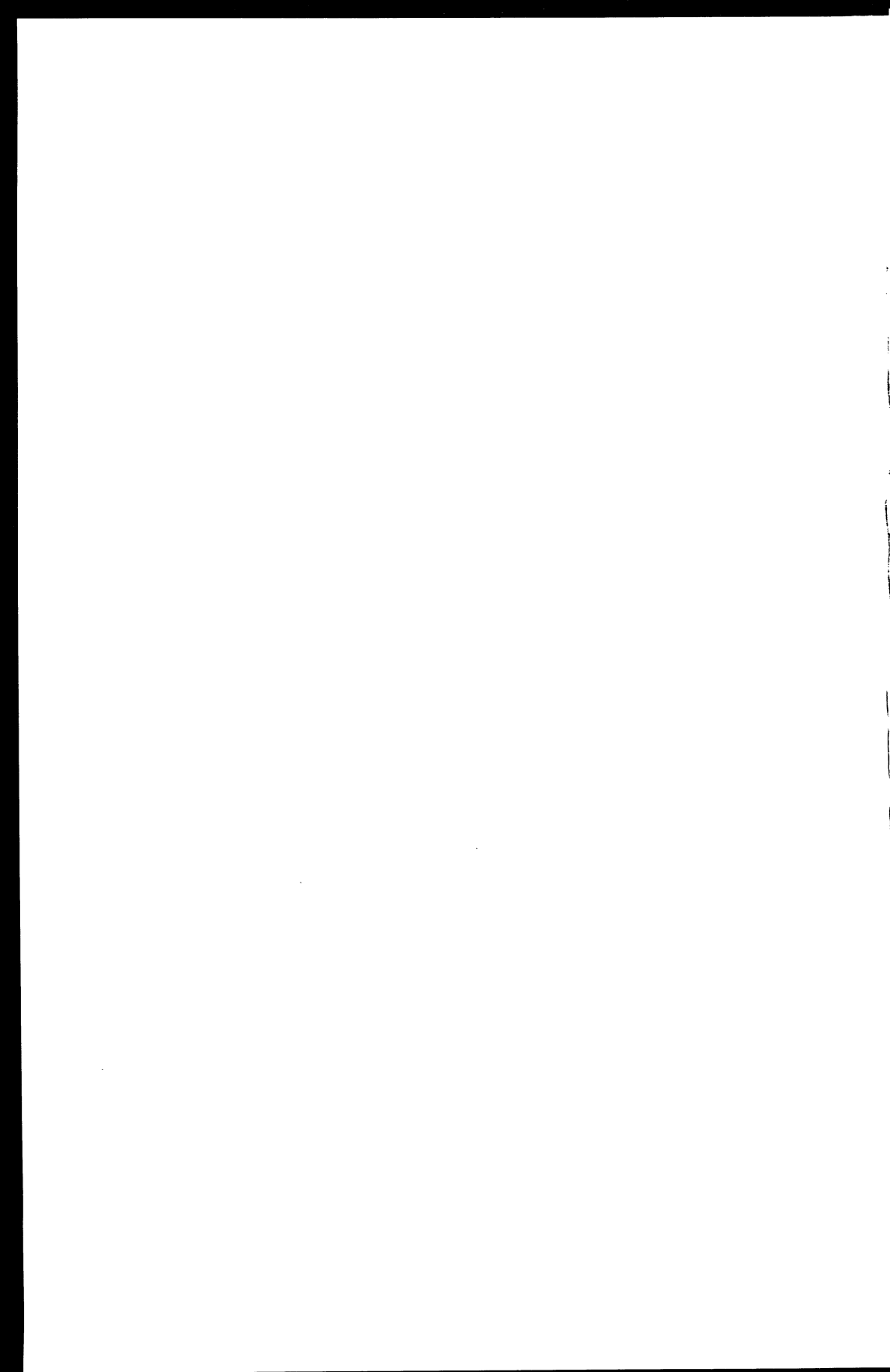
VOLUME IV

**FOREIGN
ECONOMIC
POLICY**



**DEPARTMENT
OF
STATE**

Washington





Foreign Relations of the United States, 1958-1960

Volume IV

Foreign Economic Policy

Editors Suzanne E. Coffman
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General Editor Glenn W. LaFantasie

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Preface

The *Foreign Relations of the United States* series presents the official documentary historical record of major United States foreign policy decisions and significant diplomatic activity of the United States Government. The series documents the facts and events that contributed to the formulation of policies and includes evidence of supporting and alternative views to the policy positions ultimately adopted.

The Historian of the Department of State is charged with the responsibility for the preparation of the *Foreign Relations* series. The staff of the Office of the Historian, Bureau of Public Affairs, plans, researches, compiles, and edits the volumes in the series. This documentary editing proceeds in full accord with the generally accepted standards of historical scholarship. Official regulations codifying specific standards for the selection and editing of documents for the series were promulgated by Secretary of State Frank B. Kellogg on March 26, 1925. A statutory charter for the preparation of the series was established by Title IV of the Department of State's Basic Authorities Act of 1956 (22 USC 4351 *et seq.*), which was signed by President George Bush on October 28, 1991.

The statute requires that the *Foreign Relations* series be a thorough, accurate, and reliable record of major United States foreign policy decisions and significant United States diplomatic activity. The volumes of the series should include all records needed to provide comprehensive documentation of major foreign policy decisions and actions of the United States Government, including facts that contributed to the formulation of policies and records that provide supporting and alternative views to the policy positions ultimately adopted.

The statute confirms the editing principles established by Secretary Kellogg: the *Foreign Relations* series is guided by the principles of historical objectivity and accuracy; records should not be altered or deletions made without indicating in the published text that a deletion has been made; the published record should omit no facts that were of major importance in reaching a decision; and nothing should be omitted for the purposes of concealing a defect in policy. The statute also requires that the *Foreign Relations* series be published not more than 30 years after the events recorded.

The volume presented here, which was originally compiled and prepared as a book manuscript in 1987, meets all the standards of selection and editing prevailing in the Department of State at that time and complies fully with the spirit of the standards of selection, editing, and range of sources established by the statute of October 28, 1991. This volume records policies and events of more than 30 years ago, but the statute allows the Department until 1996 to reach the 30-year line in the publication of the series.

Structure and Scope of the Foreign Relations Series

This volume is part of a triennial subseries of volumes of the *Foreign Relations* series that documents the most important issues in the foreign policy of the final 3 years (1958–1960) of the administration of President Dwight D. Eisenhower. This subseries comprises 18 print volumes totaling more than 16,000 pages and 7 microfiche supplements presenting more than 14,000 pages of original documents.

The focus of this volume is on the main foreign economic issues confronting U.S. policymakers and on the formulation of major policies dealing with monetary and trade issues, mutual security (or military assistance), economic aid, international investment, strategic resources, and economic defense. Related documents on U.S. policies toward the European Economic Community and military assistance to the North Atlantic Treaty Organization are included in Volume VII, Part 1. Some aspects of military assistance are documented in Volume III in the compilation on U.S. national security policy, while the bilateral and regional dimensions of economic and military assistance to developing nations are treated in volumes on the Middle East, Africa, Latin America, and Asia. U.S. policies on economic defense and strategic materials and commodities also receive some coverage in Volume X, Eastern Europe Region; Soviet Union; Cyprus.

Sources for the Foreign Relations Series

The original research, compilation, and editing of this volume were done in 1987 under the Department regulation derived from Secretary of State Kellogg's charter of 1925. This regulation prescribed that the *Foreign Relations* series include "a comprehensive record of the major foreign policy decisions within the range of the Department of State's responsibilities." The regulation further stipulated that the additional required records "needed to supplement the documentation in the Department" be obtained from other government agencies.

The Department of State's historians have had, for the series in general and for the particular volume published here, complete and unconditional access to all records and papers of the Department of State: the central files of the Department; the files of the Department's

Executive Secretariat that comprehend all the official papers created by or submitted to the Secretary of State; the special decentralized files ("lot files") of the Department at the bureau, office, and division levels; the files of overseas diplomatic and consular posts and U.S. special missions; and all the official correspondence with foreign governments and with other Federal agencies. Any failure to include a complete Department of State record in the *Foreign Relations* series cannot be attributed to constraints or limitations placed upon the Department historians in their access to Department records, information security regulations and practices notwithstanding.

Department of State historians preparing the *Foreign Relations* series, including the volume published here, have enjoyed full access to the papers of the Presidents and to all other White House foreign policy records. All of this documentation has been made available for use in the preparation of the *Foreign Relations* series thanks to the exceptional cooperation and support of the National Archives and Records Administration, its Office of Presidential Libraries, and the particular Presidential library. The Department of State owes particular thanks for the research of this volume to the staff of the Dwight D. Eisenhower Library.

In addition to Presidential correspondence and records of Presidential meetings and conversations, the documentation in the White House files at the Eisenhower Library were the most important sources for the preparation of the volume published here. Department historians had full and complete access to all the institutional documentation of the National Security Council (NSC) including the memoranda of discussion at NSC meetings, formal NSC documents, and related papers. There was also full access to the subject files of Presidential records (particularly the Whitman File), the files of other White House officials, and more informal policy documentation in other collections in the Eisenhower Library. It should be noted that the editors supplemented the NSC records from the Eisenhower Library with documents in the Department of State files.

The records preserved and maintained at the Presidential libraries include some of the most significant foreign affairs documentation of other Federal agencies such as the Department of Defense, the Department of the Treasury, and the Central Intelligence Agency. Department of State historians, with the considerable cooperation of the various agencies, have obtained access to records requested for possible inclusion in the *Foreign Relations* volumes. Access to records of other agencies maintained at the Presidential libraries has been supplemented by special research visits to the historical files retained by these agencies or transferred to the National Archives and Records Administration. Department historians have enjoyed steadily broad-

ened access to the records of the Department of Defense, particularly the records of the Joint Chiefs of Staff and the Office of the Secretary of Defense.

Completion of the declassification of this volume and the final steps of its preparation for publication coincided with the development since early 1991 by the Central Intelligence Agency in cooperation with the Department of State of expanded access by Department historians to high-level intelligence documents from among those records still in the custody of that Agency. The Department of State chose not to postpone the publication of this volume to ascertain how such access might affect the scope of available documentation and the changes that might be made in the contents of this particular volume. The Department is, however, using this expanded access, as arranged by the CIA's History Staff, for compilation of future volumes in the *Foreign Relations* series.

The statute of October 28, 1991, requires that the published record in the *Foreign Relations* series include all records needed to provide comprehensive documentation of all the major foreign policy decisions and actions of the United States Government. It further requires that government agencies, departments, and other entities of the United States Government cooperate with the Department of State Historian by providing full and complete access to records pertinent to foreign policy decisions and actions and by providing copies of selected records. Although prepared in compliance with an earlier Department regulation, this volume was prepared in a manner fully consonant with the standards and mandates for compilation contained in the 1991 statute.

The List of Sources, pages XIII–XVII, identifies the particular files and collections used in the preparation of this volume.

The editors also consulted copies of the journals of Clarence Randall, who was Chairman of the Council on Foreign Economic Policy during this triennium, at the Eisenhower Library. They gratefully acknowledge the permission of Mr. Randall's daughters, Mary R. Gilkey and Lemuel B. Hunter, to publish in this volume references to and quotations from the journals.

Principles of Selection for Foreign Relations, 1958–1960, Volume IV

In selecting documents for the volume published here, the editors sought to present as complete a record as possible of the President's policy decisions and instructions regarding the basic elements of foreign economic policy. The editors selected for inclusion policy recommendations placed before the President both in written documents, in meetings of the National Security Council, in major recommendations of the Council on Foreign Economic Policy, and in other oral presentations and briefings from various officials and agencies. The role of the

Secretary of State in formulating major foreign economic policies and in executing the President's policy decisions was also a focus of the editors' selection of documents for this volume.

The editors concentrated on the formulation and execution of the major lines of foreign economic policy and left to other volumes in this series the documentation of regional and bilateral policies and agreements. The location of some of these other foreign economic policy records in the 1958–1960 segment of the *Foreign Relations* series is described earlier in this Preface. In this volume, the editors did not seek to include documentation other than that available to the White House and the Department of State on the efforts in other Federal agencies to recommend foreign economic policies or to implement and support policies finally adopted; nor did they seek to document foreign economic intelligence activities.

In selecting documents for this volume, the editors have concentrated exclusively on presenting previously classified or undisclosed records. In general public statements and agreements have not been included, although previously released information has been identified where it is particularly relevant in understanding documents printed here for the first time.

Editorial Methodology

The documents are presented chronologically according to Washington time. Incoming telegrams from U.S. missions are placed according to time of receipt in the Department of State or other receiving agency, rather than the time of transmission; memoranda of conversation are placed according to the time and date of the conversation, rather than the date the memorandum was drafted. Washington has not been included in the dateline if a document originated there or if a conversation took place there.

Editorial treatment of the documents published in *Foreign Relations* series follows Office style guidelines, supplemented by guidance from the General Editor and the chief technical editor. The source text is reproduced as exactly as possible, including marginalia or other notations, which are described in the footnotes. Obvious typographical errors are corrected, but other mistakes and omissions in the source text are corrected by bracketed insertions: a correction is set in italic type; an addition in roman type. Bracketed insertions are also used to indicate text that deals with an unrelated subject (in roman type) or that remains classified after declassification review (in italic type). The amount of material not declassified has been noted by indicating the number of lines or pages of source text that were omitted. The amount of material omitted because it was unrelated, however, is not accounted for. All ellipses and brackets that appear in the source text are so identified by footnotes.

The unnumbered first footnote to each document indicates the document's source, original classification, distribution, and drafting information. The source footnote also provides the background of important documents and policies and indicates if the President or his major policy advisers read the document. Every effort has been made to determine if a document has been previously published, and this information has been included in the source footnote.

Editorial notes and additional annotation summarize pertinent material not printed in the volume, indicate the location of additional documentary sources, provide references to important related documents printed in other volumes, describe key events, and provide summaries of and citations to public statements that supplement and elucidate the printed documents. Information derived from memoirs and other first-hand accounts have been used when appropriate to supplement or explicate the official record.

Declassification Review

The declassification review process for this volume resulted in the withholding from publication of 0.14 percent of the documents originally selected. None of the documents was completely denied. Most of the withheld material was in the compilation on economic defense. In the opinion of the editors, the deletions do not substantively impair the comprehensiveness or accuracy of the record of United States foreign economic policy.

The Division of Historical Documents Review of the Office of Freedom of Information, Privacy, and Classification Review, Bureau of Diplomatic Security, Department of State, conducted the declassification review of the documents published in this volume. The review was conducted in accordance with the standards set forth in Executive Order 12356 on National Security Information and applicable laws.

Under Executive Order 12356, information that concerns one or more of the following categories, and the disclosure of which reasonably could be expected to cause damage to the national security, requires classification:

- 1) military plans, weapons, or operations;
- 2) the vulnerabilities or capabilities of systems, installations, projects, or plans relating to the national security;
- 3) foreign government information;
- 4) intelligence activities (including special activities), or intelligence sources or methods;
- 5) foreign relations or foreign activities of the United States;
- 6) scientific, technological, or economic matters relating to national security;
- 7) U.S. Government programs for safeguarding nuclear materials or facilities;
- 8) cryptology; or

9) a confidential source.

The principle guiding declassification review is to release all information, subject only to the current requirements of national security and law. Declassification decisions entailed concurrence of the appropriate geographic and functional bureaus in the Department of State, other concerned agencies of the U.S. Government, and the appropriate foreign governments regarding specific documents of those governments.

Acknowledgements

As noted before, the editors gratefully acknowledge the permission of Clarence Randall's daughters, Mary R. Gilkey and Lemuel B. Hunter, to publish in this volume references to and quotations from Mr. Randall's journals, copies of which are in the Eisenhower Library.

The editors also acknowledge the assistance of officials at the National Archives and Records Administration, the Dwight D. Eisenhower Presidential Library, the Department of Commerce, Department of the Treasury, and other specialized document repositories who assisted in the collection of documents for this volume.

Under the supervision of former editor John P. Glennon, Harriet Dashiell Schwar collected, selected, and edited the compilations on general foreign economic policy and international financial and monetary policy; Suzanne E. Coffman the compilations on trade and commercial policy, international investment and economic development policy, and mutual security and foreign aid policy; and Edward C. Keefer the compilations on strategic resources and international commodities and economic defense policy. General Editor Glenn W. LaFantasie supervised the final steps in the editorial and publication process. Rita M. Baker, Althea W. Robinson, and Vicki E. Futscher did the technical editing. Barbara-Ann Bacon of the Publishing Services Division (Natalie H. Lee, Chief) oversaw the production of the volume. Breffni Whalen prepared the index.

William Z. Slany
The Historian
Bureau of Public Affairs

September 1992

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List of Sources

Unpublished Sources

Department of State

Central Files: A major source of documentation for this volume was the indexed central files of the Department of State. Many of the documents were selected from the following files:

033.62A11: Official visits of West German leaders to the United States
340: U.N. Economic and Social Council
340.4: U.N. Economic and Social Council ad hoc committees
360: Major regional offices affiliated with the United Nations
374.800: Organization for Economic Cooperation and Development
394.41: General Agreement on Tariffs and Trade
398.051: U.N. Special Fund
398.10: International financial conferences
398.13: International Monetary Fund
398.14: International Bank for Reconstruction and Development
400.: International trade
400.116: Other administrative matters affecting import trade
411.: U.S. trade
411.004: Import tariff
411.006: Other U.S. administrative matters affecting import trade
411.041: U.S. trade relations
411.116: Other U.S. administrative matters affecting U.S. import trade
411.4141: U.S. trade relations with the United Kingdom
411.9441: U.S. trade relations with Japan
460.509: COCOM restrictions on trade with Eastern Europe and Soviet Union
493.009: Embargo on trade with Communist China
700.5–MSP: Mutual defense
800.0000: General economic matters
800.10: Financial and monetary matters
800.2553: Petroleum
811.05100: U.S. capital investment
811.10: U.S. financial and monetary matters
811.235: U.S. sugar
811.2553: U.S. petroleum
831.2553: Venezuelan petroleum

Lot Files: Documents from the central files are supplemented by lot files of the Department, which are decentralized files created by bureaus, offices, divisions, and the Executive Secretariat. A list of the lot files cited in or consulted for this volume follows:

XIV List of Sources

Conference Files: Lot 64 D 559

See entry under Washington National Records Center.

Current Economic Developments: Lot 70 D 467

See entry under Washington National Records Center.

E/CFEP Files: Lot 61 D 282A

See entry under Washington National Records Center.

INR Files: Lot 58 D 776

Country, subject, and administrative files relating to U.S. intelligence organizations and activities for 1945–1960, maintained by the Director of the Bureau of Intelligence and Research (combines Lots 62 D 42, 61 D 67, 60 D 644, 58 D 776, 58 D 159, and 53 D 500).

INR–NIE Files

Files retained by the Bureau of Intelligence and Research containing copies of National Intelligence Estimates and Special National Intelligence Estimates including NIEs and SNIEs for the 1958–1960 period.

OCB Files: Lot 61 D 385

Master set of the administrative and country files of the Operations Coordinating Board for 1953–1960, maintained in the Operations Staff.

PPS Files: Lot 67 D 548

Subject files, country files, chronological files, documents, drafts, and related correspondence of the Policy Planning Staff for 1957–1961. Also cited as S/P Files: Lot 67 D 548.

Presidential Correspondence: Lot 64 D 174

See entry under Washington National Records Center.

S/P Files: Lot 67 D 548

See PPS Files: Lot 67 D 548 above.

S/P–NSC Files: Lot 62 D 1

Serial and subject master file of National Security Council documents and correspondence for 1948–1961, maintained by the Policy Planning Staff.

S/S–NSC Files: Lot 63 D 351

Serial master file of National Security Council documents and correspondence and related Department of State memoranda for 1947–1961, maintained by the Executive Secretariat.

S/S–NSC (Miscellaneous) Files: Lot 66 D 95

Administrative and miscellaneous National Security Council documentation, including NSC Records of Action, for the years 1947–1963, maintained by the Executive Secretariat.

Secretary's Memoranda of Conversation: Lot 64 D 199

Chronological collections of the Secretary of State's memoranda of conversation and the Under Secretary of State's memoranda of conversation for 1953–1960, maintained by the Executive Secretariat of the Department of State.

Department of Commerce

See entry under Washington National Records Center.

Dwight D. Eisenhower Library, Abilene, Kansas

Areeda Papers

Papers of Phillip E. Areeda, 1952–1962. Areeda was a First Lieutenant, USAF, in the Office of Air Force General Counsel, 1955–1956; member of the White House Staff for Economic Affairs and Higher Criticism, 1956–1958; and Assistant Special Counsel to the President, 1958–1961.

CFEP Chairman Records

Records of the Office of the Chairman, Council on Foreign Economic Policy, 1954–1961, including records of Joseph M. Dodge and Clarence B. Randall.

CFEP Records

Records of the Council on Foreign Economic Policy, 1955–1961.

Dulles Papers

Papers of John Foster Dulles, Secretary of State, 1953–1959.

Herter Papers

Papers of Christian A. Herter, 1957–1961. Herter was Under Secretary of State, 1957–1959, and Secretary of State, 1959–1961.

President's Daily Appointments

From White House Office Files, Records of the Office of the Special Assistant for Executive Appointments, 1952–1961.

Rand Records

Records of Joseph Rand, Secretary, Council on Foreign Economic Policy, 1954–1961.

Randall Journals

Copies of journals kept by Clarence Randall, 1953–1961. Randall served as Chairman of the Commission on Foreign Economic Policy, 1953–1954; special consultant to the President, 1954–1956; and Chairman of the Council on Foreign Economic Policy, 1956–1961. The original, more extensive collection of his journals is held by Princeton University Library, Princeton, New Jersey.

Staff Secretary Records

Records of the Office of the White House Staff Secretary, 1952–1961, including records of Paul T. Carroll, Andrew J. Goodpaster, L. Arthur Minnich, Jr., and Christopher H. Russell.

XVI List of Sources

White House Central Files, Confidential File

Records of Dwight D. Eisenhower as President, 1953–1961. The Confidential File was the classified portion of the White House Central Files.

White House Office Files

Several White House office collections, including files of the Office of the Staff Secretary, the Cabinet Secretariat, and Project Clean Up.

Whitman File

Papers of Dwight D. Eisenhower as President of the United States, 1953–1961, maintained by his personal secretary, Ann Whitman. The Whitman File includes the following elements: Name Series, Dulles–Herter Series, Eisenhower Diaries, Ann Whitman (ACW) Diaries, National Security Council Records, Miscellaneous Records, Cabinet Papers, Cabinet Series, Legislative Meetings, International Meetings, Administrative Series, and International File.

National Archives and Records Administration

NAC Documents

National Archives Record Group 56, General Records of the Department of the Treasury. Documents of the National Advisory Council on International Monetary and Financial Problems from 1945.

NAC Minutes

National Archives Records Group 56, General Records of the Department of the Treasury.

Anderson Subject Files

National Archives Record Group 56, General Records of the Department of the Treasury, Office of the Secretary of the Treasury. Subject files of Secretary Robert B. Anderson for 1957–1961, containing reports, correspondence, memoranda, and other records.

Princeton University Library, Princeton, New Jersey

Dulles Papers, Dulles' Daily Appointment Book

Daily log of the meetings and appointments of Secretary of State John Foster Dulles for 1953–1959.

Washington National Records Center, Suitland, Maryland

Bureau of Foreign Commerce Files: FRC 59 A 1002 and 61 A 1018

Files of the Bureau of Foreign Commerce, Department of Commerce, arranged in a decimal system under six headings, including: "General" (000), "Appropriations and Accounting" (100), "Personnel" (200), "Business Methods and Procedures" (300), "Promotion of Trade and Production" (400), "Trade Control" (500), and "Domestic Supply" (600).

CFEP Files: FRC 62 A 624

Lot 61 D 282A: Agenda, minutes, and documents of the Council on Foreign Economic Policy for 1955–1960, maintained in the Bureau of Economic Affairs of the Department of State.

Conference Files: FRC 59-83-0068

Lot 64 D 559: Collection of documentation on official visits by heads of government and foreign ministers to the United States and on major international conferences attended by the Secretary of State for 1960, maintained by the Executive Secretariat of the Department of State.

Current Economic Developments: FRC 72 A 6248

Lot 70 D 467: Master set of the Department of State classified internal publication *Current Economic Developments* for 1945-1969, maintained in the Bureau of Economic Affairs.

NAC Files: FRC 71 A 6682

Lot 60 D 137: Master file of the documents of the National Advisory Council on International Monetary and Financial Problems for 1945-1958, maintained by the Bureau of Economic Affairs of the Department of State.

Published Sources

U.S. Department of State. *American Foreign Policy: Current Documents, 1958, 1959, 1960* (Washington: U.S. Government Printing Office)

_____. *A Decade of American Foreign Policy: Basic Documents, 1941-1945*, revised edition (Washington: U.S. Government Printing Office, 1985)

_____. *Department of State Bulletin, 1958, 1959, 1960* (Washington: U.S. Government Printing Office)

_____. *U.S. Participation in the United Nations: Report by the President to the Congress for the Year 1958* (Washington: U.S. Government Printing Office, 1959)

U.S. National Archives and Records Administration. *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1958, 1959, 1960-61* (Washington: U.S. Government Printing Office)

List of Abbreviations

- AEC**, Atomic Energy Commission
- AFS**, Office of Middle and Southern African Affairs, Bureau of Near Eastern, South Asian and African Affairs, Department of State, through July 1958; thereafter in the Bureau of African Affairs
- ARA**, Bureau of Inter-American Affairs, Department of State
- BNA**, Office of British Commonwealth and Northern European Affairs, Bureau of European Affairs, Department of State
- BOB**, Bureau of the Budget
- CA**, circular airgram
- CEA**, Council of Economic Advisers
- CCC**, Commodity Credit Corporation, Department of Agriculture
- CFEP**, Council on Foreign Economic Policy
- CFP**, Compagnie Française des Pétroles
- CG**, Consultative Group, based in Paris, consisting of nations working to control the export of strategic goods to Communist countries
- ChiCom**, Chinese Communists
- CHINCOM**, China Committee of the Paris Consultative Group (CG)
- CIA**, Central Intelligence Agency
- CICT**, Commission of International Commodity Trade of the United Nations
- CMA**, Office of Caribbean and Mexican Affairs, Bureau of Inter-American Affairs, Department of State
- COCOM**, Coordinating Committee of the Paris Consultative Group (CG)
- CP**, Contracting Party (Parties); Cabinet Paper
- Depcirtel**, Department of State circular telegram
- DLF**, Development Loan Fund
- DM**, **D mark**, Deutschemark
- DOD**, Department of Defense
- Dulte**, series indicator for telegrams from Secretary of State Dulles
- E**, Bureau of Economic Affairs, Department of State
- ECAFE**, United Nations Economic Commission for Asia and the Far East
- ECOSOC**, United Nations Economic and Social Council; series indicator for telegrams from the United States delegation at meetings of the Economic and Social Council to the Department of State
- EDAC**, Economic Defense Advisory Committee
- EEC**, European Economic Community
- EFTA**, European Free Trade Association
- ENI**, Ente Nazionale Idrocarburi
- E.O.**, Executive Order
- ETAP**, Expanded Technical Assistance Program
- EUR**, Bureau of European Affairs, Department of State
- EURATOM**, European Atomic Agency Community
- EXIM**, **Exim Bank**, **Eximbank**, Export-Import Bank
- FAA**, Federal Aviation Administration
- FAC**, Foreign Assets Control
- FBC**, Foreign Business Corporation
- FBI**, Federal Bureau of Investigation
- FCDA**, Federal Civil Defense Administration
- FE**, Bureau of Far Eastern Affairs, Department of State
- FN**, International Finance Division, Office of International Financial and Development Affairs, Bureau of Economic Affairs, Department of State
- FRB**, Federal Reserve Board
- FSD**, Fuels Division, Bureau of Economic Affairs
- FY**, fiscal year
- GAO**, General Accounting Office
- GARIOA**, Government and Relief in Occupied Areas

XX List of Abbreviations

- GATT**, General Agreement on Tariffs and Trade
- GNP**, gross national product
- GOJ**, Government of Japan
- GTI**, Office of Greek, Turkish, and Iranian Affairs, Bureau of Near Eastern, South Asian, and African Affairs, Department of State, through July 1958; thereafter in the Bureau of Near Eastern and South Asian Affairs
- GSA**, Government Services Administration
- H**, Office of the Assistant Secretary of State for Congressional Relations
- HMG**, Her Majesty's Government
- H.R.**, House of Representatives Resolution
- H. Rept.**, House of Representatives Report
- IAC**, Intelligence Advisory Committee
- IBRD**, International Bank for Reconstruction and Development
- ICA**, International Cooperation Administration
- ICAC**, International Cotton Advisory Committee
- ICCICA**, Interim Coordinating Committee for International Commodity Agreements
- IDA**, International Development Association
- IO**, Bureau of International Organization Affairs, Department of State
- IMF**, International Monetary Fund
- INR**, Bureau of Intelligence and Research, Department of State
- IRBM**, intermediate-range ballistic missiles
- ISA**, Office of the Assistant Secretary of Defense for International Security Affairs
- JCS**, Joint Chiefs of Staff
- LA**, Latin American
- LDCs**, less developed countries
- L/E**, Assistant Legal Adviser for Economic Affairs, Department of State
- MAAG**, Military Assistance Advisory Group
- MC**, memorandum of conversation
- MRBM**, medium-range ballistic missiles
- MSP**, Mutual Security Program
- NAC**, National Advisory Council on International Monetary and Financial Problems; North Atlantic Council
- NATO**, North Atlantic Treaty Organization
- niact**, night action
- NIE**, National Intelligence Estimate
- NOA**, New Obligational Authority
- NSC**, National Security Council
- OCB**, Operations Coordinating Board
- OCDM**, Office of Civil and Defense Mobilization
- ODM**, Office of Defense Mobilization
- OECD**, Organization for Economic Cooperation and Development
- OECE**, Organization for European Economic Cooperation
- OFD**, Office of International Financial and Development Affairs, Bureau of Economic Affairs, Department of State
- OISP**, Overseas Internal Security Program
- OPEC**, Organization of Petroleum Exporting Countries
- OR**, Office of International Resources, Bureau of Economic Affairs, Department of State
- OT**, Office of International Trade, Bureau of Economic Affairs, Department of State
- OTC**, Organization for Trade Cooperation
- P.L.**, Public Law
- POL**, petroleum, oil, lubricants
- Polto**, series indicator for telegram from the Office of the U.S. Permanent Representative on the North Atlantic Council
- QRs**, quantitative restrictions
- RA**, Office of European Regional Affairs, Bureau of European Affairs, Department of State
- RAF**, Royal Air Force
- REA**, Rural Electrification Administration
- RG**, Record Group
- SACEUR**, Supreme Allied Commander, Europe
- SEATO**, Southeast Asia Treaty Organization
- Secun**, series indicator for telegrams from the Under Secretary of State (or his delegation) at international conferences to the Department of State
- Socec**, series indicator for telegrams from the Department of State to the United States delegation to meetings of the Economic and Social Council
- SOV**, Office of Soviet Union Affairs, Bureau of European Affairs, Department of State
- S/P**, Policy Planning Staff, Department of State

- SPA**, Office of Southwest Pacific Affairs, Bureau of Far Eastern Affairs, Department of State
- S. Rept.**, Senate Report
- S. Res.**, Senate Resolution
- S/S**, Executive Secretariat, Department of State
- SUNFED**, Special United Nations Fund for Economic Development
- TA**, Trade Agreements Division, Office of International Trade, Bureau of Economic Affairs, Department of State; trade agreements
- TAC**, Interdepartmental Committee on Trade Agreements
- Tanto**, series indicator for telegrams from the United States delegation to the GATT tariff negotiations conference in Geneva to the Department of State
- tel**, telegram
- Totan**, series indicator for telegrams from the Department of State to the United States delegation to the GATT tariff negotiations conference in Geneva
- TPC**, Trade Policy Committee
- U**, Office of the Under Secretary of State
- UAR**, United Arab Republic
- UK**, United Kingdom
- UN**, United Nations
- UNTA**, United Nations Technical Assistance Program
- US**, United States
- USA**, United States Army
- USAF**, United States Air Force
- USDeI**, United States delegation
- USIA**, United States Information Agency
- USIB**, United States Intelligence Board
- USN**, United States Navy
- USOM**, United States Operations Mission
- USSR**, Union of Soviet Socialist Republics
- UST**, *United States Treaties and Other International Agreements*
- VA**, Veterans Administration
- W**, Office of the Deputy Under Secretary of State for Economic Affairs through June 30, 1958; thereafter Under Secretary of State for Economic Affairs
- WE**, Office of Western European Affairs, Bureau of European Affairs, Department of State
- W/MSC**, Special Assistant for Mutual Security Coordination, Office of the Deputy Under Secretary of State for Economic Affairs
- WHO**, United Nations World Health Organization

List of Persons

Note: This list provides identification of persons for the years 1958–1960; all titles and positions are American unless otherwise noted. Where no dates are given, the person usually held the position throughout the period.

- Adair, Charles W.**, Chief, Trade Agreements and Treaties Division, Office of International Trade, Bureau of Economic Affairs, Department of State, until June 1958; Director, Office of International Financial and Development Affairs, Bureau of Economic Affairs, June 1958–November 1959; thereafter Deputy Assistant Secretary of State for Economic Affairs
- Adenauer, Konrad**, Chancellor of the Federal Republic of Germany
- Amory, Derick Heathcoat**, see Heathcoat Amory, Derick
- Anderson, Robert B.**, Secretary of the Treasury
- Areeda, Phillip**, Special Assistant in the White House Office, 1958; thereafter Assistant Special Counsel to the President
- Asakai, Koichiro**, Japanese Ambassador to the United States
- Baird, Julian B.**, Under Secretary of the Treasury for Monetary Affairs
- Beale, Wilson T. M.**, Deputy Assistant Secretary of State for Economic Affairs until February 1960; thereafter Minister for Economic Affairs at the Embassy in the United Kingdom
- Becker, Loftus E.**, Legal Adviser of the Department of State until August 1959
- Bell, John O.**, Special Assistant for Mutual Security Coordination in the Department of State from December 1958
- Benson, Ezra Taft**, Secretary of Agriculture
- Birch, John A.**, Acting Chief, Trade Agreements and Treaties Division, Office of International Trade, Bureau of Economic Affairs, Department of State, until January 1958; Assistant Chief of the Division, January–July 1958; Acting Chief, July–August 1958; thereafter Chief
- Black, Eugene R.**, President of the International Bank for Reconstruction and Development
- Boeschstein, Harold**, member, Executive Committee of the Business Advisory Committee, Department of Commerce
- Boggs, Marion W.**, Director of the National Security Council Secretariat to July 1959; thereafter Deputy Executive Secretary
- Bohlen, Charles E.**, Special Assistant to the Secretary of State from December 1959
- Brand, Vance**, Director, Export-Import Bank of Washington, until September 1959; thereafter Managing Director, Development Loan Fund
- Brandt, Karl**, member, President's Council of Economic Advisers, 1959–1960
- Brewster, Robert C.**, Special Assistant to the Deputy Under Secretary of State for Economic Affairs, March–April 1958; Staff Assistant to the Under Secretary of State for Economic Affairs, April 1958–April 1959; Special Assistant to the Under Secretary of State for Economic Affairs, April–June 1959; thereafter Special Assistant to the Under Secretary of State
- Bridges, Styles**, Republican Senator from New Hampshire
- Butler, Frank P.**, Chief, Commercial Policy and Treaties Division, Office of International Trade, Bureau of Economic Affairs, Department of State, from October 1959

XXIV List of Persons

- Burke, Admiral Arleigh A.**, USN, Chief of Naval Operations
- Caccia, Harold**, British Ambassador in the United States
- Cameron, Turner C.**, Deputy Director, Office of Western European Affairs, Bureau of European Affairs, Department of State, September 1958–June 1960
- Cannon, Clarence**, Democratic Congressman from Missouri
- Chiperfield, Robert B.**, Republican Congressman from Illinois
- Claxton, Philander P.**, Deputy Assistant Secretary of State for Congressional Relations from March 1959
- Coughran, Tom B.**, Assistant Secretary of the Treasury, 1958
- Cullen, Lieutenant Colonel Paul H.**, Secretary of the Council on Foreign Economic Policy until March 1960
- Cutler, Robert**, Special Assistant to the President for National Security Affairs to June 1958
- Davis, Richard H.**, Deputy Assistant Secretary of State for European Affairs from December 1959
- de Gaulle, Charles**, Prime Minister of France, June 1958–January 1959; thereafter President of France
- Dillon, C. Douglas**, Deputy Under Secretary of State for Economic Affairs to June 1958; Under Secretary of State for Economic Affairs, July 1958–June 1959; thereafter Under Secretary of State
- Dirksen, Everett M.**, Republican Senator from Illinois
- Draper, General William H.**, head of the President's Committee To Study the U.S. Military Assistance Program
- Dulles, Allen W.**, Director of Central Intelligence
- Dulles, John Foster**, Secretary of State to April 1959
- Eisenhower, Dwight D.**, President of the United States
- Eisenhower, Major John S. D.**, Assistant Staff Secretary to the President; promoted to Lieutenant Colonel in May 1960
- Elrod, Warrick E.**, Office of British Commonwealth and Northern European Affairs, Bureau of European Affairs, Department of State, 1958–1959
- Finger, Seymour M.**, Senior Adviser on Economic and Social Affairs, United States Mission to the United Nations, from June 1959
- Francis, Clarence**, Special Consultant to the President
- Frank, Isaiah**, Deputy Director, Office of International Trade, Bureau of Economic Affairs, Department of State, until January 1959; Director, January–April 1959; Acting Director, Office of International Financial and Development Affairs, Bureau of Economic Affairs, from September 1960
- Fulbright, J. William**, Democratic Senator from Arkansas; Chairman of the Senate Foreign Relations Committee
- Galbreath, C. Edward**, Secretary of the Council on Foreign Economic Policy, March–September 1960
- Gates, Thomas S., Jr.**, Secretary of the Navy to June 1959; Deputy Secretary of Defense, June 1959–December 1959; thereafter Secretary of Defense
- Gleason, S. Everett**, Deputy Executive Secretary of the National Security Council to July 1959
- Gleack, Lewis E.**, Officer in Charge of Economic Affairs, Office of Northeast Asian Affairs, Bureau of Far Eastern Affairs, Department of State, June 1958–October 1959
- Gold, Ruth S.**, Special Adviser, Economic Development Division, Office of International Financial and Development Affairs, Bureau of Economic Affairs, Department of State

- Goodpaster, Brigadier General Andrew J.**, Staff Secretary to the President
- Gray, Gordon**, Director of the Office of Defense Mobilization to July 1958; thereafter Assistant to the President for National Security Affairs
- Gruenther, General Alfred M.**, member, President's Committee To Study the U.S. Military Assistance Program
- Hadraba, Theodore J.**, Director, Office of International Trade, Bureau of Economic Affairs, Department of State, from August 1959
- Hager, Eric H.**, Legal Adviser, Department of State, from September 1959
- Halleck, Charles A.**, Republican Congressman from Indiana
- Hammarskjöld, Dag**, Secretary-General of the United Nations
- Harlow, Bryce N.**, Administrative Assistant to the President until September 1958; thereafter Deputy Assistant to the President for Congressional Relations
- Hartman, Arthur A.**, Office of European Regional Affairs, Bureau of European Affairs, Department of State, from May 1958
- Hauge, Gabriel**, Special Assistant to the President for Economic Affairs, 1956–1958
- Hayden, Carl**, Democratic Senator from Arizona
- Heathcoat Amory, Derick**, British Chancellor of the Exchequer
- Herter, Christian A.**, Under Secretary of State to April 1959; thereafter Secretary of State
- Hickenlooper, Bourke B.**, Republican Senator from Iowa; member of the U.S. delegation to the 13th regular session of the U.N. General Assembly
- Hoegh, Leo A.**, Head of the Office of Civilian Defense until July 1958; thereafter Director of the Office of Civil and Defense Mobilization
- Humphrey, George**, Secretary of the Treasury through July 1957
- Irwin, John N., II**, Assistant Secretary of Defense for International Security Affairs from August 1958
- Johnson, Lyndon B.**, Democratic Senator from Texas; Senate Majority Leader
- Johnson, Robert H.**, Director, National Security Council Planning Board Secretariat
- Johnston, Eric**, President of the Motion Picture Association of America
- Jones, G. Lewis**, Assistant Secretary of State for Near Eastern and South Asian Affairs, from July 1959
- Kallis, Selma G.**, Trade Agreements and Treaties Division, Office of International Trade, Bureau of Economic Affairs, Department of State
- Kearns, Henry**, Assistant Secretary of Commerce for International Affairs until March 1960
- Kennedy, John F.**, Democratic Senator from Massachusetts; President-elect from November 1960
- Khrushchev, Nikita S.**, Chairman of the Council of Ministers and First Secretary of the Communist Party of the Soviet Union
- Kirlin, Florence K.**, Office of the Assistant Secretary of State for Congressional Relations
- Knowland, William F.**, Republican Senator from California
- Kotschnig, Walter M.**, Director, Office of International Economic and Social Affairs, Bureau of International Organization Affairs, Department of State
- Lay, James S., Jr.**, Executive Secretary of the National Security Council until 1959
- Leddy, John**, Special Assistant, Office of the Deputy Under Secretary of State for Economic Affairs until June 1958; Special Assistant to the Under Secretary of State for Economic Affairs, July 1958–June 1959; thereafter Special Assistant to the Under Secretary of State

XXVI List of Persons

- Lincoln, Colonel George A.**, member of the steering committee for the President's Committee To Study the U.S. Military Assistance Program
- Lloyd, Selwyn**, British Secretary of State for Foreign Affairs until July 1960; thereafter Chancellor of the Exchequer
- Lodge, Henry Cabot**, Representative to the United Nations until September 1960
- Macmillan, Harold**, Prime Minister of the United Kingdom and First Lord of the Treasury
- Macomber, William B.**, Assistant Secretary of State for Congressional Relations
- Macy, Loring K.**, Director, Bureau of Foreign Commerce, Department of Commerce
- Mann, Thomas C.**, Assistant Secretary of State for Economic Affairs until August 1960
- Mansfield, Mike**, Democratic Senator from Montana; member, U.S. delegation to the 13th regular session of the U.N. General Assembly
- Martin, Edwin M.**, Deputy Assistant Secretary for Economic Affairs, January–August 1960; thereafter Assistant Secretary of State for Economic Affairs
- Martin, Joseph W.**, Republican Congressman from Massachusetts
- Martin, William McChesney, Jr.**, Chairman of the Federal Reserve Board
- McCloy, John**, member, President's Committee To Study the U.S. Military Assistance Program
- McCone, John A.**, Chairman of the Atomic Energy Commission from July 1958
- McElroy, Neil H.**, Secretary of Defense to December 1959
- McIntosh, Dempster**, Managing Director of the Development Loan Fund, January 1958–June 1959
- Merchant, Livingston T.**, Assistant Secretary of State for European Affairs from October 1958; Deputy Under Secretary of State for Political Affairs, August–December 1959; thereafter Under Secretary of State for Political Affairs
- Metzger, Stanley D.**, Assistant Legal Adviser for Economic Affairs, Department of State, 1958–1959
- Meyer, Armin H.**, Director, Office of Near Eastern Affairs, Department of State, after September 1959
- Minnich, L. Arthur**, Assistant Staff Secretary to the President until August 1960
- Monroney, A. S. Mike**, Democratic Senator from Oklahoma
- Morgan, Thomas E.**, Democratic Congressman from Pennsylvania
- Morse, True D.**, Under Secretary of Agriculture
- Mueller, Frederick H.**, Assistant Secretary of Commerce for Domestic Affairs to November 1958; Under Secretary to August 1959; thereafter Secretary of Commerce
- Murphy, Robert D.**, Deputy Under Secretary of State for Political Affairs to August 1959; Under Secretary of State for Political Affairs, August–December 1959
- Nixon, Richard M.**, Vice President of the United States
- Nunley, William T.**, United Nations Adviser, Bureau of European Affairs, Department of State
- Paarlberg, Don**, Assistant Secretary of Agriculture to October 1958; thereafter Special Assistant to the President and Coordinator of Food for Peace
- Passman, Otto E.**, Democratic Congressman from Louisiana
- Persons, General Wilton B.**, Assistant to the President from September 1958
- Phelan, Harry M.**, Office of Western European Affairs, Bureau of International Affairs, Department of State, from June 1958
- Phillips, Christopher H.**, Representative to the U.N. Economic and Social Council
- Quarles, Donald A.**, Deputy Secretary of Defense until May 1958
- Rand, Joseph**, Assistant Secretary of the Council on Foreign Economic Policy, March–September 1960; thereafter Secretary of the Council

- Randall, Clarence B.**, Special Assistant to the President and Chairman of the Council on Foreign Economic Policy
- Rayburn, Sam**, Democratic Congressman from Texas; Speaker of the House of Representatives
- Reid, Ralph W. E.**, Assistant Director of the Bureau of the Budget
- Reinhardt, G. Frederick**, Counselor of the Department of State until January 1960
- Riddleberger, James W.**, Director of the International Cooperation Administration from February 1959
- Rogers, William P.**, Attorney General of the United States
- Rountree, William M.**, Assistant Secretary of State for Near Eastern, South Asian, and African Affairs until August 1958; Assistant Secretary of State for Near Eastern and South Asian Affairs until July 1959
- Rubottom, Roy R., Jr.**, Assistant Secretary of State for Inter-American Affairs until August 1960
- Russell, Richard B.**, Democratic Senator from Georgia
- Ryss, Murray**, Office of International Trade, Bureau of Economic Affairs, Department of State
- Saltonstall, Leverett**, Republican Senator from Massachusetts
- Sanderhoff, Lubert O.**, Office of European Regional Affairs, Bureau of European Affairs, Department of State
- Saulnier, Raymond J.**, Chairman of the Council of Economic Advisers
- Seaton, Fred A.**, Secretary of the Interior
- Scribner, Fred C., Jr.**, Under Secretary of the Treasury
- Smith, James H., Jr.**, Director of the International Cooperation Administration to January 1959
- Southard, Frank A., Jr.**, Special Assistant to the Secretary of the Treasury; U.S. Executive Director of the International Monetary Fund
- Spaak, Paul-Henri**, Secretary General of the North Atlantic Treaty Organization
- Sprague, Mansfield D.**, Assistant Secretary of Defense for International Security Affairs to September 1958
- Stans, Maurice H.**, Deputy Director of the Bureau of the Budget to March 1958; thereafter Director
- Stimpson, Harry F., Jr.**, Special Assistant to the Under Secretary of State until July 1959; Special Assistant in the Office of the Secretary of State, July–September 1959
- Straus, Ralph I.**, Special Consultant to the Under Secretary of State for Economic Affairs
- Strauss, Lewis L.**, Chairman of the Atomic Energy Commission to June 1958; Secretary of Commerce, November 1958–June 1959
- Szymczak, M. S.**, member, Board of Governors of the Federal Reserve System
- Taber, John**, Republican Congressman from New York
- Upton, T. Graydon**, Assistant Secretary of the Treasury from 1958
- Vettel, Thelma E.**, Acting Officer in Charge of Economic Affairs, Office of Northeast Asian Affairs, Bureau of Far Eastern Affairs, Department of State
- Von Klemperer, Alfred H.**, Assistant to the Secretary of the Treasury from December 1959
- Voorhees, Tracy**, Counsel, President's Committee To Study the U.S. Military Assistance Program
- Vorys, John M.**, Republican Representative from Ohio
- Walker, Herman, Jr.**, Office of European Regional Affairs, Bureau of European Affairs, Department of State, from January 1960

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- Wallner, Woodruff**, Deputy Assistant Secretary of State for International Organization Affairs from August 1959
- Wagh, Samuel C.**, President of the Export-Import Bank of Washington
- Weeks, Sinclair**, Secretary of Commerce to November 1958
- Weiss, Leonard**, Deputy Director, Office of International Trade, Bureau of Economic Affairs, Department of State, from September 1960
- Westfall, Virginia C.**, Office of International Administration, Bureau of International Organization Affairs, Department of State, until February 1959; Acting Deputy Director of the Office, February 1959–April 1960; Deputy Director, April–June 1960; thereafter Acting Director
- Whitman, Ann C.**, personal secretary to President Eisenhower
- Whitney, John Hay**, Ambassador to the United Kingdom
- Wilcox, Francis O.**, Assistant Secretary of State for International Organization Affairs
- Williams, Walter**, Under Secretary of Commerce
- Willis, George H.**, Director, Office of International Finance, Department of the Treasury
- Willoughby, Woodbury**, Director, Office of International Trade, Bureau of Economic Affairs, Department of State, until August 1958; thereafter Director, Office of British Commonwealth and Northern European Affairs, Bureau of European Affairs
- Wilson, James M.**, Deputy Special Assistant for Mutual Security Coordination, Department of State, from March 1958
- Wyndham White, Eric**, Executive Secretary of the General Agreement on Tariffs and Trade

GENERAL U.S. FOREIGN ECONOMIC POLICY

1. Minutes of the Cabinet Meeting

January 10, 1958, 9:05 a.m.

[Here follows a list of 34 persons, including President Eisenhower, Vice President Nixon, Secretary of State John Foster Dulles, Secretary of the Treasury Robert B. Anderson, Secretary of Defense Neil H. McElroy, Attorney General William P. Rogers, Postmaster General Arthur E. Summerfield, Secretary of the Interior Fred A. Seaton, Secretary of Agriculture Ezra Taft Benson, Secretary of Commerce Sinclair Weeks, Secretary of Labor James P. Mitchell, Secretary of Health, Education, and Welfare Marion B. Folsom, and Representative to the United Nations Henry Cabot Lodge. The first item of discussion concerned an unrelated subject.]

Russian Economic Threat—Sec. Dulles described at length the possibility and dangers of economic warfare that might be initiated by the Russians, particularly in view of Mr. Khrushchev's remark last fall declaring economic war.¹ He suggested the Administration quickly initiate a study of this potential and means of counteracting it.² He cited the advantage that a Communist dictatorship has over a "profit" economy through dumping goods or providing them at a price below cost so as to eliminate competitors and dominate various national markets. This menace might not materialize, he thought, should domestic pressures on the Russian government require greater use of resources at home.

The President noted how Russia could make its approaches to needy countries under the guise of giving assistance, then exploit the country once it had established economic control. The Vice President contrasted the smooth, quick actions of Russia with our own slowness necessitated by coordination between the Executive and Legislative

Source: Eisenhower Library, Whitman File, Cabinet Series. No classification marking. Drafted by Assistant Staff Secretary L. Arthur Minnich, Jr.

¹ Reference is apparently to a speech given on November 6, 1957, by Soviet Communist Party First Secretary Nikita S. Khrushchev before the Supreme Soviet, calling for peaceful coexistence and peaceful competition between socialist and capitalist countries; for excerpts, see *American Foreign Policy: Current Documents, 1957*, pp. 729-730.

² A memorandum by Dulles of a conversation on January 8 with Nixon reads in part: "I discussed with the Vice President the desirability of establishing a Cabinet level group to study possible Soviet economic warfare. He fully agreed." (Eisenhower Library, Dulles Papers, Vice President Nixon)

branches and among agencies within the Executive branch. Sec. Weeks took some comfort from the failure of Communist economies thus far to evidence an ability to develop high standards of living. Sec. Anderson saw need for initiating the study quickly since Russia had the power to offer attractive shopping lists and thus lead other nations to break contracts they might have with us, as particularly some Arab states.

The President and Amb. Lodge commented on the need for associating more citizens of other lands in our business establishments abroad as a means of increasing their interest.

Sec. Dulles noted ironically how the Russians deliberately refrain from telling their own people about the attractive economic offers they make to other governments, such as Egypt.

The President noted the willingness of the country to ignore the cost of weapons in time of a shooting war and even to curtail certain freedoms. He felt that an economic war should also be considered gravely and that adequate provision for winning it must be made.

The President directed that a preliminary plan quickly be drawn up for accomplishing the major study that would be necessary, and the Vice President said he would follow through with interested members of the Cabinet.³

[Here follow the remaining items of discussion.]

LAM

³ The record of action on this item is dated January 14. (*Ibid.*)

2. Memorandum From Secretary of State Dulles to Vice President Nixon

January 10, 1958.

I refer to the Cabinet action as a result of which you were requested to make some suggestions as to a study of possible future economic problems created by the Communist economic warfare.

Source: Eisenhower Library, Dulles Papers. Confidential; Personal and Private. Enclosed with a brief covering note of the same date from Dulles to Nixon. The source text is not signed, but in a telephone conversation that day between Dulles and Deputy Under Secretary of State for Economic Affairs C. Douglas Dillon, the latter referred to the memorandum as the Secretary's memorandum. (Memorandum of telephone conversation by Dulles' personal assistant Phyllis D. Bernau; *ibid.*)

There is, of course, the politico-economic penetration of less developed countries, where the Clarence Randall Commission already has a mandate.¹ The problem which I envisage is, however, different and broader. It should, I think, cover these matters:

I. *The ability of the Western-fashioned economic system of private enterprise, the operation of which depends on profits, to survive in the event of all-out economic warfare by the Sino-Soviet industrialized totalitarian state system, which operates without regard to profits and which can channel the economic efforts of its people into international economic warfare.*

In connection with this, I suggest that there should be consideration of Sino-Soviet prospective capabilities as regards:

(1) Manipulation and disorganization of staple markets such as wheat, cotton, metals, and so forth;

(2) Encouraging the "nationalization" of foreign investments and creation of a climate which would in many areas check the outflow of private capital;

(3) Disruption of Western industrial exports by competitive sales on terms which are less than our costs;

(4) Effects of possible large scale Sino-Soviet barter deals for raw materials, eliminating for the raw material countries the risks inherent in free markets which fluctuate sharply in terms of prices and volume, and carry the additional hazard of tariff barriers.

II. *If it is found that there is or may be a serious danger in one or more of the foregoing respects, what protective measures are presently available? And what might be done to increase our ability to respond effectively to such Sino-Soviet actions?*

My meeting yesterday with the Foreign Relations Committee² indicated there is already some rising Congressional concern on these matters. It *may* be useful to be able to let it be known that we are aware of the potential danger and preparing accordingly. On the other hand, publicity might have a depressing effect on international trade and investments.

¹ Reference is to the Council on Foreign Economic Policy, chaired by Special Assistant to the President Clarence B. Randall. In February 1957, Randall established a Subcommittee on Soviet Economic Penetration which in turn set up a working group to examine agency proposals on this subject. See *Foreign Relations, 1955-1957*, vol. IX, pp. 43-72 *passim*.

² For the record of Dulles' January 9 testimony before the Senate Foreign Relations Committee, see *Executive Sessions of the Senate Foreign Relations Committee (Historical Series)*, Volume X, Eighty-fifth Congress, Second Session, 1958 (Washington, 1980), pp. 2-57.

3. Editorial Note

On January 22, Vice President Nixon, Clarence Randall, and C. Douglas Dillon met in the Vice President's office to discuss possible responses to the Soviet economic threat. Randall described the session in his journal as "a full hour and a half of intense, though unhurried discussion of how to mobilize forces in the United States to meet the double Soviet threat in the economic field, namely, the drawing into the Soviet orbit of the resources and markets of the new countries, and the deliberate disrupting of the American economy by Soviet moves in our existing markets."

According to Randall, he asked the Vice President how the subject came to be presented to the Cabinet on January 10 when it was not on the agenda. Nixon replied that he himself was surprised when Dulles raised it, although he and the Secretary had discussed the subject earlier.

Randall's journal records the discussion in part as follows:

"As a measure of the importance of the subject, the Vice President said with great earnestness, 'I think that what we three men are talking about in this room is of far more importance to the future of our country than all of the current hysteria about missiles. I think this is the real target of the Soviets.'

"It was heartening to me to hear this from him, because I have been saying it in my speeches and to my friends.

"To meet this he said that in his judgment, all of the resources available to our government must be placed in the hands of one man who might throw promptly against a single target everything that would be required to meet a Russian threat. In our economic armament, he spoke of the Development Fund, PL-480, the Ex-Im Bank, and even the World Bank. He likened it to economic warfare during the war.

"I replied that our economic warfare program had been based upon rigid controls of the domestic economy, and that I did not see how this could be duplicated. He reflected on that and agreed that it was politically impossible.

"I knew that his mind was coming back to the economic czar complex, and that his piercing eyes were on me, so I said, 'Furthermore, Mr. Vice President, while we have our present constitutional system you cannot give any man in the White House, short of the President, authority over Cabinet officers. We on the White House staff may try to coordinate, as I do, but we may never order.'

"He always seemed to agree with me on this, but he nevertheless kept coming back to the one man idea, and I am afraid it will burst out again.

"At this point, Douglas Dillon mentioned Nelson Rockefeller, and the Vice President's mind clicked instantly. He said, 'Wouldn't that have been a fine idea for me to arrive at conclusions here and ignore

Nelson's Committee on Government Organization?' Promptly he put through a telephone call to New York and arranged to discuss this subject with Nelson there next week.

"He then himself raised the question of whether the Operations Coordinating Board should handle this matter, and himself dismissed it on the ground that they are staffed at too low a level, and that their job should be to police the carrying out of policy rather than the establishment of policy.

"Through all this, Douglas really had no specific plan or program to offer. Neither did the Vice President. They were both groping.

"My mind had been racing along all during the conference, because I felt an obligation to put a specific idea before them, so I finally said:

"I think, Sir, that you want a definite idea about which to focus your thinking, and I will take the responsibility of putting one before you. Here is what I would do. I would give Douglas Dillon a staff of five men, who must have creative minds and vigorous personalities.

"They would be fed current intelligence thoroughly. The moment the Soviets made a new move in any country, they would try to design a counter to it. That program would be communicated immediately to me. That would present no difficulty, because Douglas and I work so closely together. Out of my general background and experience in this subject I would hope to have an instinct as to whether a specific program had difficulties in terms of interagency relationships. If I saw none, I would clear it. If I sensed controversy, I would on very short notice put it to the Council for determination. Once the program was approved, Operations Coordinating Board would see that it was carried out.'

"The Vice President's face broke into a smile and he said, 'That's good, I like it. It's a marriage, and gives to OCB the right function.'" (Eisenhower Library, Clarence B. Randall Diary (duplicate of the original in the Clarence B. Randall Papers, Princeton University Library), entry of January 23, 1958)

4. **Letter From the Director of the International Cooperation Administration (Smith) to the Chairman of the Council on Foreign Economic Policy (Randall)**

February 7, 1958.

DEAR CLARENCE: This letter is in response to your request dated January 3, 1958,¹ for comments and suggestions as to what might be done to keep abreast of and counter the Soviet program of economic penetration of the underdeveloped areas.

There already exists a unit which keeps abreast of these activities. It is the Economic Intelligence Committee Working Group on Sino-Soviet Bloc Economic Activities.² What we need now is more centralized authority to do something about it—but first and foremost, I agree with Mr. Sprague that we need a restatement of U.S. policy toward the Soviet economic and political offensive. As you know, we have not changed our policy since Khrushchev announced that he was opening economic warfare on the U.S. This announcement would seem to call for a policy which more distinctly spells out what our reaction should be. Existing statements of policy do not appear to concern themselves directly with this new phase of the Soviet offensive.

No one will deny that we are up against tremendous competition on the part of the Soviets in the economic field, yet nowhere in the economic Courses of Action of our Basic National Security Policy³ does the word competition even appear. We find in Para 28—a the admonition to recognize “that it is *not* U.S. policy to endeavor in each instance to match Soviet offers,” and that we should “*counter*, so far as practicable, the *apparent attractiveness* and damaging effects of the Soviet bloc economic offensive.”

Source: Department of State, E-CFEP Files: Lot 61 D 282A, Soviet Economic Expansion—CFEP 560. Secret. Filed with a covering memorandum of February 20 to the Council from Lieutenant Colonel Paul H. Cullen, the CFEP Secretary.

¹ For text, see *Foreign Relations, 1955–1957*, vol. ix, pp. 71–72. Cullen circulated several other responses to the Council with a February 3 memorandum and with the February 20 memorandum cited in the source note above. (Department of State, E-CFEP Files: Lot 61 D 282A, Soviet Economic Expansion—CFEP 560)

² A series of semiannual reports prepared by the Economic Intelligence Committee, entitled “Sino-Soviet Bloc Economic Activities in Underdeveloped Areas,” is in Eisenhower Library, CFEP Chairman Records, Intelligence Reports Series.

³ NSC 5707/8, “Basic National Security Policy,” approved June 3, 1957; for text, see *Foreign Relations, 1955–1957*, vol. xix, pp. 507–524.

In the U.S. Policy Toward South Asia,⁴ we are told “not to give the impression that the U.S. will bid against or attempt to match in size and scope the credit and aid activities of the Soviet bloc.”

In the Latin America policy,⁵ we are asked to “take action appropriate to the case if a Latin American state establishes close economic or other ties with the Soviet bloc.”

The Mainland Southeast Asia policy⁶ says that U.S. policy “should not depend primarily on the degree and nature of Communist activity at any particular time.”

I submit that this negative approach is no longer in consonance with the events of today.

In my judgement, therefore, we require first, a positive policy in the economic field and second, integrated action in the Executive Branch. This latter action would require far reaching steps to ensure that Export-Import loans, DLF, PL 480, Trade Agreements, Fairs, Cultural Exchanges, Peaceful Uses of Atomic Energy, Propaganda Support, etc., are all focussed on the central policy purpose.

I think that we should also search for more adequate means to counter Soviet moves in the manipulation of commodity markets and in the subsidization of industrial exports. We should also find means of stopping the trends toward nationalization as distinguished from our present system of offering guaranties to protect companies from effects of actual nationalization. Finally, we should find out how we can assure foreign producers of raw materials the long-term and constant markets which they need, and provide ourselves with assured long-term supply.

We are not in a position, legally or financially, to undertake a positive program in these areas. The Soviet ICA, on the other hand, is not inhibited by legal and financial considerations. Moreover, it is established as a highly centralized department embracing all of the tools which we have, divided between Government and private industry. It is thus much better equipped than we are to wage economic warfare. We should not lose sight of these considerations.

With reference to your communication of January 22,⁷ I am assuming that the Vice President’s decision to take under consideration

⁴ NSC 5701, “U.S. Policy Toward South Asia,” approved January 10, 1957; for text, see *ibid.*, vol. VIII, pp. 29–43.

⁵ NSC 5613/1, “U.S. Policy Toward Latin America,” approved September 27, 1956; for text, see *ibid.*, vol. VI, pp. 119–137.

⁶ NSC 5612/1, “U.S. Policy in Mainland Southeast Asia,” approved September 5, 1956; for text, see *ibid.*, vol. XXI, pp. 252–263.

⁷ Randall’s January 22 memorandum to the Council enclosed a letter of January 14 from Eugene R. Black, Jr., to Randall suggesting the appointment of a Presidential Commission on U.S. economic policy toward the underdeveloped nations. (Department of State, E-CFEP Files: Lot 61 D 282A, Review of U.S. Foreign Economic Policy—CFEP 564) A memorandum of March 6 from Cullen to the Council indicated that the responses to the suggestion were generally unfavorable. (*Ibid.*)

the establishment of a study committee would supersede Mr. Black's proposal.

Sincerely yours,

Jim⁸

⁸ Printed from a copy that bears this typed signature.

5. Memorandum of Conversation Between Secretary of State Dulles and Vice President Nixon

February 8, 1958.¹

[Here follows discussion of possible foreign trips by the Vice President.]

(2) We discussed at some length the project for a study of economic warfare. We agreed that there were two aspects; one, the possibility that within the next two to five years the Soviet Union might develop a capability and purpose to wage economic warfare against our free enterprise system by getting control of raw materials and by disrupting free world markets through dumping of raw materials and/or manufactured goods. There might be a real question as to whether our classical free trade methods based upon profits by private enterprise could survive that kind of a struggle.

Then there was the second phase already with us of handling effectively our own economic aid programs and meeting Soviet bloc competition in the less developed countries.

With respect to the first matter, I suggested that an unpublicized study by some experienced person such as Sydney Weinberg,² drawing upon government and private persons for advice, would be the best way to handle this matter. The Vice President said he was inclined to agree to this approach.

With respect to the more efficient handling of our own foreign aid, including the Export-Import Bank and the new Development Loan Fund, the Vice President felt the strong need of a more authoritative and unified direction. He wondered whether the status of Dillon might be increased by making him an Under Secretary of State rather than

Source: Eisenhower Library, Dulles Papers, Vice President Nixon. Secret. Drafted by Dulles.

¹ The conversation took place at the Secretary's residence.

² Investment banker Sidney J. Weinberg.

Deputy Under Secretary and then giving him a certain directive authority covering the entire field.³

I said I doubted that a mere change in title would accomplish the result. He could be given added authority by the President and myself, but the problem would be how, for example, to bring the Exim Bank and Development Loan Fund into a single, cohesive, policy performing agency, since there were built-in statutory provisions and Congressional backing of different kinds. It would, I thought, be necessary to have some clear understanding with the manager and directors of the Exim Bank. I did not think that this could be achieved merely by a slight change in Dillon's title. The problem was much more fundamental than that. The Vice President indicated that he was disposed to agree and that the problem of how to proceed required perhaps some further thought. He felt, however, very strongly, as did I, that greater unity and efficiency were required in this field of foreign aid, particularly to less developed countries.

JFD

³ Dillon became Under Secretary of State for Economic Affairs on July 1, 1958.

6. Report to the Council on Foreign Economic Policy

March 6, 1958.

SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS

1 OCTOBER–31 DECEMBER 1957

1. *Principal Developments.*

With new boldness, the Sino-Soviet Bloc attempted, during the quarter ending 31 December 1957, to exploit its prestige in the underdeveloped countries, a prestige heightened by recent Soviet scientific achievements. These attempts were climaxed in late December at the unofficial Asian-African Solidarity Conference held in Cairo, where the USSR made a dramatic offer of economic assistance to underdevel-

Source: Department of State, E-CFEP Files: Lot 61 D 282A, Soviet Economic Expansion—CFEP 560. Secret. Prepared jointly by the Central Intelligence Agency and the Department of State. Filed with a covering memorandum of March 6 from Cullen to the Council. This report was the third in a series of quarterly reports on this subject.

oped countries. This offer was as much a challenge to the economic superiority of the US as it was a proposal that economic development in Asia and Africa should be supported by the USSR. The principal Soviet speaker at the conference also recommended that other underdeveloped countries follow the lead of Indonesia and Egypt in nationalizing foreign-owned industry in order to obtain funds needed for economic development. The conference established permanent headquarters in Cairo. With Russians and Chinese Communists represented in its secretariat, this organization may well become a center for further Communist permeation of Asia and Africa.

The Soviet Bloc has not slackened its efforts to move forward with its economic aid program. In addition to expanding its efforts in countries that have already accepted considerable Bloc aid, the USSR made attractive new offers to countries that have heretofore been reluctant to take assistance from Communist nations. The USSR presented a proposal for a general development program to Iran as well as a plan for a joint company for the exploitation of petroleum resources in Northern Iran. Khrushchev suggested to the Ceylonese Ambassador in Moscow that Soviet technicians could be used to expand rubber output in Ceylon and that the USSR would take all of the increase in production. The USSR offered economic assistance to Sudan and indicated a willingness to make large purchases of Sudanese cotton at a time when Sudan's sales to Western buyers were lagging. Even in Latin America, where the Bloc previously has had little success, attractive offers were made to Brazil and Uruguay.

2. Egypt.

During a November visit to Moscow the Egyptian Minister of Defense tentatively arranged an economic aid agreement in which the USSR is to provide a credit of about \$175 million to be used in Egypt's 5-year industrial development program. In addition, new arrangements have been made under which the USSR will continue sending military items to Egypt. Also in November, it was announced that a Czechoslovak loan of \$56 million had been extended to Egypt in September. This loan will be used to finance projects that are included in the industrial development program of Egypt.

3. Syria.

The USSR agreed in October to furnish on credit to Syria additional military supplies and equipment worth \$30 million. It is believed that by late December virtually all of the new military items had been delivered. Progress has been made in implementing the earlier Soviet-Syrian economic aid agreement, and plans for specific projects are under way.

4. *Indonesia.*

Indonesia's attempt to unify its many dissident elements by seizing Dutch-owned property has intensified already serious economic, political, and military problems. The Indonesian government claims that its armed forces must have large quantities of military items and has approved a decision to seek arms worth about \$250 million wherever they can be obtained. A purchasing team left Indonesia on 31 December 1957 to visit several prospective supplying countries, including Egypt, Yugoslavia, Poland, and Czechoslovakia as well as some countries in Western Europe. Soviet Foreign Minister Gromyko is reported to have told the Indonesian Ambassador that the USSR would extend all types of assistance if a break with the Netherlands should result in financial and economic difficulties.

5. *US and Bloc Foreign Aid.*

In over-all terms the US aid program to underdeveloped countries of the Free World is substantially larger than that of the Sino-Soviet Bloc. Since the first Bloc aid was extended about 2½ years ago, the countries in the Sino-Soviet Bloc have extended credits and grants for military and economic uses amounting to nearly \$1.9 billion. In comparison, aid by the US Government (including PL 480, MSP, and Ex-Im Bank) committed to the underdeveloped countries of the Free World during this period amounted to about \$8 billion. The US program also was broader in scope, with 50 underdeveloped countries receiving assistance compared with 17 underdeveloped countries receiving Bloc aid.

Appraisal in total terms alone, however, provides an inadequate basis for comparison of the two programs. In nearly all countries where the Sino-Soviet Bloc is competing with US aid programs, the Bloc is currently committed to larger amounts of aid than is the US. With the exception of Syria, all of the nine underdeveloped countries¹ which are the principal recipients of Bloc aid also have been receiving funds from the US. These 9 countries have received credits or grants from the Sino-Soviet Bloc amounting to about \$1.8 billion during the last 2½ years. Over the same period, about \$1 billion in assistance of all types was received from the US on a governmental basis. Although exact comparisons are not available, it is estimated that Bloc technical personnel in these 9 countries number more than 2,000 compared with less than 1,000 under programs financed by the US Government.

¹ Afghanistan, Burma, Cambodia, Ceylon, Egypt, India, Indonesia, Syria, and Yugoslavia. [Footnote in the source text.]

One characteristic of the Bloc aid program worthy of note is its independence from military pacts. The contrast with the US is quite apparent: the bulk of US aid to underdeveloped countries goes to those with which the US is allied in military pacts, but no underdeveloped country receiving Bloc assistance is a member of a Bloc military alliance.

7. Memorandum From the President's Special Assistant for National Security Affairs (Cutler) to the Chairman of the Council on Foreign Economic Policy (Randall)

March 17, 1958.

SUBJECT

Soviet Economic Penetration

Although the question of government organization for dealing with Soviet economic penetration did not come up in the CFEP meeting on Thursday,¹ I thought it might be useful to reaffirm and clarify my views on this subject.

As indicated by my concurrence in Mr. Dearborn's memorandum of January 9,² I believe that the problem of policy (as opposed to operations) in this area can best be handled by reexamination of existing national security and foreign economic policy decisions rather than by the preparation of a new policy paper dealing exclusively with this subject. I agree with the comments of Mr. Dearborn and Mr. Brundage³ that Soviet economic penetration needs to be considered in the total context of all our policies and programs.

Source: Eisenhower Library, CFEP Records, Policy Papers, CFEP 560. Secret.

¹ March 13. The minutes of the meeting state that CIA Deputy Director for Intelligence Robert Amory briefed the Council on recent Soviet economic activities in underdeveloped areas and that Dillon briefed it on U.S. actions to counter such activities. (*Ibid.*)

² The memorandum from Special Assistant to the President Frederick M. Dearborn, Jr., to Randall recommended an OCB interagency committee to collect information on Soviet economic penetration and make policy proposals for CFEP or NSC action. (Filed with the February 20 memorandum cited in the source note, Document 4)

³ The letter of January 29 from Percival Brundage, Director of the Bureau of the Budget, noted that Vice President Nixon was considering the establishment of a study committee and recommended against the creation of yet another interagency group. (Filed with the February 3 memorandum cited in footnote 1, Document 4)

More specifically, the current Planning Board review of basic national security policy can furnish a means for providing new general policy guidance. This review will be based primarily upon the new Estimate of the World Situation (NIE 100-58)⁴ scheduled for preliminary discussion in the National Security Council this week.⁵ This estimate makes it clear (pars. 18, 50, 53 and 73) that, under conditions of mutual deterrence, the Soviet bloc will wage increasingly vigorous and effective economic and political offensives.

I also continue to subscribe to Mr. Dearborn's view that we should not establish entirely new governmental machinery to deal with this problem, and that it can best be handled through the Operations Coordinating Board. I believe a special committee of the OCB should be established, probably under the chairmanship of a high-level person from Douglas Dillon's office, with functions along the lines of those proposed in par. 4 of Mr. Dearborn's memorandum of January 9. Administrative and legal restrictions on our aid and other economic programs constitute one general problem area with which such a committee might concern itself. Because Mr. Dillon has responsibility for a number of the relevant operational programs, such a committee could also be very useful to him in providing interdepartmental coordination and action. The committee should include representation from your staff.

An alternative to a formal OCB committee would be a less formal arrangement along lines of the attached proposal which has been suggested to me.⁶

I am not clear, however, about how all of this relates to the work of the study committee that the Vice President will establish under the Cabinet action of January 14.⁷

Bobby

⁴ "Estimate of the World Situation," dated February 26. (Department of State, INR-NIE Files)

⁵ The Council discussed NIE 100-58 on March 20. An extract from the memorandum of discussion is scheduled for publication in volume III.

⁶ The attachment, unsigned and undated, suggested that the Department of State, CIA, and ICA should each designate one person with responsibility for conveying information on Soviet economic efforts in other countries to that agency's OCB Board member.

⁷ See footnote 4, Document 1.

8. Memorandum of Conversation

March 26, 1958.

SUBJECT

Study of Possible Counter-Measures to Soviet Economic Warfare

PARTICIPANTS

The Vice President
Secretary Dulles
Deputy Under Secretary Dillon
Secretary Weeks
Harold Boeschstein, representing Business Advisory Council¹

The Vice President said that in thinking about the problem of the study of counter-measures to Soviet economic warfare it had been clear that high-level government officials were all so deeply engaged on current problems that they would not have the time to make a thorough study which the question demanded. An outside study with a minimum of publicity seemed the best answer. The Vice President said he had mentioned the matter to Sidney Weinberg and also to Secretary Weeks, and both had felt that the mechanism of the Business Advisory Council provided the ideal solution. It was felt that a special committee of about five or six individuals could be set up to study the problem. These individuals would have to devote considerable time to the matter and the study could be expected to last for as long as a year.

Secretary Dulles then outlined the great importance which he attached to this matter, saying that it might well be the most serious problem to be faced by the free countries in the coming years. Therefore, he said that the study must be taken very seriously by all concerned.

The Vice President agreed and said he felt the study should be initiated by the President asking the individuals who would make the study to come to Washington, and charging them personally with the mission. He then said the most important matter was the choice of a man to head up the study.

Mr. Boeschstein said he was thinking of the highest caliber executives in the Business Advisory Council who had extensive experience in world business. He said he thought Mr. C.S. Allyn, of the National Cash Register Company, would make an excellent chairman of the study group. It was agreed that Mr. Boeschstein and Secretary

Source: Department of State, Secretary's Memoranda of Conversation: Lot 64 D 199. Secret. Drafted by Dillon.

¹ Boeschstein, President of Owens-Corning Fiberglass Corporation, was a member of the Business Advisory Council of the Department of Commerce.

Weeks would get up a list of about ten possible members of such a study group and submit it to Secretary Dulles for joint decision as to the five or six most suitable individuals.

The Vice President then said it was most important that the group be provided with an adequate staff. It was agreed that the head of the staff should probably be provided through Business Advisory Council sources. It was emphasized that a competent State Department officer would have to be assigned full time to this work in order to ensure that State Department information was available to the study group, and to keep the Department informed of progress. Secretary Dulles agreed on the importance of such a relationship with the State Department, and asked Mr. Dillon to make sure that a competent officer would be assigned to the group once it was established, this officer to keep Mr. Dillon currently informed of the progress.

Secretary Dulles asked the Vice President whether or not there should be a report of this action to the Cabinet. The Vice President felt it was preferable to make no such report in order to keep the fact that the study was being made as quiet as possible.

9. Editorial Note

At the 364th meeting of the National Security Council on May 1, the Council discussed NSC 5810, a draft policy paper entitled "Basic National Security Policy," dated April 14. The discussion dealt in part with aspects of foreign economic policy, including policy concerning international commodity agreements, economic defense, and economic assistance. NSC 5810, as amended and adopted by the Council on May 1, was approved by the President on May 5 as NSC 5810/1. Portions of the memorandum of discussion by Deputy NSC Executive Secretary S. Everett Gleason, dated May 2, are printed as Documents 279 and 328.

10. Memorandum Prepared by the Policy Planning Staff

May 5, 1958.

SUBJECT

US Policy Concerning Soviet Development Aid To Free Countries

I. Introduction

1. *Soviet Purpose.* The basic Soviet purpose in extending development aid is to increase Soviet political influence in the less developed areas. While the immediate objectives which that increase is designed to serve may be limited, it is part and parcel of an over-all Soviet campaign which looks to the ultimate subversion and, if possible, take-over of these areas.

2. *US Purpose.* The basic long-term US purpose in extending development aid to less developed countries is to enhance the likelihood that these countries will remain strong and free, and that they will be disposed to pursue their national objectives in association with the free world rather than the Bloc. We believe that this likelihood will be enhanced if these countries can achieve in freedom the economic progress which their peoples seek.

3. *US Action.* These contrasting US and Soviet purposes in extending aid suggest that our reaction to the Soviet aid program must be twofold:

(a) To render our economic programs even more effective in fulfilling *their* purpose: helping the less developed countries to go forward in freedom;

(b) To take action to limit the effectiveness of Soviet aid as a means of achieving its contrasting goal: extending Communist influence into those countries.

These two types of action are discussed under II and III, below.

Source: Department of State, S/P Files: Lot 67 D 548, USSR 1958. Confidential. Filed with a covering memorandum of May 9 from Assistant Secretary of State for Policy Planning Gerard C. Smith to Dillon; a copy of CA-10407 of May 28, which transmitted it to all diplomatic missions and a number of consular missions; and a summary dated June 4. Another copy of the paper indicates that Henry Owen of the Policy Planning Staff was the drafter. (*Ibid.*, S/P Papers, May 1958) Copies of the paper and the summary were sent to the White House with a covering letter of June 9 from Acting Assistant Secretary of State for Economic Affairs W.T.M. Beale to Special Assistant to the President Karl G. Harr, Jr. (Eisenhower Library, Special Assistant to the President for National Security Affairs Records, Communist Economic Penetration)

II. US Programs

4. *Objective.* By helping the less developed countries to progress through free methods, we can probably do more to frustrate the purpose of Soviet aid programs than by the direct responses to these programs proposed under III. For if less developed countries can achieve the growth they seek as partners of the free world, the Soviet economic campaign in the less developed areas will find few opportunities to exploit. Our basic reaction to this campaign, therefore, should be to look to our own programs, to see if there are any ways in which they could be rendered even more effective in promoting the growth of less developed areas.

5. *Scale and Method of Aid.* If our development aid programs are to promote growth, their scale and methods must be those best suited to the purpose.

(a) *Scale.* Existing hard loan institutions—the IBRD and the Export-Import Bank—have at their command the present and future resources necessary to a continued high level of activity. Our existing soft loan institution—the Development Loan Fund—will need greater resources and assurance of continuity if it is to achieve such a level over the next several years. This need is of great importance, since soft loans are a vital element of our development financing. It will also be desirable to encourage other free industrial countries to increase their economic and technical aid to less developed countries; some of these countries—notably Germany—have the capacity to do more than they are now doing.

(b) *Method.* The DLF was designed not only to provide increased resources for development but also to achieve needed improvements in the method of its financing; to avoid advance country allocations and to provide aid only for specific projects or programs that met sound predetermined criteria, following the practice of the IBRD and EXIM Bank. These improvements are beneficial, and we should seek to preserve and extend them in the Fund's operations. A great deal of US financing which affects economic development is also provided through non-banking instruments, and we should try to increase the effectiveness of these instruments by seeking greater flexibility in their use. Particularly important in this regard will be consideration of (i) whether the scale and allocation of PL 480 disposal could, without endangering other US objectives, more fully reflect its potential importance as an anti-inflationary instrument of development financing; (ii) whether the administrative requirements associated with programming, project approval, and contracting procedures under Defense Support and Special Assistance could be simplified without detracting from their substantive effect; (iii) whether the effectiveness of our technical assistance programs could be increased through greater use of technicians from other free countries, assignment of technicians or advisers (on a reimbursable basis) to the payroll and control of the host government, and other possible improvements in this vital people-to-people aspect of our mutual security program.

6. *Relation of These Programs to Soviet Aid.* If our aid programs are to be of maximum effectiveness in promoting economic growth, they must not be diverted from achievement of this purpose by attempts, of uncertain merit in themselves, to imitate or counter Soviet aid programs. This means that:

(a) We should not fritter away our resources and prestige by providing development aid to a country merely because it is seeking or receiving Soviet aid, regardless of whether such development aid would further our own positive objectives. By thus succumbing to blackmail, we will only expose ourselves to contempt and reduce the effectiveness of our aid programs, without in the long run altering the receiving country's receptivity to Soviet aid. By the same token, we should not be deterred from extending development aid to countries where such aid would serve our purposes by the fact that these countries are also seeking or receiving Soviet aid.

(b) We should not be panicked by Soviet competition into providing development aid through methods which mimic those of the Bloc, where these methods are not suited to our own positive goals. Except in the most unusual circumstances and in the face of overriding political considerations, we should not provide resources for projects without determining their worth or make loans which would overburden a country's servicing capacity—merely because this sometimes constitutes the pattern of Soviet aid. We should continue to try, through appropriate channels, to induce countries which seek or receive our aid to follow sound policies, which would enable them to use that aid effectively.

While following sound practices, we should make clear to foreign countries the basic purposes which bring these practices into being. We should stress that it is those basic purposes—not the Soviet Union's tardy entrance into the aid business—which motivate our aid. If we allow the impression to grow that we are giving our aid as a counter to Soviet aid, the countries which receive it will (i) take a cynical view of any alleged difference between our purposes and those of the USSR, (ii) believe that they can press us into increasing our aid, whether this is warranted or not, by applying to the Bloc for aid. And if the Bloc should one day stop its aid, the American public and Congress may wonder whether we should not do the same.

7. *Other US Economic Programs.* While thus carrying forward development aid programs which are effectively geared to their purpose, we should remember that US policies outside the aid field may sometimes have even more effect on the less developed countries' growth. By rendering participation in the free world economic system a workable means of achieving such growth, these policies can help us to respond effectively to the challenge posed by Soviet aid programs in the less developed areas. While this is not the place to review over-all US foreign economic policy, three key points deserve emphasis:

(a) The maintenance of a high and sustained level of economic activity in the US will be of critical importance.

(b) US trade and commodity policies should be such as to afford less developed countries access to sound and reasonably stable markets for their principal exports. The proposed strengthening of the Reciprocal Trade Agreements Act is, of course, a key measure. Vigorous resistance to pressures for discriminatory action against imports of particular commodities will also be of great importance in the present period of declining economic activity.

(c) Measures to encourage and assist private investment in the less developed areas can have growing significance. The proposed Pakistan tax treaty is a promising first step.

III. Direct Response to Soviet Programs

8. *Objective.* While enhancing the effectiveness of our own economic programs, we should also respond directly to the Soviet programs so as to limit the contribution which they make to Soviet purposes. This will involve trying (i) to induce recipients of Soviet aid or aid offers to show reasonable prudence in their dealings with the USSR, so as to guard against dangerous direct extensions of Soviet influence; (ii) to limit the Soviets' ability to use their aid programs to create a damaging and inaccurate impression of the Soviet system and Communist purposes throughout the less developed countries; (iii) to exploit whatever problems and disadvantages these aid programs may create for the Soviet Union inside the Bloc. Each of these types of response is discussed below.

9. *Receiving Countries.* The counsel which we give to countries that receive Soviet aid or offers of aid can help to limit the Soviet ability to use this aid for harmful purposes. This counsel will, of course, vary according to circumstances, but two general cases may be described:

(a) In countries where we have influence and which are wholly—or almost wholly—divorced from contact with the Bloc, we should probably try to maintain this isolation by persuading such countries to refuse Bloc aid offers.

(b) In other countries, while also indicating frankly the hazards which we believe are associated with Bloc aid, we should not—except in very special circumstances—commit our influence and prestige to securing rejection of such aid. This course would probably earn us ill will without achieving the desired effect. We should rather set for ourselves the more realistic goal of trying to guard against the most important of these hazards by warning the countries in question against:

(i) accepting Bloc personnel as government advisers or allowing them to enter such sensitive fields as civil aviation, basic communication media, or education;

(ii) allowing such an undue concentration of Bloc aid in key sectors of these countries' economics as might render them unduly dependent on the Bloc (e.g., for future replacements, spare parts, and servicing);

(iii) permitting the Bloc to use its aid and the presence of Soviet technicians for subversive purposes, directly or indirectly;

(iv) entering into loan agreements which would overburden their servicing capacity or orient them so heavily toward Bloc markets, either in over-all terms or in terms of specific commodities, as to render them vulnerable to Bloc economic pressure in the future.

10. *Less Developed Countries Generally.* We must guard not only against these direct effects of Soviet aid but also against its indirect effects on the less developed countries generally. This means that we should try to prevent the Soviets from misleading these countries as to the character and purposes of its aid and thus from casting a cloak of spurious respectability over the USSR and the local Communist parties in these countries.

(a) We should point out that the resources provided by the USSR are extracted from a people who badly need and want these resources themselves. The fact that they are given testifies to the ruthlessness of the Soviet leadership rather than to the well-being of the Soviet people. It is hardly an advertisement for the Soviet system.

(b) We should seek to puncture the Soviet claim that these resources are provided without political purpose or distinction. We should stress that the USSR's aid is designed to extend its influence in certain specific countries rather than to achieve economic progress in the less developed areas as a whole. While Soviet representatives ostensibly told the recent Cairo Conference that their aid is open to all comers, for example, the fact remains that in the Afro-Asian area most of that aid goes to Afghanistan and the UAR, where the Soviets are seeking to establish a special position.

(c) We should treat the scale and nature of Soviet assistance programs factually. We should welcome objective comparisons between the annual flow of aid from the US and the USSR to the less developed countries, to the extent that such comparisons are feasible in view of difficulties of definition.¹ We should emphasize that the Soviet Union was the only donor country recently to refuse to provide information for the ECOSOC concerning its aid programs, and suggest that the reason may well have been its fear that such comparisons would not be to its advantage.

¹ For purposes of this paper, Soviet aid is defined as the provision of goods without requirement for payment, in barter or currency, within a period that would be considered customary in inter-governmental or private trade. [Footnote in the source text.]

(d) Where deficiencies in Soviet aid programs appear, we should try—without showing our hand, if possible—to make them widely known in less developed areas. As we have learned from our own experience, aid can earn ill will as well as good will for the donor in these areas, depending on how it is administered. When the Soviets err, we can try to make sure that they reap the full whirlwind by bringing their errors to the full attention of all the interested countries.

We should not, of course, be carried away by this effort to the point where we try to do more than describe accurately what the Soviets are doing and why. Any attempt to belittle Soviet aid would be extremely dangerous, if only because of its palpable falsity. Our object should be to prevent Soviet aid from having greater political impact than is warranted by the facts of the case, without resorting to the systematic misrepresentations through which the Soviets have (sometimes successfully) sought to reduce the political impact of *our* aid.

11. *Exploiting Soviet Vulnerabilities.* There is one other way in which we might try to limit the net advantage which the Soviets can draw from their aid programs: by trying to compound the internal problems which such aid may create for the Soviet rulers.

(a) We can try to bring home to the people of the satellites and of Communist China the facts about the Soviet Union's foreign aid to the free world. All these peoples want and need more economic development. They will be interested to learn that the Soviet Government is lending resources to other countries—rather than to them—for just this purpose. The Chinese Communist appraisal of Soviet aid for India will probably be about as enthusiastic as the Baghdad Pact nations' reaction to US aid for India.

(b) An effort can be made to exploit the exposure of Soviet technicians to outside influences when they emerge from the Soviet Union. As the number of technicians sent abroad increases, the Soviet rulers may have growing difficulty in ensuring that they are so carefully selected as to be wholly invulnerable to the effects of foreign contacts. Discreet attempts to ensure that they are not isolated from newspapers, broadcasts, and intellectual stimulants which they are denied in the USSR may affect the attitudes which they bring back to the USSR and thus the long-term prospects for internal Soviet change.

These efforts will not, of course, convert the Soviet aid programs into net liabilities for the USSR. They can, however, ensure that the Kremlin incurs the disadvantages—as well as the benefits—of its tardy entrance into the aid field, and thus slightly reduce the net advantage which it draws from these programs.

These actions will not, however, equal in importance the measures designed to reduce the direct and indirect effects of Soviet aid in the less developed areas proposed in paragraphs 9 and 10. And these latter measures, in turn, will be much less significant than those set

forth under II, which are designed to enhance the effectiveness of our own economic programs in helping the less developed countries to achieve the progress they seek as members of the free world.

11. Memorandum for the Record by the President's Special Assistant (Harr)

May 19, 1958.

The President held a dinner (guest list attached)¹ on the evening of May 15 to discuss the implications of the Sino-Soviet economic offensive for the U.S. and what we could do to counter it.

The dinner had been preceded by an afternoon-long briefing by the Department of State of those members of the Business Advisory Council who had been chosen as a committee to address themselves to this problem.²

After the President's introductory remarks setting forth the problem with which he was concerned, the Secretary of State related this specific problem to the over-all struggle between the Sino-Soviet bloc and the U.S. and indicated he felt this economic offensive was its most important aspect at this time.

Secretary Weeks then spoke to the assets this nation had in its business activity overseas and the need for the closest possible cooperation between business and the government to counter current Sino-Soviet moves.

The Vice President made the point that in Latin America, as well as in other underdeveloped areas, one of the fertile grounds for Communist exploitation was the strong desire on the part of the mass of the peoples of these countries to change their economic status for the better. He said that an effective Communist lure was the argument that "capitalist" trade between the U.S. and those countries did nothing more than make the rich richer, without improving the lot of the poor. To the extent to which this was true or made to appear true, it fostered sympathy toward Communist promises of a change.

Source: Eisenhower Library, White House Office Files, Special Assistant to the President for National Security Affairs Records, Communist Economic Penetration. Confidential.

¹ Not printed. The list of 16 included Harold Boeschenstein and 7 other prominent businessmen.

² Reference is to the Business Advisory Council's Committee on World Economic Practices, chaired by Boeschenstein. A summary of the briefing is in Department of State, Secretary's Memoranda of Conversation: Lot 64 D 199.

The Vice President also urged the Business Advisory Council to draw as appropriate upon their overseas representatives for help in this study, as he believed some of them to be among the most knowledgeable and experienced persons available to address themselves to this problem.

The Deputy Under Secretary of State for Economic Affairs, Mr. Dillon, elaborated upon the complex arsenal of economic devices that have been developed by the Soviet Union to make its economic offensive effective.

The Secretary of the Treasury observed that to compete effectively against the political appeals engendered by the Communist trade and aid offers, the lending institutions in this country, both private and governmental or intergovernmental, would have to take greater risks and modify their pure banker's perspective toward the soundness of loans in order to make funds available to impact activities, some of which are now being excluded because they are not considered sound financially.

Mr. Allyn, Mr. Bechtel and Mr. Holman³ spoke of the need for close cooperation between government and private business if the maximum effectiveness of private business activities is to be realized.

Mr. Bechtel expressed, on behalf of the group, the gratification of American businessmen at being asked by the President to address themselves to this important problem.

On various occasions during the discussion the President reiterated his conviction that the challenge presented by the Sino-Soviet economic offensive, serious as it was, was perfectly capable of being successfully countered if the combined strengths of free government and free private enterprise were fully applied to the achievement of this objective.

Karl G. Harr, Jr.⁴

³ Stephen D. Bechtel, President and Director of Bechtel Corporation, and Eugene Holman, Chairman of the Board of Standard Oil Company of New Jersey.

⁴ Printed from a copy that bears this typed signature.

12. Memorandum of Conversation

MCT MC/16

June 10, 1958, 3 p.m.

SUBJECT

The World Economic Situation

PARTICIPANTS ¹

United States
Secretary Dulles
Mr. Allen Dulles
Secretary Anderson
Mr. Dillon
Mr. Coughran
Mr. Reinhardt
Mr. Elbrick
Mr. Dale
Mr. Leddy

United Kingdom
Mr. Macmillan
Ambassador Caccia
Mr. Brook
Mr. Dean
Lord Hood
Mr. Thorold
Mr. Morris
Mr. Leishman
Mr. Zulueta
Mr. Bishop

The Prime Minister said he had been struck by the Secretary's recent speech to the Senate Committee on Foreign Relations on the overall situation vis-à-vis the Soviet Union.² This was a very large problem and hard to condense. He would attempt to summarize it in this way:

Looking at the military equation, it seemed clear that, so long as the West did not do foolish things, the balance of military power was such as to prevent any formal, global war because of the enormous destruction that would result. Therefore the struggle between the two contending points of view represented by the Communists and ourselves would probably move from one field to another, and specifically it would move into the fields of economics and of propaganda.

Looking at the economic field, there were two main aspects. One was what the Soviets might be able to do to us. The other was what we might do to ourselves. Our traditional economic rules of supply and demand, etc., don't apply to the Soviet system. Our system is therefore brought up against a wholly new and different proposition, which is puzzling for us. Earlier, the economic strength of the Soviet

Source: Eisenhower Library, Whitman File, International Series. Secret. Drafted by Dillon's Special Assistant John M. Leddy and cleared with Dillon and Reinhardt.

¹ British Prime Minister Macmillan visited Washington, June 9–11. Participants not previously identified include Assistant Secretary of the Treasury Tom B. Coughran, Department of State Counselor G. Frederick Reinhardt, Assistant Secretary of State for European Affairs C. Burke Elbrick, British Joint Secretary of the Treasury Sir Norman Brook, Deputy Under Secretary of State Sir Patrick Dean, Minister of Embassy Viscount Hood, and Economic Minister Guy Frederick Thorold.

² On June 6; for text, see *American Foreign Policy: Current Documents, 1958*, pp. 34–46.

Union was used to build up the country internally, but now it has grown so that it is able to produce and dispose of surpluses on the world market, not for normal economic reasons but to undercut the free world trading system. Therefore our former attitudes with respect to tariffs and quotas and the like are tending to become obsolete, and require change. All of this is only just beginning, and we do not yet know what the answer will be.

Turning to what we might do to ourselves, the Prime Minister observed that if we are to allow our economies to fall into a decline then we will bring about precisely what the Marxists want, and have steadily predicted. Since the war we have had a fairly continuous boom. People had come to think that the process of expansion was automatic. Now it is something of a shock to them to find out otherwise. Unless we can get our economies moving forward, we will not be able to do what needs to be done, for example, for the less developed areas. During and immediately following the war prices were good for primary commodities produced by the less developed countries. It was widely felt that the only problem was to achieve more and more development. Now it is clear that world trade is very important to these countries, and if such trade is to be sustained, the industrialized countries must keep their economies on an even keel. The UK had done its best to keep inflation down and to keep labor costs under control, but at some point it must contemplate an expanded economy. For the UK the most serious problem is how to achieve expansion without inflation, for inflation would lead to a drain on the reserves. The Western world as a whole must prove Marx wrong by avoiding booms and slumps and by assuring a steady expansion of world trade.

Referring to the liquidity problem, the Prime Minister said that it was like the chicken-and-egg argument. Some people felt that if there could be a large increase in liquidity, larger trade would follow. Others felt that if larger trade were achieved that would create a liquidity problem, which would then have to be solved.

Summarizing, the Prime Minister said that we must (1) examine what the Soviets may be able to do to us by reason of their greater economic capability and unorthodox methods and (2) consider what we might do to ourselves through failure to maintain stability, increase development and expand trade.

Secretary Dulles said the problem had to be broken down because of its many facets. We would have to look at both the national agencies and the international agencies. On the international side, we have the International Monetary Fund and the World Bank. Both have demonstrated their utility. Some question has been raised about whether these institutions have adequate resources. Domestically, in the U.S., we have the Development Loan Fund and the Export-Import Bank. For these institutions Congress has just increased by \$2 billion

the lending power of the Export-Import Bank and is considering legislation to increase by some \$600 million the resources of the Development Loan Fund. In the trade field the US has encouraged enlarged trade and has favored a liberal commercial policy. Congress is now considering an extension of the Reciprocal Trade Agreements Act. Although this legislation might perhaps be considered as more of a symbol than as a means of achieving really substantial tariff reductions, it would be valuable in dealing with the European Common Market.

With respect to the Soviet Union, there was no doubt that the enhanced power of the Soviet Union to produce and dispose of surpluses on the world market by methods departing from normal commercial standards could do much mischief. This is of concern to us more over the longer term than immediately. Because of our concern, we have arranged for a top-level group of outstanding businessmen to study the whole matter in consultation with the various government agencies. We hope that this group may be able to report within a few months.

Secretary Anderson said that it must continue to be a basic objective of the countries of the free world to enlarge international trade. In pursuing this objective, free economic systems such as our own are under certain disadvantages in competing with a managed economy such as the Soviet Union. The less developed countries, which had suffered greatest economically over the years, were now demanding a change of status, and demanding it more insistently than ever before. They were not so much concerned over the political ideologies involved but over the practical results of bringing material improvement. That is why the USSR is such a formidable competitor against us in these countries. The US is committed to a policy of larger trade, but it can implement this policy only as rapidly as its own domestic political and economic situations will permit. The same situation faces the UK and other democratic regimes. The Soviets, on the other hand, can carry out trade transactions without regard to the desires of their domestic producers. They can import wheat under a barter deal and then tell their farmers to produce something else. Soviet loans can only be spent within the Soviet bloc, whereas the goods which flow under US loans in dollars or under UK loans in pounds sterling are competed for all around the world. Nevertheless, we believe that most of the free world governments would prefer to avoid dealing with the Soviet Bloc if they could. He felt that the Soviet economic offensive presents American private capital with a new kind of challenge. He hoped that some answers could be found through the business study group mentioned by Secretary Dulles. He felt that the US Government had to find some new method of associating its efforts with private enterprise.

World Bank and International Monetary Fund

Secretary Anderson then turned to the question of the World Bank and the International Monetary Fund. The Bank, he said, was now lending at a higher rate than had been thought possible several years ago. Loans in 1957 were running at an annual rate of \$800 million. The resources for these loans were drawn not only from the members' subscriptions of 2% in gold and 18% in cash, but also from bonds issued by the Bank on the private capital market. These bonds were guaranteed by the remaining 80% capital subscription of the member governments for which they assumed a contingent liability. The US believes that the Bank can continue to lend at the present high rate for the next year or so. But when the volume of bonds offered by the Bank approaches the contingent liability of governments with hard currencies, bondholders will want to know whether these governments will assume additional contingent liability. There is, therefore, the possibility that the Bank's borrowing and lending operations might be expanded by increasing the contingent liability part of their capital subscriptions to the Bank (but not their contributions in gold or cash), thus avoiding any immediate burden on the budgets of governments.

With respect to the International Monetary Fund, the situation was different. The resources of the Fund could not be increased without some additional cash payments by member governments, which would result in a budget burden. The US had not as yet determined its position on this matter. We have the problem in mind and are giving careful study to it in the light of trade developments. We have no concrete views on the desirable size of additional contributions to the Fund. The immediate question was what should be said about this matter at the New Delhi meeting of the Bank and Fund in September. The US considers that it would not be wise to present any concrete proposal at the New Delhi meeting for the reason that governments would not have been fully prepared to consider and debate the question intelligently at that time. However, we believe that, if Messrs. Black and Jacobsson raise the question, it might be possible to agree at the New Delhi meeting to establish a competent committee, appointed by the governors, to consider the whole problem of what might be done about the Fund and the Bank. In this way we can proceed with an examination of the question in an orderly manner and avoid damaging debates in an open forum.

Secretary Anderson added that he thought it unfortunate that there had been growing discussion of the shortage of world financial liquidity in the UK and US press. He feared that press discussion of this subject prior to the reaching of agreement between governments could set off speculative currency movements with damaging repercussions. He said that, for example, the US had received many inquir-

ies regarding the price of gold, and we had had to make it absolutely clear that the question of the price of gold was not even under consideration by the US Government. He understood that we could not, of course, control the press, but we should do what we could to avoid creating a climate of risk. We would hope to minimize this kind of discussion at New Delhi. The creation by the governors of the Bank and Fund of a competent committee to examine the problem might be one way to avoid this.

Secretary Anderson added that he wished to compliment the UK government on the handling of its economic problems. He admired greatly the resolute and courageous action of the UK in taking the measures which it had taken to check inflation and promote stability.

US Economic Situation

Secretary Anderson then turned to the current US economic scene. He felt that recent developments in this country must be kept in perspective. The years 1956 and 1957 were the best economic years we had ever achieved, with a gross national product of \$435 billion. He pointed out that even in 1957 there had been wide fluctuations from month to month—in some months the changes had been as great as \$9 billion—in the annual rate of output. Unemployment in the first six months of 1957 was 3 million. This year, 1958, the peak was slightly above 5 million. We were therefore talking about a change in unemployment of only 2 million. Unemployment was heavily concentrated in the durable goods field. Of the 2 million additional unemployed, 1½ million were in the heavy industries—steel, autos, machine tools and the like—and only 0.5 million in other industries. For the durable industries as a whole the decline from the peak reached in the first half of 1957 had been about 16%, whereas the decline in non-durables had been only 6%. Personal income had reached an all time high in August 1957, and had never been more than 1.1% below this high since that time. Personal income was now going up. Farm income during the first quarter of 1958 was 11% over the comparable quarter of 1957 and was at its highest level since 1954. Retail sales were as high or higher than in 1957.

Secretary Anderson went on to say that several reasons had been advanced for the decline in the durable goods industries, which accounted for the greater part of the current recession. One factor was consumer choice—a switch from durables to non-durables. Another was the fact that in 1954–56 there had been a large increase in personal indebtedness arising out of heavy purchases of durable goods. This debt was now being worked down. The result was that savings had increased, available credit had expanded, and interest rates had dropped.

Economic Assistance to Less-Developed Areas—Commodity Problems

Mr. Dillon observed that while we had put a substantial amount of aid into the less-developed countries, the price declines for the major exports of these countries have meant for them a much greater financial loss than the financial gains they have received from our aid. The US has therefore felt that it must address itself to commodity problems more vigorously than it had before. We still feel that we cannot support world prices through governmental support measures but we may be able to do more in searching for a solution to these problems than we have in the past, when we frequently took the position that we were not even willing to discuss such problems. For this reason we have agreed to participate with the Latin American countries in a study group on coffee, the first meeting of which will be held tomorrow here in Washington. African countries have been asked to send observers to the meeting, and may decide to participate. The Australian government had suggested a somewhat similar approach to the problems of lead and zinc. We have not yet reached a conclusion on this but are studying the proposal sympathetically. We would like to work more closely with the UK in this whole field.

Mr. Dillon said that in the field of development we would also like to work more closely with the UK. Some of our ICA people believe it would be useful to meet with British officials in London in order to exchange experiences from which both might gain. Mr. Dillon then referred to the various suggestions which have been made to step up aid to the less-developed areas through multilateral action. These suggestions had come, for example, out of the Council of Europe, from the OEEC, and from individual governments as in the case of the Pella Plan. He referred in this connection to the consideration now being given in the Senate to the establishment of an International Development Association under the World Bank. It was anticipated that the Senate would adopt a resolution urging study of this proposal, which would enable the Bank to make soft loans to less developed countries. At some stage we would like to obtain the UK's ideas on this. We have not made up our own minds as yet but want to explore it. If such a new multilateral agency were to be established, it would have to be one to which all countries would contribute real resources and could not be merely a facade for US assistance.

Continuing US-UK Economic Consultation

Mr. Dillon commented on the work of the US-UK study group, to examine the Soviet economic offensive and the problem of counter-measures, which had been set up following the Prime Minister's last visit. He felt that one of the results of these discussions had been to

reveal to both governments that neither of them was very well organized to cope with this problem and that early attention would have to be given to internal organization within the governments.

Reverting to Secretary Anderson's statements on the US economy the Prime Minister observed that perhaps there had been a tendency for those not having responsibility to exaggerate the gloomy side of the US recession, while those in charge felt otherwise. It was very hard to achieve a right balance. This illustrated how important it was for the two governments to keep in close consultation on economic problems. He thought that it was very important to continue the US–UK group on counter-measures and that it might be well to set up an expanded or separate group to keep in touch with broader economic developments. The UK was very anxious that something be accomplished at the forthcoming Commonwealth meeting, but was also anxious that whatever was done at the Commonwealth level should be kept in step with the wider interests of the free world. The idea would be to steer the results of the Commonwealth meeting into the general theme of free-world cooperation. He would like to have US–UK consultations of a broader and more permanent kind in this field.

(The Prime Minister then referred parenthetically to the German economic situation. He had had some good talks with Chancellor Adenauer. He recognized that the Germans have a very serious problem because of the preoccupation of their people with the spectre of inflation arising from past experience with two total inflations. The Germans were perhaps more afraid about inflation than unemployment and therefore they have a tendency toward deflation which helps to create balance of payments problems for other countries. The Prime Minister felt that it was no good trying to push the Germans into extending economic assistance directly. The only way to draw them in would be by getting them to contribute to international organizations, whether this might be through the OEEC, the EPU, the Common Market or other means. It is probable that they will agree to make contributions to organizations, whereas they would be very reluctant to adopt special legislation or facilities for direct bilateral assistance on a government-to-government basis.)

Secretary Anderson agreed with the Prime Minister's analysis of the German "psychosis" about inflation. He remarked that the US perhaps had a psychosis about unemployment.)

Secretary Anderson stated that the US would like to be as cooperative as possible with the UK, but that whatever consultative methods were adopted should be very informal and not organized.

The Prime Minister suggested that the US–UK counter-measures group might well be broadened or raised to a higher level for the purpose of discussing these wider economic issues which went beyond the immediate problems of the Soviet economic offensive.

Mr. Dillon agreed with the Prime Minister's suggestion, stating that, as necessary, representatives from the Treasury Department and he could attend meetings to discuss wider subjects of this kind.

13. Minutes of the Cabinet Meeting

July 25, 1958, 9 a.m.

[Here follows a list of 38 persons, including President Eisenhower, Vice President Nixon, Secretaries Dulles, Anderson, McElroy, Seaton, Benson, Weeks, Mitchell, and Folsom, Attorney General Rogers, Postmaster General Summerfield, Director of Central Intelligence Dulles, Under Secretary Dillon, and Special Assistant to the President Randall. The first two items of discussion concerned unrelated subjects.]

Soviet Economic Offensive—Mr. Allen Dulles stated that Soviet trade with the world had risen 500%—a big percentage partially because of the low starting point—since 1954. Since February 1956, he said, an interdepartmental working group had been watching developments and reporting every two weeks. He offered to provide these reports to any interested Cabinet member not already receiving them.

Mr. Dulles briefly sketched Soviet trade and grant programs in recent years, particularly with six countries—Egypt, Syria, Yugoslavia, Afghanistan, India, and Indonesia. China and other satellite countries joined the Soviet in these programs. He noted that the Communists are particularly effective in dealing with one crop countries and are willing to do so at great cost to themselves if the political benefits seem large enough. Thus, the Communists could take actions that the private businesses of a profit economy are not geared to take.

Mr. Dulles asserted that the Free World faces a quite dangerous situation in the Soviet capacity to dislocate established markets; for instance, they could deliver oil to Western Europe, undercutting other sources. Also they are tending to bite heavily into the markets for certain products in developed countries—as, for instance, aluminum.

Mr. Dulles pointed out that the Russians do not have a most effective trade mechanism on which to base these efforts since they do not have an established international currency, the ruble being practically worthless except behind the Iron Curtain.

Mr. Randall emphasized that practically all foreign policy matters are related to the solution of this problem and that the solution could not be expected from any single “dramatic” move. He stated that the mutual security program continued to be a most important weapon in this.

Organizationally, Mr. Randall said, steps had been taken to establish in Mr. Dillon’s office the focal point for new ideas in this area.¹ Also, Sec. Weeks had asked the Business Advisory Council to look into the problem and had proceeded to set up a strong Committee which will be ready perhaps by September to forward a report to the Cabinet. Mr. Randall asked that all agencies give the Committee complete cooperation. He emphasized that this Committee does not free the Government of its responsibility. On a request from Mr. McElroy, Mr. Randall said that he would circulate a memorandum on the membership and work of the Committee.²

Mr. Dillon said that the United States would not attempt to compete with Russia in every country on a dollar for dollar basis although in India both Russia and the United States are pursuing large programs. He took note of the project in Afghanistan for construction of a university at Kabul which would be a useful and visible program. He referred briefly to prospects of programs for Indonesia and Yemen.

In addition to our reciprocal trade and mutual security programs, Mr. Dillon said, we have now undertaken to give better training to technicians going abroad, to find ways better to use private enterprise as an antidote to the Soviet salesmanship of State enterprise, and to discover a better handling of commodity trading in the world so as to be helpful to underdeveloped countries that depend upon selling basic commodities. Commodity trading, he stated, is a different problem for each commodity, as witness coffee, lead and zinc, tin, aluminum. On tin and aluminum, the solution may be (though we do not desire it) in some sort of international body although it is not likely that the Soviet would join such.

Mr. Dillon concluded by noting that the State Department organization is probably not adequate for handling this matter, hence recommended changes may soon be brought forward.

¹ Randall had urged in a May 13 memorandum to Assistant to the President Sherman Adams that responsibility for the development of action programs in this area should rest with Dillon. (Eisenhower Library, White House Office Files, Cabinet Secretariat Records) Robert P. Terrill was assigned to Dillon’s office in June with this area of responsibility. (Randall Diary, June 9 entry; *ibid.*) In April 1959, the position of Special Assistant for Communist Economic Affairs was created in the Office of the Under Secretary of State for Economic Affairs, later in the Office of the Under Secretary of State.

² A July 2 memorandum from Randall to the Council on Foreign Economic Policy enclosed an interim report on the membership and work of the committee. (*Ibid.*, CFEP Chairman Records, Papers Series, CFEP Memoranda)

[Here follow the remaining items of discussion.]

LAM

14. National Intelligence Estimate

NIE 100-3-58

August 5, 1958.

THE NATURE OF THE SINO-SOVIET BLOC ECONOMIC THREAT IN THE UNDERDEVELOPED AREAS

The Problem

To assess the Sino-Soviet Bloc aid and trade programs in the economically underdeveloped world, and to estimate their probable threat to the US.

Conclusions

1. The Sino-Soviet economic offensive continues to score successes for the Bloc at the expense of the West. Although involving economic benefit to the Bloc, it is conducted as an integral part of the Bloc's cold war policy against the West. The underdeveloped countries, many of which have economic and political grievances against the West, are being offered an alternative source of arms and a wide

Source: Department of State, INR-NIE Files. Secret. National Intelligence Estimates (NIEs) were interdepartmental reports drafted by officers from agencies represented on the Intelligence Advisory Committee (IAC), coordinated by the Office of National Estimates of the Central Intelligence Agency (CIA), approved by the IAC, and circulated to the President, the National Security Council, and other appropriate officers of Cabinet level.

A note on the cover sheet states that NIE 100-3-58 superseded NIE 100-57, "Sino-Soviet Foreign Economic Policies and Their Probable Effects in Underdeveloped Areas," March 26, 1957. (*Ibid.*)

Another note on the cover sheet reads as follows:

"Submitted by the Director of Central Intelligence. The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.

"Concurred in by the Intelligence Advisory Committee on 5 August 1958. Concurring were The Director of Intelligence and Research, Department of State; the Assistant Chief of Staff, Intelligence, Department of the Army; the Director of Naval Intelligence; the Assistant Chief of Staff, Intelligence, USAF; and the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction."

range of economic relationships on attractive terms and, at the outset, with no apparent political conditions. (*[less than 1 line of source text not declassified]*)

2. Although the economic program is of modest scope compared with the total volume of world trade and capital flow, it has strengthened the bargaining positions of certain of the underdeveloped countries vis-à-vis the West, given some of them a capability to defy the West, and helped to identify the Bloc with their nationalist aspirations. Generally satisfactory performance in conducting its aid and trade program has created for the Bloc an aura of respectability as a legitimate business partner. Economic dealings have substantially increased the ties of some countries with the Bloc, giving Bloc leaders economic and political levers for future use. (*[less than 1 line of source text not declassified]*)

3. We believe that the Bloc leaders will intensify their economic offensive, whether or not they shift to a harder general line toward the major Western powers. Despite the requirements of the investment programs within the Bloc, economic capabilities will impose no serious limitation on the Bloc's ability to continue, or even to double, its present trade, aid, and technical assistance program. (*[less than 1 line of source text not declassified]*)

4. Bloc leaders will continue to direct their economic offensive at those Middle Eastern and Asian countries which now occupy their primary attention, but will probably also show increasing interest in Turkey, Greece, Latin America, and the emerging states of Africa. The Bloc may achieve dramatic economic inroads in certain of these countries, including some which have to date been closely tied to the West. (*[less than 1 line of source text not declassified]*)

5. We believe, however, that the trade and aid program will not alone cause any state to align itself with the Bloc in the near future. We also believe that, with the passage of time, the Bloc economic drive may lose some of its initial glamour and effectiveness. The Bloc, as in the case of Yugoslavia, may not always fulfill its promises and it will not satisfy all the hopes which it has aroused. Some underdeveloped countries may in time become more wary and require more persuasion than they do now to accept Bloc offers of trade and aid. (*[less than 1 line of source text not declassified]*)

6. The long-run threat posed by the Bloc economic offensive will nevertheless remain substantial. The economic offensive will operate in a context in which the steady growth of the economic, military, and scientific strength of the Bloc will make it a more formidable opponent of the West in the underdeveloped countries. Bloc trade, credits, and technical assistance will support the Bloc image of progress and power, and will provide opportunities for the propagation of Communist doctrine and the idea of rapid industrialization through the Soviet-type

organization of society. In sum, unless effectively countered, these psychological and economic inroads will continue to erode the Western position in the underdeveloped world. ([less than 1 line of source text not declassified])

[Here follow the "Discussion" portion of the estimate (paragraphs 7-32), with sections headed "Introduction," "The Bloc Program to Date," "The Economic Offensive's Accomplishments," and "The Future of the Economic Offensive," and seven tables.]

15. Memorandum of Conversation Between President Eisenhower and Secretary of State Dulles

November 4, 1958, 8:15 a.m.

1. We went over the draft of the speech prepared for the President's use in connection with the opening of the Colombo Plan Conference at Seattle.¹ We went over together a number of minor linguistic changes that the President had in mind. He indicated his approval generally of the speech. He did, however, warn that the U.S. budgetary and credit position was such that he felt he was going to have to put major emphasis next year upon economy and upon balancing the budget. Therefore, we did not want to give exaggerated hopes that there would be large increases in foreign aid. According to the President's thinking we would go through with the increased capital for the World Bank and Monetary Fund² and with a modest increase in the Development Loan Fund, but nothing spectacular.

I took a revised draft for retyping.

2. With respect to plans, I said that unless the President thought it useful for me to be aboard the Columbine on Saturday to work further on his speech I would be inclined to come out on Sunday, giving me an extra day in Washington. The President said that was entirely agreeable with him. He expected to have the speech "frozen" by then.

Source: Eisenhower Library, Dulles Papers, White House Memoranda. Secret; Personal and Private. Drafted by Dulles.

¹ For text of President Eisenhower's address before a meeting of the Colombo Plan Consultative Committee in Seattle on November 10, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1958*, pp. 839-847.

² At the annual meetings of the Boards of Governors of the International Monetary Fund and the International Bank for Reconstruction and Development held in New Delhi, October 6-10, the United States proposed increases in the resources of both institutions. See Documents 145 ff.

3. We talked generally of the threat to our economy posed by the massive regimentation being accomplished in the Soviet Union and in Communist China. I said that as long as the people were willing to allow themselves to be used in this way, the situation was indeed ominous. The President agreed that the principal hope must be that there would be a revolt on the part of the people. Otherwise, we would face a threat that would be very difficult for us to meet in terms of our present form of government and system of society.

I pointed out that recent reports from Communist China were even more disturbing than the reports from Russia.

JFD

16. Memorandum of Conversation Between President Eisenhower and Secretary of State Dulles

Augusta, Georgia, November 30, 1958, 11:30 a.m.

ALSO PRESENT

Dr. Milton Eisenhower¹
Mr. Merchant
Mr. Greene

[Here follows discussion of several unrelated subjects.]

6. I said that, with regard to the Mutual Security Program for FY 1960, there has emerged disagreement between the State Department and the Bureau of the Budget. While I would not ask for a decision on the spur of the moment I would hope that the President would give us our day in court before cuts are made as I believe that we cannot do what we must do to lift the peoples of the underdeveloped nations up onto a plane of economic dynamism with the cut in mutual security funds on which the Bureau of the Budget is now insisting. Given the size of the resources which the Soviets and the Chinese Communists are devoting to an economic offensive in underdeveloped countries I thought that we must be prepared to make some sacrifices if we are successfully to meet this competition. I suggested that increased taxation, perhaps new forms of taxation such as a national sales tax, might be envisaged.

Source: Eisenhower Library, Dulles Papers, White House Memoranda. Secret; Personal and Private. Drafted by Dulles' Special Assistant Joseph N. Greene, Jr.

¹ President of Johns Hopkins University; the President's brother.

The President agreed that the American people must better understand that they may have to undergo sturdy measures in order to be successful in the kind of world struggle in which we are engaged, and said that he felt this should be made clear in his State of the Union Message. He noted two conflicting elements of the problem: Indispensable confidence in the economic health of the US and in the dollar will not endure unless we balance our budget and correct our current unhealthy fiscal situation; at the same time we must find the funds to assist in the economic development of other countries. In this connection he referred to a letter which he had had from Lewis Douglas (copy attached)² about the importance of the availability of dollars to the underdeveloped countries. He also mentioned a letter he had had from Lamar Flemming about the difficulties being experienced by American companies operating in Latin America.³

The President also noted the political opposition in the US, as it is expressed in Congressional attitudes, toward cutting budgets for domestic programs in order to make funds available for Mutual Security Programs within a balanced budget. Dr. Milton Eisenhower suggested the policy of a two-year balanced budget, to get away from the problem of annually trying to accomplish this end; the President acknowledged that multiple-year budget balancing is intrinsically preferable but not sufficiently understood by the public to be politically practicable. He asked that the views of Secretary Anderson be sought on what further could be done to accomplish the objectives we had discussed.

[Here follows discussion of several unrelated subjects.]

JFD⁴

² Not printed, but see Document 40. Lewis W. Douglas was former Ambassador to the United Kingdom.

³ Not further identified.

⁴ Initialed by Greene for Dulles.

17. Editorial Note

The Committee on World Economic Practices submitted its report, dated January 22, 1959, with a covering letter of the same date from Committee chairman Harold Boeschstein to the President. A copy is in Eisenhower Library, CFEP Chairman Records, Staff Series, Committee on World Economic Practices. The report was made public on March 2; the text of the introduction is printed in *American Foreign Policy: Current Documents, 1959*, pages 1432-1449.

A memorandum of January 22 from the President to Secretary of State Dulles, Secretary of the Treasury Anderson, Secretary of Commerce Lewis L. Strauss, Under Secretary of State Dillon, International Cooperation Administration Director James H. Smith, Jr., and Assistant to the President Clarence B. Randall transmitted copies of the report and suggested that the addressees meet and let the President know their views on further steps to be taken, particularly with regard to a suggestion in Boeschenstein's letter referring to the need for a tighter organization. (Eisenhower Library, Whitman File, Administration Series, Committee on World Economic Practices)

Randall called a meeting on March 4 to discuss the report, but no record of that meeting or any subsequent meeting has been found. (Memorandum from Cullen to Anderson, February 25; National Archives and Records Administration, RG 56, Records of the Office of the Secretary of the Treasury, Robert B. Anderson, Subject Files, CFEP) An unsigned memorandum dated March 19, headed "Memorandum with Respect to the Fourteen Principal Recommendations of the Boeschenstein Report Expressing Consensus Arrived at by Those to Whom the President's Memorandum of January 22 Was Addressed," which listed 14 proposals with comments on each, is in Eisenhower Library, CFEP Chairman Records, Papers Series, Boeschenstein—14 Principal Recommendations.

18. Memorandum of Conversation

February 6, 1959.

SUBJECT

Underdeveloped Areas and the Sino-Soviet Economic Offensive

PARTICIPANTS

The Acting Secretary
Dr. J. H. van Roijen, Ambassador of the Netherlands
Dr. J. C. Kruisheer, Economic Minister, Embassy of the Netherlands
W—Mr. Terrill
WE—Mr. Walsh

Ambassador van Roijen of the Netherlands called on Acting Secretary Dillon today to discuss with him the dual problems of providing assistance to the underdeveloped countries and counteracting the Sino-Soviet economic offensive. He said that his Government was devoting considerable attention to this subject and was anxious to obtain Mr. Dillon's views in respect to it.

In response, Mr. Dillon stated that the need to assist the peoples of the newly emerging countries to achieve economic progress would exist irrespective of the problems raised by the Sino-Soviet bloc. The urgency of this requirement, however, had been increased by the Communist economic offensive. In aiding the underdeveloped countries we are not attempting to enlist them as allies but we are attempting to strengthen them sufficiently to permit them to resist the blandishments of the bloc countries. Although we do not engage in a competitive effort in each of the underdeveloped countries to match Soviet aid programs with programs of our own, we do point out to the governments of those countries the political motivation and dangers of the Soviet economic offers. The cases of Yugoslavia and Finland are examples of how the Russians can turn the spigot of economic aid on and off depending upon political decisions. Noting that Ambassador van Roijen had pointed out that the Soviet had aid programs in about seventeen countries with particular weight in five countries, Mr. Dillon said that it could be anticipated that the Russians would soon announce that a substantial aid program would begin in Iraq.

Mr. Dillon stated that it was clear that the countries of the West would have to accelerate their efforts to build an international framework within which the peoples of the underdeveloped countries could, in freedom, realize their potential for growth. There were various steps which would fit into a program of this type. Fundamental to it would be the maintenance of growing economies and expanding markets in the West in which the developing countries could place their goods. More emphasis would have to be given to increasing trade despite the political difficulties which always rise in the face of increased commercial competition. By various means it would be necessary to expand the flow of private capital into the underdeveloped areas. This would involve tax and other incentives on the part of the West to stimulate the capital movement and actions by the recipient countries to create a more favorable climate for foreign investment. One aspect of the latter is the development of technical and managerial skills which are vital to successful economic enterprise.

In addition to the flow of private capital, Mr. Dillon said, it is imperative to increase the supply of public capital to the new nations on both a multilateral and bilateral basis. This includes the provision of public loans on normal bankable terms through media such as the

IMF and IBRD and development financing with flexible terms of payment through organizations such as the Development Loan Fund and the proposed International Development Association.

Ambassador van Roijen said that he fully concurred with the views expressed by the Acting Secretary. He said that his Government has felt that SUNFED¹ could play a useful role in the effort to provide financing assistance and he wondered if the US looked with greater favor on this organization than it did in the past. Mr. Dillon, in reply, said that US opposition to SUNFED was unchanged. He pointed out that Russian influence in the organization would far exceed the financial contributions which Russia would be prepared to make to it. The US inevitably would have to provide a relatively large proportion of the SUNFED funds and yet the Russians due to their fractional contributions would be in a position to derive substantial propaganda benefits from their association with the organization. Obtaining Congressional support under these circumstances for US participation would be virtually impossible. This did not mean, however, that the US opposed capital financing through multilateral organizations. This Government, for example, supported the proposals to create an International Development Association closely affiliated with the IBRD. Since Russia is not a member of the IMF, it would not participate in the new Association.

Referring to Mr. Dillon's address in New Orleans on January 27,² Ambassador van Roijen said that he had been struck by the description of his discussion with Mikoyan³ about the possibility of increasing US-Russian trade. Mikoyan's categorical insistence on long-term credits as a prior condition for expanded trade indicated that the Russians were prepared to see such an expansion only on their own politically motivated terms. Mikoyan's complaint that the US would not extend MFN treatment to Russia had a particularly false ring when one reflected on the state trading monopoly which exists in that country.

The Ambassador stated that his Government had a natural concern about Sino-Soviet activities in the raw material markets. In certain cases these have been highly disruptive to commodity price structures. He wondered if the US contemplated a general program of combatting the bloc's forays into these markets.

¹ Proposals for a Special United Nations Fund for Economic Development had been under study by the U.N. General Assembly and the Economic and Social Council for several years.

² For text of Dillon's address before the Mississippi Valley Trade Council in New Orleans on January 27, see Department of State *Bulletin*, February 16, 1959, pp. 237-243.

³ Anastas I. Mikoyan, First Deputy Chairman of the Soviet Council of Ministers, made an unofficial visit to the United States, January 4-20.

Mr. Dillon said that considerable attention was being devoted to commodity market questions. It did not seem feasible in view of the variety of problems involved, however, to attempt to develop an overall program to counteract the bloc. It seems more practical to approach this subject on an ad hoc basis. He said that he was not certain in his own mind that the Russians had entered individual commodity markets with the express purpose of wrecking the price structure by dumping operations. However, since prices do not play a controlling role in their export program, their movement into the international commodity markets have had the same effect as deliberate dumping. Their sales of tin and aluminum, for example, have been harmful to Bolivia, Malaya, Indonesia and Canada. When the reactions in those countries proved harmful to the Soviet propaganda position, the pressures on the commodity markets were eased. It is apparent, Mr. Dillon added, that the Russians have the capacity to disrupt the petroleum market. At least one restraint on a petroleum dumping operation, however, is that its effects would be particularly harmful to the Arab World which the Russians are making a major effort to influence.

Ambassador van Roijen said that in view of the continuing nature of the Sino-Soviet economic offensive he thought it would be desirable to consider the feasibility of coordinating the counteractive efforts of the West on a multilateral basis. Perhaps, he suggested, this might be done in NATO.

Mr. Dillon said that although he doubted the feasibility of utilizing NATO as an economic warfare unit he felt that it might be useful to disseminate in NATO information in respect to the Sino-Soviet economic threats. He believed that certain of the NATO countries might collaborate in blunting particular aspects of the bloc offensive. In view, however, of the potential sensitivities of the underdeveloped countries, it would not appear desirable for this collaboration to occur under the aegis of NATO.

In closing, the Acting Secretary told Ambassador van Roijen that he would welcome any suggestions or ideas which the Netherlands Government may have in respect to the serious problems involved in the Sino-Soviet efforts to subvert the underdeveloped areas. He said that he would be happy to discuss them with the Ambassador or to have the Ambassador's staff raise them with Mr. Terrill who is coordinating the Department's position on these matters.

19. Memorandum of Conversation

USDel MC/21

Camp David, Maryland,
March 22, 1959, 9:30 a.m.

SUBJECT

General Economic Matters

PARTICIPANTS

The President
Acting Secretary
Ambassador Whitney
General Goodpaster

Prime Minister Macmillan¹
Mr. Selwyn Lloyd
Ambassador Caccia
Sir Norman Brook

The meeting opened with the Prime Minister saying that it would be helpful to have a discussion about the economic picture, in its broad aspect, and what the President sees as the temper or trend of the United States economic story.

He went on to say that from their point of view, the capital aspect is good—the World Bank has been stepped up and so on but we don't really worry so much about capital. We, the United Kingdom, want to be able to sell the commodities that we produce. He explained that he understood the difficulties faced by the United States in these matters.

The President accepted the statement as being a fair statement, and especially fair in that the Prime Minister made it clear that he appreciated the United States problem. The President then went on to outline the curious legal restrictions imposed on his actions, his decisions, by the set-up of our laws—especially the way in which the Tariff Commission worked. He wasn't able to be absolutely accurate as to the number of times he had ruled against—or failed to accept the recommendations of the Tariff Commission, but it certainly was in the order of 10 agreements vs. 150 findings against in his ruling re escape clause. He went on to describe this Administration as one devoted to liberal trade policy. We have now the oil restriction—a few companies had broken the voluntary disciplines which the industry had self-imposed, but these few so clearly menaced the others that he had been forced to a mandatory imposition of restrictions. Now this will raise hell in Canada, Mexico, Venezuela—our friends, but it had to be.

The next, the current study of the electrical industries as a whole—is of the greatest significance. But it is under study and the international aspects of it are clearly understood to be of the first importance.

Source: Eisenhower Library, Whitman File, International Series. Secret; Limit Distribution. Drafted by Ambassador to the United Kingdom John Hay Whitney.

¹ Prime Minister Macmillan visited Washington, March 19–23.

Further, the United States is, by and large, devoted to liberal trade. The President said never has he worked harder for anything than he has in getting this Reciprocal Trade Act extended for four years.² A great victory for our cause—but, the fact that he could win it was a demonstration of the temper, the national understanding that liberal trade policies were sound.

However, the President continued, when the individual gets hurt—then hell breaks out—and he recited many examples of his battles over small industries. Their importance is nil in the whole picture—their political irritation point, acute.

The President then discussed at length the present dilemma of current United States free enterprise—in theory and practice. The wage-price spiral is in full upward swing. Nowhere is there the will to slow it down, in spite of his efforts to dramatize the fact that we are pricing—costing ourselves out of world competition.

The unions make wild claims for their bigger share, based on the fact that the companies are declaring bigger profits and they want more of them. They forget that the Federal Government depends on profits. We live by income tax—private and corporate.

By and large, said the President, Americans look to the Administration to protect their national and international interests. They look to their Congressmen to protect their own. If the Congressman doesn't satisfy them, then the President must.

The Prime Minister then recited how the British system put all the onus of appropriations requests of money on the Government. Nobody could even lay down an amendment to a bill if it increased the appropriation submitted.

The President said he would like this. In fact, he would settle for the item veto approach.

² The Trade Agreements Extension Act of 1958 (P.L. 85-686; approved August 20, 1958) extended for 4 years the President's authority to enter into reciprocal foreign trade agreements. (72 Stat. 673)

20. Editorial Note

At the 409th meeting of the National Security Council on June 4, during a discussion of U.S. trade policy, Secretary of the Treasury Anderson commented on the deteriorating U.S. balance of payments. According to the memorandum of discussion by Deputy NSC Executive Secretary S. Everett Gleason, Anderson commented that if the balance of payments disparity continued for some years, the United States “would be in for real trouble,” since many experts considered it had “bitten off rather more obligations than we can chew.” For the relevant portion of the memorandum of discussion, see Document 101.

21. Memorandum of Conversation

June 4, 1959.

SUBJECT

Inter-departmental Meeting with Minister Erhard

[Here follows a list of 25 persons present, including Ludwig Erhard, Minister of Economics of the Federal Republic of Germany, Deputy Under Secretary of State for Political Affairs Robert Murphy, International Cooperation Administration Director James W. Riddleberger, Assistant Secretary of the Treasury T. Graydon Upton, Assistant Secretary of Agriculture Clarence L. Miller, Assistant Secretary of Commerce for International Affairs Henry Kearns, Acting Assistant Secretary of State for European Affairs Foy Kohler, Deputy Assistant Secretary of State Beale, and Special Assistant for Mutual Security Coordination John O. Bell.]

Mr. Murphy, after an exchange of courtesies, invited Minister Erhard to begin the discussions. The Minister stated he would first summarize the highlights of his meetings earlier that day with U.S. officials.¹ He referred to the importance of the stability of the dollar. He said that in his conversations he had made the point that with the

Source: Department of State, Central Files, 033.62A11/6-459. Confidential. Drafted by John E. Devine of the Office of German Affairs and approved by Murphy.

¹ A memorandum of a conversation that day between Minister Erhard and members of the Council of Economic Advisers is *ibid.* An extract of the memorandum of a conversation the same day among Erhard, Secretary Anderson, and Acting Secretary Dillon is scheduled for publication in the European regional compilation in volume VII.

disappearance of the gold standard, the dollar had become the world-wide economic measuring stick and that it was of utmost importance that the dollar should be protected. The Minister said that in taking the action necessary to protect our currencies, the United States Government and the German Government, as well as all other governments, must thwart selfish forces which are trying to advance their own interests by hindering the operation of free economy forces.

The Minister summarized the need for aid to less developed countries and pointed out that our motives must not be only humanitarian but also political since our future is very closely bound up with what happens to these underdeveloped areas. He said that he had been discussing the International Development Association with the House Foreign Affairs Committee earlier in the day and that he found a good deal of sympathy there with the idea. He said that there was also support for IDA in Germany but as yet there has been no cabinet decision concerning German participation.

Minister Erhard then referred to the German coal import restrictions and said that the restrictions had been imposed because of the huge pit-head accumulations of coal and threat of labor unrest in the Ruhr. He said that the German action on coal did not indicate a change in economic policy but that it was made principally for internal political reasons. He added that progress is being made in modernizing German coal mining and in eliminating uneconomic mines but that he did not want to exaggerate the amount of progress. The Minister said that in the case of coal import contracts which are being cancelled, honorable business practices are being followed by the Germans in paying penalties.

Mr. Murphy said that he understood that Minister Erhard had recently travelled extensively in Asia and that the meeting would be interested in hearing any observations the Minister might wish to make on economic aid for such areas. The Minister said that he found these countries wide open to Soviet influence. Soviet representatives are working hard to advance their interests in such areas and if we are to protect our political future we must act wisely and quickly. He said that we must not make the mistake of trying to impose our institutions and customs on these societies. We must help them but we must help them in a way that is compatible with their pattern of life. The Minister said that if the aid given is government-to-government aid there is a likelihood of suspicion on the part of the receiving country that political motives are foremost. There is also the possibility of embarrassment for the donor countries in such situations. The Minister said he thought it was better whenever possible to have aid made available through private commercial channels or through multilateral organizations.

One of the great problems in this connection, Minister Erhard thought, was that the less developed countries are anxious to move very fast. They are aware of the wide gap between their own economic situations and those of the Western countries and they are extremely anxious to close the gap. He said that in the less developed countries of the world attention is now riveted on China and India. The success of the totalitarian Communist approach in China as compared with the liberal capitalist approach in India may set the pattern for economic development in many other parts of the world. The Minister said that if the less developed countries followed the totalitarian path, Europe will fall before their weight in a relatively short time.

Minister Erhard said he believed we had found government-to-government aid often presented serious difficulties and that perhaps we would agree with him that a multilateral aid organization can function more effectively in terms of free world interests. Minister Erhard said such an institution could exert pressures that could not be exerted by individual governments and added that the provision of capital without the necessary discipline on the part of the receiving country is particularly undesirable. He went on to point out that he was not saying that we had to choose between multilateral and bilateral government-to-government arrangements since he thought there was room for both. However, he preferred the multilateral approach where governments of lending countries were involved. He would like to see the emphasis in that direction with a clearing house in Washington, operated either by the World Bank or the IMF. The Minister said he thought the contributing countries could get together and plan aid programs and perhaps assign certain areas to certain contributing countries.

The Minister said that we must help the less developed countries industrialize but we should not encourage the immediate establishment of big industries. He said he thought it was better in such countries to have simultaneous development of a number of smaller industries so that a sound organic growth of the social economy could take place. Techniques, skills and knowledge would be acquired by many more people where small diversified enterprises are involved. During his tour in Asia, he had concluded that the only important resentment carried over from the colonial period was in connection with the countries' feeling they had been left with the burden of a one-crop economy and that they had to import much of their food and practically all their industrial needs. The Minister said that he thought it was desirable that these countries be enabled to improve their agricultural methods so that they would not be as dependent on imported foods. In addition, they also need to industrialize. He said that these countries in many cases have good craftsmen and that we should try to build on this asset by helping them establish healthy small industries.

The Minister said we must apply a great deal of imagination to help develop these people into full-fledged consumers. He said that with development in this direction we must realize that we will have to accept changes in our own industrial structure if we wish to keep the free world together.

Mr. Murphy said that since the end of the war the U.S. had had a good deal of experience with economic aid and that we had modified our program in the light of that experience. He said that some of our disappointments had come as a result of economic programs which had to be undertaken on a crash basis as a result of political or military crises. Where there is an opportunity to plan ahead he would be in complete agreement with what Minister Erhard had said. Mr. Murphy said that one of the dangers we face is that Asians, for instance, come to the U.S. and find our methods and our economy so far beyond their own that they come to the conclusion that it is hopeless to try to follow our example. They find that Communist China, for example, seems to present a much more realizable goal, taking into consideration their own starting point. Minister Erhard said that a proposal was now before the German parliament to make certain guarantees for private investments in less developed countries. He thought that such a move was desirable and would increase Germany's contribution toward the solution of the problem.

The Minister said that the people in the receiving countries must see improvement not only in statistics but in their personal lives. For this reason, he felt that it was often mistaken to direct our aid toward foreign government planning agencies which might put money into prestige projects which would have very little effect in the foreseeable future on the lives of individuals in the country. He emphasized again his conviction that by channeling aid through private groups the opportunities for affecting individual lives in the receiving countries were greatly increased.

Mr. Riddleberger commented that the German Government had recently guaranteed private export credits to Greece amounting to about \$48 million. He said that it was his understanding that the Greeks were using the credits for importing consumers' goods and that the drachmas resulting from their sale would be used for industrial development. He said this arrangement was somewhat surprising to him. Minister Erhard said that as far as he knew the credit was not tied to consumers' goods but that it was a choice which the Greek Government had made. Perhaps by applying the credits to consumers' goods they were able to liberate other funds for industrial application.

Mr. Upton said that the development of IDA would probably mean the growth in number of loans to a given country and asked whether this perhaps might be a danger. Minister Erhard said that it was true that a number of smaller loans made the matter of control

more difficult but that while, from a financial and administrative point of view, it might be simpler to have a few large loans, such an arrangement might not meet the actual economic needs of a country.

Mr. Bell said that he was particularly interested in knowing what the Minister thought could be done to make people more aware of the aid being supplied. Minister Erhard replied that in many of our aid programs the donor countries seemed to be in a competition with one another to render aid. He thought that such an attitude has a very unfortunate effect on the recipient countries and that we must establish the fact that we are interested in aiding the receiving countries, not in gaining some advantage for ourselves.

Mr. Kearns asked what the Minister thought the relative force of protectionist and free trade influences was in the Common Market. The Minister answered that the treaty of the Common Market does not provide for protectionism. When the treaty was entered into, the countries in the Common Market were not of the same economic philosophy but the situation has improved with French reform of exchange rates and import restrictions. He said it is still important to try to get the Common Market and the non-Common Market countries together. He said that it was his opinion that the non-six among the OEEC countries in Europe were too heterogeneous a group to be able to form their own organization. The Minister said that last January when the first tariff reductions took place in the Common Market countries, the six decided to give these same reductions to the non-Common Market countries. He said that he considered this an indication of the long-run attitude of the Common Market which will have the goal of free trade. He said that the world has become so small that we cannot afford closed groups such as some people fear the Common Market might become. He said that a European preferential system is not the aim of the Common Market but the hope is that the development of the Common Market will be accompanied by a general relaxing of trade barriers.

In response to a request by Mr. Murphy, Mr. Terrill² explained that the commitment of the Soviet Government under the seven-year plan will mean enormous need for capital goods. He said that it had been noted that the Soviets in their plan have not increased provisions for exports to earn foreign currency. As a result they are looking for outside capital and credits. Whatever they do export on a large scale will probably be sent to the less developed countries for political motives. For these reasons Mr. Terrill said that he felt it was important that we should not facilitate Soviet reaching of objectives by supplying them with credits.

² Robert P. Terrill.

Minister Erhard replied by saying that he agreed with this analysis, particularly in respect to withholding products concerning which we have an advantage over the Soviets. The Minister said that he also agreed that it was undesirable to give credits to the Soviet Union. He urged that a common policy be agreed within NATO on this subject and this policy be adhered to by all the participating countries. Otherwise, some governments, such as the Federal Republic, might be placed in the position of discriminating against their own suppliers. Minister Erhard said that when the Soviet-German trade agreement was signed, and the figure of DM 500 million in annual trade was established, the Germans had a very difficult time trying to reach that volume. He said that all the Soviets wanted to sell was coal and oil. The Minister then went on to say that what would really make him applaud the Soviets would be their improving consumer welfare. He said that there was definitely a push for better life within the Soviet Union but it was not possible to tell how potent these forces are or how far they would go to achieve their objective.

Mr. Miller said that there was interest in the American agricultural community as to what the effect of the Common Market would be on our agricultural exports. Minister Erhard replied that there was protection of agricultural items in the Common Market and he asked if Mr. Miller could name any country that does not protect its agricultural producers.

Mr. Murphy asked the Minister why he thought the Soviets chose this particular time to raise the Berlin problem. The Minister replied that he sees the Soviet move as part of a whole pattern of East-West tensions. On his recent trip to Iran, he found that the Persians believe that the Russians moved against Berlin in order to distract attention from expected moves in the Near and Middle East. He said that the Russians have found that we are not soft regarding Berlin and that they must now discover a graceful way of retreating. In so doing, they would pose as the champions of peace. He said that the Russians turn truthfulness and morality upside down. They thought that by their timing of this maneuver they might have some chance of splitting the West at a time when elections were being held in England and other countries.

Mr. Frank³ said that we all were gratified at the end of the recent GATT meeting to find Germany was able to liberalize further and that Dr. Erhard's promotion of convertibility had been so successful. However, we were disturbed by the residue of bilateralism which remained in German trade policies and that we felt that such arrangements could not be justified any longer on the basis of balance of payments problems. Minister Erhard replied that Mr. Frank was correct in princi-

³ Presumably Isaiah Frank, Deputy Director of the Office of International Trade.

ple but that he must realize that the economic situation in each country requires special study. The Minister said that the U.S. practices protectionism to some extent as does every other country. He said that he is glad that GATT is in existence and believes it is doing a good job but that the organization cannot take care of all the complicated problems existing in each country's economy. He said that the GATT rules were particularly hard to apply to countries in transition toward a mature economy.

Mr. Beale said that he and the rest of the American delegation at Geneva were most appreciative of the excellent job which the German delegation had done in Geneva under the leadership of Dr. Klein and that we were grateful for what Minister Erhard had done in resolving the problems which remained at the end of the meeting. Minister Erhard thanked Mr. Beale for the important contribution he had made to the successful negotiations in Geneva.

(During the course of the meeting the Minister received a three-page telegram which, it later became known, contained the first news of Adenauer's decision to remain Chancellor. The Minister carried on the balance of the discussion without being visibly affected.)

22. Minutes of the Cabinet Meeting

August 7, 1959, 9–11:15 a.m.

[Here follows a list of 39 persons present, including President Eisenhower; Vice President Nixon; Secretaries Herter, Anderson, McElroy, Seaton, Benson, and Mitchell; Secretary of Commerce Frederick H. Mueller; Secretary of Health, Education, and Welfare Arthur S. Flemming; Attorney General Rogers; Postmaster General Summerfield; Under Secretary Dillon; Assistant Secretary of the Treasury T. Graydon Upton; William McChesney Martin, Chairman of the Board of Governors of the Federal Reserve System; and Raymond J. Saulnier, Chairman of the Council of Economic Advisers. The first item of discussion concerned an unrelated subject.]

Internal [International] Balance of Payments—Sec. Anderson made it clear that no decisions were being sought at this meeting, but that it seemed desirable to keep the Cabinet informed of this very sensitive

problem. He thought that study of the problem ought to be continued on a very high level of government until any necessary decisions were made.

Sec. Anderson then reviewed the situation generally, stressing that the dollar gap no longer exists with regard to the industrial countries of Western Europe and that for the underdeveloped countries, it is a capital gap rather than a dollar gap, meaning that British pounds or German marks, etc., will serve equally well as dollars. Mr. Anderson reviewed the situation of foreign holdings of United States dollars in much the same terms as at the Cabinet presentation some months earlier.¹ He stated that the gold outflow had not been large in the first quarter this year but that it had increased somewhat in the second quarter.

Mr. Anderson pointed out that the balance of trade does remain in our favor by a slight margin but that other outgoing payments, such as United States troop support, tourist expenditures, private investment overseas, and utilization of P.L. 480 payments, produce a deficit for us in the balance of payments.

He noted that foreign countries do most of their financing in short term loans, whereas much of our lending is long term.

Sec. Anderson asserted that we have reached the point where it is necessary to re-examine the kinds of things we are doing, including the problems we generate for ourselves. He thought that export increases as large as could reasonably be hoped for would still be insufficient to solve the problem. He felt that our allies must share more and on a longer term in providing capital to underdeveloped countries, and we need to bring about a change in their point of view. Also, it is important that the other free nations of the world liberalize many of their policies toward the United States, such as quotas against American automobiles, high tariffs, etc.

Mr. Upton then presented a series of charts giving the statistical backup for Sec. Anderson's presentation.

Sec. Anderson then summarized three areas of possible action: (1) other countries should eliminate quotas and reduce tariffs on American goods, they should bear a larger share of military costs, and they should have a larger part in helping underdeveloped countries; (2) private business in the United States should be encouraged to develop a new state of mind toward increasing exports of American goods and being competitive with overseas rivals, also the activity of the Export-Import Bank should be increased; (3) the federal government must maintain its will and capacity to control inflation and insure that other countries know this, it should reexamine its military expenditures overseas, and it should make a rigid review of Development Loan

¹ On March 13; see Document 44.

Fund activities, including attention to insuring that government loans are utilized in such a way as to increase procurement from the United States; similarly, P.L. 480 sales need to be reexamined. Mr. Anderson noted in passing that the practices of U.S. industries in establishing overseas factories have resulted in some lack of concern with tailoring U.S. production for overseas markets.

Sec. Herter and the President ascertained that the P.L. 480 problem appeared primarily in terms of barter arrangements which sometimes replace purchases from the United States—often involving a third country in the transaction.

Sec. Anderson then stressed the importance of the September meeting of the International Bank and the International Monetary Fund, when foreign officials will be observing United States policy and statements closely.²

Sec. Anderson urged that study of the problem be continued through the mechanism of the National Advisory Council on International Monetary and Financial Affairs, with other interested officials to be included on an ad hoc basis. The major conclusions and recommendations when necessary would be brought to the President for approval.

The President recalled how the United States had tried to grant funds without attaching strings but that it now seemed desirable to review that policy. Any change that might result, however, need not be a sudden one, hence the State Department should not be overly concerned. The President called attention to Russian practices in this regard.

Mr. Martin was invited to comment and he expressed his concurrence in the importance and validity of Sec. Anderson's remarks. He felt this balance of payments matter had to be considered in all of our domestic and foreign activities.

Dr. Saulnier stated that the Council of Economic Advisors had been working on the problem and is participating in the work of the Committee chaired by Assistant Secretary Kearns of Commerce on the limited problem of exports. Dr. Saulnier believed that it was an overstatement to describe the situation in terms of "we have priced ourselves out of world markets," since that is not the whole story. He too stressed the psychological aspects of the problem. He thought that the steel dispute and outcome was extremely significant since it was painfully evident that we had lost a competitive advantage in this particu-

² The Boards of Governors of the International Bank for Reconstruction and Development, the International Monetary Fund, and the International Finance Corporation met in Washington, September 28–October 2. For text of President Eisenhower's welcoming remarks and the texts of statements by Anderson, Dillon, and Upton, see Department of State *Bulletin*, October 19, 1959, pp. 531–541.

lar industry. A rise in the price of steel because of this dispute would be very disadvantageous in the light of the balance of payments problem.

The President referred to the copies of Chester Bowles'³ letter that he had sent to interested officials, urging that the steel industry ought to reduce prices \$10 per ton. Mr. Saulnier believed that a good argument could be made for this action. The President noted how he was endeavoring to avoid any charges of favoritism in the steel dispute, since he did not feel that he could approach any of the steel leaders, even for the purpose of passing along Chester Bowles' suggestion. The President concluded his remarks by referring to the great inflation that has occurred in recent months as regards defense procurement.

[Here follows discussion of an unrelated subject.]

LAM

³ Representative from Connecticut; the letter is not further identified.

23. **Record of Action on Items Presented at the Cabinet Meeting**

August 19, 1959.

The following is the action taken on the items presented at the Cabinet meeting of Friday, August 7, 1959:

[Here follows the record of action on item 1.]

2. *International Balance of Payments* (Confidential)

Action:

a) With respect to the short-term and long-term international balance of payments problems of the United States, the President approved a thorough examination of actions which might be desirable on three fronts as follows:

i) actions by other countries, e.g.:

- to lessen discrimination (quotas and tariffs) against dollar goods;
- to increase their share of allied military expenditures;

Source: Eisenhower Library, Whitman File, Cabinet Series. Confidential; Cabinet Paper-Privileged. The drafter is not indicated. Approved by the President on August 19.

—to increase their share of long-term financing of economic aid to underdeveloped areas by developing their loaning organizations capable of extending long-term loans to underdeveloped countries, and by extending their participation in new international development institutions, such as the International Development Association, toward a point comparable to typical U. S. participation;

ii) actions by American business firms, e.g.:

—to create a new attitude toward exports and to become more competitive in world markets;

iii) actions by the Federal Government, e.g.:

—to recognize that U.S. policies in the foreign financial and economic field appropriate to U.S. and European financial conditions in past years must now be reviewed and revised to accord with present balance of payments realities;

—to continue its resolve to curb inflation and to translate this resolve into achievement;

—to review military expenditures abroad to see where not only greater burden-sharing with Allies can be brought about, but to ascertain what expenditures can preferably be made in the United States;

—to restrict ICA and Development Loan Fund financing to the purchase of U.S. goods and services, with due regard to the timing of the introduction of such a restriction;

—to review such government-subsidized export programs as those under P.L. 480, and the barter program, to ensure that they will not add to balance of payments problems;

—to consider all possible measures in export financing, such as through the Export-Import Bank (and consideration of limited export credit insurance) which could be taken to increase U.S. exports and thus help to overcome U.S. short-term and long-term balance of payments problems;

—to examine closely the U.S. position in future tariff negotiations, to ensure maximum benefits to the United States;

—to consider ways by which the American public can be made aware of these problems, of their importance, and of the steps which will be necessary to solve them (e.g., with particular reference to the opportunities which will be presented at the September meeting of the International Monetary Fund).

b) This examination will be conducted by the Secretary of the Treasury through the National Advisory Council on International Monetary and Financial Problems, augmented by representatives from other interested agencies and utilizing studies such as those under way in the Council of Economic Advisers and in the Department of Commerce. The principal results of these studies will be submitted to the President.

c) In view of the deleterious effect which untutored discussion of these matters can have both at home and abroad, the President requested that any public statements by U.S. Government officers on these problems, and especially with respect to the above-mentioned studies, be kept to a minimum and in all cases be checked beforehand with the Secretary of the Treasury.

[Here follows the record of action on item 3.]

Robert Gray¹
Secretary to the Cabinet

¹ Printed from a copy that bears this typed signature.

24. Memorandum of Conversation Between Secretary of State Herter and Secretary of the Treasury Anderson

October 22, 1959, 10:30 a.m.

Secretary Anderson came to see me to discuss our over-all financial situation and to deplore recent publicity which would indicate a split between Treasury and State. After explaining at length our balance of payments situation and the probable imbalance in our budget during the current year, Secretary Anderson pointed out the overriding necessity of maintaining a sound dollar. He indicated his complete devotion to freer trade theories and felt that these did not in any way conflict with the necessary fiscal measures which he felt we had to take from the point of view of protecting our balance of payments. I told him that I thought it was very important that the distinction be drawn between the maintenance of freer trade and such restrictive measures as we had to apply on use of dollar loans in the U.S.

He told me that he had given orders in the Treasury that no statement should be made anywhere along the line which would indicate any friction or which would overemphasize recent decisions, such as that related to the Development Loan Fund,¹ and hoped very much that the State Department could do likewise. He did not want

Source: Department of State, Central Files, 811.10/10-2259. Secret. Drafted by Herter.

¹ DLF Managing Director Vance Brand had announced on October 20 that the Fund would thereafter place primary emphasis on the financing of goods and services of U.S. origin.

any such frictions to develop at the lower levels and thought that, whenever possible difficulties arose, we ought to work them out by discussion among ourselves.

In addition to the above, we discussed the budgetary problems of the Defense Department and the political implications of possible cut-backs in our NATO commitments. He agreed that this matter should be gone over soon with Secretary McElroy and myself and agreement has now been reached for a meeting Saturday morning, October 24.

Christian A. Herter²

² Printed from a copy that bears this typed signature.

25. Minutes of the 95th Meeting of the Council on Foreign Economic Policy

November 19, 1959.¹

[Here follows a list of 18 persons, including Randall, Samuel C. Waugh, President and Chairman of the Export-Import Bank; Robert Amory, Deputy Director (Intelligence), Central Intelligence Agency; and Paul H. Cullen, Secretary of the Council on Foreign Economic Policy.]

I. The draft minutes of the meeting of October 8, 1959 were approved.

II. 1. Dr. Don Paarlberg, Special Assistant to the President, briefed the Council on Foreign Economic Policy on the foreign economic policy issues now facing the United States as the result of the recent deficit balance of payments situation.²

2. Dr. Paarlberg stated that the competitive situation of exports of the United States has been deteriorating while at the same time our imports are increasing, thus sharply reducing our favorable balance of trade. This represents a threat to our whole economy and reduces substantially our capability for providing economic assistance to the underdeveloped countries. Dr. Paarlberg said that because of the defi-

Source: Eisenhower Library, CFEP Chairman Records, Papers Series, CFEP Minutes 1959. Confidential.

¹ The meeting took place in the Executive Office Building.

² A paper in outline form by Paarlberg headed "Foreign Economic Policy Issues," which was the basis of his briefing, was circulated to the Council with a covering memorandum of November 10 from Cullen. (Department of State, E-CFEP Files: Lot 61 D 282A, Foreign Economic Policy Issues)

cit in the balance of payments, there was now a need to recast our foreign economic policy, and that while he did not think that we should embark on a policy of protectionism, there were certain things which we might consider doing. He suggested that the U.S. should examine the desirability of:

a. Focusing, in the forthcoming GATT negotiations, on the elimination of restrictions against dollar exports rather than further reductions of U.S. tariffs.

b. Making more use of the escape clause.

c. Providing economic assistance in the form of goods rather than dollars.

d. Asking our NATO allies to shoulder a greater share of the costs of economic development in the underdeveloped countries and for the military effort of the Free World.

e. Strengthening public and private efforts to expand our exports.

f. Resisting legislative changes in the trade field on the grounds that the present legislation is sound and will permit adjustments that are necessary to meet the new situation which confronts the U.S.

3. Under Secretary of State Dillon stated that in connection with balance of payments problems, interested agencies had already agreed that economic development loans provided by the U.S. should, to the extent possible, be tied to U.S. procurement. This affects all DLF projects and certain International Cooperation Administration economic development projects which are in the process of being turned over to the DLF. Mr. Dillon stated that while this policy may not have an immediate effect on our balance of payments situation, it would have a salutary effect later. In addition, it may stimulate Western World countries to provide more economic development for the underdeveloped countries than they are now doing. Mr. Dillon stated that there was no intention at this time of extending this policy to ICA procurement other than indicated above.

4. Under Secretary of Commerce Ray said that the Secretary of Commerce had just appointed a top level task group consisting of Messrs. Ray—Chairman, Randall, Dillon, Baird, Saulnier, and Waugh to advise the Government on what it should do to increase exports, and that the Departments of Commerce, State and Treasury are now studying specifics for expanding exports.

Paul H. Cullen

Lt. Col., USA

Secretary

26. Memorandum From Secretary of State Herter to President Eisenhower

November 24, 1959.

SUBJECT

Proposed United States Initiative to Mobilize Free World Resources for Development and to Strengthen Trade Relations

The great—even startling—changes in the international economic situation over the past two years have created two new problems of major dimensions for our foreign policy.

1. The first is: how can we mobilize the energies and resources of the *other* industrialized countries to assist the development of Asia, Africa, the Near East and other development-hungry parts of the Free World?

The enormous task of developing these areas must go forward or we will, in the end, lose out to the Communists.

The United States cannot provide the needed capital alone.

On the other hand, Western Europe and Japan, because of the great improvement in their monetary reserves—the reverse of the large payments deficit of the United States—are now financially capable of mounting a sizable effort which could powerfully assist our own, thereby greatly adding to the over-all strength and cohesion of the Free World.

What steps can the United States take to enlist the full cooperation of Western Europe and Japan in making this effort?

2. The second problem is: how can we help to redirect the emerging trade rivalries within Western Europe into constructive channels which will reinforce rather than weaken world-wide trade and avoid the present risk of serious harm to our exports and those of other friendly countries outside Europe?

The European Economic Community (The Six), which the United States has strongly supported for political as well as economic reasons, is now being challenged by a new trade bloc of seven European countries (The Seven) under the *de facto* leadership of the United Kingdom.

The antagonisms between the Six and the Seven might develop into a trade war which could gravely divide our NATO partners on political and security issues.

Source: Eisenhower Library, Whitman File, Dulles–Herter Series. Secret. No drafter is indicated on the source text. A note in Goodpaster's handwriting on the memorandum states that the President had seen it and that Administrative Assistant to the President Malcolm C. Moos had the substance of his comments for Dillon's office.

On the other hand, the Six and the Seven might feel compelled to compose their differences by trade deals which would discriminate against the exports of the United States and other friendly countries.

To help guide present European trade developments into more constructive channels beneficial to world trade will require the United States to abandon its present passive role and exercise determined leadership.

The Department of State has considered carefully the courses of action open to the United States in attacking successfully these major new problems in the field of development and trade. We have concluded that the most effective course would be for the United States to take the initiative in proposing the reorganization and revitalization of the Organization for European Economic Cooperation (OEEC) and to announce the willingness of the United States to assume full membership in this revitalized institution. (The United States and Canada now participate only in an associate capacity.)

This action would symbolize our determination to work with Western Europe on the basis of full partnership in attacking the major problems of development and trade. It would constitute an act of creative United States leadership in a recently deteriorating situation. It would greatly increase the opportunity of the United States to influence the makers of European economic policy in two directions—greater European development efforts and actions to compose European trade quarrels on a basis consistent with sound world trade relations.

A reorganized OEEC would need to have a new name, and would have to provide for some form of participation by Japan.

United States membership in a reorganized OEEC would require some form of Congressional action. However, United States commitments would not go beyond acceptance of basic objectives and agreement to discuss and provide information. It is assumed that Canada would follow the United States lead and also become a full member.

A more detailed description of this proposal is enclosed.

The general outlines of this proposal have been discussed with Secretary Anderson, who concurs. If you approve, consideration should be given promptly to the method and timing of a public announcement of our intentions, possibly in your state of the union message.

Christian A. Herter

[Enclosure]

Proposal for U.S. Membership in a Reorganized OEEC¹

1. Looking ahead over the next two or three years, there appear to be two major problem areas in our international economic relations for which present United States policies, and the institutions for implementing effective policies, are both inadequate. These two problem areas are: (1) the need for a much larger flow of development assistance to the less-developed areas from the *other* industrialized countries, especially Western Europe, and for harmonizing development assistance policies among the industrialized countries; and (2) the need for preventing the emerging trade arrangements within Western Europe from gravely damaging either United States world-wide commercial policies and objectives or NATO political cooperation.

2. With respect to the problem of development assistance, the United States has so far failed to devise an approach which would be effective either in getting the Europeans to step up their long-term development assistance, or in creating a suitable forum for the discussion of basic policies to guide development lending. Consideration is being given to using the Executive Directors of the International Bank (or of the new IDA) for these purposes. It seems clear, however, that the Bank mechanism cannot fully accomplish these objectives for three main reasons. First, while the Bank could be very helpful as a clearing house for information of a statistical nature, it is a lending institution rather than a policy organization. Second, under the Bank's structure, power is heavily concentrated in the hands of the management, with relatively little left to the Executive Directors. And, third, the Executive Directors of countries or areas other than the United States are not persons of adequate responsibility in their own governments such as would enable them to speak with authority or influence on the subject of over-all development lending policies of their governments. The UN, the only other general institution having specific responsibilities in the field of development is obviously unsuitable because of its unwieldy structure, the character of governmental representation, and the presence of the Communists.

3. With respect to present European trade developments, there are two problems. One is that the trade rivalry between the Common Market (The Six) and the new European Free Trade Area (The Seven) may embitter intra-European political cooperation and may react against the United States, which has so far refrained from any effort to compose these differences in a constructive manner. The other problem is that the Europeans *will* compose their differences, without

¹ Secret. The enclosure, dated November 24, bears no indication of the drafter.

United States participation, by means of discriminatory arrangements which would seriously hurt the trading interests of the United States and other friendly countries outside of Europe. This would undermine our multilateral trade policies as reflected in GATT. Unfortunately, these two problems cannot be adequately solved through GATT alone because of the presence in GATT of a large number of non-European countries and because the European representatives in GATT are not the officials who determine intra-European trade policies.

4. If these two vital problems in the field of development and trade are not dealt with through cooperative action, they could lead to a serious decline in the rate of economic growth of the Free World (which must be increased in the face of the Communist threat) and to sharply divisive political wrangles within Western Europe and between Europe and America which would inevitably weaken the NATO alliance.

5. It is believed our best hope for attacking these two problems is through a reorganization of the OEEC and through the assumption by the United States (and Canada) of full membership in place of our present associate status. With the achievement of European recovery, the cessation of United States economic assistance to Western Europe, and the dissolution of regional trade and payments arrangements in Europe, the original task of the OEEC has been completed. Nevertheless the quality of the secretariat of the organization, the fact that OEEC meetings are normally attended by Ministers and senior officials responsible for governmental economic policies, and the geographic scope of the organization (which embraces the whole of the industrialized world except Japan), mean that the OEEC could become a really effective instrument for dealing with the new problems of development and intra-European trade outlined above. While we have participated in the OEEC for years as associate members, assumption of full membership would have great symbolic importance to our European friends and would give us a greatly improved opportunity to exercise leadership in the economic field in accordance with our world-wide responsibilities.

6. The main functions of a reorganized OEEC should include the following:

a. Discussion of methods of increasing the flow of long-term European capital to the less-developed areas, including the establishment of the necessary national lending institutions (now almost completely lacking) by individual European nations.

b. Discussion of basic policies of member governments relating to development lending. (The OEEC should not get into the field of joint action on specific development projects or of providing information or appraisals on such projects. These activities properly belong to the

World Bank, where they should remain. However, the OEEC can and should be used as a multilateral forum for handling special situations such as the recent Turkish and Spanish programs.)

c. Discussion of the basic trade policies of the EEC and the emerging EFTA, particularly as they affect member countries. It should be made clear that the basic trade principles of a reorganized OEEC will be those of the GATT. (The United States would use the OEEC forum as a means of (i) enlisting the cooperation of EEC in the direction of liberal trade policies on a nondiscriminatory basis and of (ii) helping to assure that relations between EEC and EFTA develop in a manner beneficial to United States trade and GATT objectives.)

d. Discussion of measures to eliminate all quantitative trade restrictions maintained by Western European countries as soon as possible (short-run).

e. Continuation of the present OEEC function of discussing broad economic policies affecting European and world economic relations (e.g. business cycle policy and balance-of-payments problems).

7. In order to achieve United States purposes it would be necessary for the United States (and Canada) to drop their present role of "associate members" and participate fully in the new functions of a revitalized OEEC. Only in this way can we be sure of bringing to bear the full weight of our influence. The assumption of full United States membership would also symbolize a fresh initiative and determination on the part of the United States to exercise leadership in mounting a broad program by the industrialized countries to help the less-developed areas.

8. In proposing a reorganized OEEC the United States would seek changes in the present organizational structure designed to (a) alter the existing pattern of U.K. preeminence in the organization and (b) give the OEEC greater direction through the establishment of a limited Executive or Steering Group. In connection with the latter proposal, provision might be made for the participation in the Executive Group of one representative acting for the EEC countries as a unit.

9. A reorganized OEEC should contain provision whereby Japan could be allowed to participate, at least in discussions of subjects of concern to all the major industrialized countries—e.g. basic policies regarding development assistance, business cycle and balance-of-payments problems. Such participation might be achieved through either full or associate membership for Japan.

10. United States membership in a reorganized OEEC would require some form of Congressional action, including authorization to contribute to the OEEC budget. Any commitments affecting the United States flowing from membership in a reorganized OEEC should not go beyond adherence to general objectives, undertakings to discuss and the provision of information. The OEEC rule of unanimity should be preserved. A reorganized OEEC should be appropriately renamed to avoid a purely regional connotation.

27. Editorial Note

Under Secretary of State Dillon visited London, Brussels, Bonn, and Paris, December 7–14, for discussions on economic issues, including the possible reorganization of the Organization for European Economic Cooperation (OEEC). In a memorandum of December 13 to Secretary of State Herter, Dillon stated that he had found the British, Germans, and Dutch favorable to the idea, and he recommended that the United States seek a decision at an upcoming meeting of the heads of state and government of the United States, France, Germany, and the United Kingdom. The memorandum, along with other documentation on Dillon's trip, is scheduled for publication in the European regional compilation in volume VII, Part 1.

President Eisenhower, President de Gaulle, Chancellor Adenauer, and Prime Minister Macmillan met in Paris, December 19–22. President Eisenhower raised the subject of improved Western cooperation in economic matters on the morning of December 19; there was further discussion that afternoon. The relevant portion of a memorandum of discussion of the latter meeting is scheduled for publication in volume VII, Part 1; memoranda of both meetings are in the Eisenhower Library, Whitman File, International Series.

A communiqué issued at Paris by the four heads of state and government on December 21 endorsed cooperation by the industrialized countries of the free world with the objectives of "(A) Furthering the development of the less developed countries, and (B) Pursuing trade policies directed to the sound use of economic resources and the maintenance of harmonious international relations, thus contributing to growth and stability in the world economy and a general improvement in the standard of living." To that end, they agreed to call an "informal" meeting in the near future. The text of the communiqué is printed in *American Foreign Policy: Current Documents, 1959*, pages 576–577.

A Special Economic Committee, composed of representatives of Belgium, Canada, Denmark, France, Germany, Greece, Italy, the Netherlands, Portugal, Sweden, Switzerland, the United Kingdom, the United States, and the Commission of the European Economic Community (EEC), met in Paris, January 12–13, 1960. Under Secretary Dillon represented the United States at this meeting and at meetings of the OEEC and the OEEC Council on January 14. He reported to the President on January 14 that agreement had been reached in the Special Economic Committee on all the objectives sought by the United States: "(1) a workable procedure for the reorganization of the OEEC which could lead to full U.S. participation, (2) the establishment of a working committee, including the U.S. and Canada, to discuss the

trade problems of the Six and Seven, and (3) the establishment of a small group of capital exporting countries to better coordinate procedures for assistance to less developed countries.”

The text of the message, along with other documentation pertaining to the meeting, is scheduled for publication in volume VII, Part 1. The texts of three resolutions embodying these agreements, adopted by the Special Economic Committee on January 13 and approved by the members and associates of the OEEC on January 14, are printed in *American Foreign Policy: Current Documents, 1960*, pages 327–329. The text of a statement made by Dillon on January 12 outlining United States views is printed *ibid.*, pages 319–326.

Dillon discussed developments concerning the negotiations on the reorganization of the OEEC with the Senate Committee on Foreign Relations in an executive session on February 25. For the record of the session, see *Executive Sessions of the Senate Foreign Relations Committee (Historical Series)*, Volume XII, Eighty-Sixth Congress, Second Session, 1960 (Washington, 1982), pages 163–181. Some documentation relating to these negotiations is scheduled for publication in volume VII, Part 1. See also the compilations on trade and on investment and development in this volume.

28. Memorandum From Karl Brandt of the Council of Economic Advisers to the President's Special Assistant (Randall)

September 21, 1960.

In response to your request of yesterday, I hereby submit the following observations.

With reference to the economic relations between the United States and Western Europe it is obvious that in the coming years we will be in great straits to keep our balance of payments in such shape that we can maintain the free convertibility of a hard dollar and stick to a liberal trade policy. We have spent some \$80 billion to get the Europeans on the road toward rising productivity, expansion, and

Source: Eisenhower Library, CFEP Chairman Records. No classification marking. Randall circulated a copy of this letter to the Council with a covering memorandum of October 12 that noted that when he and Brandt had recently exchanged views, he had been so impressed by what Brandt said that he asked him to put it in a letter, which he was circulating because of the interest expressed by those with whom he had discussed it. (Department of State, E-CFEP Files: Lot 61 D 282A, Memoranda)

hard freely convertible currencies. We have given them since 1948 the last word in our technology free of charge and our industries are investing over there to get more of it to them.

The Europeans, particularly the French and the Germans, but also the Belgians, the Swiss, and the Italians, do not fully understand yet that we are in a tough spot and need their cooperation for their own sake and security at least as much as for our own. They do not realize that unless they revise their policies they will drive the U.S. sooner or later to the same tragic situation which led to the collapse of the World Economic Conference in 1933 in London which blew up because the U.S. unilaterally did what Britain had done previously, namely, it devalued the currency. If this should arise again, it would do its part to blow up NATO and start the march on the slippery downgrade in the cold war.

If this situation shall be corrected and our burden be lightened, it calls for action on both sides, in Europe as well as the U.S.

1. The Germans must shoulder a larger share in the NATO defense budget, distribute more profits to the workers, and thereby reduce the over value of the D Mark. They must participate in financing underdeveloped countries at their risk, not by investing at 6 percent in the World Bank.

2. The EEC must refrain from agricultural autarchy, erection of a CCC and cartelization of the 6 countries' agriculture. This is, however, the line of DeGaulle and Adenauer, who both subscribe to agricultural fundamentalism and the same policies our National Farmers Union and Mr. Kennedy's¹ advisers advocate here. The new German Minister of Agriculture, Mr. Schwarz, has defeated in Bonn the moderation of Mr. Mansholt—the former Dutch Minister of Agriculture and at present a member of the EEC Council. DeGaulle has given in to the rioting French farm organizations and the combination of French and German agrarian protectionism and "parity policy" for small farmers will proceed very fast unless we stop it.

3. The U.S. must stem the tide of protectionism and negotiate under GATT and later under OECD further mutual liberalization of foreign trade. It must energetically promote its exports, boost the tourist traffic of Europeans in this country, cut down on foreign aid as the Europeans increase it, and stop borrowing from the future by holding the line on wages and costs in general.

If the latest turn in EEC policies cannot be averted by very massive action on our side, we have the best chance that the drive of all U.S. protectionists and all U.S. industries which are on the defensive against tough price competition from all sides (Asia, including Japan and Hongkong, Great Britain, Continental Europe, Czechoslovakia,

¹ Democratic Presidential candidate John F. Kennedy.

etc.) will lead us to a retreat into deliberalization of our foreign trade policy. Shutting the door to U.S. agricultural exports will have a tremendous echo in our industries, particularly all light industries.

It seems high time that we open the eyes of the European leaders who can do something about it by speaking much more bluntly and with less delicacy about these hard facts of life and security for the West. Perhaps one ought to say to Messrs. Erhard and Blessing² when they come [in] the next [few] days to attend the meeting of the International Monetary Fund,³ that if the EEC countries want to do their part to shut their industrial goods out of the U.S. market (as the result of the U.S. internal politics and Congressional developments), all they have to do is to go ahead with their emancipation of their common market for agricultural products and the discrimination against all non-member nations, which includes the U.S.

I consider this situation as extremely dangerous because it is politically most difficult to unlodge the agricultural interests from their new protectionist position in the EEC once they have entrenched themselves in it. This is just as much a fact in Continental Europe as it is in the U.S. The European farm organizations, particularly in France and Germany, are past masters in the riot techniques and all sorts of revolutionary pressure group tactics.

This is perhaps the last moment for averting the drift into new belligerent agricultural protectionism in the EEC countries. It should be utilized. To utilize it requires the abandonment of kid-glove tactfulness and fear of resentment of "dollar diplomacy", etc. In the best interest of the EEC countries themselves, the U.S. should use maximum moral suasion and sternest warning against the consequences of building an EEC reservation for its heavily subsidized agriculture.

Karl Brandt

² President of the Bundesbank Karl Blessing.

³ The Boards of Governors of the Fund, the International Bank for Reconstruction and Development, and the International Finance Corporation met at Washington, September 26–30. The texts of a message from President Eisenhower and statements by Anderson, Dillon, and Upton are printed in Department of State *Bulletin*, October 17, 1960, pp. 607–617.

29. Editorial Note

The U.S. balance-of-payments deficit concerned the administration increasingly in 1960. Documentation on this subject is in the compilation on international financial and monetary policy, but material in other compilations also reflects this concern. Efforts to increase U.S. exports are documented in the compilation on trade policy. The compilations on Mutual Security and on investment and development include material concerning the impact of economic and military assistance on the balance of payments; see especially Documents 261, 266, and 270.

On November 16, when gold withdrawals from the United States were increasing sharply, the President issued a directive declaring that it was "imperative that the United States give the very highest priority to attaining a reasonable equilibrium in its international balance of payments." It outlined steps to be taken or intensified with respect to international trade, international finance, and the domestic economy, and it directed the heads of various agencies to take specific steps to reduce expenditures outside the United States, including reduction of the number of dependents of military and civilian personnel abroad, reduction of overseas procurement, and the requirement that the International Cooperation Administration and the Development Loan Fund place primary emphasis on financing goods and services of U.S. origin. For text of the directive, see *American Foreign Policy: Current Documents, 1960*, pages 786–792. See also Documents 57 and 58.

On December 6, Secretary of the Treasury Robert B. Anderson discussed the balance-of-payments problem with President-elect John F. Kennedy; see Document 62.

30. **Memorandum From the Assistant Secretary of State for Policy Planning (Smith) to the Under Secretary of State (Dillon)**

December 6, 1960.

SUBJECT

Key Country Policy Coordination and the US Balance of Payments

The recent sharp increase in the United States balance of payments deficit as a result of a large outflow of short-term funds confirms the long recognized need for closer coordination of economic policies between the key countries of Western Europe and the United States. Now that the currencies of the major industrial countries are freely convertible I believe the need for this coordination is more pressing than at any time since the war.

If such coordination existed it well might have produced the required concerted action on monetary policy to have curbed this outflow. It might, for example, have achieved concerted action on short-term interest rates here and abroad. It also might have been instrumental in dissuading the Italians from converting their dollar reserves into gold. It most certainly could have served to assure other countries that the United States had no intention of devaluing the dollar.

The need for closer economic coordination with the key countries of Western Europe promises to be of particular urgency for the United States in the months immediately ahead. Whatever progress the United States may continue to make in remedying its basic balance of payments difficulties, its reserves will remain vulnerable to short-term raids, as during the third quarter of this year, because of differences in interest rates here and abroad, lack of confidence in the dollar etc.

Such outflows if they occur, even though temporary, will complicate the solution of the longer term payments problem and pose the further risk of forcing the United States Government to adopt counter-measures which could undermine some of our important foreign policy objectives. Concern about our balance of payments situation could

Source: Department of State, S/P Files: Lot 67 D 548, Economic Policy, 1957–1960. Secret. Drafted by Henry Brodie of the Policy Planning Staff. Filed as an attachment to a December 16 memorandum from Dillon's Special Assistant James C. Haahr to Assistant Secretary Martin stating that Dillon wanted him to take action on it; Haahr added that Dillon thought it was important and wanted to keep it within the Department for the time being.

also handicap the new administration if, for example, it decides it is necessary to maintain low interest rates in order to stimulate domestic business activity.

I realize a forum for economic policy coordination between the major Western powers now exists in the Economic Policy Committee of the OEEC and will be established in the OECD. However, this forum is too large and unwieldy to yield the kind of quick action required to deal with problems such as short-term capital flows. What is needed, as suggested in Bowie's¹ report on *The North Atlantic Nations Tasks for the 1960's* is a smaller more informal body possibly consisting of senior treasury and central bank officials of the United States, the United Kingdom, France, Germany and Italy. While the inclusion of Japan also might be desirable this probably would make it more difficult at this stage to enlist the full cooperation of the other participants.

Such a small high level group could provide an effective forum for consultations on a frank and open basis of all contemplated courses of action in the field of monetary and fiscal policy with a view to minimizing their balance of payments impact.

While the OEEC/OECD Economic Policy Committee is too large for the purposes discussed here there are important advantages in using the meetings of this Committee as the occasion for informal key country discussions. Among other things this would permit the group to enjoy some degree of anonymity and its consultations would not give rise to the undesirable speculation that would inevitably arise if special international conferences were convened for the purpose or a new consultative instrument was created. Moreover, if the type of economic coordination suggested here was completely separated from the OECD this would take away most of the sinew and muscle required to make the OECD a meaningful organization which the United States wishes to do.

It is therefore proposed that arrangements be made to have this informal key country group meet when appropriate at regular OEEC/OECD Economic Policy Committee sessions to discuss previously prepared agenda. Regular meetings of the Economic Policy Committee probably will be held with sufficient frequency to ensure the necessary policy consultation and coordination in the smaller group. However, if necessary, additional OECD meetings could be convened on short notice.

It is further suggested that the United States plan the first key country consultations for the Economic Policy Committee meeting which I understand is scheduled for early next year. The principal item

¹ Former Assistant Secretary of State for Policy Planning Robert R. Bowie.

on the agenda could be the development of coordinated action to minimize short-term capital flows but other related fiscal and monetary questions also might be covered.

I appreciate that the development of a United States position for such a meeting would require coordination with other interested Government agencies particularly Treasury and the Federal Reserve Bank. In view of the attitudes of the latter two agencies toward international economic policy coordination it might be desirable to delay inter-agency discussions until the new administration takes over. In the meantime I would suggest that the State Department establish a working group to prepare its position.

31. Memorandum From the Assistant Secretary of State for European Affairs (Kohler) to Secretary of State Herter

December 7, 1960.

SUBJECT

Circular 175: Convention on the Organization for Economic Cooperation and Development and Related Documents

In accordance with Circular 175, authority is requested for signing a Convention to establish the Organization for Economic Cooperation and Development (Tab B)¹ and Protocols (Tabs B–1, B–2, B–3), and a Memorandum of Understanding (Tab B–5) relating to the Convention. There is also attached a Memorandum for the President (Tab A) transmitting for his signature a full power authorizing signature of the agreements.

Authority is also requested for concurring in a Ministerial Resolution (Tab C–1) which would approve the recommendations of the Preparatory Committee.

Source: Department of State, Central Files, 374.800/12–760. Official Use Only. Filed as an attachment to a memorandum of the same date from Secretary Herter to the President which transmitted a document for his signature authorizing Dillon to sign the convention and protocols establishing the Organization for Economic Cooperation and Development.

¹ None of the tabs is printed. For text of the convention signed at Paris on December 14, together with two protocols and a memorandum of understanding, see 12 UST 1728. The text of a communiqué issued at Paris by the ministerial meeting of OEEC members and associates on December 13 is printed in *American Foreign Policy: Current Documents, 1960*, pp. 333–335. Documentation concerning the meeting is in Department of State, Conference Files: Lot 64 D 559.

Discussion

The four Heads of Government at the Western Summit Meeting in Paris December 21, 1959 discussed the changes which had occurred in the international economic situation and recommended that a meeting be held in Paris to discuss new cooperative endeavors in the economic field.

Accordingly, a Ministerial Meeting was held in Paris on January 14, 1960 where it was agreed that a group of four experts should be set up to study the feasibility of revitalizing and broadening the work of the OEEC through the establishment of a successor organization which the United States and Canada could join as full members. After lengthy consultation with representatives of the interested governments and international organizations, the Group of Four sent its report, "A Remodelled Economic Organization", to the twenty governments in April for their consideration.

Thereafter, intergovernmental negotiations on the reconstitution of the OEEC as the OECD began in May and continued almost without break through July. On July 22 a Ministerial Meeting was convened in Paris to review the progress made in these negotiations. The Ministerial Meeting reached agreement on the basic nature of the OECD and on the general outline and most of the fundamental articles of the OECD Convention. It was also agreed to establish a Preparatory Committee which would complete the negotiations on the draft OECD Convention, define the structure of the OECD, and make recommendations concerning OEEC Acts and activities to be carried over into the OECD.

The Preparatory Committee constituted by the Ministerial Resolution of July 23, 1960 held sessions from September 14 to November 23 during which time the Committee completed its report (Tab C), the draft Convention (Tab B), Protocols and Memorandum of Understanding (Tabs B-1, B-2, B-3, B-4, and B-5), and determined which acts of the OEEC should be recommended to the Council of the OECD for approval (Tab C).

All of the documents prepared by the Preparatory Committee have been forwarded to the governments for review prior to the Ministerial Conference to be held on December 13-14 in Paris.

The main features of the OECD emerging from the negotiations and as evidenced in the attached documents for signature are as follows:

The aims of the OECD provided for in Article 1 of the Convention shall be to promote policies designed:

a) to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability and thus to contribute to the development of the world economy;

b) to contribute to sound economic expansion in Member as well as non-Member countries in the process of economic development; and

c) to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

As an elaboration of Article 1 of the Convention, it has been agreed that the main functions and basic structure of the OECD should be as follows:

a) the OECD should strengthen the OEEC practice of consultation on the economic situation and policies of Member countries;

b) the OECD should foster consultation and facilitate coordination among Member countries concerning methods for making national resources available for assisting less-developed countries. In this regard the Development Assistance Group, upon inception of the OECD, will be constituted as the Development Assistance Committee;

c) while it was agreed that the OECD should have as one of its aims the promotion of policies to contribute to the expansion of world trade on a multilateral, non-discriminatory basis, the trade activities of the OECD will be quite different from and more limited than those of the OEEC.

Agreement has been reached that the OEEC Code of Liberalization, under which the Europeans undertook to reduce quantitative restrictions on trade among themselves but which was not applicable to the trade of other countries, should be abolished—it being understood that the benefits of the Code should be extended to other countries as rapidly as possible. It has also been agreed to establish a Trade Committee (Tab B-3) within the OECD to carry out, in particular, the following functions:

a) confrontation on general trade policies and practices at regular intervals or whenever requested by a Member;

b) examination of specific trade problems primarily of interest to Members;

c) consideration of any unsettled problems between the six countries of the European Economic Community and the seven countries of the European Free Trade Association.

While modifying and broadening the outlook of the Organization, it was generally agreed that it would be wise to preserve many of the valuable traditions and procedures of the OEEC which had worked so well for more than a decade. As a consequence, agreement was reached on Article 5 of the Convention, which provides that, in order to achieve its aim, the Organization may:

- a) take decisions which, except as otherwise provided, shall be binding on all the Members;
- b) make recommendations to Members; and
- c) enter into agreements with Members, non-Member states, and international organizations.

It was furthermore agreed (Article 6) that unless the Organization agrees unanimously for special cases, decision shall be taken and recommendations shall be made by mutual agreement of all Members. Each member has one vote. If a Member abstains from voting, a decision or recommendation shall only be applicable to the other members—not to the abstaining member. In any case no decision shall be binding on any Member until it has complied with its own constitutional procedures.

The provisions of Article 6 thus make clear that no action binding on the U.S. can be taken by the Organization without the concurrence of the United States. Further, it is considered after the Convention enters into force, that the United States representative will not have any additional powers than now exist in the Executive to bind the United States, but any act of the Organization outside the power of the Executive will require action by Congress or the Senate as the case may be before the United States is bound.

The United States considered it essential that there be no automatic carry-over of OEEC Acts into the OECD. Consequently, the U.S. urged the following provision which appears in Article 15 of the draft Convention: “. . . decisions, recommendations and resolutions of the Organization for European Economic Cooperation shall require approval of the Council [of the OECD]² to be effective after the coming into force of this Convention.” (Tab B-5). This means that no Act of the OEEC will be carried over into the OECD unless the Council of the OECD agrees unanimously. However, the European countries considered that this provision might unsettle many of the decisions heretofore made in the OEEC and it was accordingly agreed at the Ministers Meeting in June that an agreement would be entered into which would commit the Members to approve the Acts recommended for continuation by the Preparatory Committee but would allow the United States and Canada a certain latitude with respect to such Acts. This agreement is embodied in the Memorandum of Understanding on the Application of Article 15 of the Convention (Tab B-5). Under this Memorandum the United States and Canada may within ten days of their acceptance or ratification of the Convention specify any Act or part thereof which it is to be released from the commitment to approve. The Memorandum sets forth certain procedures which may be followed for revision of the Preparatory Committee recommendation as

² Ellipsis and brackets in the source text.

to the Act or part thereof. In any event, if the United States or Canada so wish they have the privilege not to be bound by any Act or part thereof on which they have notified, although such Act or part thereof may become binding on the other members of the OECD.

Article 14 of the Convention provides that after signature, the Convention shall be ratified or accepted by the Signatories in accordance with their respective constitutional requirements. The Convention enters into force when all signatory countries have accepted or ratified, or on or after September 30 if fifteen signatories have accepted or ratified. The Department contemplates submitting the Convention and related documents to the Senate for its advice and consent.

Article 17 provides that any party to the Convention can withdraw on twelve months' notice.

Attached to the Convention are four Protocols: (1) Supplementary Protocol No. 1 (Tab B-1) which provides for the representation in the OECD of the European Economic Community, the European Coal and Steel Community, and Euratom; (2) Supplementary Protocol No. 2 (Tab B-2) which provides for the privileges, exemptions and immunities of the OECD, its officials and representatives to it; (3) Supplementary Protocol No. 3 (Tab B-3) which establishes a Trade Committee and outlines its functions (the status of this Protocol is still the subject of negotiation and the United States is attempting to have it eliminated and its contents embodied in the report of the Preparatory Committee); (4) Protocol on Revision of the Convention on European Economic Cooperation of 16th April 1948 (Tab B-4) which provides for the replacement of the OEEC Convention when the OECD Convention comes into force (this Protocol will be signed only by the members of the OEEC and not by the United States or Canada).

In addition to its recommendation on the Acts of the OEEC which should be continued, the Preparatory Committee has made recommendations as to structure, activities and principles to be followed by the OECD. In order to give some assurance that these latter recommendations will be given due weight, a Ministerial Resolution (Tab C-1) has been drafted which would "Approve the report of the Preparatory Committee and Accept the recommendations contained therein". It is not considered that concurrence in this Resolution by the United States and other countries would create a legal obligation, but would merely "confirm the determination of Governments" to carry on the work in accordance with recommendations (Preparatory Committee Report, Tab C, p. 15).

[Here follow recommendations that the Secretary (1) authorize signature of the convention, protocols, and memorandum of understanding, (2) authorize approval of the draft resolution for the ministe-

rial meeting, and (3) initial the memorandum for the President cited in the source note above. The memorandum bears a stamped indication that Herter approved recommendation 1 on December 7.]

U.S. INTERNATIONAL FINANCIAL AND MONETARY POLICY

32. Memorandum of Conversation

February 24, 1958.¹

SUBJECT

World Financial Problems

PARTICIPANTS²

UK

Sir Leslie Rowan, Permanent Undersecretary of the Treasury

Sir Robert Hall, Economic Advisor to UK Treasury

Sir Harold Caccia, UK Ambassador

Mr. G. F. Thorold, UK Embassy

Mr. D. B. Pitblado, UK Embassy

US

Secretary Anderson, Treasury

Mr. C. D. Dillon, State

Dr. Gabriel Hauge

Dr. Saulnier

Mr. Baird, Undersecretary of the Treasury

Mr. A. W. Marget, Federal Reserve Board

Mr. W. T. M. Beale, State

Others from Treasury, State and Federal Reserve Board

Secretary Anderson opened the three hour meeting with a general presentation of United States views of world economic problems, with special attention to the British concern over "world illiquidity." The Secretary emphasized the need for expanding economies, for increasing world business activity. He said that real productive growth was much more important than the level of reserves, or the position of sterling. After the expansion of the previous years where such growth had been as high as ten per cent on an annual basis, a "levelling-off"

Source: Department of State, Central Files, 800.10/2-2458. Confidential. Drafted by Warrick E. Elrod, Jr., of the Office of British Commonwealth and Northern European Affairs.

¹ Presumably the meeting took place at the Treasury Department.

² Participants not identified here include British Economic Minister at Washington Guy Frederick Thorold, Special Assistant to the President Gabriel Hauge, Chairman of the Council of Economic Advisers Raymond J. Saulnier, Director of the Federal Reserve Board Division of International Finance Arthur W. Marget, and Deputy Assistant Secretary of State for Economic Affairs W.T.M. Beale.

was to be expected. He said that in 1957 the United Kingdom had followed wise monetary policies, that British action on bank rate (5% to 7% on 9/19/57) was a sign of strength, a step in the right direction. The Secretary said that press speculation over the pound's future was regrettable as it injured Britain's position as a world banker and endangered solvency. Within the limits possible in a parliamentary democracy press articles harmful to financial stability should be curtailed.

The Secretary said that irresponsible press handling of these financial matters pointed up what to his mind was the crucial issue, a psychological issue; this was the element of "confidence" which he called "the most important single ingredient in the present economic situation," the "great intangible factor."

The Secretary called the IMF "an unusual device" to be sparingly used, else its effectiveness would be defeated. He pointed out that the British had obtained \$1.6 billion in 1957 from the IMF, EXIM Bank, and deferral of U.S.-Canadian loan payments. Britain's problem now was how to increase its ability to earn. He acknowledged some real improvement in 1957 in the U.K. situation, but added that internal policies must be constantly directed toward improvement in the internal U.K. economy. The world problem, which all countries faced, was how to sustain adequate growth without inflation. The U.S. had faced this problem for some years. In an uncertain world there could be no real hope for certainty in what we did, no real expectation that economic problems would lose their complexity.

Sir Leslie Rowan passed quickly over Secretary Anderson's themes, agreeing that confidence was an important element in any economic situation, that the problem was maintenance of stability without disquieting inflation at the same time sustaining a desired rate of growth.

Sir Leslie emphasized the role of reserves and liquidity. A shortage of reserves would be a threat to future growth. Liberalization of trade on the part of creditor countries was essential. Reserves must be adequate to support normal functions of the economy. British reserves were too low, entirely inadequate when one considered the borrowed sums repayable within the next three years. There is, according to Sir Leslie, a three fold "illiquidity": a) gold; b) dollars; c) sterling. Wider use of the German DM was necessary. Sterling could no longer meet the needs of other countries for short- and long-term borrowings. The Sterling Area was "absolutely vital" and Sir Leslie said he wanted to go on record by stating that there was "no intention whatever of winding up the Sterling Area."

Sir Leslie questioned the Secretary's figure of 10 per cent in annual growth. He felt the allowance for inflationary content would considerably lower the figure. Even assuming a lesser percentage there

were insufficient reserves to support such growth. Gold was insufficient, a dollar gap had begun again to appear, sterling balances would decrease, perhaps as much as £300 million per year in the near future. In the past eighteen months, reserves of the rest of the Sterling Area had gone down by £500 million.

Sir Leslie referred to the previous day's meeting where the U.S. side had estimated a net outflow of gold and dollars from the U.S. of between one half and three quarters of a billion dollars. Sir Leslie said this was just about the amount net which the U.K. expected West Germany to take in and he wondered how much good it would do simply to shift reserves from the largest holder to the next largest holder. Secretary Anderson said we did not contemplate so large a net increase in Germany's gold and dollar reserves.

Sir Leslie agreed there was no rigid trade-reserve formulas, but added that when reserves were decreasing one had to question whether trade could appreciably expand, especially when reserves were too low to meet any abnormal fluctuations. Sir Robert Hall said it was all very well to talk of earning reserves, but if there was a decreasing trend and trade imbalances one asked where the reserves were which should be earned. The U.K., he said, had some genuine intellectual and analytical doubts about world liquidity.

Secretary Anderson reiterated the U.S. view that there were factors other than reserves and that he felt there was undue pessimism on the U.S. balance of payments, that we would continue to make heavy dollar purchases abroad.

Mr. Dillon added a review of U.S. trade policy, of attitudes toward such plans as that of Italian Foreign Minister Pella (which we obviously don't like too much), and toward Soviet economic aid. On the latter point Mr. Dillon agreed it could not be prevented, and that the U.S. became concerned only when it went beyond safe limits.

In turning to the German reserve picture Sir Leslie said the Germans did not consider that their reserves were too large. To Dr. Marget, FRB, who had said reserves were flowing out from Germany, Sir Leslie sharply retorted that nothing else could be expected after last year's speculation in favor of the DM and that it was certain to be a temporary phenomenon (*Note: latest January figures confirm the British analysis*).

Dr. Marget said he felt there was no general shortage of reserves, that he "candidly did not see any overall liquidity problem," though there were of course problems for individual countries, caused primarily by their own unwise internal policies. He cited India as one of these "misbehaving" nations. Sir Leslie differed with Dr. Marget, pointing out that the United States, Canada, Germany and Venezuela had added \$3.4 billion to their reserves over the past 18 months while the rest of the world had lost \$1.6 billion, despite drawings from the IMF.

He called this genuine "maldistribution" of reserves. Marget reiterated his view with the statement that "nothing adverse in the past was attributable to inadequacy of reserves." Sir Robert Hall said that obviously countries would have to be separated out for analysis. He added that the future was important. Admittedly the IMF had provided a "masse de manoeuvre" in December, 1956, but what would provide the "masse" if the IMF could not provide it. Southard of the IMF said that while the IMF was not "broke" there was a tendency for all underdeveloped countries to spend for development all funds they could put their hands on. Thailand and Venezuela were glaring exceptions to this rule. There was little chance that spending and consumption patterns in these other countries could change so that heavy demands from the underdeveloped countries must be expected. Sir Robert Hall added that this was a special problem for sterling; that the rest of the Sterling Area, for example, was almost constantly in current and capital account deficit with the non-sterling world, thus adding to strains on sterling.

The meeting concluded with an exchange of brief summaries of positions, with the British expressing the hope that future meetings of such a nature might be expected. There was no encouragement from the U.S. side.

Comments: It is difficult to believe that the British could have found any great measure of satisfaction in the meetings of February 18-19. The meeting on the 19th seemed almost entirely negative with the U.S. side finding little basis in the concern of the British over "world illiquidity". Perhaps this was an ill-chosen designation and a stronger British case might have been made had the British dealt specifically with the problems confronting sterling.

There seemed to be no enthusiasm on the U.S. side for future meetings and initiative to hold further meetings is obviously left with the British, who will doubtlessly want another meeting but who must now wait for developments justifying another gathering since in my opinion we interpreted away the basis of last week's meeting which might have called forth future meetings.

The general feeling on the U.S. side was that the British position was weak. If so, it was probably partly deliberate as the British probably did not want a rigid U.S. negative response to definite British proposals, and wanted some flexibility. But something more than these meetings produced must have been expected. It is difficult to find tangible results when one side says it believes the other is too pessimistic and the latter can only respond that it hopes the optimism of the former proves to be justified. There was agreement only upon one point: a greater German financial contribution is called for and is justified. On all other points there were widely divergent interpreta-

tions: a) illiquidity and reserves; b) greater powers and resources for IMF; c) trends toward further distortion of trade and “maldistribution” of reserves.

There is no denying the seriousness of the British economic problems and an imaginative approach to their solutions is called for. A startling reversal of present economic trends in the U.S. will justify to some extent the U.S. position in these recent meetings. It will not correct the long-run difficulties of the United Kingdom. Any prolongation of the U.S. “recession” would undoubtedly justify U.S.–U.K. meetings to deal with international repercussions.

The possibility that the gold and dollar flow *from* the United States will about equal the gold and dollar flow *to* Germany is likely to be realized. My own idea is that based on the Germany trend to surplus in EPU which began in January thus reversing its deficit trend of prior months, West Germany may gain \$600–700 million surplus in trade outside the U.S. with the deficit in trade with the United States reducing this amount to a net of around \$500 million. Here the British, it seems to me, have pointed out a possible shift in reserves benefiting only the Germans.

The British did not bring up two points: a) raising the price of gold; b) changes in exchange rates. There was no suggestion of devaluation of the pound.

33. Telegram From the Embassy in the United Kingdom to the Department of State

London, March 1, 1958, 11 a.m.

5156. Department pass Treasury. At small private lunch with me yesterday, also attended by Maudling,¹ William Rootes of Dollar Exports Council, Moore and Colt of Bankers Trust Co.,² Chancellor of the Exchequer Amory, speaking very informally, stated British case for reviewing the financial structure which underpins world trade. He referred to Oliver Franks’³ statement in Lloyds Bank annual report,

Source: Department of State, Central Files, 800.10/3–158. Confidential; Limit Distribution.

¹ Paymaster-General Reginald Maudling.

² Chairman of the Board Samuel Sloan Colt and Chief Executive Officer William H. Moore.

³ Chairman of Lloyds Bank Limited.

and said Franks was “able fly a kite” which a Chancellor could not do without being pressed for explanations and specifics. Franks’ proposals, he thought, deserved careful thought.

US was being called on over and over again to bail out countries in crisis situations. This good neither for their morale nor ours, and might sometimes involve tossing money away without much effect. He thought it necessary look carefully at underlying financial structure which supported world trade, to decide whether billions spent to cope with crisis situations might be used more effectively to repair and strengthen that underlying financial structure. He greatly impressed with work which had been performed by IMF and International Bank, thought attention should perhaps be focused on schemes which would use these institutions as means enlarging financial base.

There would be Commonwealth economic conference in September, and it was realized that Commonwealth only a fragment of world and two of largest markets, America and Europe, lay outside. British had no intention giving up Commonwealth—they did not want to do so, and would not be politically possible if they wanted to. There had to be working appraisal of kind of economic relations which were to exist between Commonwealth, American and Europe. They hope have European FTA and kind of commercial policy on both sides which would bring sterling and dollar worlds closer together, but there was danger these things could not be achieved, particularly if there were a recession in world trade.

It was coincidence of recession in US and shortages in international reserves of many countries which worried him. We had arrived at stage where business assessments of future prospects could easily turn more pessimistic. Cold war consequences of such a development could be disastrous. He thought it important to consider whether this danger might be averted by measure which would forestall development on [of?] liquidity crisis.

Whitney

34. Memorandum by the U.S. Member of the Board of Executive Directors of the International Monetary Fund (Southard)

April 18, 1958.

SUBJECT

IMF Resources in Relation to Prospective 1958 Needs

1. This memorandum makes the following points:

(a) Even if the U.S. recession is fairly sharp, its world impact will not be severe in 1958. A sharp recession prolonged into 1959 will cause trouble for other countries.

(b) The industrial countries have foreign exchange reserves which will enable them to get through 1958 without difficulty, with the possible exceptions of the United Kingdom and France. However, the underdeveloped countries are in a more exposed position and as a group their reserves do not provide any margin of safety.

(c) IMF resources in the aggregate are large. However, the amounts available to underdeveloped countries are relatively small and the amounts available to countries which are in actual or potential difficulty are particularly small. This raises the question of the feasibility and timing of an increase in the Fund's resources.

2. The prospects for 1958

The Fund Staff have prepared estimates of the likely impact of the U.S. recession on the U.S. balance of payments and hence on other countries, based on two hypotheses, one, that U.S. industrial production in 1958 would be 8 per cent, and two, that it would be 15 per cent below the average of the last 12 months of the boom.

(a) The Staff estimate that on the assumption of a mild recession there would not only be no deterioration in the payments balance of the rest of the world with the U.S., but the "dollar gap" of about \$2 billion which appeared in 1956–57 would disappear almost entirely. If the recession was deeper, the dollar gap would be little if at all worse in 1958 than in the base year.

(b) However, the Staff point out that a deficit vis-à-vis the United States in 1958 of about \$2 billion would be more serious than it was in 1956–57, especially since IMF resources are considerably lower than they were in September 1956.

Source: National Archives and Records Administration, RG 56, Records of the Office of the Secretary of the Treasury, Robert B. Anderson, Subject Files, International Matters, 1957–1958. Official Use Only. Southard sent the memorandum to Secretary Anderson with a covering note of the same date stating that he thought it would be of use in connection with plans for talks with the British.

(c) By regions, the Fund Staff estimate that only Latin America would show a serious worsening of its dollar position in a mild recession in 1958 but both Latin American and the overseas sterling area would have a worsening of balance with the United States amounting to about \$900 million and a worsening of global balance of about \$1.3 billion, in a deep recession.

(d) The final conclusion of the Fund Staff is that a U.S. recession involving a 15 per cent decrease in production would cause embarrassment to many primary producing countries and might threaten sterling. If U.S. industrial activity continued for long at that level a payments crisis might supervene toward the end of 1958 or in early 1959.

3. *On the whole it seems unlikely that there will be a liquidity crisis in 1958.* In talks with the U.K. and other foreign officials U.S. officials will be justified in arguing that the situations to be dealt with will primarily involve the underdeveloped countries whose reserves tend to be low.

(a) The foreign exchange reserves of industrial countries are in reasonably good shape. All of them are benefiting by shifts in the terms of trade in their favor and this has thus far compensated for weaknesses in some export markets. The notable exception is France, which has not strengthened its reserve position to any appreciable extent.

(b) The evidences of strain are to be found among the underdeveloped countries. Of 40 representative countries in this group, 23 suffered losses of reserves in 1957. Moreover, relatively few underdeveloped countries have foreign exchange reserves large enough to provide any substantial cushion against declines in export earnings. Taking reserves as a per cent of annual imports as a measure, only 13 underdeveloped countries out of a group of 40 had reserves in excess of 50 per cent. These were Australia, Cuba, Egypt, Ethiopia, Iran, Iraq, Ireland, Pakistan, Taiwan (China), Thailand, Uruguay, Venezuela and Viet-Nam. Moreover, it will be seen that two of these countries, Taiwan and Viet-Nam, receive very large aid from the United States. Two others, Uruguay and Egypt, have substantial gold reserves which they would find extremely difficult politically to use to any appreciable extent. Ten other countries on the list have reserves ranging between 30 and 50 per cent of annual imports. These are Burma, Ceylon, Dominican Republic, Ecuador, El Salvador, Guatemala, India, Lebanon, Mexico and Syria. It is interesting to note that Mexico is on this list. Although Mexican reserves at the end of 1957 amounted to \$431 million, they amounted to only 37 per cent of Mexico's imports in that year, and thus were equal to only four months' imports. The remaining 17 countries on the list at the end of 1957 had reserves amounting to less than 30 per cent of annual imports. In fact 11 of them had

reserves amounting to less than 20 per cent. These were Bolivia, Brazil (net reserves), Chile, Costa Rica, Iceland, Israel, Nicaragua, New Zealand, Peru, Philippines, and Union of South Africa.

4. *Resources available in the IMF* are large in absolute terms but they are small relative to the potential needs of countries whose reserve positions are weakest.

(a) There is attached hereto a table¹ which shows the following situation. The Fund at the end of March 1958 had \$2,585 million in gold, U.S. and Canadian dollars, and deutsche marks. The industrial and developed countries had *unused* portions of their quotas comprising the gold tranche, first credit tranche and second credit tranche amounting to \$1,195 million, and the United Kingdom had a stand-by comprising the third credit tranche amounting to \$325 million. The total of these availabilities is \$1,520 million, which amounts to 3.6 per cent of the annual imports of those countries. As to the underdeveloped countries, those with quotas in excess of \$75 million had unused portions of their quotas in the same tranches amounting to \$495 million. The underdeveloped countries had unused quotas in those tranches amounting to \$298 million, stand-by arrangements within the third credit tranche of \$33 million and other third credit tranche facilities amounting to \$139 million. The total of these amounts potentially available to underdeveloped countries is \$965 million, or 4.6 per cent of their annual imports. The grand total of these amounts available to the industrial and underdeveloped countries which are members of the Fund is \$2,485 million, which is \$100 million less than the Fund total of gold and convertible or near-convertible currencies as shown at the bottom of the table.

(b) A second table has been attached which shows resources available to member countries which are in difficulty. The list is necessarily selective but it serves to show that, looked at from this point of view, Fund resources are relatively small. The 25 underdeveloped countries in the table have remaining only \$103.1 million in the gold tranche and first credit tranche—that is, the portion of their quotas which may be drawn readily. They have \$296.8 million in the second credit tranche which, under present Fund policies, they may expect to draw provided they are taking corrective measures which seem likely to be effective in dealing with imbalance. For some of these countries, such as Indonesia, this test may be very difficult to meet under present conditions. In any event, even assuming that the test can be met, the two amounts combined would provide assistance of about \$400 million, which is less than 4 per cent of the annual imports of these countries. To this may be added another \$66 million comprising the third credit tranche in the case of countries with very small quotas and

¹ The tables are not printed.

which they may be allowed to draw on substantially the same terms of the second credit tranche. Countries with larger quotas have no such expectations since, as the first table shows, the funds would not be available to meet such demands.

5. *This analysis raises the question of an increase in the Fund's resources.*

(a) A number of countries, notably the United Kingdom, are beginning to press for an increase in the resources of the Fund. The U.S. Government will have to decide what reply to give to this pressure. If the U.S. recession is still a matter of concern at the Annual Meeting in New Delhi, it is likely to be very difficult for U.S. representatives to remain silent on this matter.

(b) It has to be recognized that IMF resources would be inadequate to deal with any substantial balance of payments deterioration among the underdeveloped countries, if it should develop in 1958-59. For that matter, as the attached table shows, the Fund resources available to industrial countries amount to less than 4 per cent of their annual imports.

(c) A good practical case could be made out for an increase in Fund resources, from the U.S. point of view. An increase in Fund quotas is the only available way in which a U.S. contribution for balance of payments assistance would be substantially matched by contributions from other countries. For example, if the United States were to agree to an increase in its quota of \$1 billion (present quota \$2.7 billion), the prospects would be for total quota increase of about \$3.5 billion. Of the \$2.5 billion increase in quotas of other countries 25 per cent would be in gold, or \$625 million. The U.S. increase would also be 25 per cent in gold. Hence the Fund would receive \$875 million in gold and \$750 million in U.S. notes, or slightly more than \$1.6 billion in gold and U.S. dollars. In addition, the Fund would receive increased amounts of deutsche marks and Canadian dollars which would bring the total new availabilities up to around \$2 billion, or double the U.S. contribution. Moreover, it should be kept in mind that repayments to the Fund in U.S. dollars automatically return to the U.S. Treasury until needed again by the Fund.

(d) The question is whether the Congress would be willing to agree to an increase in the U.S. quota in the Fund. This seems most doubtful under present circumstances. Very strong arguments by the Secretary of the Treasury and other high U.S. officials would be necessary to win Congressional support, including presentation of evidence that the world foreign exchange situation was in danger unless added support could be provided. At the present time this line of argument could readily lead to pessimistic speculation in foreign exchange markets.

(e) The conclusion to be drawn from the above line of reasoning is that an increase in the U.S. quota in the Fund is not feasible at this time. However, in forthcoming talks with the United Kingdom the U.S. officials might say that they were aware that Fund resources were inadequate, that it is not feasible for the United States to submit a request to Congress for an increase in U.S. quota at this time, but that the United States will watch developments and keep the prospects for a quota increase under review.

FAS

35. Minutes of the 270th Meeting of the National Advisory Council on International Monetary and Financial Problems

September 4, 1958.

[Here follows a list of 24 persons present, including Secretary of the Treasury Anderson, Chairman of the Council, Assistant Secretary of State for Economic Affairs Thomas C. Mann, Deputy Under Secretary of Commerce for International Affairs Marshall M. Smith, M.S. Szymczak of the Board of Governors of the Federal Reserve System, President of the Export-Import Bank Samuel C. Waugh, Assistant Secretary of Agriculture True D. Morse, and Assistant Director of the Bureau of the Budget Ralph W.E. Reid. Morse and Reid were listed as visitors. Agenda item 1 concerned an unrelated subject.]

2. Increase in Resources of IMF and IBRD

The Council then considered NAC Document No. 2361, a memorandum from Mr. Coughran and Mr. Southard which outlined a suggested position for the United States to take on the resources of the Fund and the Bank.¹ Mr. Coughran observed that a 100 percent increase in the United States subscription to the International Bank would amount to \$3,175 million, but it was contemplated that none of this increase would be called unless defaults occurred on the Bank's loans. The increase would appear in the U.S. Budget as new obligatory authority but would have no cash impact.

Source: National Archives and Records Administration, RG 56, Records of the Department of the Treasury, NAC Minutes. For NAC Use Only. Presumably drafted by NAC Secretary George H. Willis, who was present, although the source text does not indicate the drafter.

¹ Document 155.

Mr. Southard reviewed the proposal for an increase in the Fund's resources, pointing out that the distinction between a 50 percent increase in the Fund and a 100 percent increase in the Bank was a practical one. In the case of the Fund, 25 percent of the increase would have to be paid immediately in gold, and there was no assurance that the non-interest-bearing notes given by the United States for the balance of its increase would not be cashed. He noted the suggestion that the United States might wish to have a larger quota in order to preserve its voting power, if other countries with large quotas desired increases of more than 50 percent. However, he thought the requirement of a 25 percent gold payment would limit the eagerness of other countries for quota increases in excess of 50 percent. He felt that a 50 percent increase in quotas would adequately meet the needs of the Fund.

Mr. Southard discussed the special problems that might arise in the case of China and India. If the German quota were increased by 50 percent, China could waive its right to a quota increase, and still retain its position among the first five countries. If the German increase in quota were substantially larger than 50 percent, however, China would drop out of the first five. The Chinese Director was aware of the practical difficulties involved, such as putting up 25 percent of the increase in gold, and intended to discuss the matter with his government.

On procedure, Mr. Southard indicated that the resolutions on the increases might be included by the Joint Procedures Committee in its reports, which would probably be approved without discussion. Alternatively, if a discussion of the resolutions were desired, the Joint Procedures Committee might recommend that they be considered at the sessions on the Annual Reports of the Fund and Bank, respectively.

Mr. Waugh said that he was in agreement with the recommended action on the increases provided it did not imply that basic decisions had been taken on all of the issues raised by NAC Document No. 2361. He wished to discuss with the Board of Directors of the Export-Import Bank some of the problems, such as those relating to the International Bank's budget and to the increased use of contributions from other countries. He favored an increase in the International Bank's capital, but questioned whether calling the International Bank a \$10 billion or a \$20 billion institution gave a correct picture, in view of the large amount of capital not called. He considered an increase in Fund quotas to be necessary, and approved the requirement for a 25 percent gold payment. He noted that in some instances demands made on the Export-Import Bank were ones that properly should be made on the International Monetary Fund.

Governor Szymczak, Mr. Smith and Mr. Mann all indicated approval of the recommended Action. Mr. Reid observed that the proposal with respect to the International Bank would involve a request for \$3.2 billion of new obligational authority, for an account which already carried an unobligated balance of \$2.5 billion from the 1946 subscription. With respect to the International Monetary Fund any increase in the U.S. quota would involve both new obligational authority and an expenditure. The proposed increases in Fund and Bank resources, added to requirements of the Mutual Security Program and PL 480, would result in a request to Congress for new obligational authority of from \$10 billion to \$12 billion next year for foreign programs. He thought this might affect the Mutual Security Program. He questioned whether the extra cost of a 100 percent quota increase in the Fund in order to preserve our relative voting power would be justified. Mr. Southard thought that a small increase, possibly 60 to 65 percent, would be enough to preserve the United States position.

The Chairman said the consensus appeared to favor the recommended action, and that it would be considered adopted, but that a further meeting would be held to discuss details if desired by the Export-Import Bank.

The Council unanimously took the following action (NAC Action No. 1235):

"The National Advisory Council advises the U.S. Governor of the International Monetary Fund to offer or support a resolution in the Board of Governors of the Fund directing the Board of Executive Directors to consider and report to the Governors on the question of enlarging the resources of the Fund by an increase in quotas.

"The National Advisory Council advises the U.S. Governor of the International Bank for Reconstruction and Development to offer or support a resolution in the Board of Governors of the Bank directing the Board of Executive Directors to consider and report to the Governors on the question of enlarging the resources of the Bank by an increase in the authorized capital and the subscriptions of the members."²

[Here follows agenda item 3.]

² At their 13th annual meeting, held in New Delhi October 6-10, the IMF and IBRD Boards of Governors unanimously adopted Anderson's proposal requesting a study of an increase in IMF quotas and the IBRD subscribed capital. On December 29, the IMF and IBRD Executive Directors recommended to the member governments that the resources of the two institutions be increased.

36. Memorandum From the Secretary of the Council on Foreign Economic Policy (Cullen) to the Council

September 26, 1958.

SUBJECT

Accumulation and Administration of Local Currencies by the United States

1. Your attention is invited to the attached report on the accumulation and administration of foreign currencies by the United States. This report was prepared for the Director of the International Cooperation Administration by Messrs. Robert L. Berenson, William M. Bristol, and Ralph Straus.¹

2. The authors of the report found that the problem of excess local currencies accumulated by the U.S. abroad is presently confined to a few countries and is a direct result of P.L. 480. They believe, however, that there may be a serious problem in the future if the P.L. 480 loan program continues at the present or an accelerated rate and the Development Loan Fund loans are repaid in local currencies.

3. They recommend that the future accumulation of local currencies be reduced by amending P.L. 480 to permit grants as well as loans. They would also reduce interest rates on loans and eliminate maintenance of value, where no useful purpose would be served by increasing U.S. holdings of local currency. They would provide a greater incentive for repayment of loans in dollars.

4. They oppose use of local currencies for U.S. purchases of exportable goods and services from the underdeveloped countries as this would deprive those countries of resources and foreign exchange earnings. They would make exceptions where such purchases were used to develop new markets.

5. They have many suggestions for using local currencies: they would make grants to educational foundations and create new foundations for educational and scientific research; establish industrial development banks; help countries hire technical personnel; purchase of non-voting stock of the International Finance Corporation to be held by the countries whose currencies are invested.

Source: Eisenhower Library, CFEP Chairman Records, Papers Series, CFEP Memoranda. Official Use Only.

¹ "Accumulation and Administration of Local Currencies, A Special Report to James H. Smith Jr., Director, International Cooperation Administration"; transmitted with a covering letter of August 5 from consultants Berenson, Bristol, and Straus to Smith. (*Ibid.*)

6. They would eliminate the provision in the Cooley Amendment of P.L. 480² that no loans can be made for projects that might result in increased exports to the U.S. on the grounds that foreign countries should not be restrained from encouraging dollar-earning projects. They would also not insist that 25 percent of P.L. 480 funds uniformly be reserved for loans to private investors.

7. It is expected that certain of the recommendations in this report will be considered by the CFEP in the near future.

Paul H. Cullen
Lt. Col., USA
Secretary

² The Cooley Amendment was a provision of P.L. 85-128 (approved August 13, 1957; 71 Stat. 345), which amended and extended P.L. 480 (the Agricultural Trade Development and Assistance Act, approved July 10, 1954; 68 Stat. (pt. 1) 454).

37. Editorial Note

The annual meetings of the Boards of Governors of the International Monetary Fund, the International Bank for Reconstruction and Development, and the International Finance Corporation were held in New Delhi, October 6-10, 1958. Secretary of the Treasury Robert B. Anderson, U.S. Governor of the three institutions, led the U.S. delegation. U.S. proposals calling for study of measures to increase the resources of the Bank and the Fund were adopted by both Boards of Governors and referred to their executive boards.

In a statement released at New Delhi on October 7, Secretary Anderson reaffirmed the U.S. position that the price of gold in U.S. dollars should remain unchanged. This statement reads in part as follows: "The assured interchangeability of gold and dollars at \$35 per ounce for the settlement of international accounts is a basic element of strength in the international financial structure." He also noted that he believed "that attention should be focused upon the adequacy of resources to meet temporary imbalances of individual countries, rather than upon the subject of the price of gold."

The full text of the statement is printed in Department of State *Bulletin*, November 17, 1958, page 795. The texts of statements made by Anderson and Under Secretary of State for Economic Affairs C. Douglas Dillon in the course of the meetings are printed *ibid.*, pages 793-798.

38. Memorandum Prepared in the Department of the Treasury

October 30, 1958.

U.S. GOLD SITUATION

Immediate Problem

Attached annexes¹ give some background on various aspects of our gold situation. The immediate problem is that our gold outflow so far this year has reached a record total of \$2.1 billion and could very well continue for some time at an average monthly rate of around \$150 million. It seems very likely that the Secretary will be subjected to Congressional questioning on this subject during the next session of the Congress.

Although it is difficult to reach any clear conclusion about the extent to which our recent gold outflow may have been caused by active speculation against the dollar, there can be no doubt that this outflow has created the kind of situation in which troublesome speculation could very easily mount. Congressional questioning of the Secretary in such a situation could stimulate still further speculation.

Although the long range and medium range prospects of this problem are such that the Treasury must seriously consider all its implications and the various alternative courses of action, it would appear that the gold drain at this moment and for the immediate future is not such that immediate direct actions by the Treasury are required.

Possible Courses of Action

The material set forth below represents preliminary thinking on avenues of approach to the problem.

Two possible courses of action in this situation are as follows:

(1) The Treasury may seek various measures with regard to the fiscal year 1960 budget which, when known to the public, would have the effect of allaying public speculation, here and abroad, about our overall economic situation. If public anticipations are sufficiently affected by such action, as announced in the President's Budget Message and elsewhere, that part of the U.S. gold outflow attributable to active speculation by foreigners might decrease substantially.

Source: National Archives and Records Administration, RG 56, Records of the Department of the Treasury, Robert B. Anderson, Subject Files, Gold. Unclassified. No drafter is indicated on the source text. Under Secretary of the Treasury for Monetary Affairs Julian B. Baird sent the memorandum to Secretary Anderson with a covering note dated November 4.

¹ Annex A, "Factors Affecting Foreign Gold Purchases from the United States in 1958," with two tables, the only attached annex, is not printed.

Regardless of whether or not Treasury action with respect to the fiscal year 1960 budget has had an effect on reducing the U.S. gold outflow by the time Secretary Anderson is called upon to testify, he may want to take the line that the outflow is a warning signal, provided by the operation of our gold bullion standard; that we must be on guard against inflationary developments in the U.S.; that for us to interfere with the outflow would deprive us of this useful warning signal; and that we, therefore, expect to address ourselves to means of averting inflation in the full expectation that success in this effort will be attended by a reduction in our gold outflow. The danger in such an approach is that foreigners may discount as relatively ineffective our attempts to control the gold outflow by a tighter domestic fiscal policy and, as a result, may be all the more tempted to withdraw gold from the U.S.

(2) An additional possible course of Treasury action would go a step beyond that outlined in (1) above and also somewhat beyond our previous tactics on the subject. This step would be for the Secretary to find some way of making it clear to Congress—and through Congress to the public, here and abroad—that if the Treasury should at some future date feel called upon to deal directly with a gold outflow through changes in our gold policy, the one thing the Treasury would not contemplate with respect to its gold policy is any increase in its dollar price of gold or any action which would ultimately lead to that result. Even though logically this statement should allay speculation that an embargo on gold transactions is in the offing it may by itself not do so. To avert such possible speculation and the gold drain which would be caused by it, it would be essential for the Secretary to make the main theme of his testimony the point that we are not at present or in the near future confronted with a problem arising out of the gold drain requiring any action in the field of gold policy.

Under either of the above courses of action the Secretary is very likely to be asked by Congress at what point would he contemplate taking direct action to stop a continued gold outflow. We would assume that the Secretary would wish to handle such a question by indicating that there are no a priori guides for such action because any such decision must take into account not only the rate of gold outflow, the size of our gold stock, and the amount of dollar balances held by foreigners, but also the U.S. price situation and the general climate of financial opinion and anticipations here and abroad at the time. In this connection the Secretary might wish to point out that there are a number of motives, other than active speculation, which can lead foreign countries to buy gold from the U.S. and that losses of gold due to such motives might be viewed in quite a different light from losses

due to outright speculation. (Secretary Humphrey² refused last year, despite persistent questioning by Senator Malone,³ to give any definition of the circumstances, other than a war or general upheaval, which might lead us to change our gold policy.)

Possible Future Policy Changes

It would appear desirable for the Treasury to make a tentative determination in the near future as to which of the several possible changes in our gold policy it would be prepared to make at some future date if such changes should become necessary. One important aspect to be considered in making this determination would be the different impacts of various possible actions on U.S. public opinion as contrasted with foreign financial opinion.

² Former Secretary of the Treasury George Humphrey.

³ Senator George W. Malone of Nevada.

39. Memorandum From the U.S. Member of the Board of Executive Directors of the International Monetary Fund (Southard) to the National Advisory Council on International Monetary and Financial Problems

NAC Document 2440

November 25, 1958.

SUBJECT

Quota Increases in the IMF

The Executive Board of the Fund has made substantial progress in considering the question of an increase in quotas. The principal problems on which agreement has not yet been reached are summarized below.

1. *Gold payment.* It has been agreed that all countries will pay 25 per cent of the quota increase. What is in dispute is how to assist countries which want some form of easement of this burden. Two methods are being considered:

Source: National Archives and Records Administration, RG 56, Records of the Department of the Treasury, NAC Documents. Official Use Only; For NAC Use Only. The memorandum does not indicate any addressee, but a covering memorandum to the Council from its Secretary states that it was submitted to the Council for consideration at its November 25 meeting.

(a) *Quota increases by installment.* All agree this arrangement should be permitted. It will also be agreed that only those countries should be included in the 75 per cent participation calculation which pay 20 per cent of the total gold at once and agree to pay the remainder in, say, four annual installments. *The undecided question* is whether to allow countries broader latitude (e.g., no down payment and no fixed schedule) provided they are not included in the 75 per cent. I advise against this at this stage.

(b) *Drawing on the Fund.* All agree the Fund should be prepared to consider drawings by “needy” countries to offset the gold payment. The undecided question is what sort of repurchase schedule should be required. Specifically, should any such drawing be limited to 80 per cent of the gold payment; and how promptly should the drawing be repurchased? The Indian Director is strongly objecting to the 80 per cent limit, and is insisting on repurchase in the third, fourth and fifth years after drawing. I have argued for repurchase in three years, and would be willing to give up the 80 per cent limit in return.

2. *Special quota increases*

(a) A majority of the Board favors a *separate* resolution on this subject.

(b) *Countries with quotas of \$15 million and less* will be allowed to have special increases, in accordance with an agreed formula, provided they have not already availed themselves of that facility. The 50 per cent increase would then be applied.

(c) The following countries with larger quotas have expressed an interest in a special increase: Germany, Japan, Italy, Mexico, Norway, Cuba, Turkey, and Malaya. Whether the Board will agree on recommendations on this list (which may grow) is not yet clear. Much will depend on the U.S. attitude. I have given general support, and will continue to do so for the time being. *It would be helpful to have the advice of the NAC* as to how strongly I should press this issue, especially in the case of Germany. I [am] inclined to advise against a recommendation confined to Germany.¹

3. *Drawings in inconvertible currencies.* There is considerable opposition to an amendment to the Articles of Agreement and it is clear that the whole exercise on quota increases would be much delayed if agreement had to be reached on an amendment. For this reason I

¹ The minutes of the NAC meeting of November 25 record that Southard asked the Council's guidance on the repurchase schedule for special drawings and as to the importance it attached to a quota increase beyond 50 percent for Germany and possibly other countries. On the first point, the Council favored “endeavoring to hold the repayment period to three years, with a possible compromise, if necessary, of a maximum of two one-year extensions.” On the second point, the “consensus was that it was important to have a large increase in the German quota, but that it should be linked to reasonable increases in the quotas of a few other countries having special situations.” (*Ibid.*, NAC Minutes) Further documentation on this subject is *ibid.*, Records of the Office of the Secretary of the Treasury, Robert B. Anderson, Subject Files, International Monetary Fund.

recommend against pressing for an amendment. However, the Fund Board is considering other ways of facilitating non-dollar drawings and I believe there will be some useful results.

Frank A. Southard, Jr.²

² Printed from a copy that bears this typed signature.

40. Memorandum Prepared in the Department of the Treasury

December 8, 1958.

Memorandum on Letter of L. W. Douglas to the President of
November 25, 1958¹

The main thesis of the letter is that the United States has had a persistent trade surplus with the rest of the world and since "we are an extremely protectionist nation", it is desirable for the United States regularly to pay more dollars to foreign countries so as to enable them to cover current transactions and service on debts without impairing exchange stability. It suggests the possibility of creating an institution "to export dollars on public account" for foreign aid and the economic development of the less-developed countries. This institution would receive permanent appropriations from Congress and would distribute the aid without the necessity of annual review.

The argument of a chronic dollar shortage must be considered in the light of facts in recent years. Since 1950, U.S. Government grants and capital investments abroad, plus private investment, have provided more dollars than were needed by foreign countries to cover their deficits with the United States on goods and service account. (See table attached.)² In this period foreign countries as a group have consistently gained in their holdings of gold and dollars. In fact, since the beginning of 1950 the gold and liquid dollar resources of foreign

Source: Eisenhower Library, Whitman File, Administration Series, Anderson, Robert B. No classification marking. The memorandum, unsigned and undated, is filed with a covering letter of December 8 from Anderson to the President, which also comments on an inquiry by the President concerning the result if the Soviets were to raise the price of gold.

¹ The letter from insurance executive and former Ambassador to the United Kingdom Lewis W. Douglas, dated November 25, is not printed. (*Ibid.*)

² Not printed.

countries have more than doubled, from \$15.5 billion to \$31.5 billion, and in addition there has been substantial foreign investment in the United States private sector.

The countries of Europe in particular have in the last nine years nearly all emerged with strong balance-of-payments situations, and have increased their gold and dollar reserves. They have not merely been able to finance their own import requirements, but are now also in a position to finance increased exports to less-developed areas and to contribute increasingly toward economic development in such areas. There are individual exceptions, such as France, whose situation continues unsatisfactory. Also the United Kingdom, among others, temporarily encountered serious balance-of-payments difficulties during the Suez crisis.

The less-developed areas of the world are, of course, in a different situation. These poor and financially weak countries have import demands in excess of their foreign exchange earnings. Programs of economic development require capital imports, and, in addition, many of these countries have had inflationary difficulties which have added to their current balance-of-payments problems.

The balance-of-payments difficulties of these less-developed countries and of individual developed countries like France, however, are not essentially a dollar problem. These difficulties reflect a general inadequacy of foreign exchange earnings not merely of United States dollars, and the whole problem of economic development is a broader and wholly different question from that envisaged in earlier discussions of the so-called "dollar gap".

Programs of military aid, economic aid, and assistance for economic development must be considered on their own merits in terms of the political and economic objectives sought. The form of these programs and the amounts of funds provided for them must be adapted to these objectives and not generally to distribute dollars abroad as a means of financing a non-existent "dollar shortage".

The balance-of-payments problems of the less-developed countries have usually little direct relation to United States commercial policy, though there are exceptions such as the countries exporting lead and zinc. Many of the exports of the less-developed areas are either duty free or subject to relatively low tariffs. In addition, the industrialized countries of Europe have in recent years become increasingly important, relatively to the United States, as a factor in world demand for the commodities exported by less-developed countries. It also should be noted that the U.S. Government has for a period of 20 years been engaged in a program of reducing trade barriers through trade agreements, GATT, and other measures, and the level of duties is a fraction of what they were years ago.

The proposal to establish an institution with permanent appropriations to provide dollar assistance without the necessity of annual Congressional review raises serious questions which must be adequately considered. While the annual review procedure may involve some difficulties in planning programs of economic development, it may be argued, on the other hand, that since expenditures for economic assistance programs are so large and the character of these programs is changed from time to time, Congressional review is essential not only to protect the public purse but to maintain popular control over an important area of government activity. This problem is now being given serious attention in the Administration.

41. Memorandum From Secretary of the Treasury Anderson to President Eisenhower

December 30, 1958.

I thought you might like to have a handy memorandum that would try to state briefly and simply the nature and significance of the formal moves to nonresident convertibility by the European countries which were announced over the past week-end and which became effective on December 29, 1958. To that end, I am sending you this brief memorandum.

1. Since the war the European countries, including the United Kingdom, have had exchange controls which put limits on the freedom of both residents and nonresidents to convert their currencies into other currencies, especially the U.S. dollar. These countries have also had quota restrictions on imports and ordinarily these restrictions have been more severe in the case of imports from the dollar area which means chiefly the United States and Canada.

2. Much progress has been made in the last few years in relaxing the restrictions on the convertibility of the European currencies into dollars. So far as *nonresident* holders of those currencies are concerned, the final step has now been taken. Hereafter nonresidents will be able freely to convert their holdings of European currencies into any other currency including dollars, unless the holdings arose out of a capital transaction.

3. The most important change is in connection with the pound sterling. Heretofore, nonresident holders of the pound sterling, that is, persons outside the sterling area, had to have official permission in order to convert the sterling into dollars at the official rate. Lacking that permission, they could convert the sterling (which was called transferable sterling) into dollars in free exchange markets such as New York or Zurich. But they could do so only at a discount, and this discount in the last year has generally been about 1½ per cent. Under the new regulations, these conversions into dollars can take place without official approval, and can be handled by banks in the United Kingdom and at the official dollar rate for sterling.

4. This move to nonresident convertibility is an important step toward full convertibility of the leading European currencies, especially sterling, the German mark, the Belgian and French francs, the Italian lira, and the Dutch guilder. From the special standpoint of the United States, it means that people who want to buy American goods will no longer have to pay a higher price for dollar exchange than they would if they were buying goods which could be paid for with sterling or some European currency.

5. The important remaining step to be taken by these European countries before they will have established full convertibility for their currencies is to eliminate import restrictions which are based on balance-of-payments considerations. Some of them, especially the Netherlands, and Belgium, have already virtually completed this task. But others, especially the United Kingdom and France, still have fairly severe import quota restrictions and even prohibitions. These aim at preventing the residents of those countries from importing as much from abroad as they would like to. Moreover, these restrictions are more severe in the case of imports from the United States and other countries of the dollar area than in the case of imports from other parts of the world. Also, the residents of these countries are not allowed to have all the foreign currency they want in order to travel abroad or to make remittances to people in foreign countries in foreign currencies. However, there are very encouraging signs that the United Kingdom in particular and the other European countries intend to make real progress in the next year further to reduce the discriminatory restrictions against imports from the dollar area and also to reduce still further their total restrictions on imports for balance-of-payments reasons. If they can do this without having severe strains on their foreign exchange reserves, they will have reached the point where they can safely make their currencies fully convertible for residents as well as for nonresidents.

6. There were two other events which were related to the move to nonresident convertibility: (a) France established a new par value which devalued the franc by about 17 per cent, to 493 per dollar.

France has made good progress toward stability in the 12 months since the United States, the Fund, and the OEEC backed a stabilization program. The new action is intended to be the capstone of the whole effort and to equip France to relax restrictions on trade and to compete in the Common Market which begins its first year on January 1. (b) The European Payments Union went out of existence on December 29 and was replaced by the European Monetary Agreement. This Agreement provides for a European Fund with \$600 million in resources, partly from the capital of the EPU to which the United States contributed, and partly from new contributions by the European members. This Fund will make short-term loans to the members.

7. In general, the new move to nonresident convertibility, together with the prospect for further reductions in restrictions imposed on residents of European countries who wish to buy goods or services from abroad, has provided the best promise of the achievement of full convertibility of leading currencies which has existed since the end of the war.

Bob¹

¹ Printed from a copy that bears this stamped signature.

**42. Letter From Acting Secretary of State Dillon to the
Chairman of the National Advisory Council on
International Monetary and Financial Problems (Anderson)**

NAC Document 59-46

February 12, 1959.

DEAR MR. CHAIRMAN: In order to promote the most effective use of local currencies owned by the United States, and in order to expedite and improve the P.L. 480 program for the disposal of agricultural surpluses, the Department of State proposes that the United States eliminate its "maintenance-of-value" requirement whereby foreign borrowers of United States-owned local currencies must repay to the United States any additional amounts which may be necessary to reflect the dollar equivalent of the local currency at the time of lending.

This proposal is consistent with the recommendations of two recent expert reports on the subject—the report of Dr. John H. Davis on

Source: National Archives and Records Administration, RG 56, Records of the Department of the Treasury, NAC Documents. For NAC Use Only.

P.L. 480,¹ and the Special Report on the Accumulation and Administration of Local Currencies submitted to the International Cooperation Administration by Messrs. Berenson, Bristol, and Straus.²

At the present time local currencies accruing to the United States as a result of P.L. 480 sales are almost the sole source of local currencies available for foreign lending. In the future, however, this source will be broadened by inclusion of local currency repayments, not only of P.L. 480 loans themselves, but also of ICA and DLF loans. The problems created by the maintenance-of-value clause are, therefore, likely to increase.

The maintenance-of-value provision has in many cases caused considerable difficulty in negotiating loan agreements under P.L. 480. Foreign governments are understandably reluctant to conclude loan agreements requiring maintenance-of-value on local currency loans from the United States when they have an alternative choice of borrowing from their own banking system without the maintenance-of-value requirement and of allowing equivalent amounts of P.L. 480 funds to remain idle.

It is now the policy of the United States to require that substantial agreement be reached on the terms of P.L. 480 loan agreements at the same time as P.L. 480 sales agreements are concluded. This practice is desirable as a general rule. However, if we continue to insist upon the inclusion of maintenance-of-value, as well as upon a simultaneous understanding on the loan and sales agreements, we may expect that negotiating difficulties will increase, will slow down the surplus disposal program, and may reduce its over-all magnitude.

The negotiating problems now experienced in connection with making local currency loans effective are formidable. Idle local currency funds are accumulating in a number of countries and this is proving to be a serious obstacle in making use of the funds to promote economic development, which is an important objective of the Agricultural Trade Development and Assistance Act. We believe that the maintenance-of-value requirement is a major inhibiting factor in effectively promoting this objective.

The benefits to the United States originally anticipated from the maintenance-of-value clause are largely illusory. The clause has meaning, of course, only for currencies which have been overvalued and for which devaluation has occurred or is in prospect. In such cases, however, the United States is often favorable to devaluation and would not want the maintenance-of-value clause to stand as an obstacle to sound currency reform. Also, we may expect that if there has been a devaluation the country concerned will press vigorously for renegotiation to

¹ Not further identified.

² See Document 36 and footnote 1 thereto.

eliminate the effect of the maintenance-of-value clause. Consequently the clause is a potential source of trouble in our relations with other friendly governments.

It should be noted that the elimination of maintenance-of-value in respect of loan repayments would in no way affect the amount of local currency presently received by the United States in return for the sale of P.L. 480 agricultural products since such receipts are not now subject to maintenance-of-value. It should be noted, also, that the elimination of maintenance-of-value would still entitle the United States to receive in repayment for local currency loans the same amount of local currency it would have held if the loan had not been made, plus, of course, interest.

In view of the foregoing, it is requested that the National Advisory Council take early favorable action on the proposal of the Department of State, which is concurred in by the Department of Agriculture, to eliminate the maintenance-of-value requirement from all United States loans of local currency.

Sincerely yours,

Douglas Dillon³

³ Printed from a copy that bears this typed signature.

43. Memorandum From Henry C. Wallich of the Council of Economic Advisers to Secretary of the Treasury Anderson

March 10, 1959.

SUBJECT

Comments on Secretary Strauss' Study of Export Prices¹

The Study sent by Secretary Strauss "Has the U.S. been pricing itself out of our export markets" seems reassuring and accords with appraisals I have seen from other sources. The gold flow for the time

Source: National Archives and Records Administration, RG 56, Records of the Department of the Treasury, Robert B. Anderson, Subject Files, Commerce Department. No drafter is indicated on the source text. The source text bears the stamp: "Noted R.B.A."

¹ A summary report headed "Has the U.S. Been 'Pricing Itself Out of World Markets?'" with attached statistical tables, was enclosed with a letter of February 24 from Secretary of Commerce Lewis Strauss, which indicated that it was a preliminary report of an ongoing study. (*Ibid.*)

being also seems to have leveled off, and this may be viewed as a very tentative and partial confirmation of the Commerce Department's analysis.

For the long run, however, we continue to face the fact that even without a deterioration of our export position, our balance of payments is likely to continue in deficit. It has been in deficit almost uninterruptedly for nearly 10 years. Our real problem, as I see it, therefore, is not any immediate threat to our gold reserves. The threat is the persistent build up of short-term liabilities against an unchanging gold reserve.

This increase in the world's holdings of U.S. dollars is not really necessary to finance a normal expansion of world trade over the foreseeable future, according to the (rather optimistic) estimates of the International Monetary Fund. The international liquidity needs of the world would be met, according to the Fund, from new gold production alone. But the fact that the world may not need additional dollar balances does not imply that something will automatically happen to end our balance of payments deficit.

For the very long run, this raises the question whether a world currency system based upon growing world dollar holdings, which in turn are based upon a static U.S. gold reserve, should not be buttressed by some other elements, such as a greatly strengthened IMF.

More immediately, the question is whether we should not try to get such gold reserves as we have into a more maneuverable position. At present, \$12.0 billion of our \$20.6 billion holdings are tied up in Federal Reserve requirements. Since we do not practice domestic convertibility of currency into gold, these reserves perform no immediate function. They do perform another function: that of bringing pressure on us to pursue conservative financial policies, in order to avoid a shortage of reserves. This pressure is beginning to be felt now, but it is likely to lead to many undesirable side effects: cuts in foreign aid, more protectionism, less stimulation of foreign investment. The traditional gold standard mechanism, therefore, is apt to produce very painful repercussions today.

It would seem wiser not to bank on this mechanism, and instead to use our reserves as effectively as we can. That would mean getting rid of the 25 percent gold reserve requirement of the Federal Reserve. We would then have over \$20 billion to meet our \$17.6 billion foreign liabilities. The talk about the weakness of the dollar probably would come to a quick end.

Such a step should not be taken at a time when the dollar was under pressure. That would look like panic. But any prolonged leveling off of the gold flow would present an opportunity. Of course, the

interest in taking action also diminishes at such a time. The next few months may present an opportunity and I think it would be worthwhile to study the pros and cons.

44. Minutes of the Cabinet Meeting

March 13, 1959, 9:05 a.m.

[Here follows a list of 31 persons present, including President Eisenhower, Vice President Nixon, Acting Secretary of State Herter, Secretary of the Treasury Anderson, Secretary of Defense Neil H. McElroy, Attorney General William P. Rogers, Postmaster General Arthur E. Summerfield, Secretary of the Interior Fred A. Seaton, Secretary of Agriculture Ezra Taft Benson, Secretary of Commerce Strauss, Under Secretary of Labor James T. O'Connell, and Secretary of Health, Education, and Welfare Arthur S. Flemming. The first item of discussion concerned an unrelated subject.]

Gold Movements—Sec. Anderson made a lengthy presentation on the history of the relationship of gold to American currency and presented charts showing the ups and downs of American gold holdings and also the outstanding potential claims of foreign nations on our holdings.¹ After some \$12 billion worth of gold is set aside for the 25% reserve required to back our currency, approximately \$8½ billion remains for meeting foreign claims which actually exceed this amount considerably. Mr. Anderson was not disturbed by this, however, for there is no reason for all of these claims to be presented simultaneously so long as confidence exists in the solidity of the US dollar.

With regard to recent trends of heavier conversions of dollars into gold, Mr. Anderson pointed out that foreign nations are maintaining their established levels of American dollar holdings and that the conversions represent their excess earnings of dollars in any given year.

Regarding agitation for raising the price of gold, Mr. Anderson explained that advocates of this have varying reasons—to make gold mining more profitable, or to provide indirectly (and probably unsuccessfully) a bar to excessive Congressional spending, or merely to provide a windfall to those who hold gold. Raising the price of gold,

Source: Eisenhower Library, Whitman File, Cabinet Series. Confidential. Drafted by Assistant Staff Secretary L. Arthur Minnich, Jr.

¹ A draft of Anderson's presentation, with attached tables showing the figures on the charts, is in National Archives and Records Administration, RG 56, Records of the Department of the Treasury, Robert B. Anderson, Subject Files, Gold.

however, would be a boon to the Russians, would reduce the value of some \$20 billion of our currency with only a very insignificant increase in the value of Government gold holdings, and seriously shake the world's confidence in the US dollar.

Mr. Anderson warned repeatedly against even the slightest hint that the subject might ever be taken under consideration, for this would be sufficient to shake confidence and start a run on our gold holdings. He asked members of the Cabinet to be overly sensitive to this matter because questions on it keep cropping up in strange places.

Related to this whole question was the matter of US fiscal management policies which foreign governments watch closely to judge the strength of our dollar.

There was brief discussion of the mechanics of minting gold under the mark of various countries and of international transfers accomplished in New York banks.

The President recalled the attention he had given to this matter during the 1952 campaign and shortly thereafter prior to putting the question aside.

[Here follows discussion of the remaining items.]

LAM

**45. Minutes of Meeting 59-2 of the National Advisory Council
on International Monetary and Financial Problems**

March 23, 1959.

[Here follows a list of 24 persons present, including Under Secretary of the Treasury Baird (Acting Chairman), Under Secretary of State for Economic Affairs Dillon, Assistant Secretary of Commerce for International Affairs Henry Kearns, M.S. Szymczak of the Board of Governors of the Federal Reserve System, President of the Export-Import Bank Samuel C. Waugh, Administrator of the Foreign Agricultural Service Max Myers, and Assistant Director of the Bureau of the Budget Ralph W.E. Reid.]

Source: National Archives and Records Administration, RG 56, Records of the Department of the Treasury, NAC Minutes. For NAC Use Only. Presumably drafted by Acting Council Secretary Philip P. Schaffner, who was present, although the source text does not indicate the drafter.

1. Maintenance of Value on Loans of Local Currency

The Council considered the proposal of the Department of State, in which the Department of Agriculture concurred, to eliminate the maintenance-of-value requirement from all United States loans of local currencies (NAC Document 59-46).¹ The Acting Chairman asked Mr. Dillon if he wished to comment.

Mr. Dillon noted that the paper referred to the difficulties of negotiating PL 480 loan agreements with the maintenance-of-value requirement. He said that there was an additional problem not mentioned in the paper, in that a number of countries had signed PL 480 loan agreements but had not drawn on the loans. The whole problem was measured by the amount of unused local currencies in the possession of the United States. He recalled the problems that had arisen with Turkey, which for a long period had not signed PL 480 loan agreements. The United States had finally transferred a substantial portion of these PL 480 funds to a grant category. In response to an inquiry from the Chairman, Mr. Myers said that he had nothing to add to Mr. Dillon's statement.

Mr. Kearns supported removal of the maintenance-of-value requirement and said that the policy should apply equally to private and government borrowers. Mr. Dillon said it would apply to all loans of local currency. Mr. Waugh recalled that there was no maintenance-of-value requirement on loans by the Export-Import Bank of local currencies under the Cooley Amendment to Public Law 480, and said that this raised the question of the interest rate. The interest rates on Cooley Amendment loans were comparable to those charged in the borrowing countries, so as to avoid interference with local banking systems. He said that the Export-Import Bank had had no adverse comment from borrowers concerning the level of interest rates on these loans. Mr. Waugh felt that there was need for a general review of interest rates on U.S. Government loans, in view of the rise in the cost of money to the U.S. Government.

Mr. Szymczak said that United States assistance to foreign countries through the PL 480 program should be dual, first through the sale of commodities for local currencies, and second through the use of the local currencies in ways that would help the economy of the foreign country. If maintenance of value on the loans were abandoned and the interest rates were unduly low, the result would be harmful inflationary pressure on the foreign economy. Therefore, the Federal Reserve view was that the interest rate should be related to economic conditions of the country. Specifically, it should be related to local interest rates charged to private borrowers.

¹ Document 42.

Mr. Dillon suggested that the general interest rate question be deferred for further discussion in the Staff Committee and the Council. He agreed that the United States had a major responsibility to program foreign aid so as to be helpful in terms of local economic conditions. The U.S. Operations Missions gave this problem continuous attention. Mr. Dillon said he would like to avoid fixed and rigid regulations, especially since the rate of interest was important from the foreign policy point of view, as for example, in relation to the low rates of interest charged by the Soviet Union. The Department of State would like to increase the interest rates on PL 480 loans to 4 percent for loans for economic overhead projects and to local rates of interest on loans for profit-earning types of projects. A loan to a government for a project such as a fertilizer plant, which would normally be a profit-earning enterprise, should take the higher interest rate.

Mr. Dillon noted that there had been discussion by the Council on Foreign Economic Policy of a proposal that the PL 480 program should be made more flexible, and that in order to avoid accumulation of local currencies and to increase the possibility of psychological advantage, a large part of the program should be transferred to Title II for use in the form of grants. The consensus of the Council on Foreign Economic Policy had been that this approach would involve undue difficulties, and that other ways were available to attain the desired objectives. It had also been the consensus that the problem of accumulation of local currency should be dealt with by appropriate changes in the waiver procedure concerning the requirements of Section 1415 (of the Supplemental Appropriation Act of 1953), so as to facilitate the further use of grants. Mr. Dillon indicated that the Department of State would consult with the Director of the Bureau of the Budget to develop proposals along these lines.

Mr. Kearns objected to too rigid a rule for the determination of interest rates to private borrowers. An interest rate, for example, of 15 to 20 percent per annum would be oppressive and would cause difficulties. Mr. Waugh noted that the highest interest rate on Cooley Amendment loans was 10 percent per annum, and that the approval of the foreign governments would have to be obtained for any PL 480 loans to private borrowers. Mr. Dillon said that the interest rates on such loans should conform to the practices of the Export-Import Bank on the Cooley Amendment loans.

Mr. Reid expressed support for a position substantially along the lines outlined by the Federal Reserve Board, inasmuch as a quid-pro-quo was involved in giving up maintenance of value. He expressed doubt that the maintenance-of-value requirement had been a serious obstacle to the conclusion of PL 480 loan agreements, since disbursements under loan agreements which had been signed amounted to about \$1.6 billion. He also expressed doubt that the maintenance-of-

value requirement had limited the magnitude of the programs, which was fundamentally determined by budgetary requirements rather than the attitudes of prospective foreign borrowers.

Mr. Szymczak reiterated the need for maintaining financial stability in countries receiving aid, and noted the importance of interest rates in this effort. Mr. Dillon agreed, and cited the successes of the aid program administrators in maintaining financial stability in countries like Greece and Korea.

Mr. Baird said that in principle the Treasury saw merit in the Federal Reserve Board view, but that in view of foreign policy considerations it did not seem desirable to press that view to the ultimate conclusion. He noted that the loan repayments would be in local currency and thus would not affect the United States budget. He raised the question of when a decision to abandon maintenance of value would become effective.

Mr. Dillon suggested that the date on which the policy would become effective, and the question of retroactive application of the policy, should be decided after further Staff Committee discussion. It was desired to keep a maintenance-of-value requirement on dollar loans which were repayable in local currency, and it would be undesirable to have the dropping of maintenance-of-value on PL 480 loans raise questions on the maintenance-of-value requirement on dollar loans. He felt that the matter should be explored further by the Staff Committee.

At the conclusion of the discussion the Council agreed in principle that the maintenance-of-value requirement on loans of local currency should be eliminated, and that the interest rate for such loans should cover the cost of money to the Treasury for loans for economic overhead projects and should currently be at the rate of 4 percent; the rate should follow local interest rates on loans for profit-making types of enterprises. The Council requested the Staff Committee to work out the details of the application of this principle, including the time at which it should become applicable, and to present an appropriate draft action for Council approval. (The Staff Committee subsequently considered the matter and agreed on a recommended action for the consideration of the Council which was approved by a telephone poll completed on April 14, 1959. (See Staff Committee Minutes 59-12 and 59-15,² and NAC Action 59-77³.)

² Dated March 24 and April 14, respectively. (National Archives and Records Administration, RG 56, Records of the Department of the Treasury, NAC Staff Committee Minutes)

³ Dated April 14. (*Ibid.*, NAC Actions)

The Acting Chairman noted that the foregoing discussion had dealt only with loans of local currencies, and said that questions had been raised concerning interest rates on loans of dollars. He asked if the Council wished to discuss this subject.

Mr. Reid indicated that he would like to see the general question discussed. Mr. Dillon said he was not prepared for a full-scale discussion at the present meeting, but that given time for preparation he would be willing to have a general discussion. He said it should be borne in mind that the Development Loan Fund was a major foreign policy instrument and that there were real problems in meeting the competition of Soviet loans, which recently had been made at interest rates of 2½ percent and on progressively softer repayment terms. He pointed out that the Development Loan Fund operation as a whole, in terms of loans already made, involved a weighted average interest rate of 4.1 percent, and on this basis was meeting the cost of money to the Treasury. He said he would be reluctant to change the basic DLF interest rate unless it were necessary in connection with bringing interest rates on all U.S. Government domestic lending programs into line with the cost of money to the Treasury.

[Here follows discussion of the last item.]

46. Memorandum From the U.S. Member of the Board of Executive Directors of the International Monetary Fund (Southard) to Secretary of the Treasury Anderson and Acting Secretary of State Dillon

May 18, 1959.

SUBJECT

The Issue of Dollar Discrimination

1. The coming of convertibility for all major currencies should radically change the attitude taken toward continuing discrimination against dollar imports by European countries. As long as European currencies were to some degree inconvertible, it could be argued that inability to convert non-dollar earnings into dollars provided a justification for discrimination. The discrimination, either by means of exchange licensing or import licensing, was designed to make it easier to

Source: National Archives and Records Administration, RG 56, Records of the Department of the Treasury, Robert B. Anderson, Subject Files, International Matters. The source text bears the stamp: "Noted, R.B.A."

spend non-dollar earnings and harder to spend dollar earnings. The United States in the last 12 years has accepted this justification, although always pressing for relaxation of discrimination to the extent feasible. In this connection, the success of Belgium and the Netherlands in eliminating discrimination even before convertibility is noteworthy.

2. Discrimination against dollar goods is still substantial, especially in the case of the United Kingdom and France. These countries admit that what they call "financial reasons" for discrimination have largely disappeared with the coming of convertibility. But they offer other reasons for continuing to discriminate. These include: (a) Reluctance to eliminate discrimination against the dollar area by shifting to global quotas, since this would mean reimposing quotas against OEEC countries. (b) Alleged adverse balance of payments impact if quotas against dollar goods were removed. (c) Alleged need of discriminatory bilateral arrangements for balance of payments reasons.

3. The United States recently has pressed the issue of discrimination. (a) Jointly with Canada, the United States endeavored to obtain a decision in the IMF, at the time of the recent French consultation, to the effect there was no longer any balance of payments justification for discrimination. However, we yielded to European, including United Kingdom, objections, and accepted the plea that it was premature to press the issue. (b) The U.S. spokesman at the current GATT meeting in Geneva made a strong statement to the effect that it was time for discrimination to end. This has called forth very strong French reactions, French officials complaining that the United States appears to be abandoning its support for European integration which, both in the OEEC and the Common Market, continues to be based in part on discrimination against dollar imports.

4. The issue is coming up again in the IMF this week in connection with discussion of the Draft Exchange Restrictions Report. I intend to take the following position, in which I would be supported strongly by the Canadians.

(a) The U.S. objective should be to urge the elimination of the balance of payments justification for discriminatory restrictions. We should make it quite clear that we will press this view very strongly on all suitable occasions. The result would be to leave to the GATT discriminatory issues raised by the Common Market and the proposed free trade area which do not rest on balance of payments considerations. We should also make it clear that U.S. tolerance of continued discrimination by OEEC countries (including the United Kingdom) against dollar imports cannot be expected to continue indefinitely.

(b) However, I would not press formally for a decision by the IMF at this time, but would express the willingness of the United States to delay formal discussion, probably until October/November.

(c) In the meantime, I would not agree to any equivocal public statements by the Fund, especially statements implying that there are still balance of payments justifications for discrimination notwithstanding convertibility.

5. I am summarizing these issues in this memorandum because in my view the issue of discrimination is an important part of current concern over developments in the U.S. balance of payments.

(a) If we fail to press for the elimination of discrimination against our trade, we will add to the force of demands for increased U.S. restrictions against imports in view of shifts in our balance of payments.

(b) Unless the United States makes its views clear in all appropriate forums, we are likely to find that discrimination will become more deeply imbedded in European trade notwithstanding the advent of convertibility.

47. Memorandum From the U.S. Member of the Board of Executive Directors of the International Monetary Fund (Southard) to the Under Secretary of the Treasury for Monetary Affairs (Baird)

June 9, 1959.

SUBJECT

Possible Sale of Gold to the United States by the IMF

1. I have given some further thought to our recent conversation in your office on the subject of a possible sale of gold by the Fund to the United States, in the light of the prospective substantial drain of gold from the United States to the Fund due to the payments for increases in quota by the United States and other countries.

2. Since the Fund is not short of U.S. dollars, it would not be legally possible for the Fund to sell gold to the United States in order to replenish its supply of dollars.

Source: National Archives and Records Administration, RG 56, Records of the Department of the Treasury, Robert B. Anderson, Subject Files, International Monetary Fund. Official Use Only. Filed with a covering memorandum of June 11 from Baird to Anderson which reads in part as follows:

"If Frank Southard concludes that he can handle this matter as emanating from the Monetary Fund Board, it seems to me that we should encourage him to try to work it out that way."

3. The remaining possibility would be an increase in the Fund's investment portfolio, which at present consists of \$200 million in U.S. Treasury bills. I have the following comments to make on this possibility.

(a) A good case can be made for an increase in the Fund's investment portfolio, in view of the increase in Fund quotas, the consequent decrease in the Fund's income, and the desirability of increasing the Fund's reserve accounts.

(b) At the present time the Fund's reserves amount to approximately \$30 million. This is a small figure, compared with IBRD reserves of more than \$350 million, and considering Fund assets which will exceed \$14 billion after quotas are increased and Fund outstanding commitments amounting to \$1.5 billion. It would not be unreasonable for the Fund to have reserves upwards of \$100 million. The present Fund investment portfolio yields only \$3 million to \$6 million per year, depending on the rate of U.S. Treasury bills.

(c) I believe Mr. Jacobsson and the Fund Staff would take the initiative in proposing an increase in the Fund's investment portfolio, possibly to \$500 million.

4. The following aspects should be considered before I raise this matter strongly with Mr. Jacobsson.

(a) It would probably *not* be wise to link an increase in the Fund's investment portfolio with the desire of the United States to obtain gold from the Fund.

(b) Now that other major currencies are approaching full convertibility, there might be a suggestion from other Directors that some of any increase in the Fund's investment portfolio be placed in currencies other than U.S. dollars.

(c) Now that the Fund has moved from a net deficit to a substantial net surplus position, there might be much lack of enthusiasm among other Executive Directors for an increase in investments. In this event, it would probably not be wise for the United States to appear to attach undue importance to the matter, and to leave most of the initiative to the Fund Management.

5. If you feel that the possibility of an increase in the Fund's investment in U.S. Treasury bills would be worth considering, I suggest that we discuss the matter in greater detail in a meeting in your office in the near future.

48. Memorandum From Henry C. Wallich of the Council of Economic Advisers to the Council

June 16, 1959.

Upon returning from the OEEC Conference which took place in Paris May 25–26, I had occasion to give a brief report of my impressions to Secretary Anderson and Chairman Martin.¹ In the course of these conversations, I mentioned the apparently growing concern about the U.S. dollar that some European representatives had voiced privately. This concern had to do not so much with devaluation, but with a possible wave of speculation against the dollar and with the repercussions of a further gold outflow on American economic policy. I should add that I tried to avoid conversation on this subject and, where that was not possible, dealt with it as a balance of payments problem rather than a gold problem.

These impressions, fragmentary as they are, raise an obvious question: what can we do to discourage speculation against the dollar in the face of further gold losses? Our basic reply we have already given by our show of firm determination to pursue sound monetary and fiscal policies. Further proof of our determination to defend the dollar could be given by removing the 25 percent gold reserve requirement to which the Federal Reserve's liabilities are subject. I mentioned this possibility to Secretary Anderson and Chairman Martin. Chairman Martin said that at the present time he would not be in favor of such action; consequently I shall not press the matter further. It seems worthwhile, however, to summarize briefly the pro's and con's of the case, which in part appeared in these conversations.

1. Positive Effects

By removing the 25 percent requirement, we would be unfreezing approximately \$11.6 billion of gold tied up in domestic reserves as of June 10. We would then have \$20 billion to meet any future gold drain, instead of \$8.3, as at present.

a) This should demonstrate quite clearly that we are determined to *use* our reserves, not to protect them by devaluation. We would be scotching reports such as that attributed to Franz Pick, who seems to claim close contact with top men in Washington, that the Administration has set \$18 billion as the minimum level that reserves would be allowed to reach before we devalue.

Source: National Archives and Records Administration, RG 56, Records of the Office of the Secretary of the Treasury, Robert B. Anderson, Subject Files, Council of Economic Advisers. Filed with a covering note of June 24 from Wallich to Anderson.

¹ William McC. Martin, Chairman of the Board of Governors of the Federal Reserve System.

b) A change in the 25 percent reserve ratio may eventually become necessary for another reason: the prospect of a continuing growth in the Fed's liabilities subject to reserve requirements. This growth can and has been held down by reductions in member bank reserve requirements. But over the long pull, the Fed's liabilities subject to reserve requirements are apt to grow. If they were to expand proportionately to the money supply, i.e., at 3-4 percent per year, we would be adding close to half a billion cash a year to required gold reserves. Our present free reserves of \$8.3 billion would disappear in 15-20 years. While to acquire more gold in such amounts does not seem practicable, since that would mean to absorb close to two-thirds of the world's gold production available for monetary purposes, for reasons of international liquidity as well as of domestic expansion, therefore, something eventually may have to be done about the 25 percent requirement.

c) These considerations may not appear particularly pressing with a \$20 billion level of total reserves. But if by the end of the year reserves should be in the 17-18 billion area the urgency would increase.

2. The Removal of Discipline

The basic purpose of the 25 percent requirement is to impose a certain discipline upon our policies. Removal of the requirement would also remove the discipline. How does this discipline operate today?

a) The sound monetary and fiscal policies of the Administration are being pursued primarily because of their intrinsic merit and not because of any pressure resulting from an anticipated short fall of central bank reserves. The large gold loss last year no doubt has added some urgency to these policies. I would not undertake to judge whether, with a similar gold loss, that sense of urgency would have been any less had the 25 percent requirement not been in existence.

b) The discipline may also take the form of a growing pressure to restrict imports, capital exports, and foreign aid. These are undesirable effects, except in the eyes of those who are skeptical of the present level of our foreign aid. These perverse discipline effects are likely to increase as our free gold reserves diminish. They would be reduced, though scarcely eliminated altogether, by a removal of the 25 percent requirement.

c) Nevertheless, the discipline exercised by falling reserves would serve a useful purpose in the event that the passive state of our balance of payments should prove to be permanent. In that case, it is clear that we shall have to do more to correct it than we have done. We ought to try to do this as much as possible by expanding our exports and other international receipts, and only secondarily by bringing down our outpayments. If that should be the underlying truth of our situation, it would be better to face it now with 8.3 billion of free and 12 billion of frozen reserves, than to unfreeze the 12 billion, use them up, and then face the same issue again a few years from now.

d) The present situation also imposes a certain discipline upon foreign countries: it makes them see the need to remove discrimination against the dollar and to take over part of the burden of financing underdeveloped countries, if they want to avoid restrictive measures on our part. This discipline, for what it is worth, would be weakened by a removal of the 25 percent requirement.

3. *Timing*

Even if a good case can be made for removal of the 25 percent requirement, it is uncertain whether the present would be a good time for such a step.

a) An action of this kind is best taken at a time when there appears to be no pressing need for it. To act now might make us look scared. However, international concern about the situation can reach a point where not much is to be gained for us by pretending that we have not noticed or that we are not concerned. In that case, bold action to demonstrate that the dollar will be defended would probably on balance have a favorable psychological effect.

b) While action without pressure is better than action under pressure, it is also less likely, because then the urgency is lacking.

c) The present political situation suggests that there might be a long wrangle in Congress that quite likely would have harmful repercussions abroad. Moreover, the proposal might offend some of the sound money advocates in the Congress on whose support the Administration ordinarily relies.

4. *The Long Run Balance of Payments Outlook*

If we had strong convictions one way or the other about the long run balance of payments outlook, these certainly would weigh more heavily than any desire to deal with maneuvers of speculators. Some people undoubtedly do have strong convictions of an optimistic or pessimistic nature. But the facts at hand do not seem to support clearly either conclusion. More tentative considerations therefore gain weight.

a) It is possible that the monetary and fiscal policies of the Administration will do the trick. It can be argued that they should be given a chance before other action is taken.

b) Some observers think that the dollar problem, originally underrated may now be in danger of becoming over-rated.

c) The gold movement during the first half of 1959 has been less than during the first half of 1958. This suggests at least the possibility that the worst may have been seen. Since we sat it out last year, it may be well not to be precipitous now.

5. *Alternative Approach*

The 25 percent reserve requirement can be suspended under Section 11 (C) of the Federal Reserve Act. This section gives the Board the power to suspend the requirements for a period of 30 days with successive extensions of 15 days each. For a reserve deficiency of up to 5 percent against Federal Reserve notes, i.e., down to a reserve level of 20 percent, a penalty of only 1 percent per annum is imposed. For each

additional deficiency of 2½ percent against Federal Reserve notes, a penalty of 1½ percent per annum is imposed. In the case of member bank reserve balances the Board can set whatever penalty it wants.

This provision allows some flexibility. For the long run, it would probably not be adequate, because of the very short extension periods, which would make the situation embarrassing, and perhaps also because of the burden imposed by the penalties.

49. Paper Prepared in the Department of State

July 24, 1959.

INTERNATIONAL PAYMENTS POSITION OF THE UNITED STATES

The substantial increase in the outflow of gold and in the level of foreign liquid dollar holdings over the past year and a half have led to widespread public and official attention to the overall international payments position of the United States.

Concern is being expressed over the implications of a continuing adverse trend in the United States balance of payments, and various suggestions are being made as to measures designed to arrest the trend, including the possibility of modifying the world-wide procurement policies now followed by the Development Loan Fund.

The purpose of the present memorandum is to suggest the main conclusions which can be drawn from an analysis of the payments position of the United States and to propose an overall program of actions and policies.

The conclusions and recommended program of action are set forth immediately below. The balance of payments data on which they are based are annexed.¹

Source: Department of State, S/P Files: Lot 67 D 548, Economic Policy, 1957-1960. Confidential. No drafter is indicated on the source text. Acting Secretary Dillon sent a copy to Don Paarlberg with a covering note dated July 31, which referred to it as a "preliminary report" and stated that he had sent copies to Anderson and Upton and was sending copies to others who were present "at the discussion of this matter in Secretary Anderson's office." The discussion is not further identified. Paarlberg commented on the paper in a letter of August 5 to Dillon, calling it "especially commendable in that it focuses on restrictionist means of improving the balance, rather than on restrictionist measures." (Eisenhower Library, White House Central Files, Confidential File, State)

¹ The annexes (four charts and nine tables) are not printed.

Conclusions

1. The existing financial capability of the United States to cope with large deficits in its international payments is still great. The United States reserve is still very large, both absolutely and in relation to reserves held elsewhere. There is no immediate threat to the strength of the dollar, or to its standing as an international reserve currency.

2. Concern about the very large deficit in the U.S. payments in 1958, which is increasing in 1959, arises from the following considerations:

(a) The 1958–59 deficit comes on top of a series of smaller but persistent yearly deficits going back to 1950.

(b) The 1958–59 deficit may imply a weakening of the international competitive position of U.S. producers. This comes in a period when U.S. capital outflows have increased and require a corresponding increase in the U.S. export surplus if losses of gold and dollar assets are not to be excessive. (The decline in U.S. exports has been due partly to special non-recurrent factors, partly to world-wide recession and general contraction of trade, and partly to a decline in the U.S. share of the world market for manufactures. The last development has been largely the result of the improved position of West Germany and Japan.)

(c) The large balance-of-payments deficit is resulting in an increasing pressure on the U.S. Government to adopt restrictive policies in conflict with broader long-term foreign policy objectives.

(d) Continued large balance-of-payments deficits such as we are presently incurring cannot be permitted to continue for much longer.

3. In the period 1950 through 1957, increasing amounts of funds in the form of capital and military expenditures left the United States. But these were largely offset by U.S. surpluses on trade and services. Thus, the annual U.S. balance of payments deficit was less than \$2 billion. In 1958 there was still a substantial surplus on current account (comparing favorably with prior years except 1956 and 1957), but capital outflows were considerably higher than in the pre-1956 period.

The situation altered markedly in 1959, with a large reduction in the U.S. export surplus. The latest estimate for 1959 is for a drop in the surplus on trade and services by \$2.5 billion below that of 1958. This will increase the U.S. overall deficit by almost the same amount. The change is nearly all in the merchandise trade account: a slight further decline of exports and a \$2 billion increase in imports. The overall deficit for 1959 is estimated at \$5 billion.

4. Of the total of capital outflow plus military expenditures, the largest single component in 1958 has been military expenditures.

These have risen sharply from \$0.6 billion in 1950² to \$2.5 billion in 1953 and continued to rise more moderately to \$3.4 billion by 1958. The \$3.4 billion military expenditures in 1958 was larger than either net private investment (\$2.9 billion as compared with \$1.3 billion in 1950) or net government economic grants and loans (\$2.6 billion, as compared with \$3.6 billion in 1950.) Moreover, it was heavily concentrated, as was private investment, in Western Europe, Canada and Japan, all of whose reserves have been rising.

5. As the U.S. lost \$3.4 billion in gold and liquid dollar assets in 1958, Western Europe gained \$3.7 billion. Of Western Europe's gain, \$1.6 billion was attributable to *direct transactions with the United States*, resulting from a combination of (a) a sharp decline in the U.S. current surplus with Western Europe and (b) the maintenance of large U.S. military expenditures³ in Western Europe. The balance of Europe's gain in gold [and?] in dollars appears to have been achieved through (a) the acquisition of new gold production and Soviet gold sales to the extent of about \$900 million and (b) earnings of \$1.2 billion from third countries paid to Western Europe from the payments surpluses of such countries with the United States. The capacity of Europe to earn gold and dollars from the rest of the world was markedly influenced by a shift in the terms of trade in favor of Europe. With respect to capital outflow, an increased proportion has not been linked directly to U.S. exports. One factor in this trend has been the increase in foreign security flotations in the U.S. which amounted to \$345 million in 1953-55 (annual average) compared with \$1,750 million in 1958.

6. An approach to adjustment in the U.S. balance of payments would therefore appear to lie primarily in the direction of (a) increasing the U.S. current account surplus, especially with Western Europe, through normal trade and services transactions and possibly through requiring payment for transfers of military equipment; (b) reducing where possible U.S. military expenditures in Western Europe; and (c) increasing the flow of long-term capital from Western Europe to third countries, particularly the less-developed areas. The last is called for by the increased economic and financial strength of Western Europe. If such capital assistance were available on an untied basis, it might have some favorable effect on the U.S. balance of payments, though its impact is likely to be slight and slow.

² Comparison with 1950 is in many respects misleading. The year 1950 preceded the start of the real development of NATO, and the start of NATO infrastructure expenditures. Also, in 1950 Germany and Japan were bearing a major portion of the cost of maintaining U.S. forces in their countries—at that time the overwhelming bulk of U.S. forces overseas—through payment of occupation and support costs. [Footnote in the source text.]

³ U.S. capital outflow declined. [Footnote in the source text.]

7. It is highly unlikely that a policy of tying Development Loan Fund loans to procurement in the United States would itself materially improve the U.S. balance of payments. Tying is not likely to alter the more basic factors influencing the U.S. balance of payments as a whole. Moreover, tying of DLF loans would either work a hardship on the very countries whose reserves are low, whose payments position is poor, and whose economies we are trying to help in our overall national interest, or it would necessitate larger DLF expenditures to achieve our objectives.

8. The main case for the principle of tying DLF loans is to use it as a threat to persuade Western European countries to expand their long-term lending to the less-developed areas (i.e. "to finance their own surplus") and to do so on an untied basis. But if the threat has to be carried out, it will very probably have lost its effectiveness. The main impediment to European long-term government lending is the absence of necessary government policies and institutions. The mere practice of tying individual U.S. loans is not likely to bring these institutions into being. Also, there may result a dangerous expansion of European short or medium term credit of the export credit insurance variety which is not suitable to development needs. Nevertheless, the possibility of tying DLF loans should be used by the U.S. in negotiations with Western European governments aimed at obtaining a substantial increase in European long-term capital.

9. Efforts to adjust the U.S. balance of payments over the years ahead can be either expansive or restrictive. As the postwar experience of Western Europe amply demonstrates, restrictive or discriminatory methods serve to suppress and conceal the symptoms of imbalance. They do not promote, and usually impede, sound adjustments in the balance of payments, which can only come about through the pressures of competitive market forces operating within a framework of sound fiscal and monetary policy. Efforts to promote adjustment in the U.S. balance of payments should be of a non-restrictive character, designed to encourage balance at as high a level of international trade and payments as possible. The size of U.S. reserves and the basic strength of the U.S. economy allow ample time for such a policy to be fully tested.

Recommendations

1. Over the next several months the United States should undertake an intensive effort to eliminate or assure the early elimination of the remaining discriminatory trade and payments restrictions against dollar exports. This effort should embrace the following elements:

(a) Bilateral, high level approaches to selected Western European governments urging the early removal of all discriminations. The United States should also seek to persuade European governments to

permit outside suppliers to compete for contracts let on domestic government account, as the United States Government does under the administration of the "Buy American" Act.

(b) Negotiations in the IMF designed to bring about an early decision directed toward the general removal of discriminatory restrictions now that the world's trading currencies are externally convertible, and later (perhaps in the first part of 1960) a decision terminating recourse to Article XIV (the transitional period provisions) at least for the developed countries.

(c) Maintain pressure in other international forums (GATT, OEEC) for the removal of quantitative import restrictions affecting dollar imports.

2. A determined effort should be made to better the competitive position of U.S. exporters:

(a) As a first step, the Export-Import Bank should be requested to review and report on the competitive effect of Western European export credit insurance vis-à-vis the facilities presently available to U.S. exporters. If it appears that more favorable credit facilities are available to Western European exporters than to our own exporters, the report should make recommendations on how to equalize the situation. The report should also include a thorough study of the advisability of the United States instituting a system of export credit insurance.

(b) The current balance of payments position makes it all the more important that the forthcoming tariff negotiations, especially with the European Common Market, be successful in reducing the general level of tariffs, especially the margins of preference which will operate against U.S. exports of manufactures to the Common Market.

3. Measures should be undertaken to increase the Western European share of the military burden and reduce its impact on the balance of payments of the United States. The military aid programs and activities related to our military expenditures abroad should be reviewed from the point of view of possible changes in policies and procedures which were instituted at a time when we desired to assist Western Europe in balancing its payments and building up its reserves.

4. The United States should make a determined effort to persuade selected Western European governments to increase European long-term lending to the less-developed areas.

(a) As a part of this effort, the U.S. should arrange, during the fall meeting of the Bank, for an informal meeting at the ministerial level with Germany, the UK, France, Italy, Belgium, the Netherlands and Canada. At this meeting, the U.S. should:

(1) Press upon the Europeans the need for expanding such institutional arrangements as will result in a greater volume of long-term lending on an untied basis to less developed countries.

(2) State its willingness to meet informally from time to time with other creditor countries, under the aegis of the Bank, with a view to exchanging information and, to the extent practicable, coordinating long-term lending policies and programs.

(3) Express the need for keeping medium-term credit (of the export credit insurance variety) within reasonable bounds; and

(4) Make it clear that unless the key countries of Western Europe undertake larger long-term credits *on an untied basis*, the U.S. will be forced to reconsider its own lending policies under the DLF and possibly the world-wide procurement policies followed by ICA.

5. The U.S. in carrying out Title I P.L. 480 sales should use great care to ensure the smallest possible reduction in ordinary commercial exports for dollars, and should severely limit barter transactions under Title III, which are effected almost wholly at the expense of dollar exports. This should not preclude the carrying out of the "Food for Peace" program for stimulating commercial exports as well as non-commercial consumption under Titles II and III.

6. An inter-agency group should be established to analyze, on a continuing basis, the competitiveness of the United States in international trade and trends in the U.S. balance of payments.

7. A high-level government official should make a major public address expressing confidence in the U.S. balance of payments situation and outline a constructive expansionary program of action. This probably should be made in advance of the announcement of the second quarter balance of payments figures scheduled for September.⁴

8. Finally, the United States should continue to pursue anti-inflationary policies and, in the current situation, encourage expansion in Western Europe.

⁴ Paarlberg commented on this point: "The best thing to inspire confidence would be a clear statement of the problem, accompanied by wise administrative action. Statements deliberately intended to inspire confidence will backfire unless accompanied by appropriate action. This is what is needed, rather than secrecy, soothing syrup, or emergency measures." (Eisenhower Library, White House Central Files, Confidential File, State)

50. Letter From Secretary of the Treasury Anderson to President Eisenhower

August 6, 1959.

DEAR MR. PRESIDENT: I thought that you should be made aware of two impending financial transactions, the second of which, if it is to be completed, requires your formal approval.

Prepayment by British of Loan from the Export-Import Bank

You will recall that, as a result of the Suez crisis, the British pound came under pressure late in 1956, with the result that the British arranged for a drawing from the International Monetary Fund of \$561 million and also, in February, 1957, obtained a secured credit from the Eximbank of \$500 million with interest at 4½%. Under the terms of the Eximbank credit, any advances were to be repaid in ten semi-annual installments, the first to be due in three years from the date of the loan disbursement. Drawing rights under the original credit were to extend to January 31st, 1958, but a further extension was granted to February 28, 1959. Provision was made for a commitment fee of ¼th of 1% on the unused portion of the credit. That extension period has now expired.

In October, 1957, the British Treasury drew \$250 million on the Eximbank credit, which amount is still outstanding.

Due to courageous corrective measures taken by the British Government, Britain's balance of payments situation has sharply improved, as indicated by an increase in the British holdings of gold and dollars from a low point of about \$1.8 billion in 1957 to over \$3.2 billion at the present time. That is after the repayment in March of this year of \$200 million to the International Monetary Fund on the 1956 advance and payment of \$162 million in gold as additional subscription to the Fund. Despite this, it is estimated that Britain's holdings of gold and dollars will increase something like \$300 million in calendar 1959, in which year it is estimated the United States will have a comparable loss of \$4.5 billion in the balance of payments.

The British have come to believe (with some tactful encouragement from us) that their position is now sufficiently strong so that it might be advisable for them to repay the \$250 million advanced by the Eximbank, thereby saving the interest charge on that amount. However, their willingness to thus repay will be contingent on the Eximbank agreeing to reinstate the credit to the extent of \$250 million

Source: Eisenhower Library, Whitman File, Administration Series, Robert B. Anderson. Secret. Filed as an attachment to a letter of the same date from Anderson to the President; see footnote 2 below.

but with any drawing under the credit requiring payment within the original time limit and at the same rate of interest. The Eximbank is also asked to waive any commitment fee on the restored \$250 million of the credit.

Lord Cromer has advised us that the timing and final details of this transaction will be worked out when the Chancellor is here in Washington in late September, but he also indicates that it is the present intention to complete the transaction before the end of our current fiscal year.

When the advance of \$250 million was made by the Eximbank in 1957, it increased expenditures in the budget to that extent. Similarly, repayment to the Eximbank, when made, will have a budgetary impact in the opposite direction.

The F.Y. 1960 budget contemplates that the Eximbank will make no net claim on the Treasury, that is, that it will try to sell to the commercial banks participations in its present loans up to an amount of \$234 million, which, taken with repayments on existing loans, will offset new loan disbursements. If this is achieved, the \$250 million to be received from the British Treasury as a prepayment will have the effect of reducing expenditures in the 1960 F.Y. budget by a like amount. If there should be any short-fall in the sales of participations just referred to, the British prepayment will more than offset it.

Gold Transactions with the International Monetary Fund

You may remember that, in February, 1956, the International Monetary Fund, for the purpose of acquiring some earning assets, arranged to sell \$200 million of gold to the United States Treasury and to invest the proceeds in Treasury bills.

As a result of the increased subscriptions of capital to the IMF, that institution is in process of acquiring approximately \$1.3 billion of additional gold, \$344 million of which was provided directly by the United States out of its gold stock in payment of 25% of its subscription to the additional capital of the Fund. Considerable additional gold has been and will be provided *indirectly* by the U.S. from its gold stock through sales of gold to other countries for them to use as payments on their increased subscriptions to the Fund.

Under any foreseeable circumstances, the IMF will not have use for a number of years for all of this additional gold it is now acquiring. Therefore, the Executive Board of the IMF is proposing to take action to increase the size of its investment fund in short-term U.S. Treasury

securities from \$200 million to \$500 million.¹ This would involve the sale to the U.S. Treasury of \$300 million of gold. Plans are being worked out with the Fund management to obtain a matching, so far as possible, of such purchases of gold by the Treasury with prospective sales of gold by the U.S. Treasury to other countries, thus avoiding, to that extent, unnecessary distortions in the U.S. gold stock. Aside from lessening the decline in the U.S. gold stock, the investment by the Fund of the proceeds of the gold sales will provide appreciable support to the market for U.S. Treasury bills in the weeks ahead.

The National Advisory Council has already taken action to approve the U.S. Executive Director of the Fund concurring in the decision to sell the gold and invest the proceeds as described. The Council has also approved the U.S. Treasury entering into an agreement to resell an equivalent amount of gold to the Fund on demand, paralleling what was done in 1956.

The Council has also approved my recommending to you that the 1/4th of 1% charge on purchases and sales of gold by the U.S. should be waived with respect to the proposed transaction, as, under the Gold Reserve Act of 1934 and existing delegations of authority, the Secretary of the Treasury may buy and sell gold without such a charge only with your approval. As this transaction serves our interest as well as the Fund's, this waiver of charge is warranted and was similarly granted by you in respect to the 1956 transaction.

Enclosed is a short, formal letter requesting this approval from you.²

As it has been agreed with both the Eximbank and the IMF that information about these respective transactions will not be released without their final consent, this letter has accordingly been classified.

Faithfully yours,

Bob

¹ An IMF memorandum of July 15 setting forth this proposal, along with related documentation, is in National Archives and Records Administration, RG 56, Records of the Office of the Secretary of the Treasury, Robert B. Anderson, Subject Files, International Monetary Fund, 1959-1961, International Matters.

² Not printed; reference is to the August 6 letter cited in the source note above. The formal letter contained a space for the President to sign, indicating his approval; he signed it on August 7.

51. Editorial Note

At a meeting of the Cabinet on August 7, Secretary of the Treasury Anderson reviewed the situation with regard to the U.S. balance-of-payments problems. A discussion of possible actions which might be taken followed. The record of action taken on the items presented at that meeting, dated August 19, states that the President approved a thorough examination of actions which might be taken by other countries, by U.S. business firms, and by the Federal government, the examination to be conducted by the Secretary of the Treasury through the National Advisory Council on International Monetary and Financial Problems. See Documents 22 and 23.

52. Editorial Note

The elimination of discrimination in international trade and payments was discussed by the Board of Governors of the International Monetary Fund when it met in Washington, along with the Boards of Governors of the International Bank for Reconstruction and Development and the International Finance Corporation, September 28–October 2. The texts of remarks by President Eisenhower and statements by Secretary of the Treasury Anderson, Under Secretary of State Dillon, and Assistant Secretary of the Treasury Upton are printed in Department of State *Bulletin*, October 19, 1959, pages 531–541.

On October 25, the International Monetary Fund announced a unanimous decision by the Executive Directors that there was no longer any balance-of-payments justification for discriminatory restrictions by members whose current receipts were largely in externally convertible currencies. The text is printed *ibid.*, November 9, 1959, pages 681–682. A similar statement was included in the communiqué issued on October 29 at the conclusion of a ministerial meeting in Tokyo of the 15th session of the Contracting Parties to the General Agreement on Tariffs and Trade. For text, see *American Foreign Policy: Current Documents, 1959*, pages 1527–1529. For further information on this subject, see Document 107.

53. Talking Points Prepared in the Department of the Treasury

January 25, 1960.

POINTS FOR MR. BLACK'S MEETING WITH THE SECRETARY
JANUARY 26, 1960¹

1. Aside from the effect of International Bank borrowing on the management of the U.S. public debt, it should be remembered that the Treasury has begun to view the Bank's lending and borrowing in the light of their effect on the U.S. balance of payments. These considerations will become increasingly important as time goes on.

2. The U.S. is not too happy about dollar loans of the Bank to countries which have adequate gold and dollar reserves. In this connection, we were glad to note that the Bank is not contemplating additional loans to Italy in the near future and hopes that similar consideration will apply to some other European borrowers (France).

3. The U.S. would like to have more information well in advance of any commitment by the Bank on future loans so that our views may be brought to Mr. Black's attention without creating embarrassment, either for the Bank or for the U.S. The balance of payments problem makes this particularly important.

4. The Bank should seek to obtain as much of its financing as it possibly can outside of the U.S. While we recognize the difficulties in floating long-term issues abroad, we feel that it would be better for the Bank to float short-term issues abroad than to rely so heavily on the American market. In connection with the specific \$200 million loan, the Treasury will not object if appropriate timing can be arranged. We would hope that the balance of the Bank's financing during the current year could be obtained abroad. If this is not possible, we would hope to have further prior consultation before the Bank proposes new issues in the U.S. market.

Source: National Archives and Records Administration, RG 56, Records of the Office of the Secretary of the Treasury, Robert B. Anderson, Subject Files, International Bank for Reconstruction and Development. No classification marking. Drafted by H.J. Bittermann and Alfred H. Von Klemperer. Attached is a table showing funds raised by the International Bank for Reconstruction and Development since November 1958.

¹ No record of this conversation has been found

54. Editorial Note

At the 439th meeting of the National Security Council on April 1, the subject of the balance of payments arose during Director of Central Intelligence Allen Dulles' briefing of the Council on significant world developments. The relevant portion of the memorandum of discussion by Deputy NSC Executive Secretary Marion W. Boggs, dated April 2, reads as follows:

"Secretary Anderson reported that the West Germans were embarrassed by their large holdings of foreign exchange. Consequently they have sent \$600 million to the U.S. as an advance payment on their mutual security obligations. This sum has been invested in short-term U.S. Government securities. By contrast, the U.K. is becoming sensitive to its losses of foreign exchange. The U.K. Government was considering inserting a statement in the next Budget Message that the U.K. held \$800 million to a billion dollars worth of U.S. industrial securities. It had not yet been decided to make such a statement because of its possible effect on the stock market and because the Laborites might say to the Government 'Why were not these securities sold last October when their value was greater than at present?' The President wondered whether it was not to our advantage to have funds such as those sent here by West Germany invested in our securities. Secretary Anderson said these funds would be invested in our securities even if held by the Germans until payments were due. In response to a question from Mr. McCone, Mr. Dillon said that the German reserves of foreign exchange amounted to \$5 billion. Secretary Anderson said the Germans were shying away from foreign assistance programs because a large proportion of any sum which they provided in assistance to underdeveloped countries would be spent in West Germany. Germany preferred to lend money to underdeveloped countries if the money would be spent elsewhere than in West Germany. Secretary Anderson said the advance payment by West Germany on its mutual security obligations had raised the question in his mind whether we should suggest that various other European countries take similar action. The President thought it might be desirable to make such a suggestion. Mr. Stans said advance payments by European countries on their mutual security obligations before June 30 would be very helpful. Secretary Herter asked when these mutual security payments were actually due. Secretary Anderson replied that the payments were due when Defense delivers the equipment. Mr. Dillon said various countries were buying military equipment from us for cash; the West Germans had simply put up the cash in advance of receiving the equipment. Secretary Anderson said that as a matter of bookkeeping, the West Germans could show their advance payment as a payment made, but we could not show it as a payment received until we made the necessary deliveries of military equipment." (Eisenhower Library, Whitman File, NSC Records)

55. Editorial Note

On August 12, President Eisenhower met briefly with Secretary of State Herter following a meeting of the National Security Council. The discussion was recorded in a memorandum of conversation by Staff Secretary Andrew J. Goodpaster, who was also present; the portion which related to the balance-of-payments problem reads as follows:

"The President gave Mr. Herter a copy of a set of papers submitted to him by Secretary Anderson on the subject of the balance of payments. These reflected reports from Switzerland as to thinking of key figures in the international money market in relation to possibilities and some faint indications that Kennedy, should he become President, would follow an 'easy money' policy and would take actions softening the dollar and causing a flight therefrom. The President asked that Mr. Herter show this to no one other than himself and Mr. Dillon.

"Mr. Herter said that a report, almost a rumor, had come to him that, during the conversations of de Gaulle and Adenauer, they talked about shifting the currency base from dollars to gold, in part as a means of putting pressure on the United States to accede to some of their ideas affecting NATO. The President said that if this were to happen, our immediate and necessary action would be to pull our forces out of Europe and that this would destroy at their very heart the security arrangements in Europe." (Eisenhower Library, Whitman File, DDE Diaries)

The papers that the President gave to Herter have not been identified, but a memorandum of July 29 from Assistant Secretary of the Treasury Upton to Anderson with a similar report derived from his recent conversations in London is in National Archives and Records Administration, RG 56, Records of the Office of the Secretary of the Treasury, Robert B. Anderson, Subject Files, Treasury Department, Assistant Secretary Upton.

**56. Memorandum for the Record by the President's Assistant
(Persons)**

October 25, 1960.

SUBJECT

Meeting with the President, Regarding Recent Developments in the London Gold Market, 2:30 p.m., Tuesday, October 25, 1960

PRESENT

Honorable Robert B. Anderson, Secretary of the Treasury
Honorable William McC. Martin, Chairman, Federal Reserve Board
Honorable Julian B. Baird, Under Secretary of the Treasury
Honorable Wilton B. Persons, the Assistant to the President
Mr. Alfred H. Von Klemperer, Assistant to the Secretary of the Treasury

Secretary Anderson told the President that the purpose of his visit was to inform him about the recent developments in the London gold market. Prices had reached a peak of about \$40.60 per ounce on October 20th, but had receded to a somewhat lower level during the following days. At the time of the visit the quotation was \$37.25-\$37.75. Secretary Anderson indicated that one important reason for this development had been the continued weakness of the U.S. balance of payments which had induced foreigners to purchase gold both for investment and as a speculation on a possible devaluation of the dollar. A Director of the Bank of England and a representative of the Chancellor of the Exchequer had conferred with Messrs. Anderson and Martin and others on October 25th and there was full agreement with them on the interpretation of the recent events and on the manner in which this situation should be handled in the future. The British representatives understand that the operation of the London gold market was their responsibility, although events in that market are a matter of common interest to all Western Nations because of the psychological effects. British representatives understand that there is and will be no criticism on the part of U.S. officials if they feel that they have to undertake sales of their own gold in order to maintain an orderly market. They will keep U.S. officials closely advised of their actions and there will be future opportunities for mutual exchanges of information.

Source: Eisenhower Library, Whitman File, DDE Diaries. Confidential.

The President questioned as to whether the Germans, who were obligated to the United States because of past help, should not be asked to go into the London market to bring the price down to \$35 per ounce.

Secretary Anderson stressed that as the result of the events in the London gold market we may have to pay out gold for practically all of our balance of payments deficit. He underlined that the basic situation required a strengthening of our balance of payments situation and the need to have this in mind in connection with the U.S. procurement policies of our foreign aid and our foreign military expenditures, especially in Germany where we spend annually over \$600 million for military expenses. Mention was made in this connection of the forthcoming visit to Chancellor Adenauer by Messrs. Anderson and Dillon,¹ which the President said should occur as soon as possible and should involve a strong effort on our part. The President feels that these discussions with the Germans, and possibly other Europeans, should be pressed as much as possible while he is in office because of the relationship he has established with the British, French and General DeGaulle on the basis of mutual integrity and trust. He indicated that Prime Minister Macmillan wanted him to come to Europe in December to address NATO and he wondered whether such a meeting, if it did take place, should be used to further our above mentioned objectives.

The President mentioned a newspaper article by Sylvia Porter which had indicated that higher expenditures by the U.S. and a lower budgetary surplus would be beneficial to the country. Messrs. Anderson and Martin discussed this point with the President at some length and, among others, pointed out the unfavorable effect of such policies on the balance of payments.

Wilton B. Persons

¹ The President had proposed sending Anderson and Dillon to Bonn in a letter to Adenauer dated October 7, which called attention to the consistent German balance-of-payments surplus and urged increased German financing for development in the less-developed areas, assumption of some of the cost of U.S. defense forces in Germany, and a larger market in Germany for goods from the United States and the developing countries. Adenauer agreed to a visit by Anderson and Dillon in his reply, dated October 20. Both letters are scheduled for publication in volume ix.

57. Memorandum of Conference With President Eisenhower

November 9, 1960.

OTHERS PRESENT¹

Secretaries Anderson, Dillon, Baird, Gates, Douglas, General Lemnitzer, Mr. Stans, Mr. Wm. McC. Martin, Dr. Paarlberg, General Persons, Mr. Kendall, General Goodpaster

Secretary Anderson said he had asked to meet with the President to talk about the gold situation and urgent steps that must be taken to alleviate it. As he spoke, the U.S. holds \$18,116,000,000 in gold. It will sell \$218 million on Thursday,² with the result that on Friday we go below \$18 billion for the first time in many, many years. \$12 billion worth of gold is required to cover our currency, in accordance with law. There are \$9.5 billion in instant demands against us that can be filed at any time. He said he did not know what further orders for sale of gold will come in, but many small countries are coming in to ask for their gold, of which they have about \$2 billion in demand claims. He read off a list of some twenty small countries now asking us to provide their gold to them.

The President noted that many of these countries are receiving substantial assistance from us and said that perhaps we should stop giving aid to them. Mr. Anderson said the problem they face—which is a real one—is that they could not stand the loss that would be involved if the dollar were to decline in value.

Mr. Anderson said there are three areas in which actions respecting the gold situation might be taken. The first of these pertains to trade—tariffs, customs, etc. To act in this area would be a reversal of policies we have worked hard to place in effect in the United States. The second area of action is monetary. Congress could be asked to reduce the requirement for 25% cover for our currency. This would set off the biggest monetary debate in our history with terribly damaging effects. The President commented that the gain from decreasing this percentage would simply be a temporary one. In addition, we could change the dollar price of gold but others would do the same and we would have gained nothing. Also we could let the price fluctuate, with much the same effect. In addition, we could embargo the export of gold. This would destroy the international gold standard in our lifetimes, but would not destroy our own monetary system. A further step

Source: Eisenhower Library, Whitman File, DDE Diaries. Secret. Drafted by Goodpaster on November 14.

¹ Those present not previously identified include Deputy Secretary of Defense James H. Douglas, JCS Chairman General Lyman Lemnitzer, and Special Counsel to the President David W. Kendall.

² November 10.

would be to prohibit the holding of gold abroad by Americans. If we were to do this, other countries would take this as a sign that we are going to devalue our gold, and start a run on our gold stocks. This effect could, however, be alleviated by allowing something like a year for people to dispose of their gold holdings. None of these steps appears too attractive. There is a third field in which the United States can act alone. We can cut down and in some cases eliminate the stationing of dependents of military and civilian personnel abroad. We can reduce our troops overseas. We can stop the procurement of non-U.S. items for our post exchanges and commissaries. In our development aid to underdeveloped countries, we can tie our loans to purchases of U.S. products. We can stop the procurement by our military services of supplies from foreign sources. And we can slow down and impede the arrangements for our tourists going abroad.

The President said he had another idea he wanted to have discussed. We now have about \$21 billion worth of refined uranium and plutonium. This has great future value as a source of power. He wondered if this could be substituted for gold. Gold became the currency base because of its general usefulness and desirability. Uranium has now become valuable and could perhaps be used in the same way. Mr. Anderson noted that gold is worth only what it can be used for, and much of its value is purely psychological. He indicated question as to whether uranium could be brought into the same kind of use.

Mr. Anderson went on to say that our military expenditures abroad amount to something like \$3 billion a year, of which \$1 billion is for uranium. Our own supplies of uranium are more than ample now but we are committed to long-term purchases from South Africa. The President said he is all for everything we can do to stop the outflow of gold. He knew the actions would not be easy. Mr. Anderson said that basically the strength of the U.S. dollar is not its gold support but the functioning of our economy. However, the fact is that gold activities can damage our military system and our economy as well as the world economy. Mr. Anderson said that, as soon as it became apparent Mr. Kennedy was the probable victor in the election, confidence in the U.S. dollar declined rapidly and demands for gold arose so that by now we have almost a gold panic situation. With confidence disappearing, we are at the point where the world monetary system, and our own, can be wrecked within a few short weeks. He said he had given a great deal of thought to the steps that might be taken. He recognized that it might be preferable to restrict tourists and to bring home military dependents. He was sure that if we were to raise tariffs there would be a rush to high protection both in the United States and around the world. We have increased our exports to a marked degree this year, and cannot expect to do much better on this score. In fact, our favorable export position this year is in part due to a

surge of buying abroad—particularly of jet aircraft. We are at the point where it is imperative to do something quickly and dramatically to try to restore confidence. His suggestion is that we do now what we can unilaterally. Beyond this we should take monetary steps. Only as a last resort should we move in the area of restricting trade.

The President said he would add that a first step is that we must without fail balance our budget both for FY–61 and FY–62. Mr. Anderson agreed, saying it is necessary both to achieve a better international balance of payments and to pay as we go domestically, because much of the loss of confidence in the dollar has come from the prospect of inflation under the new administration. The President noted in passing that we could help ourselves substantially by selling U–235 to France, at the same time saving France the necessity of making great capital outlays for a separation plant.

Mr. Stans said that he wanted the group to know that at the moment we appear to be in the red for fiscal year 1961. Profits are down, with corresponding drop in tax receipts, and expenditures are running above the budget, notably in Defense. He said it would take drastic action to put us into the black again for FY–61, but said it could be done. With regard to FY–62, the first run out of a budget shows a deficit of the order of several billion dollars. Much can be done to improve upon this but here again there is a real question as to whether we can show a balanced budget. He said he is going back over all the submissions to try to force them down. He said his main complaint with the action proposed is that they do not go far enough. He thought we are at the point where we must cut our troops in Germany, without waiting to see what the Germans are willing to contribute. Mr. Anderson said he thought it was essential that these steps be decided upon and announced before he and Mr. Dillon meet with Chancellor Adenauer. Maintaining our forces abroad costs us something like \$685 million a year in adverse impact on our balance of payments. Mr. Dillon noted that this figure could be cut to about \$250 million by bringing our dependents out of Europe. The President said that the tour of duty there could be cut to something like eighteen months. In Europe this ought to be acceptable. He thought Mr. Gates should not go to the services on this matter, but should tell them what is to be done. He also thought we should not spend so much abroad for military procurement.

Secretary Anderson said that this action does not signify that we have followed the wrong policies in the past. The fact is that we are in a new situation wherein there is an intolerable drain on our gold. He suggested that the group take a few days to study the matter but reiterated that he thinks it is essential to do this before he visits Germany. Mr. Dillon agreed that action should be taken to cut down dependents before the visit is made. The President said that this action

should include cutting down on the dependents of Foreign Service personnel, except for the Ambassador or one or two top aides. Mr. Gates said that the best way to make a cut of this kind is the stupid way—that is to impose a percentage cut. Nothing else will work. He asked that the President not single out the military to have them without their dependents, and thus make them second-class citizens. The President said he had no intention of doing that. He noted that other countries do not have the tremendous embassy staffs that we seem to have, nor do they have large numbers of personnel in technical areas such as agriculture, labor, etc. Mr. Dillon referred to personnel of ICA, and said that many of these families can be brought back.

Secretary Anderson said he would like to see this made a Presidential directive and kept very secret for the moment. The President said it must become a public document when approved. He reverted to the desirability of lifting restrictions regarding the sale of U-235 abroad.

Mr. Martin said he is in complete agreement with the actions proposed. He said the situation will certainly get away from us unless we act quickly to stop this outflow.

The President suggested there are many things that can be done, such as slowing down the processing of passports, so as to cut down on tourism. He asked Mr. Anderson to serve as Chairman of the group to iron out what can be done. He noted that if this is talked about in the Defense establishment, it will leak to the press. General Persons said there have already been stories in the press about it. Finally, the President said there could be cuts made in military manpower, including military attachés and MAAGs. He thought great reductions could be made in the personnel in our embassies.

Following the meeting, the President asked me to stay in touch with what is done to see that the same principles are applied to Foreign Service and other non-military personnel as to military personnel. I told him I was still unsatisfied on this whole matter inasmuch as the steps that were being discussed did not account for more than $\frac{1}{10}$ of the net gold outflow. The real cause of gold outflow is a rush of investment money abroad, largely to profitable areas in Western Europe, the net effect of which ties dollars down for long-term investments, with the receiving countries converting them immediately into demand claims against our gold. Until something is done about this these other moves are not substantial except for their psychological effect. The President agreed but noted that no one had come to him with any plan to deal with this aspect of the matter.

G.
Brigadier General, USA

58. Memorandum of Conference With President Eisenhower

Augusta, Georgia, November 15, 1960.

OTHERS PRESENT

Secretary Anderson
Secretary Gates
Assistant Secretary Lennartson
Mr. Von Klemperer (Treasury)
General George Brown
Mr. Hagerty
General Goodpaster
Colonel Eisenhower

The President opened the meeting by discussing the joint State and Defense memorandum regarding continued military assistance to Italy, Belgium and the Netherlands.¹ He discussed the effects of aid to these countries on our problem of balance of payments. He noted that in the State/Defense letter the amount of grant aid going to these three countries had been estimated at less than 5% of the total MAP costs. The Government and the nation must know that we are now in the process of taking the most austere measures to solve this problem of balance of payments.

Secretary Anderson said he had strong feelings regarding continued military assistance to Italy, Belgium and the Netherlands. He disagrees with the State/Defense position that aid to these nations does not affect our balance of payments. He took issue with the argument that balance of payments is not affected when we deliver matériel made in the U.S. He pointed out that sending matériel cuts down the market in which the U.S. would share. Secretary Anderson believes these countries should be made to pay for this equipment.

The President reminded the group that he had been preaching for eight years that we had been too easy with Europe. He pointed out that when he went to Europe as SACEUR in 1951 he had told everyone that the measures we were taking were emergency measures only. In this regard the President quoted the late Secretary Dulles as having urged him continually to maintain current force levels in Europe. Secretary Dulles had said that morale would collapse if one soldier were pulled back from the line.

At this point General Goodpaster read the draft directive to Governmental agencies regarding measures to improve the balance of

Source: Eisenhower Library, Whitman File, DDE Diaries. No classification marking. Drafted by Assistant Staff Secretary to the President John S.D. Eisenhower.

¹ Document 267.

payments situation.² A discussion followed in which certain portions of this directive were revised.

Regarding the timing of the impact of the balance of payments problem on the U.S. economy, the President was of the opinion that we have had this subject under consideration for some time longer than the two years specified in the original draft directive. George Humphrey³ had been calling attention to this problem for some time before. Secretary Anderson said that the problem became serious in 1957, the year in which industrial plants in Europe were finished. He pointed out that the situation which had worried George Humphrey was so mild (consisting of a billion dollar deficit per year) he himself would be happy, comparatively, to live with a situation like that. The President directed that the wording be changed to show at least that we had been aware of this problem all the time.

The President showed concern over the situation of dependents overseas and asked how many dependents there are. Mr. Gates said there are 500,000. Mr. Anderson expressed his concern that the inevitable blow to morale might result in the onus being placed on the President. The President said this fact did not concern him and that morale will be all right if the proper leadership is exercised in the armed services. Secretary Anderson said we will have to work toward a goal of 200,000 dependents, or a reduction of 60%.

Secretary Gates said there had been approaches to this problem other than restriction on a strictly numerical basis. One approach would be to specify that only those dependents could go overseas who had Government housing provided for them. Another approach would be merely to stop the travel of any further dependents, without bringing home any which are already there.

The President expressed concern over the distribution of the 200,000 dependents. He is afraid that only dependents of generals and other high ranking officers will be allowed to go. He said that he himself did not worry much about morale of generals. In addition, generals' wives spend more money than do those of the lower ranks. He would like to see the lower ranks favored in any provision for reducing the number of dependents overseas. Mr. Gates said that under current provisions all ranks above private and private first class are allowed to take dependents with them.

With the editing of the directive finished, the President stated his satisfaction with it as a document, describing it as a good piece of educational literature. He wondered how to put it out without frightening foreign banking circles. Secretary Anderson said there is nothing in this directive affecting the monetary field. The President said he

² See Document 59.

³ Secretary of the Treasury, January 1953–July 1957.

would like to have it stressed that the regulation of the size of our gold reserve is a function of the Federal Reserve Board, which takes into consideration international as well as domestic factors.

Secretary Gates then expressed deep concern over the public relations impact of this directive. He predicted that the military services will kick up a severe fuss and will point out that dependents overseas contribute less to balance of payments deficit than procurement of military items overseas. This action will have a severe effect on our retention and enlistment rates. He is sure the dependents phase of this move will be taken out of context and will become a tough item politically; we cannot count on support from the armed services in this regard.

The President then described the situation in North Africa in 1942 when things were extremely bad. Ground movement was bogged down by mud and any planes flying were certain to be German rather than American. At this time, when morale was low, John L. Lewis⁴ had gone on strike to achieve wage levels from \$16 to \$20 a day. The President himself had received many questions on why troops were undergoing such hardships for \$2 or \$3 a day. The fact of the matter is that the regular Services are enlisted for service and not for personal gain. This means that we must convince people in the Services that we are now at war, and they must take that attitude. As an adjunct to the morale problem in the Services, the President said the State Department must cut down the number of people in their embassies. Since State Department is acutely aware of the balance of payment, it should realize the nature of the problem and should take the initiative in cutting down. Ambassador Whitney recently told the President that he has 1500 people in his embassy and predicted increased efficiency if this figure were cut 50%. Secretary Gates expressed doubts on the way the Services and the State Department would receive such measures, pointing out we are now a spoiled people.

General Goodpaster recommended that the wording regarding the State Department be made stronger since the wording in the original draft gave too much discretion. The President said he would like to see a report from each Ambassador as the head of the country team showing his recommendations for reduction of personnel in all agencies in each country. General Goodpaster explained to the President his feeling that the State Department should not be allowed undue leeway, as expressed in such terms as "without impairing." He himself is sure there will be great repercussions to the cutback on dependents, and impairment of many of our objectives affected by this. There will be resistance to these measures from many quarters, including our allies, who are growing fat on the expenditures of U.S. personnel

⁴ President of the United Mine Workers of America.

overseas. We will pay a heavy cost for this move, and the only justification for it is that the alternative to making this move would be the destruction of our monetary system. If people can be made to realize this fact, the realization may carry the day. He recognized the anguish which had been undergone by those who had planned this directive. The President said he is willing to accept this crisis, and to go ahead and do it. He himself will take the responsibility. The nation has only two months in which to impeach him. He reiterated that if the 200,000 dependents are provided for those in the lower grades, morale will be OK. Mr. Gates said this would mean that nobody would be allowed to go abroad in the next year and a half if we are to effect the 60% cut. The President agreed that the wording regarding the State Department must be made tougher, despite Secretary Anderson's statement that both Secretary Herter and Secretary Dillon had asked him over the phone not to touch State.

The President said that the State Department must be thinning out automatically with all the new embassies they are creating. He knows of no increase in personnel of the foreign service. Just that day he had received three requests for new embassies, which requests he had turned down. He had specified that money can be saved if these offices remain legations. To top it all, these locations are behind the Iron Curtain.

Regarding implementation, Secretary Anderson suggested that this directive be followed up with letters to Treasury, Agriculture, State, and other departments with personnel overseas. The President expressed his belief in the primary responsibility of the Ambassador in each country, but would agree to having letters also sent to each department.

Secretary Anderson said that the impact of this directive might be lessened if it is pointed out that our actual balance of trade in the world is still satisfactory. This is a measure which applies to areas of activity in which the U.S. can act unilaterally. The United States is the country which stations forces overseas, which runs PXs and commissaries overseas, and which indulges in the extension of soft loans. These things should be pointed out. The President agreed and said we should emphasize that these actions are being done completely within the purview of the President himself and apply to activities where the U.S. acts uniquely.

Secretary Gates again expressed his worry over the President's personal position. Should this directive turn out to create a major issue, Senator Kennedy will consider the issue a great advantage to himself. Mr. Gates compared this situation to the bank holiday of 1933 and said the Democrats could ride this white horse for the next twenty years. They will point out how Democrats had had to straighten out the errors of this Administration. The President said perhaps they are

correct. Perhaps we should have faced up to this matter a year earlier. We are, however, going along with the least of the evils. We can't afford to let our monetary system break down before Mr. Kennedy is even sworn in. He told Mr. Anderson to discuss the balance of payments problem on his visit to Europe, particularly with de Gaulle and Adenauer. Mr. Anderson said he would, and said he would ask Adenauer for \$650,000,000 a year as payment for keeping our troops on their soil. Drastic action is necessary there. If we undergo another six months comparable to the last six, our gold cover will run out. We are down to almost \$18 billion now and speculation in banking circles is that we will devalue the dollar once our gold reserve reaches \$17 billion. This, of course, we will not do.

The President pointed out that this problem should not be new to the American people. Secretary Anderson had gone on TV and the President himself had mentioned it in a speech. Secretary Anderson recommended that we get the word to the Kennedy Administration as soon as possible. We can talk to Clark Clifford⁵ between now and departure time on Saturday.⁶ If Clifford will not respond to our efforts to make contact with him, Secretary Anderson recommends that the President call Senator Kennedy and talk to him. He himself had outlined the entire problem to Senator Fulbright.⁷ Senator Fulbright had expressed the opinion that it is high time to pull forces out of Europe and to cut the number of dependents. Senator Fulbright had offered to suggest to Senator Kennedy through Senator Johnson⁸ that somebody from the incoming Administration go to Europe with Mr. Anderson. The President said he would speak to General Persons right away to get some wheels in motion to inform Senator Kennedy's group. He said we should put the directive out Wednesday or at least before Secretary Anderson's departure. Furthermore, we should notify General Norstad⁹ so that he can prepare himself for the reaction in Europe.

Secretary Anderson recommended that the document, having been very carefully worded, be allowed to speak for itself without elaboration by any spokesman. Mr. Hagerty said the document has to speak for itself because few people understand it.

The discussion then turned to the Soviet action on the value of the ruble. Its value on the world market is actually \$0.25. This, however, is reduced to \$0.10 for persons travelling within the USSR to encourage the spending of foreign exchange in that country. On paper, the Sovi-

⁵ President-elect Kennedy had designated attorney Clark M. Clifford, formerly Special Counsel to the President under President Truman, as his representative for liaison with the outgoing Eisenhower administration.

⁶ November 19.

⁷ Senator J. William Fulbright of Arkansas, Chairman of the Senate Foreign Relations Committee.

⁸ Vice President-elect Lyndon Baines Johnson.

⁹ General Lauris Norstad, USAF, Supreme Allied Commander in Europe.

ets recently raised the ruble by a factor of 10 to make it \$2.50. Yesterday they reduced this on paper to \$1.10. Apparently the purpose of this last figure is to maintain Soviet prestige by carrying the ruble as slightly more valuable than the dollar. This does not affect Soviet foreign trade, since for those purposes the ruble is valued at current market prices.

Secretary Anderson then recommended that any questions on details of the Presidential directive be directed toward the Treasury Department rather than toward the White House. Mr. Hagerty¹⁰ recommended that some advance preparation be made for this jarring news, and the President said that we could report on today's meeting as one in which measures were being prepared affecting balance of payments.¹¹ General Goodpaster showed the President an article in which the Austrians had emphasized the importance of future U.S. policy regarding confidence in the dollar and had said the future policy is more important than the amount of gold which we carry in our banks.

Secretary Anderson, at the close of the meeting, said that Senator Javits¹² had recommended we offer to invite Senator Fulbright to observe, but not participate, in our discussions on this subject overseas. The President approved this idea.

John S. D. Eisenhower

¹⁰ James C. Hagerty, the President's press secretary.

¹¹ For text of a statement by Anderson released after the meeting, see the Department of State *Bulletin*, December 5, 1960, p. 864.

¹² Senator Jacob K. Javits of New York.

59. Editorial Note

On November 16, President Eisenhower issued a directive on steps to be taken to improve the U.S. balance of payments. The directive declared it "imperative" that the United States "give the very highest priority to attaining a reasonable equilibrium in its international balance of payments." It outlined steps to be taken or intensified with respect to international trade, international finance, and domestic economic policy, and it directed the heads of various agencies to take specific steps to reduce expenditures outside the United States. Those steps included reduction of the number of dependents of military and civilian personnel abroad, reduction of overseas procurement, and a requirement that both the International Cooperation Administration

and the Development Loan Fund place primary emphasis on financing goods and services of U.S. origin. For text, see *American Foreign Policy: Current Documents, 1960*, pages 786–792. See also Document 138. For the transcript of a news conference held by the President in Augusta, Georgia, at the time of the directive's release, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1960–61*, pages 861–864.

60. Memorandum From the U.S. Member of the Board of Executive Directors of the International Monetary Fund (Southard) to the Secretary of the National Advisory Council on International Monetary and Financial Problems (Galbreath)

NAC Document 60–337

November 16, 1960.

SUBJECT

Increase in Investment of Fund's Assets

1. The Managing Director of the Fund has informed me that he intends to propose to the Executive Board of the Fund that the size of the Fund's investment in U.S. securities be increased from \$500 million to \$800 million, gold being sold to obtain the funds to be invested.

2. In my memorandum of July 15, 1959,¹ in which I communicated the proposal of the Fund Management to increase the Fund's investment from \$200 million to \$500 million, I summarized the history of the Fund's investment program, which was begun in 1956. I cited my memorandum to the NAC of November 8, 1955,² which summarized the various policy and legal questions, and NAC Decision No. 845 of December 23, 1955, which, inter alia, authorized me to concur in an interpretation of the Articles of Agreement to the effect that the Articles permit sales of gold for the purpose of investment of the proceeds and that the obligation to maintain the gold value of the Fund's assets set forth in Article IV, Section 8, of the Articles of Agreement would be applicable to such investment. NAC Action 59–178, July 23, 1959, authorized me to concur in the sale to the

Source: National Archives and Records Administration, RG 56, Records of the Department of the Treasury, NAC Documents. Official Use Only; For NAC Use Only.

¹ NAC Document 59–191. (*Ibid.*)

² NAC Document 1878, dated December 8, 1955. (*Ibid.*)

United States of an additional \$300 million of the Fund's gold, and also approved the necessary action by the Secretary of the Treasury and the U.S. Treasury to carry out the transaction.

3. The Managing Director continues to feel that the Special Reserve of the Fund should be built up substantially and he is not satisfied that the present investment of \$500 million is achieving this objective at a sufficiently rapid rate. He argues that at a time when certain risks are rising and when the Fund's income is falling, the combined Special and General Reserves should be increased as rapidly as practicable to as much as \$200 million. At the end of the last fiscal year, April 30, 1960, the Special Reserve amounted to \$22.3 million and the General Reserve to \$39.8 million, or a total of \$62 million. The proceeds from investment in U.S. Treasury securities accrue to the Special Reserve, and net earnings from operations are placed in the General Reserve.

4. I am in agreement with the views of the Managing Director and I recommend that I be authorized to support his recommendation that the investment be increased by \$300 million.

5. If the NAC approves my support of the proposed increase in the investment of the Fund's assets it would be necessary also to approve an undertaking by the U.S. Treasury to resell to the Fund the same amount of gold, and also to approve a recommendation by the Secretary of the Treasury that the President approve the elimination by the U.S. Treasury of the one-fourth of one per cent charge on gold sold to or purchased from the United States in connection with such investment.

6. The Managing Director hopes to bring this matter before the Executive Board during the week of November 21, and I shall accordingly need the advice of the NAC as soon as possible.³

³ In Action 60-301, taken by telephone poll and dated November 25, the Council approved Southard's support of the proposed increase and the steps he outlined in paragraph 5. (*Ibid.*, NAC Actions)

61. Memorandum of Conference With President Eisenhower

November 28, 1960.

OTHERS PRESENT

Secretaries Anderson, Dillon
Generals Persons, Goodpaster

The President opened the meeting by speaking of the highly distorted press handling of the meeting at Bonn of Mr. Anderson and Mr. Dillon with Chancellor Adenauer.¹ He said he knew the accounts of the meeting were factually incorrect in their basic elements because they wrongly stated that there had been no coordination between the Treasury and State Departments and that the Germans had not been notified in advance. The facts are of course quite different. The President also said that he had received a letter from Adenauer² in which Adenauer had pressed for him to come to the December NATO meeting and had indicated that a large measure of agreement had been reached in the talks—which seems to be something of an exaggeration.

Mr. Anderson then gave a report of the mission. He and Mr. Dillon had arrived on Saturday and had met with Ambassador Dowling on Sunday. Dowling, far from recommending a soft approach to the Germans, had recommended that the matter be put to them with total bluntness. Mr. Anderson said that in fact he and Mr. Dillon had softened one or two points of the presentation when they met with the Germans from what had been developed with Ambassador Dowling. Mr. Anderson said they had met with the Chancellor on Monday.³ They had outlined the balance of payments situation to him and the problem of our gold outflow. They had made clear the necessity for actions to defend the dollar and had brought out that support costs in Germany represent a \$600 million gold burden to us. They had stressed that we cannot run a \$4 billion deficit in balance of payments annually. Mr. Anderson said it was quite clear that the Chancellor did not understand this problem at all well, in spite of repeated explanations. The Chancellor's own people confirmed this, and said that the matter is not one for which he has an understanding. Again and again

Source: Eisenhower Library, Whitman File, DDE Diaries. Secret. Drafted by Goodpaster.

¹ Anderson and Dillon visited Bonn, November 19–23. Documentation on their trip, during which they also visited Paris and London, is in Department of State, Conference Files: Lot 64 D 559, CF 1781–1788.

² Dated November 24. (*Ibid.*, Presidential Correspondence: Lot 66 D 204)

³ They met with Adenauer on November 21 and 22. Brief telegraphic summaries of both conversations are in Secun 1 and 3 from Bonn, November 21 and 22; *ibid.*, Conference Files: Lot 64 D 559, CF 1782. A memorandum of the second conversation is *ibid.*, CF 1781.

Chancellor Adenauer came back to the point that there is only one thing that worries him, and that is the possibility that we might re-deploy some of our troops. On this point Secretary Anderson stated and reiterated that President Eisenhower is resolved to do whatever the United States has to do to protect the dollar.

After meeting with the Chancellor, Mr. Anderson said the group met with German representatives. These representatives suggested what the Germans would be willing to do. They offered a \$1 billion foreign aid program for the coming year. Notably, this would include some grants and some soft loans—this is an advance over any previous German statements. The Germans estimated that 20% of this billion dollars could be expected to result in expenditures in the United States. Second, the Germans offered a prepayment of the outstanding \$800 million on the GARIOA account; however, they conditioned this on the U.S. forgiving \$200 million of this as an off-set for the remaining vested German assets. Third, the Germans said they might buy some military equipment in the United States. Mr. Anderson said he told them that this action would help only if this were added to their budget. Mr. Dillon said that this is an important item, and that Assistant Secretary Irwin⁴ is working with the Germans on a plan for them to buy in the United States about \$400 million worth of military equipment a year which they would otherwise buy in Germany. The Germans are talking about \$250 million worth. Mr. Anderson said he thinks it would be desirable for them not to go far beyond \$300 million worth since they would then claim that this makes up for refusal to pay support costs.

Mr. Anderson said the Germans stressed over and over that they do not want to do anything that would harm the government in the election in later 1961, or add to the budget. The President observed that anything supporting our troop costs sounds like occupation charges to the Germans and is anathema to them.

Mr. Anderson said that in order to remove the bad psychological effect he had suggested that the Germans and the U.S. set up a military fund that would handle several kinds of things and submerge the troop costs. They did not like this because they said it would increase their budget. Mr. Anderson said he told them that probably the only way to get relief in the circumstances was to redeploy their troops. He also told them that while he is not making the decisions he is certain that the President will do anything necessary to protect the dollar.

Mr. Dillon said that Chancellor Adenauer had told him that the Germans simply could not possibly pay support costs. Adenauer added that a Bundestag member who was recently in the United States had talked with President-elect Kennedy, and quoted Kennedy as

⁴ Assistant Secretary of Defense for International Security Affairs John N. Irwin, II.

saying that he would not ask the Germans to pay troop costs. Mr. Dillon observed that anything the Germans really do they will want to do for the new administration, so as to get maximum credit with them.

The President said that Adenauer had been pressing him to come to Paris. His real purpose is clear—to get the President to promise that the United States would not redeploy troops. Mr. Anderson said we should not let the Germans off the hook, that we may take our troops out. He said that Mr. Blessing⁵ had said the Chancellor simply does not understand this issue but that the Chancellor very much wants to help us and not hurt us. He said that Blessing added that the biggest consideration is who is to be the next Secretary of the Treasury. Blessing even stated that Anderson could tell President-elect Kennedy this. Mr. Anderson commented that Baumgartner⁶ in France and Cobbold⁷ in the United Kingdom said exactly the same thing. Secretary Anderson said the Germans had asked him two or three times why the United States had not prohibited the Ford transaction.⁸ Mr. Anderson commented that the Fords said that they had given deep consideration to the adverse impact of their action but had decided to go ahead with it anyhow. Mr. Anderson had gone so far as to tell the Fords that their action might be the cause of imposition of exchange controls. Mr. Anderson said he told Erhard that the only way to restrict the Fords would be to impose exchange controls, and that Erhard was horrified at the thought. Secretary Anderson said that Cobbold had told him the United Kingdom will not hold the dollars derived from the transaction. They will use some in the IMF, but the remainder, in the order of \$180 million, they will immediately turn in for gold in New York. Mr. Dillon commented that General Norstad had said it would be a long time before the GIs buy a Ford again.

Mr. Dillon said that the press has been carrying stories that Senator Kennedy wants him to be his Secretary of the Treasury. The President stated that Kennedy had told Mr. Nixon that he would like to have Dillon and Lodge⁹ in his administration, but that they would not be given policy positions. Mr. Dillon seemed somewhat surprised at this. The President went on to say that if Dillon were offered the Secretaryship of the Treasury, in his opinion he should take it at once and do everything in his power to protect our currency. The President added that if Kennedy were to offer him the Secretaryship of the Treasury, he would take it himself. Mr. Anderson reiterated that the

⁵ President of the Bundesbank Karl Blessing.

⁶ French Finance Minister Wilfrid S. Baumgartner.

⁷ Governor of the Bank of England Lord Cobbold.

⁸ On November 14, Ford Motor Company, Inc., announced an offer to purchase all stock units which it did not already own in its British subsidiary, Ford Motor Company, Ltd., for the sum of \$358 million.

⁹ Henry Cabot Lodge had been the Republican vice presidential candidate.

key thing seems to be the question of who his successor is to be. Everyone in Europe is asking this. Mr. Anderson said that something tangible has already come out of the Bonn discussions, in the German willingness to make soft loans, and in their offer to buy additional military equipment. He thinks that we must be prepared to wrestle with them over troop deployments.

The President asked if he was correct in thinking there is no substantial dollar problem in Okinawa deployments, and Mr. Anderson said this is true. The President said what he had in mind is to cut down on deployments in Japan and move the forces to Okinawa.

Mr. Anderson said that Germany and Italy are the big problems. The President asked if we could scatter our troops more and use the soft currencies generated in each country to pay some of our expenses there. Mr. Anderson said this is a good idea although it is hard to see where this could be substantial. Mr. Dillon said the other Europeans are watching this whole situation closely to see that the Germans do not help us by shifting the gold drain to them.

At this point Mr. Anderson said he would like to see the President go to the NATO conference in Paris in December and talk to the conference on fiscal problems. He went on to say that in reporting his mission he thought it was important to dispel two ideas the press had created—that the talks had not been coordinated as between Treasury and State, and that we had not made clear to the Germans (as in fact we had) that support costs would be the central subject of the discussion. He also thought it should be made clear that we did not brush aside the German suggestions. In fact, we welcomed them but told them they did not give a full solution. General Persons said the press is carrying statements that Secretary Anderson wrongly views this problem as a long-range problem whereas, as the Germans state, it is really quite temporary and transitory. He thought this should be corrected.

The President thought that we might do well to build a backfire against the propaganda the Germans are putting out. The danger is that we must not go so far as to get a protectionist drive started. He would be quite ready to tell the Germans and Italians that we may put a higher Buy American differential back into effect.

Secretary Anderson said that Cobbold had told him he thought one possibility in the Ford action is that they are doing this to get their money out of the United States in anticipation of real trouble here. When Mr. Anderson indicated skepticism over this, I asked him if he did not think this was true. He said he did not. I volunteered the view that I did not see how it could be anything else, and that the Europeans, who have a long experience in this kind of thing, certainly recognize it is just that. Mr. Dillon said he was not sure on this score. I stated that another reason is certainly to take advantage of lower labor

costs and higher profit rates abroad. Mr. Dillon agreed with this. General Persons asked whether Defense is cutting down its procurement abroad. I told him this was called for in the President's directive. He asked specifically about purchases of drugs in Italy and I said I would check this.

After reading over the proposed text for release,¹⁰ the President asked if we should not put in a paragraph indicating that conversations in Bonn, Paris and London, as well as other reports reaching us indicate a considerable nervousness about American fiscal policy in the months ahead under the new administration, and a concern over inflation. Mr. Anderson said this is entirely correct, but would question when and how to say it.

Mr. Anderson indicated that he and Mr. Dillon had seen Senator Johnson and Senator Fulbright¹¹ and had given them a short résumé. Senator Johnson had asked what this administration recommended, and Mr. Anderson had told him that it is now their problem and we should not attempt to tell them how they should go about solving it. He said Mr. Johnson tried to get some statement from the Administration but he reiterated that it was his and Mr. Kennedy's problem. General Persons recalled that Secretary Anderson had briefed Mr. Nitze¹² on the balance of payments matter and the German problem before making this trip. He thought Mr. Anderson should brief him again, and this was generally agreed and approved by the President. The President asked what kind of a man Mr. Nitze is. Mr. Dillon said he is a very able and dedicated man, extremely embittered against the Republicans because, as a Republican, he was forced to withdraw from consideration for Assistant Secretary of Defense by Senator Knowland¹³ early in this administration. He thereupon became a Democrat. I told the President I agreed with Mr. Dillon's assessment of Mr. Nitze's capacities. He is very keen and able although he does not have perhaps a personal "fly wheel" of a size commensurate with his energy and intelligence.

Mr. Anderson said that when Mr. Kennedy becomes President, President Eisenhower will have the only voice stronger than his in our country. He thought that the President should say that all citizens should try to be a brake on Mr. Kennedy since he is dealing with the whole world economic system. He again raised the question of the President going to Paris.

¹⁰ For text of a statement by the President which was released after the meeting, see *American Foreign Policy: Current Documents, 1960*, pp. 364–365.

¹¹ On November 23 in Bonn; a memorandum of the conversation is in Department of State, Secretary's Memoranda of Conversation: Lot 64 D 199.

¹² Former Director of the Policy Planning Staff Paul Nitze was heading a task force on national security affairs for Kennedy.

¹³ Former Senator from California William F. Knowland.

The President said that if he did so he would have to take Mr. Kennedy and that this would be impossible, both for him and for Mr. Kennedy. If de Gaulle, Adenauer and Macmillan were to come over here, he would be glad to see them at Camp David, for example. He would not have to have Mr. Kennedy present at these discussions, although they could of course see him separately.

Mr. Anderson said that Ambassador Dowling had told him it is not likely that Adenauer will be the next Chancellor. His party will decline in power. Mr. Dillon said he agreed and thought that a coalition is inevitable, and that Adenauer would not be its representative.

After the meeting ended, Mr. Anderson said that in consideration of the points the President had made, he would withdraw his recommendation that the President go to Paris.

G.
Brigadier General, USA

62. Memorandum for the Record by Secretary of the Treasury Anderson

December 6, 1960.

SUBJECT

Meeting with President-elect Kennedy and Secretary of the Treasury Anderson, December 6, 1960¹

I pointed out to Senator Kennedy that he would be the first President in the history of the United States who, at the very beginning of his term and possibly throughout his term of office, would face the problem of deficits in our balance of payments of such magnitude and under such new conditions as would require judgments and considerations that were essentially unique to American Administrations.

The deficit in our balance of payments was not an issue in the previous political campaign and was little more than a passing issue in the current Presidential campaign. Consciousness of the American

Source: Eisenhower Library, Whitman File, Presidential Transition Series. No classification marking. Anderson did not sign or initial the memorandum.

¹ The meeting was held in the White House following a meeting between President Eisenhower and President-elect Kennedy which covered a number of issues, including the balance-of-payments problem. For Eisenhower's account of the conversation, see Dwight D. Eisenhower, *Waging Peace, 1956-1961* (Garden City, NY: Doubleday, 1965), pp. 712-716.

people and, to a large extent, those of other countries became focused upon the imbalance of international payments as a result of the steep rise in the price of gold on the London market in October of 1960. This, of course, was merely an evidence or a symptom of what had occurred and what was occurring.

The problem, in order to be brought into perspective, must be analyzed from the standpoint of changing conditions from 1957 through 1960. In the period of 1957 and 1958, productive capacity of Western Europe and Japan became completed. They achieved external convertibility in their currency and they began to sell competitively throughout the world. The United States which prior to that time had been the principal supplier of goods because of the inability of others to compete found itself suddenly in a highly competitive position.

Prior to the 1957-58 era and subsequent to the end of the war in 1945, the United States had not only supplied large sums of money in the form of grants, loans, and other types of help, but had encouraged overseas investment and had allowed other countries to erect barriers against trade with the dollar area. When the competitive position was restored, the restraints against trade with the dollar area, for the large part, continued. As a result of these and other circumstances, the United States began to run large deficits in its balance of payments in 1958, amounting in that year to \$3.4 billion; in 1959, to \$3.8 billion; and in 1960, it appeared that the deficit would be within the range of \$3.5 billion. These dollars, whether distributed directly to industrialized countries or to the developing countries, tended to accumulate in the hands of the industrialized countries of Western Europe and Japan. For the most part, these countries had achieved their traditional and historical balance between the holding of gold and foreign exchange as a part of their own reserves. As a consequence, dollars which now continue to accumulate in the hands of such countries might very well be expected to be cashed in against the limited gold reserves of the United States.

We therefore had to regard expenditures in our budget if made in the United States as the expenditure of an ordinary dollar, but if transferred abroad, very likely to be in terms of a gold dollar.

It was pointed out that while growth and economic development in this country were both desirable and essential, a rise in GNP with no substantial increase in our gold stocks and with continuing deficits could still supply the elements of a lack of confidence in the international financial system which if allowed to reach unmanageable proportions could bring about serious problems of national and international deflation.

As a part of the problem of confidence, consideration must be given to both external and internal financial problems of the Government. Externally, we must seek to achieve a reasonable balance in our

payments position with reference to other countries, we must insist that discriminations which were once tolerated against trade with this country be removed, and we must carefully examine our commitments which result in an outflow of dollars that will be accumulated in the hands of other strong industrial countries.

Of equal importance in the maintenance of confidence is the way in which we manage our internal affairs so as to avoid undue inflationary pressures. This means that strong efforts must be made to pay for our various governmental programs out of current earnings at times when levels of business activity are reasonably high. While a balanced budget is not indispensable and should be evaluated in the light of existing economic circumstances, a continuing effort should be made to achieve balance and to avoid large deficits; and over a period of a business cycle, efforts should be made to achieve a surplus position in excess of any deficits that may have occurred. Such surpluses should be used to retire portions of the national debt.

The way in which we manage the national debt is not only of importance to our citizenship in this country but is carefully examined by others who hold dollar claims against us. Such holders of dollar claims are vitally concerned with the maturity structure of the debt, the avoidance of a continual shortening of the marketable debt, and the freedom of the Treasury to operate freely in the market without statutory restraints.

It was further pointed out that I had reviewed these problems not only with members of this Administration and with Committees in the Congress and Congressional leaders but even with people who had come to be advisers to Senator Kennedy, for more than two years; that while there had been a general understanding of the problem and a belief that something should be done, the attitude had been generally to avoid taking any steps at a given time and to postpone the making of any decisions in this field other than the generally agreed desirability of increasing our exports.

It was pointed out to Senator Kennedy that over the past two years strenuous efforts had been made to persuade other countries to remove their restraints against trade with the dollar area. Substantial progress had been made; much more needed to be done.

It was emphasized that in our efforts to bring our balance of payments into more reasonable equilibrium, we should try to avoid actions that would lessen or hamper the development of international trade and the continuing progress of the developing countries of the world. This meant that serious choices had to be made. Nothing which affected our balance of payments should be considered sacrosanct; nor should any course of action be permitted to achieve a new attractiveness simply because it is easy.

The acceleration in the gold price on the free market in London since October 1960 and the movement of gold out of the country during the last half of 1960 were carefully reviewed. It was pointed out that this movement began in serious proportions in July 1960 and had continued in varying degrees since that time. Senator Kennedy was told that during a meeting of the World Bank and International Monetary Fund in September 1960 the United States Government had expressed to the Chancellor of the Exchequer the strong belief that the price of gold should not be allowed to fluctuate substantially above the parity price of \$35 an ounce; that some central banks, notably the Bank of Italy, had been securing their requirements of gold in the London free market, thereby exerting pressure on demand in that market. It was suggested that both the British and the United States should indicate to the Governor of the Bank of Italy that the requirements of the central bank of Italy could be more appropriately met by the Bank of Italy buying directly from the United States in the normal course.

After the rise of the gold price in London, there were some statements to the effect that the British had not been certain as to whether or not gold supplied to the free market in London by the Bank of England could be replenished by purchases from the United States. I described to Senator Kennedy a meeting with the Deputy Governor of the Bank of England, Mr. Parsons, which resulted in a statement by the United States authorities that we did not object to the way in which the Bank of England was buying and selling gold in the London free market and that we had told Governor Parsons that we would expect if this practice was followed in the future, that the United Kingdom would be buying some gold from us. We stated that the London free market was their market and should be operated by them, but that we should be in daily communication, or hourly communication if necessary, in order to avoid widespread swings in the price for which gold was sold in London. Senator Kennedy was advised that this arrangement was now working satisfactorily and that we hoped we could avoid situations which would so accelerate demand as to increase the complexity of the problem.

It was suggested that a number of plans had been put forward concerning the International Monetary Fund and other efforts of international cooperation. While none of these ideas should be discarded or cast aside, they should be reviewed carefully for both current and future implications. They should be evaluated in the light of whether or not they went to the basic problem of imbalance in our international accounts or whether they simply were temporary expedients to postpone the issue or were aimed primarily at additional international liquidity rather than the settlement of imbalances.

I pointed out that we had carefully reviewed with Mr. Paul Nitze our recent trip to Germany and had made clear to him that while not asking the advice of Senator Kennedy with reference to our proposals, any counsel or advice he wished to give would be most welcome and would be taken into account.

On our return from Germany, we reviewed again with Mr. Nitze the details of our meetings in Germany, France, and Great Britain, and particularly pointed out those portions of our mission which were not accurately reported in press statements. On this occasion, we made clear that any suggestions from Senator Kennedy or his associates would be welcome.

Senator Kennedy said that he understood the difficulty of the tasks involved in our European trip and that it certainly would make his efforts in dealing with our international imbalances "an easier one." There were reviewed a number of possible measures which might be considered in trying to bring our balance of payments into more reasonable equilibrium with an analysis of both the good points and difficulties involved in each course of procedure.

The Senator was informed that long hours of study had gone into all phases of this problem in the Treasury and with other agencies of the Government and that these studies both in the form of memoranda and in oral consultations would be made fully available to him and to his associates. It was suggested that both before and after he assumed the responsibilities of the Presidency those of us who had worked closely with the problem would be available for such consultation as he might require.

Senator Kennedy thanked me for the review and stated that President Eisenhower had already given him a substantial review of his own analysis of the problem. He stated that he recognized that it was one of the important problems with which he would be confronted; that he was appreciative of the efforts which had been made for achieving a correction of the international imbalances thus far and that he was sure that his own efforts would be assisted greatly by the work which already had been done.

This memorandum was dictated by Secretary of the Treasury Robert Anderson at my request—for the President's record.

Wilton B. Persons

U.S. TRADE AND COMMERCIAL POLICY

63. Editorial Note

In his State of the Union address, given before a joint session of the Congress on January 9, President Eisenhower proposed extending the Trade Agreements Act with broadened negotiating authority for 5 years. For text of the address, see *American Foreign Policy: Current Documents, 1958*, pages 1–12. The Trade Agreements Act is Section 350 of the Tariff Act of 1930, amended by P.L. 316, June 12, 1934. (48 Stat. 943) For text of the Tariff Act of 1930 (P.L. 361), June 17, 1930, see 46 Stat. 590.

The President elaborated on his suggestion in a January 13 message transmitting his fiscal year 1959 budget recommendations to the Congress. He also proposed that Titles I and II of the Agricultural Trade Development and Assistance Act of 1954 be extended for one year, and that authorization for sales of surplus agricultural commodities for foreign currencies be increased from \$4 to \$5.5 billion. For text of his statement, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1958*, pages 17–74. For text of the Agricultural Trade Development and Assistance Act of 1954, P.L. 480, July 10, 1954, see 68 Stat. 454.

These proposals were discussed at the January 17 Cabinet meeting. Secretary of Agriculture Ezra Taft Benson “noted the emphasis being put on the value of agricultural exports in connection with legislation to extend the Reciprocal Trade Act.” Regarding the reciprocal trade legislation, Secretary of Commerce Sinclair Weeks “reported on the prospects of Congressional action on this, emphasizing the probable difficulty of getting agreement on five years as the term of extension. The Cabinet discussed at considerable length the possibility of increased public support for this program, especially through religious organizations, the League of Women Voters, exporters, etc. Sec. Dulles noted the two-fold appeal that probably had to be made as regards the dollars and cents value to the American economy and also the non-militaristic value of international cooperation, etc. He cautioned again about the economic warfare potential of the Soviet Union and the advantage that Russia would have if our Reciprocal Trade legislation should be emasculated.” (Minutes of Cabinet meeting; Eisenhower Library, Whitman File, Eisenhower Diaries)

Eisenhower again stressed the importance of the trade agreements program in the Economic Report of the President, transmitted to the Congress on January 20. He reiterated his request for a 5-year extension of the Trade Agreements Act, terming it "the keystone of our foreign trade policy," and asked for authority to reduce U.S. tariffs up to 25 percent over the next 5 years to conduct trade negotiations. He also suggested that Congress authorize U.S. membership in the Organization for Trade Cooperation, which oversaw and administered the GATT agreement between sessions.

The President also recommended the following measures relating to other aspects of U.S. foreign trade: extension of the Export Control Act, amendment of certain provisions pertaining to customs administration of the Tariff Act of 1930, and additions to the Antidumping Act of 1921. Excerpts of his report are printed in *American Foreign Policy: Current Documents, 1958*, pages 1474–1485; for complete text, see H. Doc. 279, Eighty-fifth Congress, Second Session.

On January 30, Eisenhower sent the Congress a special message formally asking for extension of the reciprocal trade agreements program and outlining the arguments in favor of his request. For text of his statement, see *American Foreign Policy: Current Documents, 1958*, pages 1514–1516. Eisenhower reaffirmed his commitment to freer world trade at his February 5 press conference; for text of his comments, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1958*, page 142. Weeks and Dulles testified in favor of the extension on February 17 and 24, respectively. For texts of their statements before the House Ways and Means Committee, see Department of State *Bulletin*, pages 432–445. At a February 26 press conference, Eisenhower reiterated his belief that mutual trade "was one of the iron imperatives of security and peace." For text of his statement, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1958*, page 192.

Clarence Randall, Chairman of the Council on Foreign Economic Policy, followed closely Congressional consideration of the reciprocal trade legislation. His observations on the bill's progress are in the Eisenhower Library, Randall Journals, CFEP, 1958, vol. VIII.

64. Memorandum From the Deputy Under Secretary of State for Economic Affairs (Dillon) to President Eisenhower

March 10, 1958.

SUBJECT

Trade Legislation and Foreign Policy

In connection with the dinner you are giving tonight,¹ you may wish to recall the vital importance of the trade agreements legislation to our foreign policy, as outlined in your message to the Congress:²

1. Trade is vital to the health and strength of the economies of our partners and allies, on which their political stability and military power heavily depend.

2. The assured future of the trade agreements program is particularly essential if we are to meet the growing Soviet economic offensive, which is aimed at dividing the free nations and swinging as many of them as possible into the Communist orbit. This is a challenge to our whole way of life, and the question is whether our system of free competitive enterprise will meet it.

3. The free nations will not meet this challenge successfully unless they continue to reduce the barriers which they impose on their own trade among themselves. Closed markets and foreign exchange shortages caused by trade barriers can force free nations into economic dependence on the Communist bloc.

4. United States leadership in the task of progressively freeing international trade is imperative. You said, "We will fail (in meeting this challenge) if the United States should now abandon the task of building a world trading system from which all free world countries can gain strength and prosperity in a free economic society."

5. A 5-year extension, rather than the usual 3-year extension, is especially necessary because of the formation of the European Common Market, which the United States wholeheartedly supports. We need the full 5 years in order to carry out careful negotiations on the uniform tariff which is to be established by the new European Economic Community during the next several years. This will further American interests in the European Common Market area and elsewhere in the free world.

Source: Eisenhower Library, Whitman File, Dulles–Herter Series. No classification marking. No drafter is indicated on the source text.

¹ Eisenhower hosted a dinner at the White House to seek support for the administration's trade legislation. Randall's account of the origin of and planning for this dinner is *ibid.*, Randall Journals, CFEP, 1958, vol. VIII, 2/23–4/28/58, March 4 and March 10 entries. His account of the dinner itself, which was attended by government and business representatives, is *ibid.*, March 11 entry.

² See Document 63.

6. Your message to the Congress concluded with the following statement, "The 5-year extension of the Trade Agreements Act with broadened authority to negotiate is essential to America's vital interests. It will strengthen our economy which is the foundation of our national security. It will enhance the economic health and strength of the free world. It will provide a powerful force in waging total peace."

Douglas Dillon

65. Editorial Note

On March 20, the Senate adopted S. 3420, which extended P.L. 480 for 2 years and increased the authorization for sales of surplus agricultural commodities for foreign currencies from \$4 billion to \$7.5 billion. At the March 21 Cabinet meeting, Secretary of Agriculture Benson "reported that the 2-year extension of P.L. 480 by the Senate was for a longer period than the Administration desired, also that the Humphrey directive for bartering agricultural surpluses was fortunately defeated and replaced by permissive barter authority. With Sec. Dulles concurring, Mr. Benson stated that the barter directed would have seriously damaged our foreign relations. He noted that Sen. Humphrey's pressure for this seemed to have stemmed from the Farmers Union." (Minutes of Cabinet meeting; Eisenhower Library, Whitman File, Eisenhower Diaries)

On March 24, Under Secretary of State Dillon testified before the House Ways and Means Committee in favor of extending the Trade Agreements Act for 5 years. For text of his statement, see *American Foreign Policy: Current Documents, 1958*, pages 1516–1524. On March 27, Eisenhower, Dulles, and Dillon spoke at the National Conference of Organizations on International Trade Policy. The text of the President's statement is printed in *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1958*, pages 243–250. For texts of Dulles' and Dillon's statements, see Department of State *Bulletin*, April 14, 1958, pages 595–601.

On April 11, Under Secretary of State Herter spoke in Seattle about the relationship between international trade and United States national security, focusing in part on the reciprocal trade bill and U.S.-Japanese trade relations. For text of this address, see *ibid.*, May 5, 1958, pages 731–734. On April 25, Herter spoke in Paris about U.S. support for efforts by the Organization for European Economic Cooperation to

liberalize European trade. For text of his statement, given at official ceremonies commemorating the Organization's tenth anniversary, see *American Foreign Policy: Current Documents, 1958*, pages 531–534.

66. Memorandum From Secretary of Agriculture Benson to the President's Assistant (Adams)

CFEP 570/info

April 29, 1958.

SUBJECT

Agricultural Surpluses as a Tool for Peace

You are aware from our earlier discussions that John H. Davis, formerly Assistant Secretary of Agriculture, has been engaged by the State Department to make a study of how U.S. farm surpluses can better serve American foreign policy. A copy of the study is attached.¹

I

The first part of this study has been completed. The cogent findings are these:

1. Our surplus production capacity in agriculture is likely to be of some duration.

2. Need for food in many countries outside the Soviet Bloc, above what can be produced in these countries or bought with foreign exchange, is likely to be large for some time to come. The maintenance of political stability in these countries will probably require that some share of this need be met by the United States.

3. This dual problem (our excess capacity and foreign need) can be alleviated by a two-sided 5-year program:

(a) Further adjustments in our programs for American agriculture, both administrative and legislative.

(b) A food-for-peace program based on P.L. 480, gradually phased out as the receiving nations are assisted to raise their own production levels.

Source: Washington National Records Center, CFEP Files: FRC 62 A 624, Agricultural Surpluses for Peace, CFEP 570. Official Use Only. Distributed as Tab A to a memorandum from Cullen to the CFEP, May 12.

¹ Not found attached.

II

To adopt a program such as Davis recommends would involve little change from what we are now doing except that:

We would be *positive* instead of *negative*;

We would recognize that the problem is of *some duration* rather than *temporary*;

We would emphasize the *helpful foreign policy aspects* rather than to treat the operation as *iniquitous surplus disposal*.

III

The program proposed would have both advantages and disadvantages.

Advantages

1. Such an operation is likely to come into being in any case. The question is whether we give it leadership.

2. Such a step would maximize our greatest advantage over the Soviet Union. It would be agriculture's share in our foreign policy.

3. Properly handled, it would lift production and living levels in the free world.

4. Much credit would be reflected to this country for good stewardship of our scientific know-how, for our compassion for the world's needy and for our contribution to peace.

5. The farm policy focus would shift from the negative fight to reduce price supports to the more positive approach: "Use our abundance in the cause of peace."

6. Such a program may increase support for the President's legislative recommendations in the Agricultural Message of January 1958.²

Disadvantages

1. If production levels in the recipient countries should fail to rise sufficiently, these countries would become dependent upon us for continuing help. We would have created a group of more or less permanent relief clients.

2. Unwisely handled, such a program could antagonize other agricultural exporting nations.

3. Such a program might easily become an excuse to further postpone needed changes in farm legislation.

4. Some people would object to spending so much American effort in behalf of other nations.

² For text of Eisenhower's January 16 special message to the Congress on agriculture, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1958*, pp. 100-107.

5. We might be accused of embracing a proposal favored by Senator Humphrey and others from the opposition camp.

IV

We have reviewed the proposal in the Department of Agriculture. While we are not now ready to advocate the program proposed, we consider that it merits consideration. It is my understanding that this also is the attitude of the State Department. Therefore, I propose the following steps:

1. The attitude of the President should be ascertained as to whether he considers the proposal deserving of serious consideration.

2. If the President is so inclined, the proposal should be reviewed by the various Departments, in the Francis Committee on Agricultural Surplus Disposal,³ and in the Randall Commission on Foreign Economic Policy.

V

If the proposal receives approval in this review and if the White House approves, one or more of these steps could be taken:

1. The President could call an International Conference on Food for Peace. (A draft statement is attached, outlining what such a Conference might attempt.)⁴

2. The Secretary of Agriculture could launch the proposal in a series of speeches.

3. The proposal could be made a part of the Administration's legislative program for 1959. (The actual legislative changes which would be required are not many. Public Law 480 in slightly modified form would be a suitable vehicle.)

I would be happy to confer with you on this matter as convenient.

E.T. Benson⁵

³ President Eisenhower established the Interagency Committee on Agricultural Surplus Disposal on September 9, 1954, to coordinate the administration of P.L. 480. The Committee, headed by Clarence Francis, consisted of officials from the Departments of Agriculture, Commerce, the Treasury, and State; the International Cooperation Administration; and the Bureau of the Budget.

⁴ Not printed.

⁵ Printed from a copy that bears this typed signature.

67. **Memorandum From the Deputy Under Secretary of State for Economic Affairs' Special Assistant (Leddy) to the Deputy Under Secretary of State (Dillon)**

May 1, 1958.

SUBJECT

Trade Agreements Renewal

On the basis of my discussions with Mr. Willoughby and Mr. Adair I think it possible that, unless we take forestalling action, an unfavorable decision on trade-agreements renewal may be taken by the White House and Commerce Department during the next week or two. The situation appears to be this:

1. The whip-count is planned for next week. Unless this count is unexpectedly favorable, Mr. Mills¹ will probably seek substantial concessions from the Administration in terms of (a) time period, (b) amount of reduction, and (c) the escape clause. He is likely to do this not only in order to get a bill which he can fight through on the floor of the House, but in order to assure his colleagues that he has squeezed all the water possible out of the Administration's position so that it will not be able to pull the rug out from under the House position when the bill gets to the Senate.

2. Mr. Mills has already said that he doesn't believe a 5-year bill can be enacted. He and others (see Ted Achilles' report on his talks with Congressmen on lead and zinc)² seem to think that a 3-year bill is the limit.

If we could retain the 25% and ward off all but minor amendments to the escape clause, a three-year bill might be worth the risk of having to go up again while negotiations with the Common Market were under way. But a 15% bill would not be a starter. I doubt that we could organize a laborious and time-consuming negotiation on the basis of such slim authority; and I am certain that we could accomplish nothing useful with it in any event. A one-year bill would be a better alternative, since it would give us another chance next year.

3. Commerce (Kearns) and Randall (according to Galbreath) are evidently thinking of 3 years, plus other amendments.

4. Mills will go to Kearns. There is no assurance whatever that the State Department will be informed or brought into the picture until the White House and Commerce in advance discussions have already

Source: Department of State, Central Files, 411.0041/5-158. Confidential. Drafted and initialed by Leddy.

¹ Wilbur D. Mills, Chairman of the House Ways and Means Committee.

² Not found. Theodore C. Achilles was Ambassador to Peru.

made up their minds. Mr. Kearns does not consult Mr. Mann. Neither he nor his staff (probably itself uninformed) keep in close touch with our staff.

5. I consider it possible that the White House and Commerce would be prepared to recede to three years and 15% plus escape-clause amendments.

Recommendation

1. That you discuss this matter with the Secretary with a view to reaching a firm Department position against retreating to a 15% bill.

2. That you discuss with the Secretary the best means of avoiding a crystalization of opinion in the White House on a 15% bill before we have an opportunity to object.³

³ No record of such a conversation has been found. Randall, however, recorded that after the May 2 Cabinet meeting, he met with Dillon, Weeks, Kearns, and Jack Martin, Eisenhower's administrative assistant, to discuss strategy on the trade bill. They decided unanimously to state that the administration wanted the bill passed as presented. (Eisenhower Library, Randall Journals, CFEP, 1958, vol. VIII, May 1–June 11, 1958, entry for May 2)

68. Editorial Note

Activity on the reciprocal trade legislation continued in May, as the House Ways and Means Committee considered and amended President Eisenhower's proposals and the administration worked for passage of its original program. Secretary Dulles stressed the importance of the administration's views on May 2 in an address in Durham, New Hampshire. For text of his statement, see *American Foreign Policy: Current Documents, 1958*, pages 26–33. On May 6, Eisenhower echoed Dulles' comments in speeches before the 14th annual Washington conference of the Advertising Council and the Republican National Committee, while Deputy Under Secretary Dillon reiterated them in remarks in New York City. For text of the President's statements, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1958*, pages 372–386; for text of Dillon's address, see Department of State *Bulletin*, May 26, 1958, pages 881–882. Dulles spoke again in support of the administration's proposals in Minneapolis, Minnesota; the text of his comments is *ibid.*, pages 847–850.

Eisenhower discussed the trade bill's status at his May 14 press conference. For text of his remarks, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1958*, page 405. Dulles also commented on the legislation at his May 20 press conference. For text, see Department of State *Bulletin*, June 9, 1958, pages 948–949.

On May 21, in a speech before the Foreign Policy Association at New York, Dillon commented again on the reciprocal trade bill's importance. The text of his remarks is *ibid.*, pages 968–970. That day, the Ways and Means Committee reported the legislation, H.R. 12591. Although it did not grant all of the administration's requests, H.R. 12591 extended the Trade Agreements Act for 5 years and authorized the President to reduce tariffs as much as 25 percent below current levels during this period. For text of H.R. 12591, see H. Rept. 1716, Eighty-fifth Congress, Second Session. In a May 22 letter to the President, House Ways and Means Committee Chairman Mills expressed his pleasure "that the bill as reported has your complete approval." He also directed Eisenhower's attention to a provision that empowered the Congress to override the President's veto of Tariff Commission recommendations on escape clauses and requested the President's comments on it. For text of the letter, see Department of State *Bulletin*, July 21, 1958, pages 133–134.

Eisenhower's May 29 reply stated the Attorney General had advised him the provision in question was unconstitutional. Further, tariff policy could have profound effects on free world security, while escape clause actions could affect national interests. The President wrote:

"To withdraw from the President his power to make decisions in escape clause cases and to grant finality to the Tariff Commission's findings and recommendations would in my opinion be a tragic blunder which could seriously jeopardize the national interest, the foreign relations, as well as the security of the United States." (*American Foreign Policy: Current Documents, 1958*, pages 1525–1526)

69. Memorandum of Conversation

June 5, 1958.

SUBJECT

United States–Japan Trade Problems

PARTICIPANTS

Mr. Koichiro Asakai, Ambassador of Japan
Mr. C. Douglas Dillon, Deputy Under Secretary for Economic Affairs
Miss Thelma E. Vettel, Acting Officer in Charge of Economic Affairs, Office of
Northeast Asian Affairs, FE

Ambassador Asakai said that in his belief perhaps the most important problems in United States-Japanese relations were those related to trade between the two countries and he had requested this opportunity to discuss certain pending trade problems with Mr. Dillon.

The Ambassador said that since textiles was one of the most important Japanese exports to the United States this subject has become a political as well as an economic question and one to which the Japanese Government must give continuing attention. Making reference to the Japanese cotton textile export program, the Ambassador said that in 1956 his Government had pressed the Japanese industry to accept restrictions on its exports, especially on gingham and corduroys (*sic*). [Note: The Ambassador was undoubtedly referring to velveteens.]¹ He said that the Japanese had thought that during the review of the program, which began in late 1957, they might negotiate some increase on those items. At the same time, he said, they realized the difficulties on the United States side and held their requests for changes in the program to the minimum, presenting only proposals which they considered to be quite reasonable. However, after exchanges of views by representatives of both sides, an agreement had not yet been reached and the discussions remained in deadlock. The Ambassador said that he had been concerned about the situation and he strongly believed that it would not be good for relations between the two countries to carry on these discussions further without hope of reaching a compromise. Therefore, he had personally recommended to his Government that the review be postponed until some time in the fall when the climate in the United States for possible adjustment might be more favorable. Meanwhile, he suggested that the Japanese program revert to the status quo ante, except for two small items:

Source: Department of State, Central Files, 411.9441/6–558. Confidential. Drafted by Vettel and initialed by Dillon.

¹ Brackets in the source text.

1) the technical change in the measurement of the table damask quota from denomination in dollars to denomination in quantity; 2) the exclusion from the program of the Japanese-type items.

Mr. Dillon replied that he quite agreed with the Ambassador that if the discussions were indeed in deadlock it would be desirable to postpone them until later in the year. He said that since he was not familiar with the details of the program or of the discussions, he could not respond directly with respect to the two items mentioned by the Ambassador. However, he said that immediate consideration would be given to the Ambassador's suggestions in an effort to respond as quickly as possible.

The Ambassador referred to the proposed Payne Amendment to the Mutual Security Act, now pending before the Congress, which is designed specifically to limit the amount of offshore procurement with Mutual Security funds.² He pointed out that if the proposed limit of 50 percent were applied item by item rather than overall, it would be a serious blow to Japan which depends greatly upon procurement under the Mutual Security Program to close its dollar payments gap.

Mr. Dillon said that he could not respond on this matter at this time since the Amendment is now in debate on the floor of the Senate. He said that the Payne Amendment was originally intended to limit such offshore procurement to 50 percent overall, but that certain elements may be trying to apply the 50 percent limitation item by item. Should the Amendment carry in either form, he pointed out, the bill would go to conference and the Executive Branch would have an opportunity to comment upon it. He could assure the Ambassador, however, that the Executive Branch does not favor the limitation in either form since it believes that offshore procurement does not greatly affect the domestic economy because it is so small, whereas it means a great deal abroad, and in any event the dollars expended come back to the United States in the form of payments for purchases from the United States.

The Ambassador then referred to the general concern in Japan over restrictive movements on the part of certain members of Congress and others against Japanese imports. He said that these movements are widely reported in the Japanese press. He pointed out that the Japanese Government is under constant pressure to increase trade with China and that, although the Japanese realize that the Communist Chinese mix trade with politics, this question was invariably associated in the Japanese press with restrictive movements in the United States against Japanese imports. He referred specifically to the King

² This amendment was incorporated in the bill reported by the Senate Foreign Relations Committee on May 26; see Document 75.

Bill, now pending before Congress, regarding tuna imports.³ He said that it was rumored that the Reciprocal Trade Agreements Act had been “bartered” with the tuna situation and that restrictions on tuna imports would be granted in exchange for support of the Trade Agreement Act. He pointed out that Japanese tuna exports to the United States amounted to \$35 million. He said that tuna is typical of Japan’s efforts toward orderly marketing of its exports to the United States. The Japanese had imposed floor prices and quotas on tuna exports. They had tried to contribute money to a common advertising campaign with the United States industry but this had not been successful. He said that the United States tuna market was a growing one and therefore important to Japan, and that it was for this reason that the Japanese had carried out an orderly marketing program in this field in order to “live and let live.” He said that the imposition of such a control program was designed primarily to avoid the necessity for United States trade restrictions but that it would be extremely difficult for the Japanese to understand the imposition of trade restrictions even after they had conducted a strict program of orderly marketing. In response to Mr. Dillon’s inquiry, the Ambassador pointed out that the King Bill would establish United States import quotas on tuna as well as large increases in import duties.

Mr. Dillon responded that, as the Ambassador knew, the Executive Branch was opposed to import quotas and to increased duties. He said that he would look into this matter.

The Ambassador continued that the President’s acceptance of the Tariff Commission’s recommendation for a 100 percent increase in the import duties on clinical thermometers⁴ had been accepted by the Japanese Government as necessary in the campaign to obtain approval of the Trade Agreements Act. Although the imports amount to only a few hundred thousand dollars, and might be considered, therefore, as insignificant, the increased duty would drastically affect the Japanese industry itself. He referred also to the bill recently passed by both Houses of the Congress changing the definition of rubber-soled shoes⁵ and pointed out that this, in effect, resulted in a large increase in the tariff on such shoes. He also referred to the concern in Japan over the umbrella frame case now pending before the Tariff Commission.⁶ With respect to all of these items, the Ambassador stressed that while in each case the imports were small they added up. These were the

³ Not further identified.

⁴ For text of the April 21 announcement of this decision, see Department of State *Bulletin*, May 26, 1958, pp. 882–883.

⁵ P.L. 85–454, June 11, 1958; 72 Stat. 185.

⁶ On March 12, the President asked the Tariff Commission for a supplemental report on the effect of umbrella-frame imports on U.S. manufacturers. See Department of State *Bulletin*, April 28, 1958, pp. 696–697.

products of small business in Japan and in each case the industry involved was drastically affected. He pointed out that the owners and workers of small businesses in Japan were among those who strongly supported a conservative Japanese government and who were not Leftists, as was the case of some of the workers in large industries in Japan. He thought that this might not be fully understood in the United States and expressed the belief that indications of continued movements toward restrictions on these small items had a cumulative adverse political effect in Japan.

Mr. Dillon said that the most important thing for world trade and for Japanese and United States trade agreement was of course the renewal of the Trade Agreements legislation, which is now before the Congress. The Executive Branch is now concentrating its efforts largely on obtaining passage of that legislation. If we are successful, he said, it will be the result of an intensive effort on the part of the President and all of the Departments of the Executive Branch, and it will be much more to our mutual benefit than actions on thermometers and various small items. Mr. Dillon said that he could understand, however, that an accumulation of actions on these small items was of serious concern to the Japanese and he pointed out in its efforts to obtain renewal of the Trade Agreement legislation, the Executive Branch had Japan very much in its mind.

The Ambassador closed his remarks on this general subject with the observation that trade was the most difficult problem between the United States and Japan. He said that questions such as those related to Okinawa could be discussed between the two governments and he believed that such discussions could result in mutually satisfactory conclusions. However, in the case of tariffs, once a tariff had been increased, there would be no further opportunity for discussion.

70. Editorial Note

The House of Representatives began debate on the reciprocal trade legislation on June 9, considering both the bill reported by the Ways and Means Committee, H.R. 12591, and a substitute bill proposed by Richard Simpson of Pennsylvania, H.R. 12676. Simpson's bill extended the Trade Agreements Act for 2 years instead of 5, denied the President the authority he had requested to cut tariffs, empowered the Tariff Commission to establish the range of tariff concessions which the President could negotiate with other nations,

and required the President to obtain congressional approval to reject Tariff Commission recommendations. Regarding H.R. 12591, see Document 68.

President Eisenhower wrote to House Minority Leader Joseph W. Martin, Jr., on June 10, urging him to work against the Simpson bill. (Eisenhower Library, Office Files, O.F. 149–B) The next day, the House overwhelmingly defeated both H.R. 12676 and a motion by Daniel Reed of New York to recommit H.R. 12591 without instructions. H.R. 12591 was adopted with only one minor amendment. In his journal, Clarence Randall termed June 11 a day of victory for the cause of liberal trade. (Eisenhower Library, Randall Journals, CFEP, 1958, vol. VIII, May 1–June 11, 1958, June 11 entry) On June 12, however, Senate Minority Leader William F. Knowland announced he would support a 3-year extension of the Trade Agreement Act, rather than the 5 years passed by the House.

71. Memorandum From the Deputy Under Secretary of State for Economic Affairs (Dillon) and the Assistant Secretary of Agriculture (Paarlberg) to the Chairman of the Council on Foreign Economic Policy (Randall)

CFEP 571/1

June 13, 1958.

SUBJECT

Renewal or Replacement of the International Wheat Agreement

The Problem

The United States has been a member of the 1949, 1953 and 1956 International Wheat Agreements.¹ The current Agreement will expire July 31, 1959. At the session of the Wheat Council which convenes on June 25, 1958, it is expected that a recommendation will be proposed calling for arrangements for a conference to consider possibilities of renewal or replacement and for the drafting of a proposed Agreement. If later a conference is held and an Agreement formulated, the United States would be free at that time to decide whether the terms were

Source: Washington National Records Center, CFEP Files: FRC 62 A 624, Renewal of International Wheat Agreement, CFEP 571. Official Use Only. Attached to a June 17 memorandum from Cullen to the CFEP.

¹ For text of the 1956 International Wheat Agreement, signed for the United States at Washington May 18, 1956, and entered into force July 16, 1956 (Parts 1, 3–5), and August 1, 1956 (Part 2), see 7 UST 3275.

satisfactory and whether it wished to adhere. However, a policy decision at this stage on United States participation is necessary in order that any part which may be taken in connection with the Wheat Council's recommendation or in an international conference may be in consonance with the policy, and in good faith.

Facts Bearing on the Problem

It is estimated that the United States carryover of wheat on July 1, 1958, will be around 900 million bushels and that, additionally, the oncoming crop may total 1,200 million bushels. Annual domestic requirements are only 600 million bushels. The Wheat Agreement is not specifically a means for the disposal of surpluses such as indicated, but it does function in the area of international trade in wheat and it does have favorable implications in connection with all wheat moving into world markets both inside and outside the Wheat Agreement.

Discussion

Since the United States can only compete in the world wheat market by means of export subsidies, the International Wheat Agreement provides a convenient framework within which our export subsidy program can be operated in an atmosphere of international cooperation. In effect the Agreement gives international acceptance and approval of our export subsidy program, for it is operated to implement the provisions of an internationally agreed marketing arrangement. This fact has important political implications, for it removes an important area of our export trade from potential controversy. Unilateral action by the United States would be a constant source of charges that we were impairing the markets of others and depressing world wheat prices. As our current arrangements have international sanction, the export subsidy program is not a source of irritation among friendly competitors. The International Wheat Agreement thus makes a positive contribution to our foreign economic policy and good political relations.

Major exporting countries other than the United States market their wheat through Government agencies, and also a few importing countries purchase wheat in this manner. In addition, all countries exercise regulatory powers over the importation and utilization of wheat. In the light of these direct interests of governments in trade in wheat, there is ample opportunity in Wheat Council contacts for fixing in the international consciousness the position of the United States as a leading wheat and flour exporting country, and for the furtherance of good will with customer countries.

Likewise, participation in international discussions on wheat matters on a continuing basis has been very beneficial as related to relationships generally with competing exporting countries. U.S. officials who are concerned with the export marketing of wheat feel that these contacts assist them in accurately appraising the U.S. competitive position in the world market and in pulsing the competitive situation so as to better judge probable reactions to U.S. competitive moves.

There is inherent in the Wheat Agreement a multilateral trade principle which is desirable as a counterinfluence to bilateralism. This might prove to be of greater importance now that a common market has been established in Europe.

Recommendation

It is recommended that the Council give approval in principle to the continued participation of the United States in an International Wheat Agreement, in the expectation that the United States would participate in any negotiating conference which may be held, working toward a revised Agreement which in the judgment of the Executive Departments concerned would be in the best interests of the United States.²

² CFEP 571/2, June 27, notified the Council that the recommendation had been approved on June 20. (Washington National Records Center, CFEP Files: FRC 62 A 624, Renewal of International Wheat Agreement, CFEP 571)

72. Memorandum From the President's Administrative Assistant (Anderson) to the President's Personal Secretary (Whitman)

June 19, 1958.

11:46 a.m.–12:15 p.m., Thursday, June 19, 1958

I accompanied Congressman Tom Curtis of Missouri in to see the President. When he told the President he was here primarily to discuss the lead and zinc problem¹ the President said "can't you bring me a pleasant subject sometime".

Source: Eisenhower Library, Whitman File, Miscellaneous Material. No classification marking.

¹ On April 24, the Tariff Commission reported to the President that lead and zinc imports were damaging U.S. producers. See *American Foreign Policy: Current Documents, 1958*, pp. 1491–1495.

Curtis highly praised Assistant Secretary Thomas Mann of the State Department for his "global plan". He said he thought this would result in much better relations between the United States and foreign countries with whom we trade. He indicated his opposition to the so-called Seaton plan² providing subsidies for lead and zinc producers.

The President indicated that he had an extremely tough decision to make and that he considered the subsidy proposal only a temporary one until some better and more permanent plan could be developed. Curtis went on then to emphasize the fact that an increase in tariff was the best way to handle the situation. He said he was talking from the premise that the lead and zinc industries have been injured and that the Government wishes to do something about it. He said that the tariff increase is the most liberal way to handle the matter and that he opposes both quotas and licenses.

He emphasized the fact that the State Department doesn't point out to other countries that handling these matters through the tariff is the best and most liberal way to do the job. He said that the use of subsidies might serve to keep in business some of the smaller, more inefficient and high cost producers, and at the same time make the big and efficient companies more money than they are entitled to. The President then stated that the pressures always come from the smaller and more inefficient producers. He said that this was just as true in the lead and zinc industry as it is in farming. He wants to know how many miners are actively engaged in mining lead and zinc. I will get these figures from the Interior Department. The President then pointed out as he has at many other meetings that with our expanding population the prices of raw materials are bound to go up eventually. He also stated that he didn't believe that we could stockpile too much in the way of minerals as someday our natural resources will be exhausted and what we stockpile will be badly needed.

Congressman Curtis then indicated that one of the reasons for the State Department's opposition to tariff increases is the fact that it will hurt our friendly trade nations. However, he stated that in lots of these countries competitive products were produced through the use of American capital employing native workers at extremely low wages. He said the "capital take" sometimes runs higher than 30% as against 10% or 12% in this country. He suggested the President have this looked into.

² A modified version of this proposal by Secretary of the Interior Fred Seaton was embodied in S. 4036, the Domestic Minerals Stabilization Act. See S. Rept. 1799, Eighty-fifth Congress, Second Session.

The meeting was friendly and animated, and I think constructive.³

J.Z.A.

³ On June 19, Eisenhower informed Senate Finance Chairman Harry F. Byrd and House Ways and Means Chairman Mills that he was suspending consideration of the Tariff Commission's findings until the Congress finished its deliberations on the Minerals Stabilization Plan. For text of the President's letter, see *American Foreign Policy: Current Documents, 1958*, p. 1496.

73. Memorandum From the Under Secretary of State for Economic Affairs (Dillon) to the Chairman of the Council on Foreign Economic Policy (Randall)

July 7, 1958.¹

SUBJECT

Need for a Commodity Discussion on Lead and Zinc

Since World War II the free world lead and zinc mining industry has experienced several periods of distress as a result of overproduction and abnormally low prices. The industry has again been in difficulty since May 1957 because of excess production and a price decline precipitated by the curtailment in April 1957 of the United States barter program for these metals. Domestic lead prices have declined 28% and domestic zinc prices 26% since that time and prices abroad have declined even more.

Domestic Aspects

United States imports of lead and zinc were negligible prior to 1940 but they have exceeded domestic production for the last five years. Increased competition from foreign producers, the gradual depletion of our higher grade ores, rising costs of exploiting lower grade deposits and the accumulation of large commercial stocks have all contributed to cause a situation of genuine distress in the domestic industry.

Source: Department of State, Central Files, 411.004/7-758. Confidential. Drafted by Mann on July 1 and cleared with ARA, L, EUR, FE, and H. Dulles approved sending the memorandum to Randall. (Memorandum from Dillon to Dulles, July 1; *ibid.*)

¹ The date is handwritten.

In 1950, 1953 and again in 1957 the domestic industry sought protection from the Tariff Commission under the Escape Clause. In 1954 and more recently in 1958 the Commission unanimously found that the domestic industry was being injured by imports and recommended increased protection. Furthermore, various bills have been introduced in Congress to provide for increased protection against imports. Since lead and zinc are mined in some 20 states and are especially important in 7 of them (Montana, Idaho, Utah, Missouri, New York, Tennessee and Colorado), the possibility of increased tariffs or quotas by act of Congress is already an ever-present possibility. Given the competitive advantage which foreign producers of higher grade ores will increasingly have in the future, it is at best doubtful that increased tariffs or quotas for the domestic industry can be postponed indefinitely, in the absence of alternative measures.

International Aspects

But a protectionist policy in regard to lead and zinc will have serious consequences for our relations with Mexico, Peru, Bolivia, Canada and Australia, and to a lesser degree with five others (Belgium, Denmark, Italy, Netherlands and Yugoslavia), all of whom have, in recent months, protested against threatened higher United States tariffs or quotas. In varying degrees additional restrictions on United States imports would create new balance of payments and budgetary problems for them. A decision by the United States Government to limit access to the American market by quotas and/or increased tariffs would be interpreted by many of them as an effort to export our unemployment and to insulate ourselves from the effects of unfavorable world industry conditions, as a design to impede their economic development and increase the disparities in international trade and national productivity which already exist, and as inconsistent with our policy to promote their economic development through United States private investment. In Latin America the issue has emotional overtones to such an extent that the position of American-owned lead and zinc mining companies would be weakened and perhaps made the subject of nationalistic action. Furthermore, the imposition of tariffs or quotas would make it necessary to compensate for the withdrawal of the concession which has been made under GATT or permit retaliatory action to be taken.

It was largely for these reasons that the Minerals Stabilization Plan, as an alternative to increased tariffs or quotas, was supported by the Department of State. However, several features of this program, especially the revisions made in Senate Committee increasing the stabilization price levels and consequently the amount of the payments, raise the question of whether the Plan, as finally approved by Congress, will not restrict imports and adversely affect world prices as

much as tariff action. In any case, it is certain that the Plan will not be considered by friendly nations as a satisfactory long-term solution of the problem.

Finally, the achievement of an approximate balance between supply and demand at a price level fair to both producer and consumer in these two commodities—the avoidance of booms and severe slumps in the industry—will contribute to a steady expansion of world trade and to strengthening of free world economic and political ties. Conversely, we shall be at a serious disadvantage in the cold war if we show no interest and make no effort to mitigate the impact of price swings in key commodities of considerable importance to the economies of others. In speaking of the “Special Problem of Primary Products” the recent “Rockefeller Report” on *Foreign Economic Policy of the Twentieth Century* makes the following statement with which we concur:

“It is not surprising, then, to find an insistent demand on the part of countries . . . ² for international agreements designed to mitigate the extreme fluctuations that cause so much human suffering and that introduce so large an element of uncertainty into their economies. Such demands have been increasing, as the recent downturn of the terms of trade for primary products has created balance of payments difficulties which seriously threaten the capacity to preserve economic, and even political, stability.

“Clearly, this is a major problem for the economy of the free world. To be adequate to its responsibilities, the economic structure of the free world must find a way to prevent excessive instability. Its meaning to many of the less developed countries will reside in its ability to discharge this responsibility.”

The Mexican, Peruvian and Australian Governments have already suggested the need for a study of the feasibility of an international commodity arrangement. Similarly, a unit of the United Nations, the Interim Coordinating Committee for International Commodity Arrangements (ICCICA), has recommended to the United Nations Secretariat that a special international meeting be called on lead and zinc and a meeting has been scheduled for September 1958. On the other hand, the attitude of the Canadian Government, whose cooperation would be essential to an effective international approach to the problem, is uncertain.

We are under no illusions concerning the difficulties that would have to be overcome in obtaining an agreement satisfactory to both producers and consumers. On the other hand, a willingness on our part to explore practicable possibilities would be of considerable psychological importance to us and offers the best prospect of substituting multilateral for unilateral action.

² Ellipsis in the source text.

It is not proposed that the United States agree to the creation of international buffer stocks or other measures requiring the expenditure of United States funds.

Recommendation

It is recommended that the Department be authorized to:

(1) Participate in international discussions of lead and zinc problems in the United Nations or in other appropriate forums.

(2) Provided such discussions indicate it to be desirable, participate in an international study group on lead and zinc for the purpose of studying trends in supply and demand and considering measures which might be adopted by governments to achieve a state of approximate balance between the two.

(3) Provided such discussions indicate it to be desirable, participate in the drafting of a possible intergovernmental commodity agreement which would be subject to approval by each participating government. Insofar as the United States is concerned, this would require Congressional approval.³

³ This memorandum was redated July 14 and distributed to the Council on Foreign Economic Policy as CFEP 574/1, July 17; see Document 76. (Washington National Records Center, CFEP Files: FRC 62 A 624, International Lead and Zinc Problems—CFEP 574)

74. Minutes of the 76th Meeting of the Council on Foreign Economic Policy

July 8, 1958.¹

[Here follow a list of participants and discussion of unrelated matters.]

III. CFEP 570—Agricultural Surpluses for Peace

1. The Council on Foreign Economic Policy discussed a proposal by the Secretary of Agriculture for an International Conference on "Food for Peace". The basis for this proposal is contained in CFEP 570/info² dated May 12, 1958. Under this proposal the free world exporting and importing nations would convene in Washington to

Source: Eisenhower Library, CFEP Records, Office Series, Council Minutes, 1958

(1) Official Use Only.

¹ The meeting was held at the Executive Office Building.

² Document 66.

determine the food needs of each nation and how these needs could be met on a commercial basis and by special programs, the latter to be employed on a “tapering-off” basis.

2. Secretary Benson stated that the purpose of the conference was to dramatize the generosity of the United States in assisting the underdeveloped countries and to make the best use of our greatest advantage over the Soviet Union, which is in the field of Agriculture.

3. Secretary Benson said that he was presenting this proposal to the CFEP at this time to see whether it had sufficient merit to justify further serious consideration.

4. After full discussion of the advantages and disadvantages of the proposal, it was the consensus of the Council that there was considerable doubt as to the wisdom of calling an International Conference on “Food for Peace” at this time. The CFEP agreed with Secretary Benson that the United States should obtain the maximum foreign policy advantages in the disposal of its agricultural surpluses and invited further suggestions to achieve this objective.

Paul H. Cullen
Lt. Col., USA
Secretary

75. Editorial Note

President Eisenhower and Secretary Dulles made an informal visit to Canada, July 8–11. On July 9, Eisenhower addressed the Canadian Houses of Parliament, speaking at length about U.S.-Canadian trade relations, discussing U.S. surplus wheat disposal policies, imbalance in U.S.-Canadian trade, and U.S. private investment in Canada. He also reassured his audience that the United States would continue its reciprocal trade program. For text of his statement, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1958*, pages 529–537.

On July 15, the Senate Finance Committee reported the reciprocal trade legislation, H.R. 12591. As reported by the Committee, H.R. 12591 extended the Trade Agreements Act for 3 years and authorized tariff reductions of no more than 5 percent each year. It also included a provision, added in an amendment proposed by Senators Strom Thurmond and Robert S. Kerr, requiring congressional approval if the President rejected Tariff Commission recommendations to raise tariffs or impose quotas on imports. Should the Congress fail to vote with the

President, the Commission's recommendations would automatically go into effect in 90 days. For text of H.R. 12591 as reported to the Senate, see S. Rept. 1838, Eighty-fifth Congress, Second Session.

Secretary Dulles telephoned Under Secretary of State Dillon the afternoon of July 22 to inquire about the bill's progress on the Senate floor. Dillon said "he has not heard recently but we got a good vote on striking out the Kerr amendment, and the Sec said he saw that in the newspapers. The Sec said Adams stopped him and gave him a confused story re the Payne amendment failing—going to conference and could we get the concurrent vote of a majority. D does not think he has been following it in detail. We always expected it would go to conf and we would work it out there and we have a deal with Mills, LJohnson and Rayburn to work it out. D does not think anything has gone off the track. Anderson talked with LJohnson at 4 and said everything was all right." (Memorandum of telephone conversation; Eisenhower Library, Dulles Papers, General Telephone Conversations)

The Payne amendment proposed enabling the Congress to override the President's veto of Tariff Commission recommendations with a majority vote in both houses. The Senate passed H.R. 12591 with amendments the evening of July 22; the Payne amendment, however, was defeated. Action on the legislation then went into conference. See Document 77.

On July 23, the House passed S. 3420 to extend the Agricultural Trade Development and Assistance Act of 1954. Among its provisions, S. 3420 extended P.L. 480 for 1 year and increased the authorization for foreign currency sales to \$5.5 billion. Action on the bill then went into conference. See Document 78.

76. Minutes of the 77th Meeting of the Council on Foreign Economic Policy

July 29, 1958.¹

[Here follow a list of participants and discussion of an unrelated matter.]

Source: Eisenhower Library, CFEP Records, Office Series, Council Minutes (1). Confidential.

¹ The meeting was held at the Executive Office Building.

II. CFEP 574—*International Lead and Zinc Problems*

1. The Council on Foreign Economic Policy considered a proposal by the Department of State that an exception be made to the CFEP policy on international commodity agreements to permit the Department of State to:

a. Participate in international discussions of lead and zinc problems in the United Nations or in other appropriate forums.

b. Provided such discussions indicate it to be desirable, participate in an international study group on lead and zinc for the purpose of studying trends in supply and demand and considering measures which might be adopted by governments to achieve a state of approximate balance between the two.

c. Provided such discussions indicate it to be desirable, participate in the drafting of a possible intergovernmental commodity agreement which would be subject to approval by each participating government. Insofar as the United States is concerned, this would require Congressional approval.

2. The basis for this proposal is contained in CFEP 574/1 dated July 17, 1958.²

3. It was agreed by the Council that the United States should participate in the international discussions on lead and zinc problems and, provided such discussions indicated it to be desirable, participate in an international study group on lead and zinc for the purposes stated in paragraph 1b above.

4. There was a difference of opinion within the Council as to the desirability of the United States participating in the drafting of a possible international lead and zinc commodity agreement (paragraph 1c above) and several suggestions were made for changing this recommendation.

5. The Chairman therefore requested the Department of State to confer with the Departments of Treasury and Interior and resubmit its recommendations on this matter to the CFEP at an early date in the light of the CFEP discussions.

[Here follows discussion of an unrelated matter.]

Paul H. Cullen
Lt. Col., USA
Secretary

² See Document 73.

77. Circular Telegram From the Department of State to Certain Diplomatic and Consular Missions

August 11, 1958, 6:18 p.m.

147. Joint State/Commerce/USIA Message. Final Congressional approval given today to bill extending President's trade agreements authority for four years and granting authority reduce existing tariffs by 20 percent or 2 percentage points. President has said publicly bill is acceptable and he will sign even though it does not contain everything he deems desirable. Information policy guideline: All posts should make optimum appropriate use this favorable development in speeches, statements, etc., emphasizing this is longest period for which authority granted in history of program, that new Act gives meaningful authority reduce duties which not lost year by year as in 1955 Act, and that it reflects stability of liberal US foreign trade policy. Will inform when bill signed. Watch for wireless file Fitch column.

Foreign officials likely inquire re certain amendments in new Act which they may interpret as limiting authority reduce tariffs in trade negotiations or threatening increased tariffs and other import restrictions, especially:

1. Peril points:

a) Without excluding other factors Tariff Commission required, to extent practicable, to determine average invoice prices at which articles under consideration for tariff concessions are sold for export to US, and average prices at which competitive domestic articles sold at wholesale in US. *Comment:* Should not be interpreted as indicating US Government adopting cost-of-production basis for tariff-making.

b) On articles being considered for tariff concessions Tariff Commission required, to extent practicable, to estimate maximum increase in imports which may occur without causing serious injury. *Comment:* Not per se indicative increased resort to import quotas.

c) Escape clause investigation to be instituted automatically whenever Tariff Commission finds in peril-point investigation that duty increase required to avoid serious injury. *Comment:* This is procedural amendment to facilitate earlier settlement issues in such cases.

2. Escape clause:

a) President is given increased authority to raise rates, and authority for first time to transfer items from free to dutiable list. *Comment:* Emphasize such authority permissive not mandatory.

b) By approval within sixty days of concurrent resolution by two-thirds vote of each House, Congress may override President if he disapproves Tariff Commission recommendation in whole or part.

Source: Department of State, Central Files, 411.0041/8-1158. Official Use Only. Drafted by Kallis; cleared in draft with Adair, Kirlin, Metzger, E, Commerce, and USIA; and initialed for the Secretary by Willoughby. Sent to all diplomatic posts and Geneva.

Comment: Point out i) does not eliminate Presidential discretion in escape clause actions; ii) two-thirds vote in each House much more difficult than simple majority.

3. National security provision:

a) Specifies certain factors to guide Director Office of Defense and Civilian Mobilization (ODCM) and President in considering whether imports are threatening impair national security. *Comment:* Point to care with which existing national security provision applied and fact that President retains discretion.

b) If Director ODCM advises President that in his opinion impairment to national security threatened by imports any article, President must adjust imports such article and its derivatives unless he determines imports not threatening impair national security. *Comment:* Emphasize history of care taken in ODCM findings under existing legislation, and fact that President retains discretion.

Missions in GATT countries should inform consular posts under their jurisdiction. Kits containing text and analysis of new Act and background material will be airpouched soon to all diplomatic missions and to principal consular posts in GATT countries.¹

Dulles

¹ Eisenhower signed the bill, P.L. 85–686, “The Trade Agreements Extension Act of 1958,” on August 20. For text of the President’s statement upon signing the legislation, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1958*, p. 632. For text of P.L. 85–686, see *American Foreign Policy: Current Documents, 1958*, pp. 1526–1535.

78. Editorial Note

House and Senate conferees reported a compromise version of S. 3420 to extend P.L. 480 on August 22. Both the House and the Senate passed the bill that day. S. 3420 thus became P.L. 85–931, which President Eisenhower signed on September 6. As enacted, P.L. 85–931 extended P.L. 480 for 18 months until December 31, 1959, and increased the authorization for foreign currency sales from \$4 billion to \$6.25 billion. For text of P.L. 85–931, see *American Foreign Policy: Current Documents, 1958*, pages 1535–1538.

79. Telegram From the Department of State to the Embassy in Canada

August 27, 1958, 4:30 p.m.

127. Dept currently exploring with Embassies Australia, Canada, Mexico, Peru, four largest producers and exporters, possibility prompt agreement in principle to reduce lead-zinc exports next twelve months pending establishment at London meeting Sept¹ of study group to work out longer term solution. For short term Dept proposing control over world exports as to quantity, not destination. Method implementation of controls to be left each country. Agreement in principle would strengthen position USDel at London meetings and is type of action which must be agreed to multilaterally if unilateral action to be avoided. If no immediate short-term solution possible, tariff increase appears inevitable although Dept hopes it can be staved off until after appraising results of London meeting. Following defeat Minerals Stabilization Plan Aug 21² industry spokesman informed Dept large part of industry would close down shortly if relief not provided within 30 days. Industry still wants tariff action but willing consider other effective remedy if forthcoming promptly. White House under pressure take action Tariff Commission recommendation, and Purtell Amendment to Trade Agreements Extension Act³ now permits much higher level of duties than formerly.

Mexicans have indicated their continued opposition to tariff increase and willingness to cooperate in export controls.

Canadians called at Dept twenty-sixth.⁴ Assistant Secretary Mann pointed to US problems regarding solution: 1) USGovt cannot reduce production without Congressional authority; 2) anti-trust laws prevent US industry participation in voluntary industry arrangements. Noted US industry had voluntarily cut back production 25% below level at beginning 1957 to prevent collapse prices. Smelters had been stockpiling with mounting financial burden, straining reserves, which cannot continue much longer. Imports in 1958 have continued at record

Source: Department of State, Central Files, 411.006/8-2758. Official Use Only. Drafted by Gilbert E. Larsen, cleared by Clarence W. Nichols, and initialed for Herter by Mann.

¹ U.N. Secretary-General Hammarskjöld called the meeting to discuss copper, lead, and zinc.

² The Senate adopted S. 4036 on July 11. The House of Representatives, however, rejected the bill on August 21. Regarding S. 4036, see footnote 2, Document 72.

³ Section 3(a) (1) of P.L. 85-686, it enabled the President and the Tariff Commission to convert specific duties to ad valorem equivalents based on their 1934 values, and to increase ad valorem duties by as much as 50 percent of their 1934 values.

⁴ No record of this conversation has been found.

levels. Asked if Canadians could agree in principle to short-term proposal. Controls would apply to both ores and metals. Dept receptive to ideas other govts. Need for action urgent.

Herter

80. Memorandum From the Assistant Secretary of State for Economic Affairs (Mann) to the Deputy Under Secretary of State for Economic Affairs (Dillon)

September 18, 1958.

SUBJECT

Strengthening of the GATT

Problem:

Pending a decision by the Administration on whether to press for Congressional approval of U.S. acceptance of the OTC Agreement, it is highly desirable for the United States to seek and support practical measures for achieving essential OTC objectives.

Discussion:

Although the session of Congress beginning January 1959 is probably the most favorable time in the foreseeable future to press for Congressional approval of the OTC Agreement, there are several persuasive arguments against such a course of action:

1. It would take a major Administration effort, probably out of any reasonable proportion to the substantive importance of having the OTC.
2. Failure after such an effort would be a major setback for the Administration's trade program both domestically and abroad.
3. It may be difficult to continue to argue convincingly that the OTC is essential for administering the GATT.
4. Other countries recognize the limited scope (in a practical sense) of the OTC, as negotiated, and its symbolic value as an indication of U.S. leadership has greatly diminished.

Source: Department of State, Central Files, 394.41/9-1858. Confidential. Drafted by Alfred E. Pappano, Chief of the Commercial Policy and Treaties Division, Office of International Trade; cleared with L/E, TA, H, OT, and W; and initialed by Mann. The following typewritten notation appears beneath the clearance for H: "The Senatorial advisors to GATT Conf should be carefully briefed on this."

It will be necessary to reassess the Administration's position of support for the OTC in the light of these and other factors, including the composition of the new Congress. Meanwhile, however, it is highly desirable for the United States to be able to seek and give active support to other means of achieving the essential objectives of the OTC, i.e., strengthening of the operation of the GATT and placing U.S. acceptance of the GATT on a firm and permanent basis.

The major weakness in the present operation of the GATT is its unwieldiness through lack of a continuing organization and the current practice of conducting its main business through a single annual session of the Contracting Parties. But this weakness could be very substantially overcome by increasing the frequency of meetings: say, quarterly working-level meetings to dispatch current business and a brief (two weeks) annual session with high-level (Ministerial) representation to deal with major problems and policy issues. This plan would undoubtedly involve some strengthening of the permanent representation of Contracting Parties in Geneva, but the additional cost would be small. For example, smaller or poorer countries could use members of their missions at nearby posts for most of this expanded program. The United States should propose or support such a plan and be prepared to strengthen its own GATT representation as may be required.

A second major step would be U.S. definitive acceptance and application of the GATT, which in itself would have a significant strengthening effect in placing U.S. support of the GATT on a firm and permanent basis. Indeed, such an act of positive U.S. leadership would probably go far to offset any adverse repercussions abroad of a possible change of Administration policy regarding the OTC. Maximum impact would be obtained by announcing U.S. definitive acceptance of the GATT at the 13th Session, preferably in a speech at the meeting of Ministers.

The principal effects of definitive application of the GATT would be the change in formal status of application and the requirement of six months' written notice of withdrawal, as compared with the sixty days' written notice in the present situation of provisional application. In addition, definitive acceptance would have to be accompanied by a reservation to the effect that Part II of the GATT would be applied to the fullest extent not inconsistent with legislation in existence on the date of provisional accession (October 30, 1947). There would also be an annual review by the Contracting Parties of the extent to which such inconsistencies might have been eliminated, although there would be neither obligation nor commitment to eliminate inconsistencies.

Recommendation:

That you approve and authorize the following course of action:

1. Propose or support an expanded program of working-level meetings of the CPs to dispose of current business, with one brief high-level session each year on major problems and policy issues.
2. Call on other CPs to strengthen their representation at Geneva sufficiently to join meaningfully in such a program and be prepared to strengthen U.S. representation as may be required.
3. Announce at the Ministerial meeting that the United States is prepared to accept the GATT definitively.¹

¹ Dillon initialed his approval on September 19. A typed notation beside his initials on the source text reads: "but should be checked out with Commerce. CDD".

81. Circular Telegram From the Department of State to Certain Diplomatic Missions

September 20, 1958, 3:19 p.m.

300. Joint State–USIA Message. President expected announce Monday¹ taking escape-clause action lead and zinc. Presidential proclamation giving details will be pouched. Plan institute quotas effective October 1 restricting imports to 80 percent of average competitive imports during 1953/57 period. Quotas allocated on quarterly basis to each principal country of origin and other countries combined and subdivided into lead ore, lead metal, zinc ore, zinc metal. Principal countries affected: Australia, Bolivia, Canada, Belgium, Guatemala, Luxembourg, Belgian Congo, Mexico, Peru, Italy and Yugoslavia.

Tariff Commission report finding injury and recommending import restrictions made in April. Presidential consideration suspended while Congress considered Minerals Stabilization Plan. Since Congress failed enact plan consideration Commission report necessary.

Source: Department of State, Central Files, 411.006/9–2058. Official Use Only. Drafted by Harry Conover, Deputy Director of the Office of Inter-American Regional Economic Affairs; cleared with E and USIA; and initialed for the Secretary by Deputy Assistant Secretary of State for Inter-American Affairs William P. Snow. Sent to Embassies in the other American Republics, except Guatemala City, La Paz, Lima, Mexico City, and Tegucigalpa. A virtually identical telegram which also listed specific quotas was sent to 22 posts, including the 5 listed above, on September 18. (Circular telegram 284; *ibid.*, 411.006/9–1858)

¹ September 22.

Immediate action restricting imports imperative view serious aggravated distress domestic industry, sharp curtailment of production, increased commercial stocks, decline in prices and high imports.

Administration conscious importance exports lead and zinc to friendly countries. Hopeful recent international discussion in London on lead and zinc will lead to a multilateral solution of problem through further discussion. Considers long-term outlook US will be expanding market for imported lead and zinc. Our Government's concern [about] interest of other countries shown by institution of stockpile buying in 1954 instead restriction imports when Tariff Commission found injury from imports, Administration's recently proposed Minerals Stabilization Plan, our government's participation in recent international discussions and desire continue them actively with hope of reasonably early solution.

In any discussions prompted by local governments or press queries or initiated at Embassies' discretion, Embassies should orally stress (a) quotas selected in preference to tariff in this exceptional case because compatible with international discussions regarding export curtailment, our hope that a permanent solution can be worked out on international basis promptly and because quotas allow foreign countries realize larger portion proceeds from sales in US market, (b) formula for distribution quotas is genuine effort equitably share burdens of acute imbalance between supply and demand, (c) we hope action will have effect of preventing further decline in prices which foreign exporters will receive in US market and may possibly bring about slight increase those prices, (d) US action subject to review when acceptable multilateral solution worked out.

Dulles

82. Editorial Note

The White House announced on September 22 that President Eisenhower had decided to restrict lead and zinc imports into the United States. In identical letters to Senate Finance Committee Chairman Byrd and House Ways and Means Committee Chairman Mills, the President explained, "I recognize that the imposition of quotas is an unusual step, but it is better suited than a tariff increase to the unique circumstances of the case and more likely to lead to enduring solutions beneficial to the entire lead and zinc industry."

Proclamation No. 3257 outlined the specific steps to be taken. For text of the announcement, issued at Newport, Rhode Island, where the President was on a working vacation, see Department of State *Bulletin*, October 13, 1958, pages 579–580. For text of Proclamation No. 3257 and Eisenhower's letter, see *American Foreign Policy: Current Documents, 1958*, pages 1496–1501.

Foreign reaction to the U.S. announcement was generally negative, particularly in Peru. Ambassador Achilles reported that the Peruvian response ranged "from strong to violent" and that this "issue is one of very few on which all political parties seem to be in agreement." (Telegram 174 from Lima, September 24; Department of State, Central Files, 411.004/9–2458) Two days later, he warned "there will be long lasting damage to US national interest unless present climate is quickly changed." (Telegram 182 from Lima, September 26; *ibid.*, 411.006/9–2658)

Although Australian aversion to the U.S. action was less intense (telegrams 113 and 117 from Canberra, September 24 and 26; *ibid.*, 411.006/9–2458 and 411.006/9–2658), Eisenhower wrote to Prime Minister Menzies on September 29 to assure him of U.S. willingness to discuss other solutions to the lead and zinc problem. (Telegram 101 to Canberra; *ibid.*, 411.006/9–2958) Additional documentation on the quotas' international repercussions, which continued into late November, are *ibid.*, 411.006 and 394.41.

83. Telegram From the Department of State to the Embassy in Japan

October 10, 1958, 6:40 p.m.

548. Based on uncleared memorandum of conversation.¹ In first of courtesy calls Japanese Trade Delegation² today raised question with Assistant Secy Mann of new textile export quota suggesting, in view increased U. S. demand due growing population and more pros-

Source: Department of State, Central Files, 411.9441/10–1058. Limited Official Use. Drafted by Gleeck, cleared by Parsons, and initialed for the Secretary by Mann.

¹ Not printed. (*Ibid.*)

² Comprising 11 Japanese businessmen and 2 Japanese Government officials, the Japanese Trade Mission arrived in Washington to begin a 6-week tour of the United States on October 9. The Mission held consultations in Washington October 10–15. Memoranda of conversations on the 14th GATT and textile matters, Japanese-U.S. trade relations, and Japanese-Chinese Communist trade relations, held at the Department of State on October 15, are *ibid.*, 411.9441/10–1558.

perous U.S. textile industry, 10% increase in quotas especially made up goods. Mann emphasized higher trade volume should be sought in non-sensitive items and inquired as to capacity of Japanese cotton textile producers to shift from sensitive to non-sensitive products.

Mann also solicited Japanese views on growing volume uncontrolled Hong Kong exports which threaten success of Japan's export restraints. Japanese expressed worry about both Hong Kong exports to U.S. and Chinese Communist competition in SEA.

In brief press conference following meeting Japanese stated (1) mission seeking ways of narrowing gap in U.S.-Japan trade, (2) conversation with Mann touched on no substantive issues, (3) prospective increases in trade visualized in unnamed sundry goods, (4) mission wished to promote orderly marketing but recommended against general spread voluntary control system (5) noted pressure in Japan for trade with China strong but not critical and (6) Japan would not recognize Commie China as price for renewed trade.

Dulles

84. Position Paper Prepared in the Department of State

CFEP 574/2

October 17, 1958.

POSITION PAPER FOR UNITED STATES DELEGATION ON LEAD AND ZINC STUDY GROUP

The Delegation should make clear at the beginning of the meeting and as often thereafter as may be necessary to prevent misunderstanding that the United States considers that the discussions are exploratory and that U.S. participation therein does not imply any commitment on its part to support any particular formula or to participate in an international commodity agreement for lead and zinc. In this connection, the Delegation should make clear that any proposals made during the exploratory discussions would in any case, as far as the United States is concerned, have to be submitted to the appropriate policy making officials (Council on Foreign Economic Policy) for consideration on their merits.

Source: Washington National Records Center, RG 59, CFEP Files: FRC 62 A 624, International Lead and Zinc Problems—CFEP 574. Official Use Only. There is no drafting information on the source text. Attached to it, however, is a memorandum from Cullen to the Council on Foreign Economic Policy which states the paper was drafted in the Department of State.

The Delegation should suggest that a better balance in world production and consumption of lead and zinc is desirable and might best be achieved during the next year or so by undertaking among exporting countries, in consultation with importing countries, to reduce the level of exports of lead and zinc and the ores of these metals. If this type of arrangement is unacceptable to other countries, the Delegation may, subject to the instructions set out in the preceding paragraph discuss such alternative proposals for correcting the present imbalance between the supply and demand as may be made by others.

The United States Delegation should not participate in the drafting of any commodity agreement nor should it present any drafts of its own. If a draft or drafts should be presented by others, the Delegation may discuss it provided it is made clear that discussion is not to be interpreted as United States approval.

Should the discussions reveal majority sentiment in favor of the establishment of a study group under the aegis of the United Nations to facilitate international discussion of the problem of international trade in lead and zinc, the United States Delegation may vote in favor of the establishment of such a group, provided it makes clear that the United States Government reserves the right to withdraw from the study group whenever in the judgment of this Government the study group has ceased to serve a useful purpose.

In the course of the discussions, other Delegations may inquire as to the interpretation placed by the United States on the references which have been made to an "equitable sharing of the burden of readjustment". In reply to any such inquiries, the Delegation should state that the concept behind those reference is that the lead and zinc mining industry in this country reduced production by about 25 per cent in early 1958 in an effort to remedy the imbalance. Furthermore, the United States considers that the import quotas already constitute an equitable sharing of the burden.

Other Delegations may inquire whether the United States is in principle prepared at this time to increase the level of permissible imports of lead and zinc into this country. The Delegation should respond to any such inquiries in the negative, pointing out that any increased imports into the United States market at this time would result in price declines which would serve neither the interests of the United States industry nor the interests of the foreign suppliers in this market. At the same time, the Delegation should make clear that in the judgment of the United States any multilateral arrangement should have as its objective an appropriate balance between the supply and demand in all markets and therefore any such arrangement should have the flexibility needed to adjust to changed conditions.

The Delegation should make clear, if the question arises, that the United States is not prepared to contribute to any buffer stock arrangement.

85. Minutes of the 81st Meeting of the Council on Foreign Economic Policy

October 28, 1958.¹

[Here follow a list of participants and discussion of an unrelated matter.]

II. CFEP 574—International Lead and Zinc Problems

1. The Council on Foreign Economic Policy continued its consideration of the proposed position paper² prepared by the Department of State for the use of the U.S. Delegation to the international meetings on lead and zinc problems beginning in Geneva on November 6, 1958.

2. The specific issue before the Council was whether a Department of the Treasury recommendation should be incorporated in the position paper stating that the U.S. Delegation should announce at the beginning of the meetings that the United States would not become a member of an international lead and zinc commodity agreement.

3. Mr. Dillon stated that it was not the intention of the Department of State to suggest that the CFEP policy on international commodity agreements be changed. Mr. Dillon assured the CFEP that any statements made by the Department of State in the past were not intended to commit the United States to participation in an international lead and zinc commodity agreement.

4. The CFEP reaffirmed its policy on international commodity agreements and expressed its reluctance to have the U.S. participate in an international lead and zinc commodity agreement unless it is clearly demonstrated to be in the national interest.

Source: Eisenhower Library, CFEP Records, Office Series, Council Minutes, 1958 (1). Confidential.

¹ The meeting was held at the Executive Office Building.

² CFEP 574/2, Document 84. The Council began discussing the paper and the Treasury Department's recommendation on October 23, but did not resolve the question and agreed to resume its deliberations on October 28. (Minutes of the 80th Meeting of the Council on Foreign Economic Policy; Eisenhower Library, CFEP Records, Office Series, Council Minutes, 1958 (1))

5. Mr. Dillon stated that if it appeared at the meetings that it might be in the national interest of the United States to participate in an international lead and zinc commodity agreement, this question would be presented to the CFEP as soon as possible, without implying any commitment that the United States will participate in such an agreement.

6. The CFEP agreed that the United States had no alternative but to participate in the international lead and zinc meetings and that the conduct of the negotiations at the meetings was clearly the responsibility of the Department of State.

7. The issue as stated in Paragraph 2 was not resolved. It was agreed that Mr. Dillon and Mr. Anderson would attempt to resolve this matter and that any such resolution of the issue would be agreeable to the Council on Foreign Economic Policy. It was further agreed that if no resolution were possible, the matter would be presented to the President for decision.

8. Mr. Kearns observed that further clarification of U.S. policy on international commodity agreements would be useful and he was invited to submit his recommendations in this respect.

9. Subsequent to the meeting, the Departments of State and Treasury reached agreement on the position paper by making the following changes:

a. Substitute the following sentence for the first sentence of the position paper so that it now reads as follows:

“The Delegation should make clear at the beginning of the meeting and as often thereafter as may be necessary to prevent misunderstanding that the United States considers that the discussions are exploratory and that U.S. participation therein does not imply any commitment on its part to support any particular formula or willingness to participate in an international commodity agreement for lead and zinc.”

b. Delete the last sentence of the next to the last paragraph.

10. The position paper as finally agreed upon is attached to these minutes.³

Paul H. Cullen
Lt. Col., USA
Secretary

³ Not found attached.

Participants at the meeting in Geneva recommended forming a lead and zinc study group. Preliminary steps toward organizing such a group were taken at a meeting held at New York in April 1959. The first meeting of the International Lead and Zinc Study Group was held at Geneva January 27–February 3, 1960. See Department of State *Bulletin*, May 9, 1960, pp. 758–765.

86. **Memorandum From Acting Secretary of State Herter to President Eisenhower**

December 29, 1958.

SUBJECT

Initiation of Preparations for Tariff Negotiations

At the recent 13th Session of the Contracting Parties to the General Agreement on Tariffs and Trade,¹ the United States proposed that the Contracting Parties sponsor a new round of tariff negotiations beginning in mid-1960. In making this proposal the United States Delegation pointed out that negotiations beginning in mid-1960 would fit in with the need for the six member countries of the European Economic Community to adjust their existing tariff concessions before taking their first step on January 1, 1962 toward establishing a common external tariff. Negotiations at that time would also make possible optimum utilization of the authority granted by the Congress in the Trade Agreements Extension Act of 1958.² The need to negotiate with the European Economic Community was, in fact, one of the principal points advanced by the Executive Branch in support of extension of the trade agreements authority.

The new round of tariff negotiations is certain to be extraordinarily technical and difficult in view of the complexities resulting from the development of the common external tariff. Preparations for the negotiations are correspondingly complex and time-consuming, and should be given high priority by all Government agencies concerned. I suggest that you mention this matter at an early meeting of the Cabinet with a view to encouraging members whose departments have responsibilities in this field to issue appropriate instructions to their staffs to proceed with the necessary preparations as rapidly as possible.³

Source: Department of State, Central Files, 394.41/12-2958. Official Use Only. Drafted by Kallis on December 18 and cleared by Birch, Frank, and Dillon. The source text bears the following notation written in an unidentified hand: "President has approved proposal and Goodpaster gave to Cabinet Secretaries. Per AJG 1/5/59."

¹ Held at Geneva October 16–November 22. For text of the U.S. Delegation report on the session's accomplishments, see *American Foreign Policy: Current Documents, 1958*, pp. 1549–1556. Additional documentation on U.S. participation in the session is in Department of State, Central File 394.41.

² See footnote 1, Document 77.

³ The Department of State had already begun its preparations. Instruction CA-4894, December 5, asked posts to discuss the negotiations with their host governments. (Department of State, Central Files, 394.41/12-558) Consultations were held with foreign embassy officials in Washington in early December. (Memoranda of conversation; *ibid.*, 394.41/12-958 through 394.41/12-1258)

A suggested statement is enclosed for your use.

Christian A. Herter⁴

Enclosure⁵

SUGGESTED STATEMENT BY THE PRESIDENT

SUBJECT

Initiation of Preparations for Tariff Negotiations

On signing the Trade Agreements Extension Act of 1958, on August 20 of this year, I said, “. . . ⁶ the free nations are now assured of a continuity in United States trade policy that will make possible new international negotiations to promote mutually advantageous commercial exchange and increased world productivity.”

In such negotiations under the General Agreement on Tariffs and Trade we will be faced with unprecedented complexities arising out of the tariff changes which are an integral part of the newly created European Economic Community. As a consequence, the project of preparing for and conducting the negotiations is an enormous one which presents a challenge to every agency of the executive branch concerned with the trade agreements program. It is vital that this project be promptly and carefully planned, vigorously pushed forward, and successfully concluded. This result can be achieved only with the full cooperation of every agency having responsibilities in the trade agreements field.

Under the 1958 Extension Act, authority to enter into trade agreements expires on June 30, 1962. In view of the evident complexities, even to meet this date would require immediate initiation of preparatory steps and diligent attention to every phase of the work. It must be our aim, however, to complete the negotiations and enter into trade agreements well in advance of June 30, 1962 in order that the results of our important negotiations with the European Economic Community can be made effective by January 1, 1962 when the common external tariff of the Community comes into effect.

I therefore request that every agency concerned begin at the earliest opportunity and give continuing high priority to the work required to fulfill its responsibilities under the trade agreements legislation and relevant executive orders.

⁴ Printed from a copy that bears this stamped signature.

⁵ No classification marking. Prepared in the Department of State.

⁶ Ellipsis in the source text.

87. Editorial Note

On January 14, 1959, Secretary Dulles described for the Senate Foreign Relations Committee the three basic purposes underlying U.S. foreign policy. Regarding economic progress, he mentioned other industrialized states' contribution to international economic development, then concluded:

"In the years ahead we must, through our trade and financial policies, continue to promote recognition and positive use of the benefits of interdependence. These benefits and the inevitability of economic interdependence become more clear each year. What is being done in the European Community of Six provides an example and an inspiration for greater economic cooperation elsewhere in the world." (*American Foreign Policy: Current Documents, 1959*, pages 7-16)

Under Secretary Dillon appeared before the Committee on January 21. In his outline of the main objectives of U.S. foreign policy, he described trade as "the basic instrument" for countering the Soviet economic offensive. The text of his statement is *ibid.*, pages 1424-1432. The following day, the Committee on World Economic Practices, chaired by Harold Boeschstein, submitted its report on combating the Soviet economic offensive to President Eisenhower. The "Boeschstein Report," released to the public on March 2, reiterated the themes of expanding world trade and encouraging economic interdependence among free world nations; text is *ibid.*, pages 1432-1449. For further documentation on the Committee and its report, see Documents 11 ff.

88. Editorial Note

On January 16, Leo Hoegh, Director of the Office of Civil and Defense Mobilization, advised the Department of Defense that two turbines for the Greers Ferry Dam in Arkansas should be purchased from a U.S. firm rather than from a British manufacturer which had submitted a lower bid. Hoegh based this decision on the national security exemption of Executive Order 10582. E.O. 10582, issued on December 17, 1954, outlined the procedures for implementing the "Buy American" Act of 1933. (19 *Federal Register* 8723) For text of the "Buy American" Act (Title III of the act of March 3, 1933), see 47 Stat. 1520.

Secretary of State Dulles commented on this decision and how it related to the administration's support for liberalized trade among free world nations at his January 27 press conference. For text of his comments, see Department of State *Bulletin*, February 16, 1959, page 225.

89. Letter From Foreign Secretary Lloyd to Secretary of State Dulles

London, January 27, 1959.

DEAR FOSTER: We have such a multitude of things to deal with that it is very difficult to keep track of them or to deal with them all on a personal basis between us. I think, however, that you should personally know how very much worried Harold and I are about the decision to reject the British bid to supply two turbines for the Greers' Ferry Dam project in Arkansas. I hope you will forgive me if I put to you quite frankly what is in our minds.

Surely it is all wrong to offer a contract to tender when the whole transaction is later made into a farce. While no doubt the decision was made in good faith, the British public really cannot be expected to believe that the whole security of the United States might be imperilled by the purchase of two turbines from an ally like the United Kingdom.

If this were an isolated matter I would not trouble you with a message. Indeed in many ways 1958 has been a good year for economic co-operation between us particularly over world issues such as increasing the resources of the Bank and Fund. Also the United States continues to be a great and growing market for British goods. But there have been a disquieting number of cases involving the interest specifically of the United Kingdom, where United States action can only seem to us to be something of a retreat from interdependence. For instance, the adverse discriminatory effect of the United States wool tariff quota on United Kingdom exports has become increasingly evident. The United States proposal to make available nuclear fuel for United States export reactors on terms likely to prejudice the development of normal trade is bound to hurt us more than anyone else.

Source: Department of State, Presidential Correspondence: Lot 66 D 204. Top Secret. Attached to the source text and also dated January 27 were a memorandum from John A. Calhoun to Mann instructing E to draft a reply to Lloyd's letter and a transmittal note from Minister at the British Embassy Hood to Dulles. The latter bears the handwritten notation, "Sec saw."

There is also the continued indifference of the United States Defense Department to offers of British aircraft engines, despite the world standing of the latter, and even when the available British types have no United States competitor.

I would like to think that you would look at this situation in the perspective I have set out. These things may seem small, measured against the United States economy as a whole, but for Britain, which lives by trade, such things as these hit us at our most sensitive point.

I do not want to exaggerate the importance of this one decision. I hope very much it is not going to be an unfortunate precedent but we have worked so hard together to get really close and effective co-operation between our two countries in the field of foreign affairs that I feel that I must tell you personally of our great disappointment at this development. The effect upon public opinion of all shades has been deplorable.¹

Yours ever,

Selwyn²

Enclosure³

Letter From Prime Minister Macmillan to President Eisenhower

London, January 27, 1959.

DEAR FRIEND: I expect you are as much worried about the Greers Dam turbine contract as I am. Representations have been made in the normal way by Harold Caccia to Foster and also to Jock Whitney by our trade people. I am not going to argue the pros and cons because I know so well how difficult these questions are.

What really worries me about this turbine contract is the injury that so small a thing can do to the cause that you and I have so much at heart of Anglo-American co-operation and understanding and the liberalism and interdependence with which your name will always be associated.

I do not know whether it is too late or whether your machinery allows some re-opening of the question. If so I can only tell you that it would do a great deal of good if the decision could be reversed.

¹ Dulles' February 1 response described the procedures followed in the Greers Ferry case; assured Lloyd that this decision did not set any precedent, as all future cases would be decided on their own merits; and noted that Dillon had discussed the nuclear fuel decision with Ambassador Caccia. (Telegram 6967 to London; *ibid.*)

² Printed from a copy that bears this typed signature.

³ Top Secret.

In any case, I personally will do everything I can to reduce the impact of this upon our folk here rather than exaggerate it. You can rely on me for this. But of course it would be very much more effective if the decision could be reconsidered.

With warm regards,
As ever,

Harold Macmillan⁴

⁴ Printed from a copy that bears this typed signature.

90. Telegram From the Department of State to the Embassy in Australia

February 9, 1959, 9:15 p.m.

270. From State and Agriculture. In farm message January 29,¹ the President said vigorous efforts must be continued to expand markets and find additional outlets for our farm products. Said food can be powerful instrument for free world in building durable peace. Announced steps would be taken explore anew other surplus producing nations practical means utilizing agricultural surpluses this purpose.

Benson will testify on farm message before House Committee Agriculture at 10 am, EST, Feb 10. Expected he will indicate President is requesting him proceed accordance with following letter to him from President (telegraphically shortened):

Begin verbatim text.

"My message to Congress January 29, recommending several measures improve existing farm programs, stressed need for effective use our agricultural abundance in meeting food needs home and abroad. In that message I reported steps being taken with other exporting nations to explore all practical means using food for peace.

Today our supplies are moving to foreign countries in large volume under special programs, and other nations with agricultural surpluses help in similar ways. Yet in some parts of world millions of people are still hungry. This condition due partly to problems that cannot be wholly remedied by larger food supplies from abroad. Even

Source: Department of State, Central Files, 411.0041/2-959. Official Use Only. Drafted by Howard M. Gabbert, Assistant Chief of the Commodities Division of the Office of International Resources, and R.H. Roberts of the Department of Agriculture; cleared by S/S, with OFD and Agriculture, and in substance with Goodpaster; and initialed for the Secretary by Leddy. Also sent to Wellington, Buenos Aires, and Ottawa.

¹ For text, see *American Foreign Policy: Current Documents, 1959*, p. 1489.

so, we in America must do more assure food abundance—our own and that of our friends abroad—is used as effectively as possible where it most urgently needed.

My earnest hope is our people will put their hearts as well as minds into this effort. It is more than surplus disposal, more than attempt foster ties and sympathies for America. It is effort that I consider in full keeping with American tradition—helping people in dire need who with us are devoted upholding and advancing cause of freedom. It is undertaking that will powerfully strengthen our persistent and patient efforts build enduring, just peace.

Am aware search for effective programs help countries banish hunger has long been important concern of United Nations' Food and Agriculture Organization whose Director General only short time ago proposed another substantial attack upon problem through international food campaign. His proposal concerned with many longer term aspects of production, trade and consumption, and with scientific and economic factors bear upon these developments, largely in years to come.

In exploration of new approaches, consultation between US and other food exporting countries should be intensified. So far as our programs concerned, we are in position help under legislative authorities that already exist. I want it understood, however, I will seek such additional legislation as may be needed accomplish these purposes.

I request that you, as Secretary of Agriculture, take lead within our Government in organizing and energizing this effort. This must be done in closest collaboration with Department of State in particular, as well as with other agencies concerned."

End verbatim text.

Request officials foreign government be advised substance of above. Details plan now being developed. You will be advised soon as ready. You should emphasize that any plan would be developed in cooperation with other exporting countries.²

Dulles

² The Conference of Major Wheat Exporting Nations was held in Washington May 4-6. For text of the joint communiqué issued at its conclusion, see *American Foreign Policy: Current Documents, 1959*, pp. 1489-1492.

91. Editorial Note

At his February 25 press conference, President Eisenhower was asked about a Tennessee Valley Authority decision to award a contract for a steam turbine to a British firm, and whether the protests this decision had sparked would cause the United Kingdom "to cut back on its recent liberalization of dollar trade." The President replied that he felt the United States should continue to support free trade. He also noted that he believed the United States was having trouble competing with other manufacturing countries because its costs were too high. "We cannot," he stated, "continue to increase these costs and have the kind of foreign trade that will make our own country prosperous." For text of his statement, see *American Foreign Policy: Current Documents, 1959*, pages 1449–1450.

92. Memorandum of Conference With President Eisenhower

March 19, 1959, 2:23 p.m.

OTHERS PRESENT

Dr. Paarlberg
General Goodpaster
Mr. Areeda
Major Eisenhower

In his meeting with members of the State Department at 9:00 AM this date, the President directed that Dr. Paarlberg brief him on the subject of the tariff quota under the Geneva Wool Reservation.¹

Mr. Areeda, who accompanied Dr. Paarlberg, briefed the President in accordance with the attached text.

At the end, Mr. Areeda added the recommendation that in the forthcoming discussions with Mr. Macmillan,² the President be vague and say merely that the matter is under consideration.

Source: Eisenhower Library, Whitman File, Eisenhower Diaries. No classification marking. Initialed by Goodpaster.

¹ A memorandum of this meeting is scheduled for publication in volume VII. The Geneva Wool Fabrics Reservation was a right the United States reserved under the General Agreement on Tariffs and Trade and applied to woolen and worsted fabrics under paragraphs 1108 and 1109(a) of the Tariff Act of 1930, as amended.

² At Eisenhower's invitation, Macmillan visited Washington March 19–24 for informal discussions on the international situation.

The President questioned Mr. Areeda to clarify the exact status of the Trade Policy Committee and to ensure that it bears no relationship to the Tariff Commission. Mr. Areeda confirmed this and informed him that what was contemplated here was only an administrative action. The President further ascertained that these measures pertain only to woven fabrics and not to raw wool.

Mr. Areeda summarized by saying that the tentative proposal of the Trade Policy Committee will represent a liberalization of current policy with respect to British wool if the first 350,000 pounds of high quality wool over the breaking point are subject to only 30% rather than 45% ad valorem, and if the breaking point is not lowered below the present 14.2 million pounds.

John S.D. Eisenhower

Attachment³

March 19, 1959.

TARIFF QUOTA UNDER THE "GENEVA WOOL RESERVATION"

1. In granting a tariff concession on woolen and worsted fabrics in 1947, the United States reserved the right to increase the tariff on those imports that, in any year, exceed five percent of average domestic production over the preceding three years. The concession and Reservation were negotiated with the United Kingdom and extended to other GATT countries.

2. This Reservation was first invoked by a proclamation of the President in September 1956⁴ for the last quarter of 1956. This proclamation provided that after imports during any year reached a certain "breakpoint," subsequent imports during that year would be subject to a duty of 45% ad valorem instead of the concession rate of 20 or 25% (depending on the fabric). There is, in addition, a duty of 30 cents or 37.5 cents per pound, but that doesn't change.

3. The President established breakpoints for 1957 and 1958, respectively of 14 and 14.2 million pounds. In each case, the breakpoint approximated 5% of production over the preceding three years. The 5% figure for 1959 is about 13.5 million pounds. The Trade Policy Committee will probably recommend a breakpoint in that amount within a week or two. That recommendation will, of course, be reviewed in the White House.

³ No classification marking. Prepared by Areeda.

⁴ For text of Proclamation No. 3160, September 28, 1956, effective October 1, 1956, see Department of State *Bulletin*, October 8, 1956, pp. 556-557.

4. Until last year, the ad valorem part of the duty was 45% for all imports in excess of the breakpoint for the given year. Exceptions were made last year for two kinds of fabrics: certain handwoven woolens less than 30 inches wide (principally, certain Scottish and Irish tweeds) and certain "religious" fabrics (that is, special fabrics used in the manufacture of apparel for members of religious orders, such as nuns' veiling). Imports of these items—after the breakpoint in any year is passed—are subject to duty of 30% rather than 45%.

5. An additional exception may be proposed by the Trade Policy Committee for 1959. The tentative proposition is that certain "high-cost and high-quality" fabrics will be subject to a duty of 30% (rather than 45%) after the overall breakpoint is passed. This special rate may be limited, however, to the first 350 thousand pounds of such imports after the overall breakpoint is passed. If it is possible to frame an administratively feasible definition for such fabrics, the additional exception would be of primary benefit to British exporters.

6. The foreign countries primarily involved are the United Kingdom, Japan, Italy, France. Some other European countries ship much smaller amounts to the United States.

7. Nearly everyone affected is unhappy with the tariff quota and the Reservation. To allay some of this concern, the President last year directed the Secretary of Commerce to make a "special review" of "alternatives to the present arrangements." The Trade Policy Committee proposal may not be thought by the industry to fulfill that mandate.

Phillip Areeda

93. Memorandum of Conversation

USDel MC/3

March 23, 1959.¹

SUBJECT

General Trade Matters and Heavy Electrical Equipment

PARTICIPANTS

Prime Minister Macmillan

Foreign Secretary Lloyd

Ambassador Caccia

Mr. Dillon

The Prime Minister expressed the great concern of the United Kingdom over the heavy electrical case now before the OCDM. He said that if there was an unfavorable decision in this case the UK would be required to take some sort of retaliatory action. The Prime Minister then pointed out the great need of the UK for trade and the difficulty which the UK would have if they were not allowed to sell their products in the world market, and particularly in the United States. In reply, I reminded the Prime Minister of the fact that UK dollar imports to the United States had increased over the past year by about 18% and that in the first two months of 1959 they were running about 20% over the similar months in 1958. Therefore, I did not think the U.S. record in the trade field was at all bad as far as the UK was concerned. I recognized that an adverse decision in the heavy electrical case would have a larger impact on the UK than previous actions which had caused concern. I also explained to the Prime Minister the procedures which would be followed in coming to a decision on the heavy electrical case and the probable time factor. The Prime Minister asked Ambassador Caccia if there was anything further the British should do in making known their concern and stated that he had spoken to the President about the seriousness of this particular matter.² He said this was by far the most important matter in our trade relations at the moment. Ambassador Caccia said that he did not think there was anything additional for the UK to do at this time as he thought we were well aware of the UK attitude. I confirmed that we had received a full expression of the UK position from the British Embassy and did not think anything else was required.

Source: Department of State, Central Files, 411.4141/3-2359. Confidential. Drafted by Dillon.

¹ The conversation was held at the British Embassy. Regarding Macmillan's visit, see footnote 2, Document 92.

² See Document 19.

94. Memorandum of Conversation

USDel MC/5

March 23, 1959.¹

SUBJECT

Wool Tariff Quota

PARTICIPANTS

Prime Minister Macmillan
Foreign Secretary Lloyd
Ambassador Caccia
Mr. Dillon

I explained to the Prime Minister that we had examined the British idea of country quotas and had found this to be a very difficult matter. I pointed out that the imposition of a country quota would in effect be directed against Japan. I explained that this would cause direct difficulties for us in the present case but would be even more difficult as setting a very dangerous precedent. I pointed out that there were many private interests in the United States which would like nothing better than the establishment of quotas directed against Japan, and said that the Administration had resisted this type of pressure as a matter of general principle although there had been a few voluntary quota agreements with the Japanese in the most difficult cases. I reminded the Prime Minister that the burden of maintaining an adequate market for Japanese overseas trade fell more heavily on the United States because of the fact that some of the European nations, including the UK, had not as yet given the Japanese most-favored-nation treatment under the GATT. Because of all these considerations, I said that we had come to the conclusion that a country quota arrangement would not be practicable.

I then said that we had examined the situation to see what we could do to alleviate the situation as far as the UK was concerned. I told the Prime Minister that the Japanese had informed us that this year they were going to limit their exports of lower-priced woolens to the U.S. and that we understood that this limitation would result in some drop in the over-all percentage of the U.S. market held by Japanese imports. Secondly, I said that we were working on a plan for submission to the President which would provide a special quota for certain high-priced specialized woolens with a tariff of 30 percent. I said the cut-off price we had in mind for these woolens was six or

Source: Department of State, Central Files, 411.006/3-2359. Confidential. Drafted by Dillon.

¹ The conversation took place at the British Embassy.

seven dollars a pound, depending on the weight of the material and that we would hope that this would cover approximately \$2½ million worth of materials.

Prime Minister Macmillan evinced an understanding of our position regarding country quotas and seemed to feel that the proposed action on higher-priced goods would be of considerable help as this was the type of woolens in which the UK was particularly interested. He hoped that a decision on this could be announced in the relatively near future, and I told him that we were hopeful of getting a decision in the next two or three weeks. The Prime Minister then asked about the over-all size of the quota for the coming year, and I said this was set by law at 5% of a three-year average of our domestic production. As a result of a poor year last year the quota would be somewhat smaller this year than had been the case last year. I then said that the whole operation of this quota had been very unsatisfactory and therefore we felt it would be advisable to consider the renegotiation of this provision in the fall of 1961 when it would come up for renegotiation under the provisions of the GATT. I pointed out that this would take place simultaneously with the expected new round of tariff negotiations under the GATT and said that although there would be obvious risks involved in a higher tariff, it seemed that the present situation was so unsatisfactory that a renegotiation ought to produce something better. I said, however, that our final decision on this would be influenced considerably by the UK attitude toward such a renegotiation, and asked for the UK views on this matter. It was left that this should be a matter of further study and conversation between us as the decision would not have to be taken for another year or so.

95. Editorial Note

At his March 25 press conference, President Eisenhower noted that he had discussed trade issues, including the possibility of reducing wool imports, with British Prime Minister Macmillan. He indicated that they agreed "to study it as seriously, as exhaustively as we can, because both of us believe in what we call the principle of interdependence." (*Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1959*, pages 295–296)

On April 4, in an address at Gettysburg College, Gettysburg, Pennsylvania, the President spoke of Japanese trade and of its importance to the free world. He asserted the importance of liberalizing

trade relations with Japan and maintaining a balance between imports and exports. For text of his address, see *American Foreign Policy: Current Documents, 1959*, pages 1199–1200.

96. Minutes of the 88th Meeting of the Council on Foreign Economic Policy

April 16, 1959.¹

[Here follow a list of participants and discussion of unrelated matters.]

III. CFEP 581—U.S. Position for the International Cotton Advisory Committee Meeting of May 1959

1. The Council considered the recommendations of the Department of State for a U.S. position at the May 1959 meeting of the International Cotton Advisory Committee (ICAC)—(See CFEP 581/1 dated April 10, 1959).²

2. Mr. Mann stated that friendly cotton exporting countries are worried by the decline in raw market prices of cotton which have occurred during 1958 and fear that prices will decline even further in 1959. He said that the United States cotton export policies are receiving the blame for this situation, and that the United States will be subject to strong pressures at the May meeting of the ICAC to cooperate in measures to stabilize cotton prices, including U.S. participation in an International Cotton Agreement.

3. It was the consensus of the Council, with the Departments of State and Labor dissenting, that the United States should not indicate at the ICAC meeting, or otherwise, that the United States would become a member of an International Cotton Agreement.

4. It was the further consensus of the Council that, having in mind the responsibilities imposed by Congress to regain the U.S. "fair historical share of the world cotton market," the U.S. should do every-

Source: Eisenhower Library, CFEP Chairman Records, Papers Series, CFEP Minutes, 1959. Confidential.

¹ The meeting took place at the Executive Office Building.

² Not printed. (Washington National Records Center, RG 59, CFEP Files: FRC 62 A 624, CFEP 581/1, U.S. Position for the International Cotton Advisory Committee Meeting)

thing possible to display an understanding of the problems confronting these countries, and offer to work together with them in planning positive programs to meet these problems.

5. The Council agreed to a suggestion by the Chairman that Special Assistant to the President Don Paarlberg should confer with representatives of the Departments of State and Agriculture to develop a U.S. position for the May meeting of the ICAC reflecting the above sentiment.

Paul H. Cullen
Lt. Col., USA
Secretary

97. Telegram From the Department of State to the Embassy in the United Kingdom

April 20, 1959, 1 a.m.

9271. For Ambassador from Dillon. Your 5342 and 5346.¹ Cannot imagine source UK fears for which absolutely no substance.

You may wish inform Eccles along following lines and may quote directly as appropriate:

In our view UK is great and dynamic power and prime source of progress and stability in free world. US has closest possible relation with UK on all matters not only of direct mutual interest but affecting basic Western position.

Continuation of impressive growth and vigor of UK economy is matter of utmost importance to us and to entire free world and US ready discuss appropriate measures contribute further progress. Our measures to strengthen Japan, our support for common market, and our efforts maintain and bolster German position in East-West struggle in no way detract from or inconsistent with our view of vital and leading role of UK in world affairs.

Source: Department of State, Central Files, 411.4141/4-1559. Secret; Priority; Limit Distribution. Drafted by Isaiah Frank, Officer in Charge of U.K.-Ireland Affairs James W. Swihart, and Dillon; cleared by Mann, EUR, S/S, and with Leddy; and initialed by Dillon.

¹ Telegram 5342, April 15, reported Caccia had informed his government that the United States intended to strengthen Japan and West Germany, even at U.K. expense. This report had shaken Macmillan's "confidence in the Anglo-American relationship generally." Ambassador Whitney requested guidance in case the issue arose in a meeting with Sir David Eccles, President of the British Board of Trade. (*Ibid.*) Telegram 5346, also April 15, requested guidance by cable or telephone before April 20. (*Ibid.*)

In short, I am at loss to understand what prompts British concern and feel it is essential place on table any specific problems or fears so they can be fully aired between us and such misunderstandings avoided in future.

Caccia has never at any time even intimated to me any thoughts such as those supposedly contained in his report. If you find the opportunity and deem it desirable suggest you inform Eccles that this subject has never been discussed with me by Caccia or any other member of British Embassy staff and suggest to him that Caccia be instructed to discuss matter with me. This should give best possible opportunity to disabuse UK Govt of disruptive and false idea that we have ever favored Japan or Germany at expense UK.

Dillon

98. Circular Telegram From the Department of State to Certain Diplomatic Missions

April 20, 1959, 9:47 p.m.

1206. White House announcing April 21 that President has determined application for 1959 wool fabrics tariff quota established by proclamation of September 28, 1956 which invoked so-called Geneva Wool Fabric Reservation. 1959 quota 13.5 million pounds. President also amended 1956 proclamation and established over-quota rate of duty of 30 percent ad valorem for up to 350,000 pounds over-quota imports certain high-priced, high-quality fabrics. (These described as fabrics wholly or chief value wool of sheep or hair of Angora goat, weighing over 6 ounces per square yard and having purchase price determined from invoice of \$6.50 per pound, or weighing over 4 ounces, but not over 6 ounces, per per square yard and having purchase price determined from invoice of over \$7.00 per pound.) This amendment similar President's March 7, 1958 proclamation¹ which continues in force and which provided over-quota rate of 30 percent certain hand-woven and "religious" fabrics.

Source: Department of State, Central Files, 411.004/4-2059. Confidential. Drafted by Brewster; cleared in substance with Elrod, Phelan, Areeda, NA, WE, EST, and S/S; and initialed for the Acting Secretary by Joe Robinson, Assistant Chief of the Trade Agreements Division of the Office of International Trade. Sent to London, Tokyo, Rome, Paris, The Hague, Brussels, Bern, Montevideo, Vienna, and Dublin.

¹ Proclamation No. 3225; for text, see Department of State *Bulletin*, April 21, 1958, pp. 673–674.

For 1959 imports up to 13.5 million pounds, rates of duty remain 30 cents or 37-1/2 cents per pound (depending upon nature fabric) plus 20 percent or 25 percent ad valorem (again depending upon nature fabric). Imports in excess 13.5 million pounds will, with exceptions mentioned above, be subject to full 45 percent ad valorem duty allowed by Geneva Reservation.

Geneva Reservation is right reserved by US in its schedule tariff concessions to General Agreement on Tariffs and Trade, negotiated 1947. Under reservation ad valorem rates applicable most woolen and worsted fabrics entering US may be increased when such imports, in any year, exceed amount determined by President be not less than 5 percent average annual US production similar fabrics three preceding calendar years. Reservation applies woolen and worsted fabrics provided for under paragraphs 1108 and 1109(a) of Tariff Act of 1930, as amended.

Last year, in announcing 1958 application of quota, President noted many problems arising under it and requested special review be undertaken.² While that review not yet developed permanent solution, better ways approaching this situation will continue be sought.

As background should be noted tariff quota smaller this year than either 1957 or 1958, only years in which quota in effect full year. Quota of 13.5 million pounds determined not less than 5 percent average annual domestic production 1956-58 calculated at 265.9 million pounds. Corresponding average 1955-57, as revised, was 281.3 million pounds. Most of decrease accounted for by substitution 1958 production figures for 1955. Small part of decrease accounted for by exclusion from production base some part-wool fabrics as being no longer chief value wool because of substantial decrease 1958 price raw wool and tops.

Should also be noted that Government agencies charged with review of problem gave careful consideration to possibility of allocating quota on country basis. Strong pressures for such allocations on part some countries and against by others. No formula for country allocations found acceptable to all major supplying countries and in accord with US commitments in GATT.

Embassies here informed April 20.

Substance this telegram unclassified after White House announcement released 9 a.m. April 21. Two background paragraphs may not be included White House release and should be used only in official contact.

² Eisenhower's March 7, 1958, letter to Weeks is *ibid.*, p. 672.

This message for your information and use as required.³

Herter

³ Text of the White House press release is *ibid.*, pp. 720–721. For texts of Proclamation No. 3285 and Eisenhower's letter to Anderson, see *American Foreign Policy: Current Documents, 1959*, pp. 1462–1465.

99. Editorial Note

The U.N. Wheat Conference met at Geneva January 26–March 10 to negotiate a new international wheat agreement. On April 6, the new agreement opened for signature in Washington. Under Secretary of Commerce True D. Morse signed for the United States on April 22. The agreement remained open for signature through April 24. Parts I and III–VIII entered into force for the United States on July 15, while Part II entered into force on August 1. For text of the agreement, see 10 UST 1477.

CFEP 571/3, January 22, and CFEP 571/4, April 2, analyzed the differences between the new agreement and the international wheat agreement signed in 1956. CFEP 571/5, April 17, approved the new agreement. Copies of these papers are in Washington National Records Center, CFEP Files: FRC 62 A 624, Renewal of International Wheat Agreement, CFEP 571.

100. Memorandum of Conversation

May 11, 1959.

SUBJECT

Restrictions on Imports of Heavy Electrical Equipment under National Security
Amendment of Trade Agreements Act

Source: Department of State, Central Files, 411.006/5–1159. Confidential. Drafted by Frank and approved by Brewster on May 15.

PARTICIPANTS

Governor Hoegh, Director, OCDM—Chairman
 Douglas Dillon, Acting Secretary of State
 E. Perkins McGuire, Assistant Secretary of Defense
 Frederick H. Mueller, Under Secretary of Commerce
 Elmer F. Bennett, Under Secretary of Interior
 Millard Cass, Deputy Under Secretary of Labor
 John A. Derry, Director, Divn. of Construction & Supply, AEC
 Don Paarlberg, Special Assistant to the President
 Raymond J. Saulnier, Chairman, Council of Economic Advisers
 Isaiah Frank, Acting Director, E:OT

The meeting was called by Governor Hoegh to obtain the views of representatives of various Departments on his tentative findings in the OCDM investigation of imports of heavy electrical equipment under the terms of the national security amendment of the Trade Agreements Act.¹

Governor Hoegh reviewed the history of the industry's petition, noting that in January 1959 it was limited to four specific types of equipment: (1) hydraulic turbines (2) hydraulic turbine-driven generators (3) transformers, and (4) power circuit breakers. On the basis of voluminous testimony and documentation he found that there was no national security threat from imports of the last three types of equipment but that imports of hydraulic turbines constituted a threat within the meaning of Section 8. The principal basis for this conclusion was the need for elephant tools, such as those used in plants manufacturing hydraulic turbines, particularly to restore power and to make other necessary civilian repairs following a nuclear attack. He requested the official views of each representative with respect to his finding on hydraulic turbines.

After hearing each representative Governor Hoegh summarized the consensus of the meeting as recommending against any finding that imports of hydraulic turbines are impairing the national security. Although he did not indicate what he proposed to do in the light of the unanimous recommendation against his proposed finding, he thanked those present for their frank expression of views and stated that he planned to report to the President within about a week.

Among the principal points made at the meeting were the following:

By Assistant Secretary McGuire of Defense:

1. Repair of hydraulic facilities would probably have a fairly low priority following a nuclear attack.

2. Although Defense has a need for elephant tools, the need can be adequately met from facilities other than those currently engaged in the manufacture of hydraulic turbines.

¹ See Document 88.

By Mr. Paarlberg of the White House:

3. Only about 10 percent of the U.S. stock of elephant tools are in plants making hydraulic turbines.

4. 95 percent of U.S. demand for hydraulic turbines is met from domestic sources and only 5 percent from imports.

5. It follows from points 3 and 4 above that, if imports were cut off completely, the addition to our total stock of elephant tools would not exceed 5 percent of 10 percent of the total, i.e., about 1/2 of 1 percent.

By Mr. Dillon:

6. The case for restricting imports of hydraulic turbines is being made more on grounds of injury to the industry than on legitimate national security grounds. It is important to avoid the precedent of using the national security route in what is more properly a case for consideration under the escape clause by application to the Tariff Commission.

7. While agreeing with Mr. McGuire's point that hydraulic turbine facilities are not essential for national security reasons, it is necessary to take a broader view of the national security effect of import restrictions in terms of our allies' reaction, since we depend on them for military bases and other types of defense support. In the U.K. view this is the most important economic issue in relations between the two countries since the Smoot-Hawley Tariff² was enacted. Moreover, following the uproar over the Greer's Ferry decision we gave the British assurances that the decision was no precedent for future actions, which would be taken only on a case-by-case basis. Any possible damage to U.S. national security from imports of hydraulic turbines would be outweighed by the broader adverse national security effect of taking the restrictive action.

8. The U.K. has indicated its readiness substantially to open up its remaining quotas on dollar imports. Restrictive action on electric equipment would probably result in such a sharp political reaction in the U.K. as to prevent the Government from going ahead with its liberalization plans; in fact, it might well have to take retaliatory action. U.K. imports of machinery from the U.S. are considerably greater than their exports of such items to this country.

By Under Secretary Bennett of Interior:

9. With the availability of the escape clause and the "buy American" advantages already enjoyed by the electrical industry, there is no need for additional protection for the heavy electrical industry at this time.

10. If restrictive action were taken, we would have to invoke the national security exception in the GATT to square such action with our international obligations. This is a dangerous precedent, however, since the GATT contains no objective test of damage to national security, and our action might well open up the use of the exception for widespread restrictive action by other countries.

² Reference is to the Tariff Act of 1930.

By Under Secretary Mueller of Commerce:

11. If there are adequate repair facilities in the U.S. or Canada for hydraulic turbines, there is no national security basis for restrictions.

The others present—Messrs. Saulnier, Derry and Cass—made no additional points but concurred with various of the points enumerated above.

101. Memorandum of Discussion at the 409th Meeting of the National Security Council

June 4, 1959.

[Here follows a paragraph listing the participants at the meeting.]

1. *Effects of U.S. Import Trade Policy on National Security*

Mr. Gray reminded the Council that the President had recently asked the State Department to prepare for the Council a report on the effects of our trade policy, primarily our import restrictions, on the national security. He then indicated that Mr. Beale, the Deputy Assistant Secretary of State for Economic Affairs would make the presentation.

(A copy of Mr. Beale's report is filed in the Minutes of the Meeting.) (A copy of Mr. Beale's report is also attached hereto.)

When Mr. Beale had concluded his report, the President commented that while a number of business interests were seeking import restrictions on a number of products, Mr. Saulnier and the Council of Economic Advisers were reporting to the President such a boom in our U.S. economy that we were actually concerned about a real runaway boom. It therefore seemed a good time for the U.S. to try to develop a better feeling and sentiment about our trade policy insofar as it concerned friendly foreign countries. The President pointed out that no less than eleven foreign countries were affected by our import restrictions on clothespins yet the President believed that all the clothespins in the U.S. were made by six small companies in the State of Maine, employing as the President recalled, only some 260 employees. This kind of situation seemed silly to the President.

The President then observed that meetings have been occurring designed to devise some kind of an adjustment policy which would enable us to find a solution for some of our domestic industries in the face of foreign competition. For example, it might be possible to change from the manufacture of clothespins to the manufacture of baseball bats. Most such suggestions, however, get turned down. Secretary Dillon pointed out certain difficulties which lay in the way of making the kind of adjustments mentioned by the President.

The President next observed that in effect what we have to do is to bribe the Congress by agreeing to the restriction of imports in order to induce Congress to agree to extending the Trade Agreement Acts.

Secretary Anderson commented on an interdepartmental study of our trade policy.¹ He believed that we ought to take a look, industry by industry, to try to calculate the gains and losses in the light of our current trade policy. Once such a painstaking examination had been made, continued Secretary Anderson, there ought to be a broader consideration before the study was made public. Specifically, Secretary Anderson recommended that the findings of the interdepartmental study should be looked at by the National Advisory Council (NAC) in the light of our balance of payments situation and the outflow of American gold and dollars. There had been a very significant change with respect to our balance of payments situation even since 1956. In most of the highly developed foreign countries at the present time, as well as in a number of less well developed countries, there had ceased to be any such thing as a dollar shortage. Altogether they held some sixteen billions of our dollars at the present time. To these facts must be added commercial balances, the cost to the U.S. of maintaining soldiers and other U.S. Nationals abroad, and payments made abroad by American tourists. The total result was that the U.S. is confronted by a consistent balance of payments running against us. The acid test of a sound economy and of a sound currency as well, was the balance of payments situation. In fact, what we are now tending to do is to have the U.S. finance European exports. These European countries should themselves be urged to take some of the same measures we take to finance our own exports. Secretary Anderson said that he was not really concerned at all at present about encouraging the export of U.S. capital to the Western European countries. They were doing very well. He was, however, concerned about Asia and Africa.

Secretary Anderson went on to say that if the balance of payments disparity continues for any considerable number of years, we in the U.S. would be in for real trouble. We have bitten off rather more obligations than we can chew even in the opinion of some foreign

¹ Not further identified.

experts. In conclusion, Secretary Anderson repeated his request that the results of the interdepartmental study be examined in the light of our whole policy.

The President inquired whether in effect Secretary Anderson was advocating higher U.S. tariffs. Secretary Anderson replied in the negative but said he was advocating that we cut down on our U.S. expenditures in certain foreign countries.

Mr. Dillon, the Acting Secretary of State, commented that the State Department fully recognized the seriousness of the balance of payments problem. We could not continue running a deficit indefinitely. He also expressed himself as in close agreement with Secretary Anderson's suggestions as to what to do about the problem. There were, however, still other things that might be done, notably, to increase our own U.S. exports. He added that the State Department was working hard on this objective and had experienced a real measure of success as the published figures would ultimately show. In support of this point, Secretary Dillon cited examples of agreements by foreign countries to permit an increase in the quotas of U.S. exports to these countries. Thus we were getting rid of some of the examples of discrimination against the dollar and Secretary Dillon believed that the effort should continue to have priority status.

Secondly, continued Secretary Dillon, if it was necessary to go still further to solve our problem, we must consider amending our current policy on world-wide procurement, as Secretary Anderson had said. We should perhaps furnish goods rather than dollars because when we furnish dollars to other countries they often use these dollars to purchase goods in Europe rather than to purchase them from the U.S.

Lastly, Secretary Dillon pointed to the problem of U.S. investment in Europe. He believed that some sort of action, other than trade restrictions, might have to be taken to cut down U.S. capital investment in industrialized foreign countries, although not in the underdeveloped countries. These several possible remedies all recommend themselves to Secretary Dillon as being better than resort to further restrictions on the U.S. imports from foreign countries.

Secretary Anderson commented that Secretary Dillon's statements seemed to him to be very fair.

Secretary Strauss stated that in the study that is being made, he agreed on the need for an overall policy review and in that respect the Department of Commerce did not hold views at variance with the views of Secretaries Anderson and Dillon. On the other hand, an overall review could not ignore separate and individual cases, problems, and situations. For example, a certain industry might actually constitute the sole support and living for an entire U.S. community. One could not ignore either the political or the sociological considera-

tions relating to such communities. They are factors to be weighed in looking at individual instances of appeals for restrictions on the import of specific commodities.

The President then referred to the National Security Amendment designations in the Trade Agreements Act. He was sure that in this connection there was one consideration which, while it could not be accurately weighed, was nevertheless of very great importance. This was the consideration of our national defense and the effect of restrictions under the NSA designations on the vitality of our military alliances. In illustration of his point, the President cited what he described as the near hysteria occasioned in the U.K. by our decisions against importing British electrical equipment. The President believed that trade restrictions which tend to drive away an ally as dependable as Great Britain would do much more harm in the long run to our security than would be done by permitting a U.S. industry to suffer from British competition. Thus, while intangible, this factor must always be weighed in NSA cases. Yet another illustration of the point that he was making, said the President, was represented by the various stages in the development of atomic weapons. In the early stages of this development, there had been very real and very complete cooperation between the British and ourselves. This superb cooperation had now been destroyed by a law which greatly restricted exchange of atomic energy information with the British.² The effect of this restriction on the British had been very serious indeed and because of their own contributions in the early stages, they had felt severely let down when the U.S. imposed its restrictions in the Atomic Energy Act. Thus, said the President, we have got to take account of these intangibles as well as of the tangibles and he certainly agreed likewise that the U.S. must increase the volume of its own exports and improve its own competitive position. The President added that every time he declared a restriction on the import of a commodity from abroad, he was occasioned considerable mental anguish even though approval of the restrictive action had been unanimously recommended to him.

With respect to the National Security Amendment, Mr. Gray pointed out that even though Secretary Beale had reported that our organizational arrangements were adequate, there were some of us who were worried about such matters as TVA purchases of electrical equipment. The President replied that the role of such independent agencies as the TVA had bothered the Administration for quite a while inasmuch as the Government could of course not control such agencies and there was doubt about the nature of their relation to the Presidency. In this connection Governor Hoegh commented on the

² The Atomic Energy Act of 1954, P.L. 703, August 30, 1954.

effect of the Buy American Act. The President again expressed himself as puzzled about the relation to the U.S. President of such entities as the TVA and the GAO (General Accounting Office) which he added, laughingly, did not seem to have any. Nevertheless, such entities the President thought were rather minor and exceptional causes of friction.

Mr. McCone predicted that the problem of foreign competition with American business was a problem that was going to grow rapidly in the future. The costs of production abroad of competitive products were shockingly lower than costs in the U.S., mostly as a result of cheaper labor costs. Our shipbuilding industry for example has totally lost its foreign markets. The President commented that one reason for this situation was that it had become so easy for a Board of Directors to think that it can safely pass on added costs to the consuming public. As a result these Boards of Directors soon price their product right out of the market.

Mr. Gray asked Mr. Clarence Randall whether he wished to make any comments. Mr. Randall replied that he certainly did but that he would try to spare the President and the Council a lengthy recital of his very strong feelings on the subject. Mr. Randall then expressed himself as very deeply concerned about the erosion of the U.S. trade position. He was convinced that what was really vital above all else was a continuation of the policy of liberalizing trade which the President had proclaimed and stood for since the beginning of his first term. There was another matter which concerned him, said Mr. Randall, and which had not thus far been mentioned in the discussion. This was our obvious and increasing dependence on overseas markets for certain very important raw materials. As for the National Security Amendment, Mr. Randall believed that it was never intended to apply other than in a very broad sense. We must therefore continue to look upon its application in the broadest possible sense. The President expressed thorough agreement with Mr. Randall's position on this point.

*The National Security Council:*³

a. Noted and discussed the subject in the light of an oral presentation by the Deputy Assistant Secretary of State for Economic Affairs.

b. Noted the President's statement that, in reaching decisions as to restrictions on U.S. imports, one important consideration should be the damage to national security which could result from restrictions which might weaken the ties which bind us to our allies in the collective security effort.

³ Paragraphs a-c and the Note that follows constitute NSC Action No. 2096. (Department of State, S/S-NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

c. Noted the President's agreement that the interdepartmental study of the U.S. competitive position in world markets, being conducted under Department of Commerce auspices, should when completed be referred to the National Advisory Council for consideration of the implications for the U.S. domestic economy and finances as well as the U.S. balance of payments.

Note: The action in b above, as approved by the President, subsequently circulated for the information and guidance of all departments and agencies.

The action in c above, as approved by the President, subsequently referred to the Secretaries of Treasury and Commerce for appropriate implementation.

[Here follow the remaining agenda items.]

S. Everett Gleason

Attachment⁴

Report by the Deputy Assistant Secretary of State for Economic Affairs (Beale)

TRADE POLICY AND NATIONAL SECURITY

The broad objective of US foreign economic policy is identical with that of our general foreign policy: to protect and advance the national interest, to improve the security and well-being of the US and its people.

This broad objective of our foreign economic policy has three major components. First, to promote the economic strength of the US, second, to promote the economic strength of the rest of the free world, and third, to build and maintain cohesion in the free world.

To achieve these objectives we have followed three basic economic policies: The expansion of trade; the promotion of private investment; and provision of mutual assistance.

During the past 6 years, by building on existing programs and, even more important, by developing new programs designed to meet new needs and changing conditions, there has been created a complex pattern of interrelated programs. Some of them we carry out on our own and others in cooperation with friendly nations. These programs are well suited to the promotion of our basic objectives.

⁴ No classification marking. No drafting or clearance information is on the source text.

At the present time, however, the achievement of these objectives is endangered from within by the growth of protectionist sentiment and from the outside by the Soviet economic offensive. My purpose this morning is to suggest some of the ways in which protectionism adversely affects our domestic economy, our political-economic relations with our allies and therefore our national security.

I would like to deal first with the general aspects of the problem and then turn to specific illustrations.

Protectionism has certain recognizable benefits. It can assure the survival of a sensitive industry which might otherwise succumb because of its competitive disadvantages. It can provide a blanket for an infant industry during its formative years. It can prevent economic and social disruption in a community dependent on a single industry and without the resources to develop alternative industries.

In spite of these recognizable advantages, however, there are relatively few people who would contend that protectionism provides a basis for a dynamic expanding economy. The reasons are obvious.

Protection discourages the development of new products, new methods of production and distribution, and cost-saving techniques.

Protection reduces our ability to compete with other industrialized economies.

Protection contributes to inflation by raising the costs of the products we buy abroad.

It imperils our export markets by making it more difficult for other countries to earn the dollars they need in order to buy from us. It also endangers those markets by inviting retaliation on the part of other countries.

Protectionist measures inevitably reduce total US output by preventing the shift of domestic resources from less efficient to more efficient industries. By lowering our total national product, such measures slow down our rate of growth and reduce the resources available for our security needs, including aid to the less developed countries.

Having indicated the effects of protectionist policy on the domestic economy, I would like to indicate briefly the effects on the economies of other countries.

Foreign trade is vitally important to our economy, but even so it constitutes only 4% of our gross national product. In other major industrial countries (such as the UK, West Germany and France) the ratio of exports to gross national product is 3 to 4 times greater. It is 5 to 9 times as great for smaller advanced nations such as Belgium, Sweden and the Netherlands. For example, approximately one-half of everything the Netherlands produces is shipped abroad.

Our trade policy is of tremendous concern to all of these countries, first because exports play such a major role in their economies and secondly because the United States is a major market for their

goods. Both of these reasons explain why any action by the United States which adversely affects sales of their key products, or threatens those sales, is front page news abroad and has a serious effect on our international relations with those countries. This is true even when the action itself does not seem important to us.

I can cite five specific examples of restrictive measures which have adversely affected four important allies. Lead and zinc affecting Canada, cheese affecting the Netherlands, electrical equipment and woolen fabrics affecting the United Kingdom and cotton textiles affecting Japan.

In the case of many less developed countries, one, or a few commodities, comprise the bulk of their exports. For many of these countries the US market is especially important. To illustrate this point, the United States imports

$\frac{2}{3}$ of Chile's copper
 $\frac{1}{2}$ of Cuba's sugar
 $\frac{1}{4}$ of Indonesia's rubber
 $\frac{1}{3}$ of Bolivia's tin
over $\frac{1}{2}$ of Brazil's coffee
 $\frac{2}{5}$ of Venezuela's oil
 $\frac{2}{3}$ of Peru's lead and zinc.

The ability of the less developed countries to sell their products in the United States affects their ability to import capital goods and other necessary manufactured products.

Therefore, it determines in large measure the basis of their economic growth and their ability to raise standards of living.

The promotion of economic growth in the less developed countries is of course a prime objective of our foreign policy. By this means we hope to help those countries to achieve peace and stability. Unfortunately their economic health can be seriously damaged by US import restrictions. Our import quotas on petroleum, lead and zinc, and cotton, for example, have had that effect on Mexico, Venezuela, Peru, Indonesia, Egypt, the Sudan and other less developed countries.

The Soviet Union, of course, recognizes clearly the major role that trade can play in furthering its objectives. The evidence clearly shows that friendly countries, when denied access to our market, are forced to increase their economic dependence on the Soviet Bloc. As a specific example, after the imposition of restrictions against Uruguayan wool tops in 1953, the Soviet Bloc steadily increased its purchases, and as a result it is now the most important outlet for Uruguayan wool tops. Recently our countervailing duty on wool tops was removed. As you know, our action to impose quotas on lead and zinc was followed by violent anti-American reactions in Peru and there have been sharp reactions in Venezuela to our oil import policy.

In assessing where we stand today it is important, of course, to keep the picture in balance. On the one hand, since 1953 we have pursued an active policy for the promotion of international trade. We have taken part in two successful trade conferences in 1955 and 1956.⁵ It is true that many of the tariff concessions we gave at those conferences were small, amounting to no more than a 15% reduction in the existing duty. Nevertheless imports of the products affected by the concessions were valued at approximately \$1 billion. A great deal of attention has been given to escape clause actions that we have found it necessary to take in recent years. Unfortunately little account is taken of the applications that were turned down. Other countries often fail to acknowledge that out of 27 cases in which escape clause action was recommended by the Tariff Commission no action was taken in 19 cases.

On the other side of the balance, there are the various restrictive measures that have been taken. You will note from the chart that since 1953 we have taken restrictive action on 29 commodity groups exported from 45 free world countries.

[Here follows a table outlining "Action Taken To Restrict Imports, Since January 1, 1953, and Commodities Affected."]

It is statistically impossible to determine precisely how much trade is affected by these restrictions. However, it has been calculated on the basis of the latest figures available, that is for 1957, the trade affected by these restrictions represented about \$2.1 billion or 28% of US imports of competitive items. Out of this total oil products account for approximately \$1.5 billion and the remaining items account for about \$600 million. These figures are subject to a number of qualifications. For one thing the more effective the action in restricting imports the smaller the trade.

You will note from the map⁶ that some countries are affected by only one restriction, whereas others are affected by as many as twelve. Venezuela for example, has been affected only by our restrictions of oil imports, but oil directly involves more than 80% of that country's exports to the United States.

I would like to comment briefly on several of the more important cases shown on the chart.

First, *Heavy electrical equipment*—Our decision on the Greer's Ferry case created an uproar in the United Kingdom. One extreme sector of British opinion called for immediate discrimination against purchases in the United States. The British consider the pending

⁵ Presumably the 10th and 11th sessions of the Contracting Parties to the General Agreement on Tariffs and Trade, held at Geneva October 27–December 3, 1955, and October 11–November 17, 1956, respectively.

⁶ Not found.

OCDM heavy electrical equipment case “the most important subject in economic relations between the United States and the United Kingdom since the institution of the Smoot Hawley Tariff.”

Lead and Zinc—When quotas were imposed Australian press and official comments were unusually severe in their criticism. Our action became a major political issue. The case has clearly affected our position in a country which is the southern anchor of our Pacific defense perimeter.

In Canada our lead and zinc action was viewed in the context of a number of other United States policies and actions which have been the source of increasing resentment, such as our restrictions on agricultural imports and our surplus agricultural disposal operations.

Mexican press, labor and management officials were also very critical. Intensely emotional demonstrations and condemnation of the United States occurred in Peru.

Petroleum—The Venezuelans have asked for equal treatment on the grounds that their oil, like Canada’s, is vital to the defense and security of the Western Hemisphere. We are worried that the Venezuelans will institute oil pro-rationing and export controls to the disadvantage of US companies. We have to recognize that they may want to change our bilateral trade agreement drastically and possibly abrogate it. Either course of action would seriously hurt our large export sales to Venezuela.

The second chart shows that there are now outstanding 13 requests for restrictions on imports. These represent trade valued at approximately \$300 million in 1957. They would affect six new countries, in addition to those already affected by previous measures.

This second chart also reflects a trend which is giving other countries great concern. You will note that seven out of the thirteen requests now pending have been made under the national security amendment. There is a strong feeling abroad that domestic industries are seeking to use the national security amendment to achieve protection which they do not think they can obtain by applying under the escape clause.

[Here follows a table outlining “Pending Proposals for Restrictive Action.”]

No discussion of restrictive measures would be complete, of course, without some mention of so-called “voluntary export controls.” These are the measures which other countries, such as Japan and Italy, have taken to restrict their exports to us. They represent a new kind of protectionism—protection in reverse—under which the exporting country limits its exports rather than the importing country its imports. At present, it is estimated, one-half of Japan’s exports to the US are subject to some form of restriction.

Viewed independently, and in perspective, the specific restrictions imposed in recent years may seem relatively unimportant. Nevertheless, it has been made abundantly clear to us that these restrictions are having an increasingly serious effect upon our ability to achieve our foreign policy objectives. And it is apparent that the *potential* for harm *greatly* exceeds the harm done thus far. It is possible to identify, as I have done, the cases where individual countries have been adversely affected by restrictions we have imposed. The impact has varied in each case. The cumulative impact has also varied.

We believe that we have reached a point, however, where any action has a disproportionate impact because of the preceding actions, and where the element of fear of the future can be expected to play an increasingly important part in determining foreign reactions to any further restrictive measures we may impose.

At the present time most of the important industrialized countries of the world have overcome, or are about to overcome, the balance of payments difficulties which justified their retention of protective measures following the war. Therefore we can expect to see an expansion of world trade and consequently, of our own export sales. At the same time the less developed countries of the world are seeking to expand their economies. It is clear, however, that at this juncture the course of future events will be determined almost entirely by what the US does. If we provide the leadership in liberalizing trade, the rest of the free world can be expected to follow our example.

There are a number of critical choices to be made in the immediate future. Regional trading arrangements are proliferating around the world. In Europe the six-country common market is already a going concern. Negotiations are seriously under way toward establishment of a free-trade area of seven other countries in Western Europe—the UK, the Scandinavian countries, Austria, Switzerland and Portugal. South America is determined to organize one or more common markets; and Central America is already committed to establishing a customs union.

US policy in the trade field will determine to a very large extent the evolving course of these arrangements—whether they will look *outward* toward the development of a multilateral world trading system, or whether they will look inward in the pursuit of self-sufficiency.

A major test of US policy is pending in the tariff negotiations scheduled to start in September 1960. These negotiations are the result of our initiative. A principal element will be the effort of many countries to negotiate reductions in the common tariff of the European common market. However, some of our European allies have already expressed doubt about the extent to which we will be willing to offer

real and meaningful concessions in our own tariff in order to give impetus to the successful conclusion of the world-wide negotiations. The success of these negotiations, therefore, will depend upon us.

Our basic national security interests require that we continue to exercise positive and dynamic leadership not only in political and military fields but also in the economic fields.

That is why the Department of State is convinced that every action we take that adversely affects our ability to maintain a dynamic expanding domestic economy and weakens the ability of our allies to maintain their political and economic stability, has serious implications for our national security.

Let me conclude by saying that, in our judgment, the organizational means are already available through which national security considerations can be brought to bear in the most important cases involving proposals for restrictive measures. This is true in escape clause cases, where the Trade Policy Committee is responsible for advising the President. It is also true in cases arising under the national security amendment to the Trade Agreements Act, which provides that the advice of all interested agencies shall be sought in arriving at a recommended course of action. Measures taken under Section 22 are the most outstanding exception to this generalization. Furthermore, considerations of national security cannot be brought to bear in determining whether restrictive action should be taken in other cases, such as antidumping cases. However, these exceptions do not affect the general conclusion that the existing machinery is generally satisfactory and is working well. It is the Department's view that it would not be desirable, if indeed politically feasible, to attempt to revise existing legislation to insure the inclusion of appropriate provisions permitting national security considerations to be taken into account in all cases involving restrictive action.

I do not mean to suggest that there is no need for action in this field. We are much aware of the need for more information as a basis for policy determinations. As you know, a number of studies are currently underway which will provide an analysis of the causes of recent changes in our foreign trade position. An interdepartmental committee, under the chairmanship of the Department of Commerce, will search for the answers to a number of pertinent questions. Have advances in productivity in the US lagged behind those occurring elsewhere? Have our major costs increased too rapidly? Have we, through price supports and import restrictions, artificially raised the costs of raw materials to our own manufacturers? Does our domestic tax system militate against investment and technological improvement?

At the initiative of the Department of State the Committee for a National Trade Policy is also devoting special attention to the problem of our foreign trade position.

Increasing protectionism is not the answer to the problem of stimulating advances in productivity. It would insulate domestic industries from pressures to reduce costs and thereby make them less competitive.

Unfortunately, at the present time when an industry is faced with serious injury as a result of imports, there is no alternative but to consider raising duties or imposing quotas. Therefore, the Department of State believes that renewed consideration should be given to sponsoring another avenue of relief through adjustment assistance. This alternative might provide for low-cost loans for modernization and technological improvement, facilities for retraining workers, or conversion to other kinds of manufacture, or even encouragement to relocate factories.

Adjustment assistance is the approach being taken in the European Common Market to deal with the problem of internal adjustments to competition. The British have also embarked on a similar program with respect to their domestic textile industry.

In short, we have to search constantly for new ways to improve the competitive position of our industry through affirmative actions rather than by building a wall against entry of goods from abroad.

Our conclusion is relatively simple. What we do to restrict trade and what other countries fear we may do, will determine to an important extent whether our foreign economic policy measures are successful, and whether we are successful in the economic contest with the Soviet Union.

102. Minutes of the 90th Meeting of the Council on Foreign Economic Policy

June 5, 1959.¹

[Here follow a list of participants and discussion of an unrelated matter.]

Source: Eisenhower Library, CFEP Records, Office Series, Council Minutes, 1959 (2). Secret.

¹ The meeting was held at the Executive Office Building.

II. CFEP 583—Amendment of P.L. 480.

1. The CFEP considered the following recommendations submitted by the Departments of Agriculture and State² with respect to amending P.L. 480 and taking certain administrative action thereon in order to carry out successfully the Food for Peace Program:

“1. *Policy*: That the administration should increase efforts to make more effective use of U.S. surplus agricultural products in furtherance of Food for Peace, but within the framework of our policies to reduce incentives for domestic overproduction to safeguard commercial markets of the U.S. and friendly countries; and to consult with friendly exporting nations; e.g., through the wheat utilization committee and such other groups as appropriate.

“2. *Legislation Needed*:

a. Extension of Public Law 480 for three years, with new authorization for Title I of \$4,500,000,000 and for Title II³ of \$700,000,000.

b. New authority under Title I of Public Law to permit grants of surplus commodities for national reserves in eligible countries. The recipient country would reimburse the U.S. in local currency if and when the commodity is sold internally, but not if stored indefinitely. Legislation is not required to replace, on a grant basis, commodities distributed in accordance with U.S. approved Title II donation programs.

c. New authority under Title II authorizing broader use of grants for economic development in cases where this is more appropriate than Title I.

d. Amendment of Section 104 of Title I to eliminate the provision for grants for economic development and related purposes under subsection 104 (e) and transfer authority to make such grants to subsection 104 (g), in order to remove the requirement of a waiver of Section 1415 of the Supplemental Appropriation Act of 1953.⁴

“3. *Administrative Actions Needed*:

a. The Administration should inform the public and the Congress that there is adequate government organization as well as coordinating mechanism for operating the Food for Peace Program and related programs, and that the current organization is effective. In addition to agency functions, there are the Interagency Staff Committee, the Francis Committee and the Council on Foreign Economic Policy. The creation of a new and separate Food for Peace agency is *not* recommended.

b. The Administration should:

(1) Continue efforts to increase commercial trade in agricultural products and to remove restrictive measures which inhibit trade in these commodities.

² CFEP 583/1, June 3. (Washington National Records Center, CFEP Files: FRC 62 A 624, CFEP 583, Amendment of P.L. 480)

³ Title I governs sales of agricultural surpluses for foreign currency. Title II addresses use of agricultural surpluses for famine relief and other assistance.

⁴ Public Law 547, July 15, 1952. (66 Stat. 637)

(2) Continue to maximize sales of surplus agricultural commodities under Title I Public Law 480, with particular attention to the improvement of the economic health of the recipient countries.

(3) More actively encourage national food reserves in selected recipient countries by making available loans and grants under PL 480 Title I to develop facilities for such reserves.

(4) Increase the use of grants of food for school lunch programs under Title II, and broaden Title II to permit grants of food for economic development in cases where this is more appropriate than Title I.

(5) Expand the donations of surplus food under Title II and where suitable under Title III of Public Law 480, with emphasis on types of programs which will assist the recipients toward a self-supporting, nutritionally improved status.

(6) Coordinate surplus disposals with other economic aid programs, and utilize currencies acquired under Title I, Public Law 480 where appropriate, to assist the effective utilization of the surplus food."

2. Action:

It was the consensus of the Council that the recommendations should be approved except as follows:

a. *Paragraph 2a.* Congress should be asked to extend P.L. 480 for one year. However, an extension of up to three years would be acceptable if, in the opinion of the Department of Agriculture, the political situation urgently requires it.

b. *Paragraph 2d.* Congress should not be asked to amend Section 104 of Title I (P.L. 480) to eliminate the requirement for a waiver in order to make local currency grants for economic development. The Council was sympathetic to a more liberal use of local currency grants for economic development, but took the position that this could be done by Executive Branch action without asking the Congress to amend Section 104 of Title I.

[Here follows discussion of unrelated matters.]

Paul H. Cullen
Lt. Col., USA
Secretary

103. Minutes of the 91st Meeting of the Council on Foreign Economic Policy

June 18, 1959.¹

[Here follow a list of participants and discussion of unrelated matters.]

III. OCDM Decision on Imports of Heavy Electrical Equipment.

1. The Chairman, CFEP stated that he had read with great interest Governor Hoegh's Press Release and Memorandum of Decision of June 12² in which Governor Hoegh concluded that imports of heavy electrical equipment are not threatening to impair national security. The Chairman stated, however, that he had received several inquiries with respect to Governor Hoegh's remarks in the Press Release and Memorandum of Decision concerning the provision of repair facilities on the continent by foreign companies submitting bids for U.S. procurement, and he asked Mr. Patterson of OCDM to comment on this statement by Governor Hoegh.

2. Mr. Patterson said that Governor Hoegh stated in the Press Release that he would ask "Federal procurement agencies to consider the inclusion in their invitations to bid of a provision which would require contractors to have facilities on this continent to service equipment they build." Mr. Patterson said that this statement by Governor Hoegh should be read in context with his remarks on this subject in the Memorandum of Decision. Mr. Patterson stated that Governor Hoegh would in the near future formally request Departments and Agencies to consider including in their bids a requirement for service facilities on this continent by foreign bidders. He added, however, that he thought that any action to be taken by any Agency as a result of this request or other matters in the Press Release and Memorandum of Decision could appropriately be coordinated by the CFEP.

[Here follows discussion of an unrelated matter.]

Paul H. Cullen
Lt. Col., USA
Secretary

Source: Eisenhower Library, CFEP Records, Office Series, Council Minutes, 1959 (1). Confidential.

¹ The meeting was held at the Executive Office Building.

² Not printed.

104. Editorial Note

On July 14, Assistant Secretary of Agriculture Clarence L. Miller testified before the House Agriculture Committee on the administration's proposals for P.L. 480. Miller suggested that the law be extended one year and that a provision be added making surplus agricultural commodities available to underdeveloped countries for the establishment of national food reserves. For text of the draft legislation submitted to the committee, see *American Foreign Policy: Current Documents, 1959*, pages 1498–1499. Assistant Secretary of State Mann appeared before the committee the following day; for text of his statement, see Department of State *Bulletin*, August 10, 1959, pages 212–215.

On July 23, President Eisenhower sent the Congress a report by the President's Committee To Study the United States Military Assistance Program, the Draper Committee, entitled "Economic Assistance: Programs and Administration." Part of the study addressed the use of agricultural surpluses in support of the Mutual Security Program. Regarding this report, see Document 245.

105. Memorandum From the Alternate Chairman of the Interdepartmental Committee on Trade Agreements (Robinson) to President Eisenhower
Undated.¹**SUBJECT**

Recommendations of the Interdepartmental Committee on Trade Agreements
Concerning Renegotiation of the Tariff Concessions on Certain Wool Fabrics

Under the reservation in the United States Schedule to the General Agreement on Tariffs and Trade (GATT), invoked by the United States since October 1, 1956, the United States has maintained a tariff quota for imports of certain wool fabrics on an annual basis.²

Source: Department of State, Central Files, 394.41/8–2459. Confidential. Drafted by Vincent J. Cherry, of the Trade Agreements Division of the Office of International Trade, and cleared in draft by Kallis and L/E and in substance by Elrod and Gleck.

¹ The source text was undated, but was attached to copies of transmittal memoranda from Herter to Mueller and from Herter to Eisenhower, both dated August 24.

² See footnotes 1 and 4, Document 92.

The Interdepartmental Committee on Trade Agreements (TAC), after full consideration of the operation of this quota and the increasingly difficult trading conditions, both for domestic and foreign interests, arising from its operation, recommends that the United States indicate to the United Kingdom and other interested countries that, as requested by the United Kingdom, it will enter into renegotiation of the concessions on tariff paragraphs 1108 and 1109(a).

The reservation under which the tariff quota is established is one which was first negotiated under the GATT in 1947 but not invoked until 1956. It permits, but does not require, the United States to increase from 20 or 25 percent (depending on the fabric) to 45 percent the ad valorem part of the compound rate of duty on any imports of woolen and worsted fabrics dutiable under the concessions on tariff paragraphs 1108 and 1109(a) which are in excess of 5 percent of average annual domestic production of similar fabrics during the preceding three calendar years. The tariff quota may be larger than 5 percent of domestic production on the basis described above, but under our international commitments it may not be less than 5 percent. For imports in excess of the tariff quota the rate of duty may be less than 45 percent but it may not be more than 45 percent.

Since the reservation was first invoked in 1956, and particularly during the past year, the agencies represented on the responsible interdepartmental committees have repeatedly reviewed the operation of the wool-fabrics tariff quota. As a result of these considerations the TAC has from time to time recommended, and you have approved, interim modifications designed to alleviate immediate problems arising from the operation of the quota. Such modifications have not, however, solved the over-all problem of disruption of the trade of American importers, clothing manufacturers, wholesalers and retailers and of foreign producers and exporters caused by the operation of the quota.

Consequently, the TAC has considered the question of renegotiation, and there have been informal discussions between the United States and other interested governments of possible solutions to the difficulties arising from the operation of the quota. On August 2 British Foreign Secretary Lloyd informed the Secretary of State³ that the United Kingdom Government had concluded that the only solution would be the earliest possible renegotiation and expressed the hope that the United States would initiate action under Article XXVIII:4 of the GATT to seek special authorization to renegotiate the concessions in advance of the 1960/61 tariff conference. Therefore, the TAC recommends that the United States should inform the United Kingdom and other interested governments of its willingness to enter into rene-

³ Not printed. (Department of State, Presidential Correspondence: Lot 66 D 204)

gotiation of the concession with a view to avoiding the disruptions in the trade resulting from the present tariff quota.⁴

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⁴ For text of this September 14 announcement, see Department of State *Bulletin*, October 5, 1959, pp. 481–482.

106. Editorial Note

President Eisenhower traveled to Europe August 26–September 7 to consult with leaders in Bonn, London, and Paris. On August 31, he and British Prime Minister Macmillan made a joint report to the people of the United Kingdom on U.S.–U.K. solidarity. The report was televised live from the Prime Minister's residence at No. 10 Downing Street. In their comments on international development, they mentioned the importance of expanding international trade. For texts of their statements, see *American Foreign Policy: Current Documents, 1959*, pages 906–911.

On September 1, Secretary Herter and other members of the President's party met with Foreign Secretary Lloyd and three other British officials. During their discussion of British dollar restrictions, Herter stated "that the United States hoped the U.K. would be able to remove remaining dollar restrictions. There were not too many, but those which did remain were hard to explain in view of present trends strengthening Europe's financial position. Mr. Lloyd said that the Foreign Office and Treasury were sympathetic to this request. This was not, however, a favorable time to raise the subject. While he could not promise anything, he suggested that it might better be raised again in about two months." (US/MC/23; Washington National Records Center, RG 59, Conference Files: FRC 83–0068, CF 1449)

Herter also discussed dollar restrictions with French Foreign Minister Couve de Murville in Paris on September 4:

"The Secretary raised the problem of dollar restrictions in France. Ambassador Houghton remarked that while a large part of the imports from the US are now free, there remain several restrictions. Couve replied that a new series of concessions were expected for October and said that like everyone else the French are moving toward liberty in this field, particularly as regards agricultural products. He expressed the opinion that quotas would probably have disappeared in a year's

time. He is, however, aware that there has been discrimination since the war. He himself, however, is all for liberalization." (US/MC/35; *ibid.*)

107. Circular Telegram From the Department of State to Certain Diplomatic Missions

September 17, 1959, 7:43 p.m.

316. Following is suggested text draft note dollar discrimination:

For many years BLANK and many other countries have enforced quantitative controls over imports to safeguard monetary reserves and the balance of payments. In many cases these controls have been applied with varying degrees of severity with respect to different countries or currency areas. Where such discrimination continues to exist, it usually is most adverse to the trade interests of the United States and of the other countries of the dollar currency area.

Last December the main trading currencies previously inconvertible were made externally convertible with the dollar in international trade. In consequence the bulk of world trade is now conducted in currencies readily convertible into dollars. On various occasions in recent months the United States has pointed out that the establishment of external convertibility generally removed the financial justification for discrimination against imports from the dollar area. The United States has welcomed the steps which a number of governments have taken since the advent of external convertibility in further removing non-tariff trade barriers. Added to earlier advances, the progress that has been made is substantial. Clearly, however, more needs to be done; the United States is of the view that the remaining discriminations should be rapidly eliminated.

The ease of access to the United States market which foreign countries have enjoyed has contributed to the growth of foreign exchange reserves outside the United States and, in turn, to the move to external convertibility. The trade policies of the United States have been an important contribution in this regard. During a period when duty reductions granted on products exported by the United States

Source: Department of State, Central Files, 400.116/9–1759. Official Use Only. Drafted by Emerson M. Brown, International Economist in the Commercial Policy and Treaties Division of the Office of International Trade; cleared by Leddy, Hadraba, OT, and FN, and with Cameron, Southard, Gleec, GEA, SPA, BNA, AFS, GTI, RA, and the Agriculture, Treasury, and Commerce Departments; and initialed for Dillon by Mann. Sent to 14 European posts, Canberra, Ottawa, Pretoria, Tokyo, and Wellington.

have been impaired by quantitative import restrictions, the United States has given effect to the negotiated reductions in its customs duties, and has resisted pressures to resort to non-tariff restrictions on imports. Considering the favorable economic conditions which prevail in the industrialized countries and general convertibility of world currencies, continued discrimination against United States goods would affect the U.S. attitude toward the 1960-1961 tariff negotiations, and weaken the support of the American public, the business community, and the Congress on which the ability of the United States to carry forward a liberal trade policy depends. Moreover, the use of nondiscriminatory quantitative restrictions that unjustifiably deny United States exporters competitive access to foreign markets would have a similar effect. The consequences of such a development for the world trading community would be grave.

For these reasons, which accord with the commitments embodied in the General Agreement on Tariffs and Trade and in the Articles of Agreement of the International Monetary Fund, the United States believes that the time is at hand for a new general advance toward the objective of expanding nondiscriminatory multilateral trade among the free world countries. To this end it is approaching the governments of the principal trading nations which impose quantitative import restrictions. Accordingly, the United States Government urges, as a matter of great importance, that the Government of BLANK take the following measures:

1. As soon as administratively practicable, and at the latest in a matter of months, to remove licensing or other quantitative restrictions on the importation of U.S. products, to the same extent that such restrictions have been removed with respect to imports of the same products from other countries.

2. With regard to imports subject to licensing or quantitative restriction irrespective of source, to remove the restrictions on a nondiscriminatory basis product-by-product as rapidly as its balance of payments and foreign exchange reserves permit; and, pending the removal of such restrictions, to administer them so as to afford equitable and progressively increased access to the domestic market by foreign suppliers.¹

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¹ A second telegram, circular telegram 317, September 17, was sent with special instructions for approaching the Governments of Italy, Germany, Australia, Denmark, Norway, and Finland. (*Ibid.*)

108. Editorial Note

On September 11, the House of Representatives and the Senate adopted a compromise version of H.R. 8609 to extend P.L. 480, as amended. H.R. 8609 thus became P.L. 86–341 and extended P.L. 480 through December 31, 1961. The law provided for the distribution of agricultural surpluses to needy individuals in the United States and authorized the President to negotiate contracts to sell surpluses to foreign countries for up to 10 years. For text, see *American Foreign Policy: Current Documents, 1959*, pages 1499–1516.

President Eisenhower signed P.L. 86–341 on September 21; for text of his statement following the signing, see *ibid.*, pages 1516–1517.

109. Minutes of the 93d Meeting of the CFEP

September 24, 1959.¹

[Here follow a list of participants and discussion of unrelated matters.]

III.

The Council was briefed by the Chairman on the impressions he received regarding our foreign economic policy during his recent trip to Europe from U.S. officials in Copenhagen, Stockholm, Helsinki, Paris, and London.

The Chairman said there was great interest in the forthcoming GATT negotiations and that most of our officials believed that these negotiations would be a test of U.S. leadership in the liberal trade field. He said there is concern about our balance of payments, and that our embassies are pressing the countries to which they are accredited to eliminate dollar discrimination. On the other hand, he said it was his opinion that there was not a similar urgency to stimulate our export program. He said the embassies have been doing little or nothing to get foreign governments to eliminate their restrictions on travel, which he thought would be one way by which we could materially help our balance of payments. He also said that the “Six” have made good progress in getting the Common Market established and that, as

Source: Eisenhower Library, CFEP Records, Office Series, Council Minutes, 1959 (1). Official Use Only.

¹ The meeting was held at the Executive Office Building.

a result, the transition period will be greatly shortened. He added that the burning question presented to him by our officials is whether the U.S. should publicly support the "Seven".

IV.

Mr. Kearns briefed the Council on the current U.S. export situation and expressed the opinion that U.S. exports could be expanded significantly by the following actions:

- a. Strengthen the foreign commercial service of the United States.
- b. Improve government communication of trade information to the business world.
- c. Launch an aggressive program to convince business that export trade is essential, profitable and can be expanded.
- d. Revise the policy of trade fair exhibits, emphasizing the sale of American products to a much greater degree.
- e. Revise the policy of Trade Mission Programs with the purpose of making the principal objective that of increasing the sale of American products.
- f. Study the adequacy of air and sea transportation facilities to insure the maximum possible benefit for the shipment of American products at the most favorable rates.
- g. Study credit availabilities and terms to determine if private sources will be adequate or if the government must provide additional credit facilities.
- h. Emphasize at every occasion the need to keep our competitive system in full play, pointing out that world competition must affect the prices of our products just as domestic competition does.
- i. Continue effectively to remove discrimination in artificial trade restrictions with every device possible.

V. CFEP 588—*Policy for Tariff Negotiations, 1960–61*

The Council considered and adopted a proposed policy statement for the 1960–1961 tariff negotiations submitted by the CFEP committee established for this purpose.² The policy statement as adopted is attached to these minutes.

Paul H. Cullen
Lt. Col., USA
Secretary

² Established July 30, the committee included Mann, Kearns, Upton, Hardy, George C. Lodge, Irwin, and Miller. (CFEP 588/info, July 30; Washington National Records Center, RG 59, CFEP Files: FRC 62 A 624, CFEP 588/1, Policy for Tariff Negotiations, 60–61)

Attachment³**POLICY STATEMENT BY COUNCIL ON FOREIGN ECONOMIC
POLICY ON SCOPE OF PUBLIC LIST FOR THE 1960 TARIFF
NEGOTIATIONS**

1. On signing the Trade Agreements Extension Act of August 20, 1958,⁴ the President said:

“. . . ⁵ the free nations are now assured of a continuity in United States trade policy that will make possible new international negotiations to promote mutually advantageous commercial exchange and increased world productivity.

“As the authority conferred by this important measure is used, it will further our own nation’s domestic interests and will promote the economic strength, solidarity and security of the free and independent nations.”

2. In response to this expression of the President’s desire that the new trade agreements authority should be effectively used in the interest of the United States and other free countries, the United States Delegation to the Thirteenth Session of the Contracting Parties to the General Agreement on Tariffs and Trade (GATT) proposed last October that the Contracting Parties sponsor a new round of multilateral tariff negotiations. The United States proposal was approved by the Contracting Parties at their Fourteenth Session in May 1959. In proposing the new round of negotiations, the United States was motivated in part by the need to bring about a lowering of the common external tariff of the European Economic Community in order to assure that United States exports will have continuing access to this increasingly vital market and to help ease trade adjustments between the Community and other countries in the GATT. Another important consideration was the desirability of influencing the development along liberal lines of European trade policies, including those of the new Community. Our aims with respect to the EEC are central to our foreign economic policy objectives as a whole.

3. Just as the initiative of this Government was a determining factor in obtaining the agreement of the Contracting Parties to sponsor the new round of negotiations, so our leadership will be the prime factor in determining their success or failure. It is accordingly important that the United States make a practical demonstration of its intention to negotiate for an exchange of tariff concessions on a scale sufficiently broad to call forth extensive offers from the countries which are

³ Official Use Only. The source text is undated, but Cullen sent the statement to Council members in CFEP 588/1, September 17. (*Ibid.*)

⁴ See Document 77.

⁵ Ellipsis in the source text.

preparing to negotiate with the United States. These countries will be greatly influenced by the scope of our public list of import items on which we are prepared to consider offering tariff concessions.

4. It is thus in the national interest that the public list submitted to the President by the Trade Agreements Committee through the Trade Policy Committee should be as broad as is consistent with the principle of selectivity on which the operation of the trade agreements program is based. Consistent with past procedures, in applying this principle items should be listed unless there are strong reasons for not doing so. It is understood of course that the listing of an item for consideration in the negotiations does not mean that a decision has been made to offer a tariff concession. In accordance with the trade agreements legislation, such decisions will be made by the President in the light of full information, after public hearings are held and the peril point procedure is carried out, upon recommendation of the TAC and review by the TPC.

110. Editorial Note

On October 7, Don Paarlberg, Special Assistant to President Eisenhower, gave an address in Washington on "food for peace." For text of his statement, see Department of State *Bulletin*, November 9, 1959, pages 672-678.

Two days later, Mexican President López Mateos arrived in Washington as part of a State visit to the United States and Canada. On October 10, he met with President Eisenhower at Camp David, Maryland. Part of their conversation focused on cotton, lead, zinc, and coffee. For John S.D. Eisenhower's memorandum of this conversation, see volume V, pages 885-889. Melville Osborne, Officer in Charge of Mexican Affairs in the Office of Caribbean and Mexican Affairs, Bureau of Inter-American Affairs, Department of State, prepared a second memorandum on the discussion of commodity problems. (Eisenhower Library, Whitman File, Eisenhower Diaries)

111. Telegram From the Department of State to the Embassy in Japan

October 20, 1959, 8:17 p.m.

966. Depcirtel 520.¹ Following may be useful for Embassy's background information in discussing escape clause action on stainless steel flatware with GOJ:

Other possible alternative actions were: a) restore 1930 statutory rates to all imports; b) raise duties to maximum permissible rates (50 percent above 1934) on all imports; c) establish U.S. global import quota of 4 to 6 million dozen; d) reject Tariff Commission report² on basis no serious injury; and e) obtain strengthened commitment from Japan re future of voluntary quota and undertaking to charge verified transshipments to future years' quotas.

First four alternatives rejected for following reasons: a) as ineffective; b) as raising duties on all imports to such high level as to adversely affect U.S. posture international trade relations; c) as also raising serious problems U.S. trade policy; and d) as contrary to general agreement that on balance serious injury has been demonstrated. As Embassy aware GOJ unable give necessary assurances under e).

In evaluating practical effect on Japan of action taken following should be taken into consideration:

1. Tariff quota will apply to all countries and Japan not singled out for restrictions. U.S. imports from Hong Kong increasing and appear to be emerging problem as in cotton textiles.

2. Japanese flatware valued over \$3 per dozen (now included under Japanese quota) excluded from tariff quota.

3. Total Japanese exports to U.S. will probably exceed 5.5 million dozen. High duty rates on imports in excess quota do not appear prohibitive. Believe some Japanese flatware in excess tariff quota entered under higher rate may still compete with U.S. flatware although at considerable reduced advantage. Theoretically Japanese exporters and U.S. importers could "average" out imports over year with possible resultant "average" duty rates below 1930 level although this would require extensive revision merchandising practices.

Source: Department of State, Central Files, 411.994/10-2059. Confidential; No Distribution Outside Department. Drafted by Vettel and cleared in substance with TA.

¹ Dated October 20, circular telegram 520 informed posts that the White House intended to announce on October 22 that flatware imports were damaging U.S. industry and that duties on these items would be raised. (*Ibid.*, 411.006/10-2059)

² Not found.

4. Under Executive Order 10401³ regular reports reviewing situation are required from Tariff Commission which would permit periodic restudy quota levels. First report normally two years after President's action.

5. Action avoids necessity, under alternative e) above, of sharp cutback in 1960 Japanese export allocations to compensate for 1959 transshipments now running at annual rate exceeding 1.5 million dozen.

6. Also avoids situation where U.S. in effect enforcing Japanese "voluntary" controls, as under alternative e) above.

7. From U.S. industry viewpoint decision involves affirmative U.S. Government action under escape clause procedure while taking account improved situation 1958 and indicates to both U.S. industry and Japanese that U.S. prepared take remedial steps where voluntary quota approach operates unsuccessfully.⁴

Herter

³ Dated October 14, 1952. (17 *Federal Register* 9125)

⁴ On October 21, the White House announced that Eisenhower had issued Proclamation No. 3323 raising duties on imports of stainless-steel table flatware. See Department of State *Bulletin*, November 16, 1959, pp. 727-729.

112. Editorial Note

Under Secretary Dillon left Washington on October 13 to attend the Ministerial Meeting of the 15th session of the Contracting Parties to the General Agreement on Tariffs and Trade, to be held in Tokyo October 27-29. En route, he stopped at Okinawa, Hong Kong, Taipei, and Seoul for discussions with local and U.S. officials.

The Department of State issued an October 25 press release about the meeting:

"An important subject of attention at the Ministerial Meeting and during the rest of the session is the relationship between commercial policy and the new financial situation created early this year when, reflecting improved balance-of-payments and reserve positions, all of the European currencies important in international trade were made externally convertible. U.S. representatives will emphasize that, given the new currency situation, discriminatory import restrictions can no longer be justified on financial grounds. A number of countries have accelerated their progress this year in removing quantitative restrictions against exports from the dollar area, but further progress is necessary to complete the job. A major objective of the U.S. delegation

to the Tokyo meeting will be to encourage other countries to eliminate rapidly the remaining discriminations against dollar goods and generally to reduce the level of their quantitative import restrictions.” (Department of State *Bulletin*, November 9, 1959, page 680)

Dillon emphasized these points in an October 27 statement before the Ministerial Meeting. For text, see *American Foreign Policy: Current Documents, 1959*, pages 1520–1527.

On October 28, he met with the Japanese Minister of Finance and other Japanese officials to discuss economic issues, including a U.S. desire that Japan liberalize its trade policies. A memorandum of this conversation is scheduled for publication in volume XVII.

The following day, the Ministerial Representatives attending the GATT session issued a communiqué on their discussions. It acknowledged that “there was no longer any justification on balance-of-payments grounds, for discriminatory restrictions by countries whose export earnings were largely in convertible currencies.” The communiqué stated further that “the present favorable climate of international trade made it important to press on with the GATT programme for trade expansion,” specifically, arrangements for the 1960–1961 tariff conference, examination of ways to expand agricultural trade, and efforts to help developing countries increase their export earnings. For text, see *American Foreign Policy: Current Documents, 1959*, pages 1527–1529.

On the last day of the GATT session, November 20, the U.S. Delegation released a report on the meeting’s accomplishments. (*Ibid.*, pages 1529–1533) Additional documentation on the proceedings is in Department of State, Central File 394.41.

113. Instruction From the Department of State to Certain Diplomatic and Consular Posts

CA-3775

October 30, 1959.

SUBJECT

Promotion of U.S. Exports and Travel to the United States

Joint State/Commerce Message. Measures to promote U.S. export and tourist earnings were inhibited in the post-war period by the weak financial position of most foreign countries. They spent all of the dollars available to them. Promotional efforts by United States businessmen and commercial officials could not have greatly increased the total sales of American goods and services.

For some time now, however, the situation has been markedly altered. Economic recovery and growth in most of the countries of the world has been phenomenal. The major currencies have been made convertible into dollars. Since 1950, foreign countries have gained reserves through transactions with the United States. Over the past year their gain in reserves from the United States has reached the extremely high rate of \$3.8 billion.

Clearly, the current world economic situation requires the dropping of many of the emergency measures used by foreign nations to protect their balance of payments during the period of the so-called "dollar shortage". Clearly, the United States cannot sustain for long a continued loss of gold and dollars at the current rate.

As recognition of the changed situation, the United States has led in the current drive against discrimination (see Circular Airgram 120)¹ and for a general reduction in quantitative restrictions on world trade.

This instruction is in line with these efforts and is designed to improve the ability of the United States to increase its earnings through an expansion of exports and tourism.

We must assign a higher priority to specific services which our posts abroad perform to promote U.S. export trade and to eliminate restrictions on travel to the United States. These steps will be taken without reducing the activities of the Foreign Service which aid in the promotion of imports and foreign private investment. Business needs for information on foreign markets are extremely varied and, in to-

Source: Department of State, Central Files, 411.00/10-3059. Official Use Only. Drafted in the Department of Commerce, cleared in draft in the Department of State, and initialed for the Secretary by Theodore J. Hadraba. Sent to all diplomatic and consular posts except Budapest, Bucharest, Moscow, Prague, and Warsaw.

¹ Dated August 10. (*Ibid.*, 400.116/8-1059)

day's competitive market, the active support of the Foreign Service assumes real importance in the furthering of American export interests. Where American exports are meeting the competition in world markets, they are doing it in large part by greater emphasis on product design, distribution efficiency, marketing programs, and quality. This kind of selling places a premium on prompt, factual data on foreign markets, including commercial intelligence.

At the suggestion of Commerce, American businessmen are calling on our Embassies and Consulates in greater numbers than ever before, as they go out into the market to meet the customer and to find out what he wants. A new agency index service, designed to inform each Foreign Service post of the name and address of each local representative of an American firm, has just been initiated.

The establishment and maintenance of mutually satisfactory relations between international traders in the United States and those abroad have, for many years, constituted major objectives of the U.S. Government (3 FSM 611.1). The Manual spells out the various services provided to business, either directly or indirectly, for the purpose of trade promotion and protection, including: Maintenance of Commercial Reading Room (614.3); Personal Assistance to visiting American Businessmen (617); Trade Contact Surveys (619); Trade Opportunities (640); and Travel and Tourism (680).

Commercial reading rooms at each post deserve a high priority in any program for trade development. This is the first point of contact with American business interest for many potential customers. These reading rooms should be properly located for convenient business use, and directories and other publications—needed to give practical assistance and encouragement to potential customers—should be kept current. The reporting of trade opportunities, the issuance of commercial invitations, and the preparation of World Trade Directory Reports and information about travel to the United States are among the practical services that can be developed for qualified business prospects and potential travelers to the United States who call at the reading rooms. Each post is reminded that the commercial reading room is probably the most direct expression that can be made of the interest of the United States Government in positive export trade as well as travel promotion. The establishment of such facilities in locations that help to meet the local business population at least halfway is strongly urged.

But it is not enough merely to have such facilities. They must be aggressively promoted. The U.S. Trade Missions which have visited so many countries in the past four years have proved, without a doubt, that there are many thousands of business people—even in the most highly developed countries—who do not have a good knowledge of business activities and trade opportunities in the United States.

The use of the extensive libraries of private business publications of the Trade Missions has created thousands of trade opportunities for American business that would not have been developed without the positive approach which the Trade Mission has used. In keeping with the current market situation, the Trade Mission program will emphasize as one of its principal objectives that of increasing the sale of American products.

A number of posts which have not had an opportunity to make use of the Trade Mission device to reach out into the commercial consciousness of their area, have nevertheless, taken steps to tell their own business community of the practical assists that they can provide to anyone desiring to do business in the United States. This has been done by means of newsletters (in Iraq and Kuwait); by speaking before chambers of commerce and trade associations (in Australia and England); and by organizing exhibits of American products at trade fairs (in Australia and Italy) to mention a few.

The Office of International Travel, Department of Commerce, is greatly impressed with the cooperation it is already receiving from Foreign Service posts in connection with the "VISIT U.S.A. 1960" program. This is the beginning of a long-range program to encourage foreign nationals to visit the U.S.A., in connection with which our own impedimenta have been minimized. It is hoped, therefore, that the posts will make every effort to encourage the removal of outmoded regulations, as well as any other obstacles that restrict travel to the United States. Press releases on "VISIT U.S.A. 1960" will be forwarded to the posts periodically by USIA for use as speech material, as well as for translation and dissemination to the local press.

This positive approach to promotion of American export interests through trade and tourism is essential if we are to demonstrate that the United States is seriously interested in doing business abroad. Greater initiative on the part of the Foreign Service in seizing on opportunities to make contact with members of the business community is needed. This effort should not be restricted to the immediate vicinity of each post, but should encompass the entire area of jurisdiction. Descriptive material on American products, as well as tourist literature, should be on hand in each commercial office. Commerce has recently invited industry to contribute such descriptive material in the way of wall mountings, photographs, and other examples of the commercial production available in the United States for use in the commercial reading rooms of the Foreign Service. On July 16 a letter to all state governors by the Secretary of State,² asked them to make available to

² Not found.

the USIA in Washington, D. C. for overseas distribution, their travel and recreational promotion material. We are relying upon the posts to make an appropriate display of these materials.

Each post is urged to review the status of its services to business, both local nationals and American travelers, to determine whether it is achieving the most effective results in terms of promoting the export of American goods and travel to the U.S.A. In this analysis, attention should be given to the extent to which the commercial functions of the post are identified in the minds of local business and government agencies having an interest in procurement, and the frequency with which the trade promotion interest of the United States is presented to them through speeches and other means; the existence of a local American chamber of commerce (or other group) which might serve to focus attention on American products and travel with as much intensity as may be the case for products of other nations; the use of local trade fairs or exhibitions, including spot displays of American products in department stores or other facilities, the ready availability of information on travel to the U.S.A., and, of course, the existence of legislation or regulations discriminating against products from the United States.

Each post is requested to comment on how we can increase U.S. exports to its area and also increase travel to the U.S.A. In arriving at any suggestions for new or expanded services, it would be useful to have the reactions of local business groups or responsible local businessmen.

In view of the special emphasis now being placed throughout the United States Government on expanding our earnings through increased American exports and foreign travel to the U.S.A., the personal attention of Chiefs of Mission to these two related fields of activity is requested. It is anticipated that this will generate maximum results.

Herter

**114. Memorandum From the President's Special Assistant
(Paarlberg) to President Eisenhower**

November 3, 1959.

The Secretary of Agriculture recommends that you ask the Tariff Commission to undertake a Section 22 action with respect to imports of cotton textiles.

The situation is this:

The Commodity Credit Corporation is required by law to export cotton in such quantities as to obtain our "fair share" of the world market.

To get the cotton into the market takes, currently, a subsidy of eight cents a pound. (The domestic support price is thirty cents a pound.)

Foreign textile operators buy this cotton at eight cents a pound less than our own textile trade is required to pay. Foreign mills make this subsidized cotton into cloth and ship it into the United States. Here it competes with cotton textiles from our own mills, which paid the full support price.

The Secretary of Agriculture indicates that there is reason to believe that this situation interferes with the cotton programs which Section 22 is intended to protect. He therefore asks you to request the Tariff Commission to determine whether a fee should be assessed against incoming cotton textiles, equal to the subsidy rate. This would, in effect, equalize the raw material cost for United States and foreign textile mills.

The action recommended by the Secretary of Agriculture has in it much equity and logic. To avert Tariff Commission consideration of this problem would be interpreted as harsh and a failure to understand an industry problem.

The domestic textile people have strongly urged this action. In fact, they want to go much further and have proposed that the remedy to be considered be quotas instead of a fee. The Secretary, however, indicates that the limited protection of a fee is all that should be considered by the Tariff Commission.

There is some hazard in that the Japanese might use any action of ours as an excuse for abandoning their voluntary quotas. Such does not seem, however, to be a strong possibility.

The State Department interposes no objection to a Tariff Commission investigation, having been given assurance that they will have a chance to express their views before final action is taken by the President on whatever recommendation comes from the Commission. Other Departments favor the step.

The Tariff Commission finding would not, of course, be binding upon the President.

I recommend that you institute the Tariff Commission proceedings recommended by the Secretary of Agriculture. If you concur, your signature on the attached letter to the Chairman of the Tariff Commission will accomplish this purpose.¹

Don Paarlberg²

¹ The White House announced on November 10 that the President had requested the investigation. For texts of the announcement and Eisenhower's November 10 letter to the Chairman of the Tariff Commission, see Department of State *Bulletin*, November 30, 1959, pp. 803–804.

² Printed from a copy that bears this typed signature.

115. Editorial Note

On November 19, Don Paarlberg briefed the Council on Foreign Economic Policy at its 95th meeting on the foreign economic policy issues facing the United States as a result of the deficit in the balance of payments. The minutes of the meeting are printed as Document 25.

116. Editorial Note

On November 20, "Outer Seven" representatives in Stockholm initialed a convention establishing the European Free Trade Association and creating a free market among its members. The Outer Seven also adopted a special resolution reaffirming its desire for closer economic cooperation with the Organization for European Economic Cooperation, including the six members of the European Economic Community. For texts of the communiqué announcing the Outer Seven's actions and the special resolution, see *American Foreign Policy: Current Documents, 1959*, pages 570–572. The text of the convention is *ibid.*, 1960, pages 335–351.

Four days later, the Council of Ministers of the European Economic Community decided "to pursue the progressive elimination of quota restrictions vis-à-vis nonmember countries," to permit member states to extend tariff reductions to GATT members and most-favored

nations, and to form a Liaison Committee with other European states or groups. The text of this November 24 decision is *ibid.*, 1959, pages 572–574.

On November 24, the White House reported to President Eisenhower:

“Our Ambassador will try to persuade the British to hold an OEEC Ministerial meeting December 11–12, despite British concern that France would be represented by Pinay rather than Couve de Murville. (A suggested January date would be difficult for us.) [Under] Secretary Dillon would attend a December meeting which could be used for a preliminary exposition of the European free-trade area, for discussions aimed at better coordination of aid to underdeveloped countries and further removal of trade discrimination, and perhaps to increase pressure on Common Market countries to set the lowest possible external tariffs and to pursue liberal policies. We would not expect any OEEC conclusions now on the Community of Six and the Outer Seven. Failing a Ministerial meeting, at which we could show continuing high-level interest in OEEC, we would want Mr. Dillon to visit London, Brussels and Paris to discuss our trade policy and urge Common Market countries to adopt liberal policies.” (Staff Notes No. 681, November 24; Eisenhower Library, Whitman File, Eisenhower Diaries)

The Department of State announced on November 25 that Dillon would visit Europe December 7–14 for informal discussions with officials of the United Kingdom, France, Belgium, and perhaps other countries, on a number of economic subjects, including the new European Free Trade Association, assistance to the less developed areas, and discriminatory restrictions against dollar exports. (*American Foreign Policy: Current Documents, 1959*, pages 574–575) Documentation on Dillon’s trip is scheduled for publication in volume VII, Part 1. Additional documentation is in Washington National Records Center, RG 59, Conference Files: FRC 83–0068, CF 1546–1548.

Dillon returned to the United States on December 14. On December 16, he reported to the National Security Council on his trip. The memorandum of this discussion is scheduled for publication in volume VII, Part 1.

117. Editorial Note

On December 21, the French, German, U.K., and U.S. Heads of State and Government, who had been meeting at Paris and Rambouillet since December 19, issued a special communiqué on the world economic situation. It asserted that Western Europe's economic progress enabled nearly all of the industrialized nations of the free world to increase their efforts to further international economic development and to pursue trade policies promoting sound use of economic resources and international harmony. The Heads of State and Government, it continued, believed that "these cooperative principles should also govern the discussions on commercial problems arising from the existence of European economic regional organizations, which are or will be constituted within the framework of the General Agreement on Tariffs and Trade, such as the European Economic Community and the European Free Trade Association. Their relations both with other countries and with each other should be discussed in this spirit."

They agreed to meet informally in Paris to discuss the means of implementing these ideas, and suggested that members of the Executive Committee of the European Economic Community and governments with citizens on the OEEC Steering Board for Trade attend the meeting. For text of the communiqué, see *American Foreign Policy: Current Documents*, 1959, pages 576–577.

The following day, GATT Executive Secretary Eric Wyndham White sent Under Secretary Dillon the following message:

"I am most anxious that the Paris communiqué should not appear to non-OEEC countries as by-passing GATT. The European reaction strengthens my concern since the Paris decision is widely interpreted here as leading to the establishment of a reinforced OEEC as the basis for trade cooperation between North America and Europe. This I feel is most unfortunate in view of the encouraging atmosphere for world-wide cooperation developed in Tokyo and the general concern that regionalism should be contained within the broader framework of GATT. Would it not be desirable for an authoritative statement to be made in Washington to put matters in better perspective." (Telegram 1017 from Geneva, December 22; Department of State, Central Files, 394.41/12-2259)

Dillon's December 23 reply reads:

"Appreciate your comments. We fully aware necessity maintain GATT as primary world forum for handling trade problems and need for assuring that any regional developments are kept within framework of GATT principles. All US missions in free world were provided guidance to this effect upon issuance of special communiqué following Western Summit meeting." (Telegram 1543 to Geneva, December 23; *ibid.*, 394.41/12-2359)

118. Editorial Note

On January 19, 1960, President Eisenhower met at the White House with Japanese Prime Minister Nobusuke Kishi, who was in Washington to sign a Treaty of Mutual Cooperation and Security between the United States and Japan. Following their discussion, the President and the Prime Minister issued a joint communiqué, which contained observations on international trade, U.S.-Japanese trade relations, and international development and an agreement to consult regularly regarding "economic matters of mutual interest." For text, see *American Foreign Policy: Current Documents, 1960*, pages 668-669.

The following day, the *Economic Report of the President* was transmitted to the Congress. For extracts of the report, including its examination of trade issues, see Department of State *Bulletin*, February 22, 1960, pages 301-307. On February 11, Deputy Assistant Secretary of State Edwin Martin testified before the Senate Foreign Relations Committee on *Worldwide and Domestic Economic Problems and Their Impact on the Foreign Policy of the United States*, a report prepared for the committee by the Corporation for Economic and Industrial Research, Inc. Martin endorsed the report's conclusions, including its statement on "the value of a continued liberal approach to our policies on trade with our friends in the free world." For text of his statement, see *ibid.*, February 29, 1960, pages 340-344.

On February 17, the U.S.-Canadian Committee on Trade and Economic Affairs issued a communiqué on the results of its fifth meeting, held in Washington February 16-17. The committee "agreed on the desirability of policies designed to bring about even greater expansion of trade on a multilateral basis" and "welcomed the considerable progress since the last meeting in the removal of restrictions and the elimination of discrimination against exports from the dollar area." Among the other topics it discussed were agricultural problems, the effects on Canadian producers of U.S. quota restrictions on lead and zinc imports and of U.S. cotton supports, and problems arising in both countries from increased imports of low-cost manufactured goods. Finally, the committee considered economic developments in Europe and the roles the United States and Canada might play as a result of them. For text of the communiqué, see *American Foreign Policy: Current Documents, 1960*, pages 305-308.

119. Editorial Note

On March 8, the White House reported to President Eisenhower that the Department of State had “advised the Group of Four now meeting in Paris that the successor organization to the OEEC should: strengthen the OEEC practice of reviewing the economic and financial condition of its members; discuss trade policies during consultation on general economic policies but not infringe on GATT’s functions or support trade discrimination; emphasize world-wide trade liberalization; encourage bilateral aid to less developed areas by fostering coordination among those able to help; and continue some OEEC functions, particularly in the scientific and energy fields. State has not yet decided whether the organization should, like the OEEC, make decisions or be limited to recommendations. It is studying an OEEC-type formula with multiple escape clauses, but has pointed out that we could not participate in decisions on matters requiring legislative action.” (Staff Notes No. 732, March 8; Eisenhower Library, Whitman File, Eisenhower Diaries)

On March 17, the President announced that the administration had developed a program to promote the growth of U.S. export trade. Expanding exports in the now highly competitive world markets, he observed, required “a more vigorous effort by both Government and business to improve our capacity for international competition.” Eisenhower outlined a number of steps toward this end, concluding: “With the support of the Congress, this Government can both facilitate and give continued impetus to the expansion of our exports as free world economic progress continues to enlarge the potential for international trade. The rising tide of productivity and prosperity in many nations creates a timely opportunity for mutual benefits from expanding world trade.” (*American Foreign Policy: Current Documents, 1960*, pages 799–801) Also on March 17, Under Secretary Dillon and Under Secretary of Commerce Philip A. Ray gave a press briefing on the President’s initiative; for texts of their remarks and a report by the Interagency Export Promotion Task Force, see Department of State *Bulletin*, April 11, 1960, pages 561–565.

**120. Remarks by the Assistant Director of the Budget (Reid)
Before the 101st Meeting of the Council on Foreign
Economic Policy**

CFEP 554/info

April 14, 1960.¹

Mr. Chairman: There are two things I would like to do today:

1) to summarize a bit of the background of the so-called "Buy American" legislation and the types of problems it has posed over the last quarter of a century; and

2) to review briefly the study now being undertaken by the Bureau of the Budget to review current differentials under the Buy American Act with respect to their impact on American industry and our fiscal and balance of payments positions.

[Here follow sections I. "Buy American Legislation," II. "Administration of the Buy American Act of 1954," III. "Reviews of the Buy American Act," and IV. "Executive Order 10582."]

V. Current Problem Areas.

There are some five types of problems which relate to the question of whether we should now seek to modify the arrangements under which the Buy American Act is now being administered or, indeed, seek to modify or terminate the Act itself.

1) There is, for example, the continuing realization that the Act is inconsistent with the basic philosophy of our foreign economic policy. For over a quarter of a century the United States Government has been in the embarrassing and inconsistent position of discriminating against foreign goods in its own purchasing activities, while at the same time urging an expansion and liberalization of international trade on a non-discriminatory basis.

2) There is the question of whether the Government should continue to penalize itself by paying a premium of 6 to 12 percent more for its purchases of materials of foreign origin than would a private purchaser. The staff of the Randall Commission,² for example, estimated that the application of the Buy American Act as of 1954 added approximately \$100 million to the cost of operating the Government and reduced tariff receipts by another \$100 million by barring certain potential foreign imports. In fiscal 1958, it was estimated that the Berry

Source: Eisenhower Library, CFEP Records, Office Series, Council Minutes, 1960 (2). No classification marking. Attached to the minutes of the 101st CFEP meeting.

¹ These remarks were made at a meeting held at the Executive Office Building.

² On August 14, 1953, Eisenhower appointed Randall Chairman of the Commission on Foreign Economic Policy, which was to review U.S. foreign economic policy, recommend policies and practices for the future, and report its findings to the President and Congress.

Amendment³ alone cost the Department of Defense \$70 million in additional expenditures.

3) A third area of some concern relates to the question of whether inflationary pressures at home are accentuated to the extent that we fail to take advantage of the leveling influence of lower cost foreign goods.

4) A fourth area of concern at the moment is, of course, the question of whether the administrative arrangements might be further tightened to reduce foreign imports and thus possibly to ameliorate our balance of payments position.

5) A fifth problem—which would call for further tightening of the arrangements—is the argument that present procedures do not fully recognize problems of U.S. industry and the need for maintaining our mobilization base. The following are typical examples:

a) *Heavy Electrical Equipment Imports.*

On complaint of the domestic industry that imports of heavy electrical equipment were threatening the national security, the OCDM last year conducted an exhaustive investigation to determine the facts. In brief, on the basis of the facts brought to light, it was determined that imports of the equipment involved are not threatening to impair the national security.

b) *Machine Tools.*

The National Machine Tool Builders Association recently complained informally to the OCDM that imports of machine tools appear to be threatening the national security. An interagency group headed by OCDM was set up to study the complaint. The conclusion of this group was that it is the continued and growing utilization of obsolete tools in the U.S. which appears to be the threat to the national security, and that improvement in the welfare of the metal-working industries must come from the industries' own efforts to "progress, excel and conquer competition." The group further suggested, however, the desirability of review of the present differentials under E. O. 10582 in the light of current circumstances.

c) *Japanese Locomotives.*

Another case mentioned in the press in recent days has been the low Japanese bid for locomotives for the Panama Canal Company, which is still under consideration in the Department of Defense.

In connection with all of the above, the Administration has been asked by Congressional committees to comment on 13 separate bills, every one of which is designed further to restrict administrative discretion under the Buy American Act. Some would, in effect, require that all foreign purchases be concurred in by Congress; others that such purchases be certified by OCDM as not being detrimental to national security; others that a minimum of 25 percent price differential be required. At least one bill would remove cost differentials entirely

³ Section 733 of the Department of Defense Appropriation Act, 1955; P.L. 458, June 30, 1954. (68 Stat. 356)

from the realm of consideration, and another would prohibit any purchases of items the Tariff Commission had found were being imported in quantities such as to cause injury to U.S. business.

VI. Current Bureau of the Budget Survey.

At the request of the Chairman of the CFEP, the Bureau of the Budget is conducting a review of recent agency experience under the Buy American Act and Executive Order 10582. In order to assist us in evaluating the Order, a comprehensive questionnaire has been developed and sent to all major procuring agencies requesting detailed data by May 16 on their procurement under Buy American provisions.

We are hopeful that the collected information will provide us with an up-to-date and detailed picture as to the actual quantities and dollar volume of Federal procurement of foreign materials for domestic use, as well as current agency views on how Executive Order 10582 is working.

We anticipate the information will be helpful to us in three ways:

- 1) In connection with the review of Executive Order 10582;
- 2) In connection with review of the impact of current policies on our balance of payments position; and
- 3) In connection with the Administration position on the bills before Congress.

In consequence, Mr. Chairman, when your minutes of this meeting are prepared, I trust they will reflect our fervid plea that the questionnaires be returned to us by May 16 in order that we may move ahead with the above studies as speedily as possible.

121. Paper Prepared in the Department of State

CFEP 595/1

May 20, 1960.

NAC BALANCE-OF-PAYMENTS STUDIES

SUBJECT

United States efforts to abolish discrimination against U.S. goods in foreign markets, and seek relaxation of import restrictions generally

Source: Washington National Records Center, CFEP Files: FRC 62 A 624, NAC Balance of Payments Studies: Trade Discrimination, CFEP 595/1. Official Use Only. Drafted by F.M. Brown on April 29. Attached as Tab A to a June 2 memorandum from Galbreath to the Council which noted that Secretary Anderson had requested the paper and that it had been prepared through the joint efforts of the Departments of State, the

Continued

Background

One of the most important obstacles to U.S. exports since 1945 has been the quantitative import restrictions (QRs) which most of the advanced countries and many of the less developed countries have applied to safeguard their balance-of-payments. QRs for this purpose have the sanction of GATT Article XII, and in GATT Article XIV there is sanction for discrimination in the application of QRs as necessary to facilitate trade under conditions of currency inconvertibility. In addition, under Article XIV of the IMF Articles of Agreement countries restricted payments and transfers for current international transactions. These payments restrictions usually were applied in conjunction with QRs.

During the period of post-war economic rehabilitation and recovery, U.S. policy in respect of QRs was directed at limiting the scope and severity of QRs applied by foreign countries against U.S. products to a level commensurate with each country's ability to finance purchases of U.S. goods.¹ This policy was carried out in the IMF, the GATT, and in bilateral representations to the countries concerned. Also, the United States supported the trade liberalization program of the OEEC, even though a prominent feature of that program was the removal of QRs on trade between OEEC countries which resulted in discrimination against the United States and other countries outside the OEEC. Throughout most of this period, which came to a close at the end of 1958, U.S. policies regarding aid and trade played an important part in the general improvement in the financial position of the advanced countries.

Intensified U.S. Trade Liberalization Campaign

At the close of 1958, the major European trading nations made their currencies convertible with the dollar in international trade. This action signified the end of the era of the shortage of convertible foreign exchange reserves (sometimes called the "dollar gap") and set the stage for an intensified U.S. campaign for the rapid elimination of trade discrimination against dollar goods, and for the removal of QRs in general.

This campaign had five landmarks in 1959. On May 11, the Chairman of the U.S. Delegation to the 14th Session of the GATT Contracting Parties stated the U.S. view that "the advent of convertibility has refuted whatever financial logic may have been found in

Treasury, and Commerce. On July 26, Galbreath distributed a revision of the paper, CFEP 595/3. Dated July 18, CFEP 595/3 made substantive and editorial changes to CFEP 595/1. (*Ibid.*)

¹ In CFEP 595/3, this sentence continues: "and at avoiding unnecessary damage to U.S. commercial interests in the administration of a justifiable level of restrictions."

trade discrimination." Beginning in September, the United States informed Australia, Austria, Belgium, Denmark, the Federal Republic of Germany, Finland, France, Greece, Italy, Japan, Norway, Portugal, South Africa, Sweden, and the United Kingdom, in terms that took into account varying local conditions that (a) discriminations should be promptly removed, (b) further liberalizations should be made rapidly and in a nondiscriminatory fashion and (c) where quantitative restrictions remained, foreign suppliers should have increased access to the market. On September 29 [30],² Secretary of the Treasury Anderson stated before the Board of Governors of the International Monetary Fund that "the countries which no longer suffer from inconvertibility in their international receipts do not have any balance of payments justification for discriminatory restrictions—that is, there is no reason for these countries to favor imports from non-dollar countries over those from dollar countries."³ The United States was instrumental in obtaining the decision of the Board of Directors of the IMF on October 23, 1959 which called on member countries whose current receipts were largely in convertible currencies "to proceed with all feasible speed in eliminating discrimination against member countries, including that arising from bilateralism." And on October 27, 1959, at the ministerial meeting of the GATT Contracting Parties at Tokyo, Under Secretary of State Dillon referred to the IMF decision and stated: "The time has come to do away with discriminatory restrictions altogether."⁴ Following the Under Secretary's statement, the Contracting Parties reached a formal consensus that discrimination "should quickly be eliminated." These major moves were accompanied by continuous pressure by the United States in the consultations held by the IMF and the GATT Contracting Parties with countries applying QRs, and in many cases by repeated bilateral representations at the official level.

Trade Liberalization Moves

During the closing months of 1959 and continuing in 1960 there were many significant liberalization moves. Major moves were made by Australia, France, Japan, New Zealand and the United Kingdom. Portugal, not a member of the IMF or a contracting party to the GATT, also made a liberalization move. Spain, a member of the IMF but not a GATT contracting party, reformed its foreign trade and payments regime during 1959 and significantly lessened the extent of discrimination in the application of QRs.⁵

² Brackets in the source text.

³ For text of this statement, see Department of State *Bulletin*, October 19, 1959, pp. 533–537.

⁴ See Document 112.

⁵ In CFEP 595/3, this paragraph reads:

Countries which have virtually eliminated discriminations and QRs affecting U.S. goods, or are now in the process of doing so, are Australia, Belgium, Denmark, Ghana, Malaya, the Netherlands, Norway, Rhodesia and Nyasaland, Sweden, South Africa, and the United Kingdom. New Zealand has eliminated discrimination but still maintains extensive QRs. Though France still maintains extensive QRs, some of which discriminate against dollar goods, it is expected to make further substantial progress toward liberalization in 1960. Germany, which has a temporary waiver of the GATT provisions against QRs, is to liberalize additional imports in 1960. Japan maintains an elaborate import control regime, but has taken significant steps to remove discriminations and has promised further action to liberalize imports. Finland has gone far toward eliminating discrimination against U.S. goods, but continues to apply QRs on many products. Greece, which had virtually removed QRs, in 1959 reimposed restrictions on a number of products, some of which discriminate against U.S. products. Trade liberalization by Austria has not kept pace with the improvement in Austria's foreign exchange position, which for 2 years has been satisfactory. Italy, which has been found by the IMF and GATT Contracting Parties to be without financial justification for import restrictions, is currently lagging behind on the trade liberalization front.⁶

*Remaining Problems*⁷

Four countries—Italy, Austria, Japan, and France—still present a serious problem of general removal of restrictions.

Italy, with reserves enough to pay for more than one year's imports (putting it in a class with the United States and Switzerland) still restricts a wide range of products. Many of the Italian restrictions are discriminatory. On April 1 Ambassador Zellerbach delivered a strongly-worded note urging prompt and substantial liberalization action by Italy. The subject of Italian import restrictions also will be considered at the 16th GATT Session.

"During 1959 and 1960 practically all of the free world countries maintaining QRs have made significant progress in eliminating discrimination against U.S. exports and in reducing the general level of their restrictions. As a result the problem today is of much narrower dimensions than at any time in the postwar period. With some exceptions, the principal remaining restrictions in the advanced countries relate to agricultural products and, less generally, to textiles and ceramics—the so-called low-wage imports. The general subject of agricultural protection, in which in most countries domestic politics is a crucial factor, is under consideration in the GATT Committee II. The general subject of low-wage imports is also under consideration in GATT, under the name 'avoidance of market disruption.'"

⁶ CFEP 595/3 does not contain this paragraph, substituting instead analyses of 13 countries "of particular interest, either because of the measures of liberalization which they have recently taken or because of the scope of their remaining restrictions."

⁷ This section does not appear in CFEP 595/3. Instead, CFEP 595/3 discussed "Procedures applicable to 'residual' restrictions."

Austria, less important than Italy as a market for U.S. exports, also still restricts a wide range of imports, most restrictions being nondiscriminatory. Austria in the past has argued that it could not liberalize further, because its reserves (worth about 7 months' imports) were too small, and because it had to control trade with the Soviet Bloc. More recently the Austrians have argued that their industry requires the protection from EEC competition which QRs can afford. Austrian Trade Minister Bock on April 5, 1960 told Under Secretary of State Dillon that discriminatory restrictions on imports of various textiles would be removed this summer.

Japan, whose reserves are worth about 4 months' imports, is not relatively as well off financially as Italy and Austria. Japan's import restrictions are far reaching—the "liberalization percentage" at April 1 was estimated at 42 percent. Japan has announced a program to achieve 70 percent liberalization by April 1961 and to remove restrictions on all imports, except some agricultural products, by 1963. Trade liberalization is under continuing discussion between the U.S. and Japan.

Though France still restricts a fairly wide range of imports, it has made a series of liberalization moves and promises more. Remaining French restrictions are mainly on agricultural products.

With respect to the other advanced countries, which have gone far in removing QRs, the remaining restrictions relate to agricultural products and, less generally, to textiles and ceramics—so-called low-wage imports. The general subject of agricultural protection, in which in most countries domestic politics figures importantly, is under consideration in the GATT Committee II. The general subject of low-wage imports is also under consideration in GATT, under the name "avoidance of market disruption."

Measures to be Taken

*A) Under existing policies.*⁸

The intensified U.S. campaign for trade liberalization has been carried out in multilateral forums—principally the IMF and the GATT—and in direct representations to the governments concerned. Statements of policy by cabinet level officers before the IMF and the GATT Contracting Parties have been supplemented by consultations in committees and working parties in these bodies, and *démarches* by ambassadors have been followed up by bilateral discussions at the official trade level. In these ways the weight of the trade and payments liberalization commitments embodied in the IMF and in the GATT has

⁸ In CFEP 595/3, this heading reads: "Measures which can be taken conveniently under existing policies and which the department/agency recommends to be taken now."

been brought to bear, and stress has been placed on trade liberalization in the over-all relationships between the United States and the countries concerned.

The results to date of the intensified trade liberalization campaign are encouraging, and though further liberalization—to the point where, with few exceptions, non-tariff barriers to trade will have been eliminated—cannot be expected to occur automatically, prospects for its achievement are reasonably good. It is therefore recommended that action along the foregoing lines be continued.⁹

B) *Measures under existing policies but requiring considerable administrative effort.*¹⁰

None recommended.

C) *Measures requiring major changes in policy.*¹¹

It is possible that continuation of the present means of seeking trade liberalization through bilateral and multilateral pressure will be unavailing, and that the continued maintenance of QRs will make it necessary to consider resort to measures of retaliation.

The time for consideration of such measures is not at hand. Moreover, retaliation is more likely to set in train a series of restrictive actions than it is to lead to expansion of trade.

⁹ CFEP 595/3 contains an additional paragraph:

“If, however, satisfactory results from this line of approach are not forthcoming in individual cases (for example, Italy and Austria), consideration should be given to the use of other measures available under the GATT.”

¹⁰ In CFEP 595/3, this section reads:

“B) Measures which can be taken under existing policies but which require considerable administrative effort and which the department/agency recommends to be taken only if balance of payments deficit shows no or only a disappointing improvement during the first half of 1960.

“With a vigorous pursuit of existing policies indicated above, there are no additional recommendations that would appear to fit under this heading.”

¹¹ In CFEP 595/3, this heading reads: “Measures requiring major changes in national policy and which the department/agency does not recommend to be taken unless a continued serious deficit in balance of payments requires such major changes.”

122. Memorandum From the Director of the Office of International Finance, Department of the Treasury (Willis) to Secretary of the Treasury Anderson

May 25, 1960.

During the course of a meeting with Don Paarlberg on May 23, to discuss the uses of PL 480 foreign currencies, Mr. Paarlberg indicated that he may discuss with you directly some of the problems which were raised at that meeting. The two broad questions discussed at that meeting were: (1) uses of PL 480 loan repayments; and (2) the new policy recently inaugurated by the Budget Bureau to require dollar appropriations for all US uses of foreign currencies acquired under PL 480 sales agreements. The questions which Mr. Paarlberg may discuss with you are briefly outlined below:

(1) Use of PL 480 Loan Repayments

Up to this point, repayments under 104(g) loans to foreign governments have been small, and there have been no repayments under 104(e) Cooley loans to private enterprise. Those repayments which have been made are held by the Treasury and are made available for sale to US Government agencies.

Congress has been promised an Administration proposal which would establish general policies for dealing with loan repayments, but because of the failure within the Administration to agree on a proposal it was decided to postpone a submission until the next session of the Congress. Mr. Paarlberg believes that we should agree on a proposal which could be turned over to the next Administration. He will probably suggest that this task should be assigned to the Francis Committee which has been handling this matter.

At the time this question was last considered by the Francis Committee, in January of this year, there were several points of difference between the Treasury Department and other Departments. Treasury and Agriculture proposed a revolving fund for Cooley loan repayments, after provisions are made for Treasury sales, the educational exchange program, and the agricultural market development program. The Budget Bureau, the State Department, and the ICA opposed this proposal.

Source: National Archives and Records Administration, RG 56, Records of the Office of the Secretary of the Treasury, Robert B. Anderson, Subject Files, Office of International Finance. Official Use Only. The source text, which was sent through Upton, is stamped, "Noted R.B.A."

Treasury joined Budget in proposing that loan repayments should be made available for US Government agency use only against dollar appropriations. This was opposed by Agriculture, State and the ICA.

Treasury joined with the other Departments in supporting the present statutory authority to use loan repayments for the educational exchange and agricultural market development programs, which the Budget Bureau opposed.

Treasury joined with the other Departments in supporting the use of loan repayments for transfers to international organizations (for example, IDA) free of the appropriations procedure, a view which was opposed by the Department of Agriculture.

(2) The New Budgeting Procedure for Foreign Currencies

The Budget Bureau, with our support, recently inaugurated a new procedure under which US Government agencies will have access to foreign currencies acquired under PL 480 only pursuant to the appropriations procedure. Under this policy there will be two kinds of dollar appropriations:

- a. Unrestricted dollar appropriations which can be used to purchase foreign currencies from the Treasury when available, or otherwise when not so available; and
- b. Restricted dollar appropriations to purchase only those foreign currencies held by the Treasury where such currencies are:
 - (i) limited by agreement to special programs and are not available for general use; and
 - (ii) are determined by the Secretary of the Treasury to be in excess of normal requirements.

Agriculture is disturbed about the way this new policy has worked out in practice. They contend that the PL 480 statute requires that they be given access to foreign currencies acquired under that statute, and that if they are restricted to the currencies declared to be in excess supply, this purpose of the statute is likely to be negated.

GHW

123. Circular Telegram From the Department of State to Certain Diplomatic and Consular Missions

May 26, 1960, 1:31 p.m.

1489. US Government issuing May 27, 1960, subject to press embargo until 6:30 p.m. Washington time, formal notice intention to participate in GATT tariff negotiations for reciprocal exchange concessions commencing September 1960.¹ Also issuing 1) list of products on which US may consider offering tariff concessions these negotiations and 2) separate "export" list of products on which US may request tariff concessions from other countries.²

These releases initiate domestic procedures for public participation in US preparations for negotiations, including hearings before interagency Committee for Reciprocity Information and "peril point" hearings before Tariff Commission concerning extent to which concessions listed products may be made without causing or threatening serious injury to domestic industry. Hearings to start July 11. Inclusion of article either list is for purpose obtaining views public concerning possibility offering or seeking concessions. Such inclusion carries no implication that concession will ultimately be offered in case products on public list or requested in case products on export list. Neither list indicates country with which concession might be negotiated.

Releases state that on basis presently available information, US expects negotiate with Commission of EEC on behalf member states, with Australia, Austria, Canada, Chile, Denmark, Dominican Republic, Finland, Haiti, India, Israel, Japan, New Zealand, Nicaragua, Norway, Peru, Spain, Sweden, Switzerland, Tunisia, United Kingdom and Uruguay. US may also negotiate additional countries if there proves basis for negotiations.

US participation in negotiations under authority delegated to President in Trade Agreements Act as amended and extended. President authorized to enter into trade agreements within four-year period ending June 30, 1962. In such agreements authorized reduce US duties in stages by any one three alternative methods:

1. Reducing rate existing on July 1, 1958 by not more than 20 percent, providing no more than 10 percent reduction made effective any one year;

Source: Department of State, Central Files, 394.41/5-2760. Official Use Only. Drafted by Brewster; cleared in draft with Sanderhoff, Walker, GTI, FE, ARA, AFS, and CMA; and initialed for the Secretary by Birch. Sent to 30 posts and repeated to 13 additional posts.

¹ For text, see Department of State *Bulletin*, June 13, 1960, pp. 968-973.

² Neither found.

2. Reducing rate existing on July 1, 1958 by not more than 2 percentage points ad valorem. Reduction in any one year may not exceed 1 percentage point;

3. Reducing to 50 percent ad valorem or its equivalent a rate in excess that level, providing not more than one-third total reduction made effective any one year.

Copies releases being pouched missions.

Suggest addressee missions inform Governments to which accredited of announcement.

Geneva inform Wyndham White.

Herter

124. Telegram From the Department of State to the Embassy in Paraguay

May 27, 1960, 1:12 p.m.

289. At GATT Session Geneva May 17 USDel noted EFTA now ratified all 7 member states and will soon enter into force.¹ Recalled the 7 governments had provided very detailed answers to questions GATT contracting parties and that GATT Intersessional Committees had done good work in exploring provisions Stockholm Convention as they relate to GATT. Delegate then indicated our overall view of Stockholm Convention is that, on balance, it deserves support and approval of the Contracting Parties. Said that exemption from free trade provisions EFTA of entire economic sector of agriculture and question as to how third country trade in agriculture will be affected by bilateral agreements related to EFTA seem to us to warrant consideration Stockholm Convention by Contracting Parties under GATT procedures other than those set forth in Art XXIV. *Comment:* Without so stating this means that in our view waiver under Art XXV required;

Source: Department of State, Central Files, 394.41/5–2760. Official Use Only. Drafted on May 20 by Herbert F. Propps of the Commercial Policy and Treaties Division of the Office of International Trade; cleared by Butler and Leddy, in draft by ARA, and in substance by Hartman; and approved by Hadraba. Sent also to Buenos Aires, Geneva, Lima, Mexico City, Montevideo, Rio de Janeiro, and Santiago.

¹ The 16th session of the GATT Contracting Parties convened in Geneva on May 16. On May 3, Outer Seven Representatives signed the Convention Establishing the European Free Trade Association (“Stockholm Convention”); see Document 116.

further examination Stockholm Convention including questions whether Contracting Parties deem waiver necessary and, if so, its terms will be required in GATT framework.

In statement on Latin American Free Trade Area (Montevideo Treaty)² USDel endorsed Treaty objectives of achieving higher standards of living and accelerating economic development through elimination intraregional trade barriers and maximum utilization productive factors. Congratulated signatory governments on their initiative and assured them USDel would give treaty sympathetic and serious consideration. Said US looks at any agreements for regional economic integration in context principles GATT Art XXIV. Made a few general substantive comments on Treaty and said that, as in case other regional arrangements, Montevideo Treaty should be considered in detail by appropriate GATT working party.

If questioned re reasons US has not indicated support Montevideo Treaty in terms equivalent to those employed in relation Stockholm Convention, addressee missions should point out US on record in favor Montevideo Treaty objectives; GATT examination Convention has advanced much farther than that of Treaty; Convention has been ratified and is about to enter into force whereas Treaty ratifications pending; US has not endorsed Convention in detail and has indicated provisions Art XXIV alone not fully adequate cover Convention. US continues favor full GATT consideration each of the free trade area arrangements on its own merits, a process which in both cases is expected continue for some time.³

Herter

² For text of the Treaty Establishing a Latin American Free Trade Area and Association, signed at Montevideo February 18, 1960, and entered into force June 2, 1961, see *American Foreign Policy: Current Documents, 1961*, pp. 358–372.

³ The U.S. assessment of the accomplishments of the 16th GATT session is *ibid.*, 1960, pp. 818–823.

125. Memorandum From Lubert O. Sanderhoff of the Office of British Commonwealth and North European Affairs to the Director of the Office (Willoughby)

June 9, 1960.

SUBJECT

Wool Fabrics Tariff Quota

The US proposal to be made to the UK and, if negotiable, later to Italy and Japan, continues to evolve into an increasingly protectionist device.

The first stage, a month ago, was a State-supported position to propose replacing the 24–25 tariff quota by a flat rate of 36% for the bulk of the fabrics, i.e., the peril-point finding rate. Commerce then sought 40%, arguing that our industry needed more than minimum protection afforded by the peril-point rate. Commerce won support from Treasury and Interior. State, at the direction of Mr. Dillon, next proposed a 36% rate coupled with a minimum specific duty of 72¢ a pound. Under this proposal, the cheaper fabrics, almost all from Italy, would bear the heaviest impact. Italian fabrics valued at \$1.00 per pound would pay the same duty as UK and Japanese fabrics valued at \$2.00 per pound.

On June 6, Mr. Dillon and Secretary Mueller met with White House Staff officials, and reached agreement on a more protectionist rate, i.e. 38% coupled with a minimum specific duty of 76¢ per pound.¹

In my opinion, there is about a 50–50 chance that the UK, and subsequently Japan, will be willing to negotiate on this. If the UK agrees to negotiate on such a proposal, our approach to Italy may draw a strong reaction. Because of this, WE drafted a brief memo to E on this point, in place of clearing the E memo on the proposal for EUR.

Copies of the E and EUR memos are attached.² The E memo has been endorsed by Mr. Dillon and delivered to the White House. There was a last-minute minor change, again in the protectionist direction: at the request of the White House Staff a proposed rate for hand-woven fabrics for religious use was raised from 24% to the rate now in effect,

Source: Department of State, Central Files, 394.41/6–960. Confidential. Initialed by Willoughby.

¹ No further record of this meeting has been found.

² Not found attached.

25%. The White House Staff thought there was little if any bargaining power on this item, and that the reduction would only irritate the domestic industry.

126. Memorandum of Discussion at the 451st Meeting of the National Security Council

July 15, 1960.

[Here follow a paragraph listing the participants at the meeting and agenda items 1–6.]

7. Review of Anti-Trust Laws Affecting U.S. Foreign Commerce (NSC Action No. 1356–c)¹

Mr. Gray briefed the Council on the President's action on this subject. (A copy of Mr. Gray's Briefing Note is filed in the Minutes of the Meeting and another copy is attached to this Memorandum.)

*The National Security Council:*²

Noted a report by the Special Assistant to the President for National Security Affairs:

a. That the President, upon the recommendation of the Deputy Attorney General and the Chairman, Council on Foreign Economic Policy, had agreed to rescind the request to the Council on Foreign Economic Policy for a study on the subject which is contained in NSC Action No. 1356–c.

b. That in taking the action in a above the President had noted that the Departments of State and Justice are implementing the following recommendations relating to anti-trust and foreign investment contained in the report prepared under the direction of Mr. Ralph I. Straus for the Department of State:³

“We recommend authoritative indication of the extent to which the Department of Justice will take into account elements of legal or quasi-legal compulsion or business necessity in assessing the legality of a foreign arrangement under the anti-trust laws.

Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Robert H. Johnson on July 18.

¹ Dated March 24, 1955; see *Foreign Relations, 1955–1957*, vol. x, pp. 524–529.

² Paragraphs a and b and the note constitute NSC Action No. 2266. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

³ See the source note, Document 165.

“We recommend clarification of and more information concerning the willingness of the U.S. Government to consider in advance the legality under anti-trust laws of proposed investments abroad.

“We recommend that, barring unusual circumstances, time should be permitted for consultation with representatives of the foreign government affected if the basis for the proposed anti-trust action might be removed by negotiation or if advance notice might soften the impact on foreign opinion.”

Note: The above action, subsequently transmitted to the Chairman, CFEP, the Secretary of State, and the Attorney General.

Robert H. Johnson

Attachment⁴

Briefing Note Prepared by the Director of the National Security Council Planning Board Secretariat (Johnson)

July 14, 1960.

REVIEW OF ANTI-TRUST LAWS AFFECTING U.S. FOREIGN COMMERCE

In connection with an NSC action on the oil cartel case early in this Administration [April 22, 1953]⁵ the Attorney General was requested to restudy anti-trust laws with particular attention to the provisions relating to operations by Americans outside the United States. In March 1955, when the Council considered the Attorney General's report, it requested the Council on Foreign Economic Policy to undertake a further review of the problem which would consider the desirability of changes in the anti-trust laws and their administration—the Attorney General's report focused largely upon examination of *existing* law rather than upon changes that might be required.

The CFEP established an interagency task force which prepared a report on the subject.⁶ However, Attorney General Brownell in May 1956 requested that CFEP consideration of the task force report be deferred on the grounds that such consideration might endanger enactment of other anti-trust legislation then before Congress. The President agreed to such deferral.

⁴ Secret.

⁵ Brackets in the source text. For the memorandum of discussion at the 140th NSC meeting, see *Foreign Relations, 1952–1954*, vol. 1, pp. 1351–1353.

⁶ Not found.

As a result of a recent inquiry which I initiated through Mr. Randall, Deputy Attorney General Walsh has advised that he adheres to Mr. Brownell's earlier view that little practical purpose would be served by NSC consideration of the CFEP task force report. He has suggested that the April 1959 report of the Straus Committee to the Under Secretary of State, recommending treatment of the problem of the application of anti-trust laws to overseas operations through procedures short of legislation, constitutes a more constructive approach to the problem. Mr. Randall has concurred in Mr. Walsh's views and has recommended that this subject be removed from the NSC agenda.

The Planning Board has also agreed with these recommendations and has proposed that the Council record show that the Departments of State and Justice are implementing the three recommendations of the Straus report which relate to the effect of anti-trust laws on foreign investment. The President has concurred in these recommendations.

127. Letter From Secretary of State Herter to President Eisenhower

August 5, 1960.

DEAR MR. PRESIDENT: I have been giving a great deal of thought to your suggested program of Food for Peace and the way in which it might best be developed during the coming months. As you are fully aware, the greatest obstacle to effecting an orderly distribution of surplus foodstuffs arises from fears of those nations which themselves have surpluses which their own economies require them to sell in world markets. In connection with our own PL 480 program, this has been a constant preoccupation with us.

In order that the fears of these nations could be allayed and that other nations might become beneficiaries of a portion of the distributions made under a concerted program, I feel it would be very wise to get a sound groundwork laid. Secretary Benson is at the present time taking a trip to some of the European and Middle Eastern countries. I would recommend strongly that, on his return which is anticipated somewhere around the middle of August, he be requested to undertake some more extended trips which would include such nations as Uruguay, Argentina and Peru in South America, Australia and New

Zealand in the Far East, and, at the same time, while in the latter area, he visit such countries as Indonesia, the Philippines, Formosa and Japan. It would also be helpful if he could examine the sugar situation in the surplus sugar-producing countries like Brazil since sugar will undoubtedly be a subject of considerable controversy in the next few years.

I have not tried to be all-inclusive in the suggestions contained herein, but, if you think well of the idea, I would be very glad to work out a specific itinerary which, while it might be large, would at the same time be most useful toward achieving the specific objectives which you have had in mind in connection with your program.

I suggest Secretary Benson for this particular assignment because of his extensive experience, because of the fact that he has made a great number of contacts in previous travels in these various countries, and is, of course, devoted to the idea of maximum utilization for peace of the surpluses which we may produce.

Faithfully yours,

Christian A. Herter

128. Editorial Note

On August 8, President Eisenhower sent a special message to the Congress outlining legislation that needed to be enacted before the current session ended. Among the items the President mentioned was "a proposal to be presented in September before the General Assembly of the United Nations, whereby we and other fortunate nations can, together, make greater use of our combined agricultural abundance to help feed the hungry of the world. The United Nations provides a multilateral forum admirably suited to initiate consideration of this effort.

"I consider it important that Congress approve a resolution endorsing such a program before the United Nations Assembly convenes." (*Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1960–61*, pages 612–619)

Three days later, George Willis, Director of the Office of International Finance at the Department of the Treasury, sent Treasury Secretary Anderson a memorandum delineating four points about the President's proposal that concerned Anderson:

"1. If United States agricultural commodities, even though surplus, are turned over to the United Nations this will involve a budgetary cost in order to reimburse the Commodity Credit Corporation. To the extent present United States programs were reduced as a result of channelling surpluses through the United Nations the net additional cost would be lessened, however.

"2. If the United Nations carried out a program similar to that of Title I of P.L. 480 it would be involved in the handling and programming of foreign currencies for economic development proposals. This would be similar to the SUNFED proposals.

"3. If the United Nations became a clearing house for the disposal of United States agricultural surpluses and that of other countries, pressure could well develop to utilize the United Nations for disposal of other commodities which some country had difficulty in disposing of commercially.

"4. If United Nations channels are utilized for the disposal of United States surpluses these United States commodities could go to the U.S.S.R., its satellites, and through them even to Communist China." (National Archives and Records Administration, RG 56, Records of the Office of the Secretary of the Treasury, Anderson Subject Files, St. Lawrence Seaway Development Corporation (International Finance, Office of))

In a covering memorandum, Willis commented that Food for Peace Coordinator Paarlberg was considering several alternatives for implementing the proposal, ranging "from using the United Nations as a clearing house for *information* to using the United Nations as the distributor of surplus commodities." Between these lay the option "of turning certain present United States programs over to the United Nations for administration." The Department of State, he noted, favored using the United Nations as a source of information and continuing to administer programs bilaterally. (Memorandum from Willis to Anderson, August 11; *ibid.*)

Under Secretary Dillon presented the Department of State's views on the proposal in testimony before the Senate Foreign Relations Committee on August 25. For text of his statement, see Department of State *Bulletin*, September 19, 1960, pages 449-451. On August 26, the Committee reported S. Con. Res. 116 endorsing the President's plan; for text, see S. Rept. 1922, Eighty-sixth Congress, Second Session. The Senate approved the resolution in a voice vote on August 27, but the House of Representatives took no action on it before Congress adjourned. On October 27, however, the U.N. General Assembly unanimously adopted a revised version of the proposal in Resolution 1496(XV); for text, see U.N. doc. A/4684.

**129. Memorandum From the President's Special Assistant
(Paarlberg) to President Eisenhower**

August 9, 1960.

Last November you requested the Tariff Commission to investigate the need for imposing a cotton textile import fee equivalent to our export subsidy on raw cotton.¹

That inquiry was prompted by the strong equitable claim of American textile producers who pay the domestic supported price for raw cotton while imported textiles use raw cotton purchased at the lower world market price.

The Tariff Commission, with two dissents, found that textile imports do not interfere with the Department of Agriculture's cotton programs. Accordingly, the Commission recommended no import restrictions.

The State, Agriculture, and Commerce Departments recommend that you accept this majority finding. Your staff concurs.

If you approve, your initials on the attached press release would authorize the announcement on this decision.²

Don Paarlberg³

Source: Eisenhower Library, Areeda Papers, Cotton Textiles, Section 22. No classification marking.

¹ See Document 114.

² The attachment is not printed. On August 23 the White House announced that the President accepted the Tariff Commission's findings. For text of this announcement, see Department of State *Bulletin*, September 19, 1960, p. 445.

³ Printed from a copy that bears this typed signature.

**130. Airgram From the Department of State to the Embassy in
Japan**

G-44

August 30, 1960, 10:11 p.m.

1. In conversation with Japanese Ambassador on August 22 Acting Secretary referred to Japanese notice of intention under Article XXVIII of GATT to withdraw or modify tariff concessions previously

Source: Department of State, Central Files, 394.41/8-3060. Confidential. Drafted by Vettel on August 26; cleared by Adair, NA, FE, and S/S, and in substance with Kallis and Butler; and initialed for the Secretary by Dillon.

made to US on list of items accounting for over \$126 million of Japan's 1959 imports from US. Acting Secretary expressed US concern over such action which seemed to run counter to current efforts liberalize trade, pointing to fact US has avoided recourse to Article XXVIII and is under pressure to resort to that provision of GATT.

2. Asakai characterized this move by GOJ as "healthy" development in that Japan, seeking to liberalize trade, was moving from exchange controls toward "more normal" method of regulation through tariffs.

3. Basis for US concern over recent developments in Japan (e.g. the substantial Article XXVIII submission) indicating possible future protectionist trend in Japanese trade policy outlined in following paragraph. US anxious that GOJ a) fully appreciate extent of political problems faced by US Government in trade field and b) carefully consider possible effects on future of Japan's trade relations generally of the actions it takes in determining future course of Japan's trade policy.

4. Because of its adverse balance of payments position Japan, along with certain other countries, has been permitted over the past several years within the framework of the GATT to impose exchange controls to protect its exchange reserves (not to protect domestic industry). Because of the vast improvement in Japan's payments position its highly restrictive system of exchange controls is no longer justified, and Japan has therefore embarked on a program of trade liberalization. It is not valid, therefore, for the Japanese to maintain that the substitution of increased tariffs (a protectionist measure) for exchange controls is a "healthy" measure. On the contrary, such a move lends credence to allegations that Japan has, in fact, been using its exchange controls for protectionist, rather than balance of payments, purposes.

5. Throughout the life of the GATT, in the face of extensive withdrawals by other countries, the US has managed with considerable difficulty to avoid the use of Article XXVIII except for a few withdrawals for technical reasons. Furthermore, the US has resorted to the escape clause (Article XIX) on only 12 items over the past 25 years. The US Government is presently subject to great pressure to make withdrawals under Article XXVIII, and its ability to resist this pressure is weakened by every notification of withdrawal received from other countries.

6. These increased domestic pressures have resulted from growing foreign competition and from intense feeling in the US with respect to import and exchange restrictions imposed by foreign countries on imports from the US. For example, a vast majority of the 800 briefs submitted, in connection with the forthcoming 1960-61 round of GATT tariff negotiations, to the Committee for Reciprocity Information and the Tariff Commission by representatives of US industry,

labor, and consumers have stressed the lack of reciprocity on the part of other countries. They cite the extensive network of trade restrictions and high tariffs imposed by other countries on US exports. Additionally, in August 26 meeting in Dept on wool suits,¹ Potofsky urged US use of Article XXVIII protect wool suit industry. Should the US be forced to resort to Article XXVIII the implications for the future effectiveness of the GATT itself and the adverse effect for Japan (the majority of items affected would undoubtedly be Japanese items) should be obvious to the Japanese.

7. For some time the US has believed in reducing trade barriers of all kinds—whether in the form of tariffs or direct restrictions. We believe that Japan should be even more interested in a worldwide liberal trading system than the US. The US has reduced its tariffs since 1934 from a 1931–35 average of 50 percent ad valorem to an average of less than 12 percent and is now a moderate tariff country. We are informed that Japan's tariffs average about 17 percent ad valorem. Since this average is calculated on the basis of actual imports, the liberalization of Japan's import and exchange restrictions would significantly raise this average.

8. For many years the US made reductions in customs duties with the full realization that it would receive no immediate benefit therefrom because of the exchange controls imposed by Japan and other countries. If these controls are replaced with tariffs the US Government will be hard put to avoid withdrawing concessions which are subject to attack by American producers.

9. In the case of Japan the situation is particularly bad because Japan has been much slower than other major trading countries to remove its trade restrictions. Moreover, the American Congress and public are well aware that the US is practically the only country that has been willing to accept rapidly increasing imports from Japan. The Ambassador will recall that in 1955 Japan had a multilateral negotiation, which resulted in its adherence to the GATT by virtue of an arrangement under which the US gave concessions to third countries to compensate them for concessions which they made to Japan.

10. The US is now faced with increased competition and has balance of payment problems. Despite this we have proposed a new round of tariff negotiations and hope to participate in a further substantial reduction of tariff barriers. It would be impossible, however, for any US Government to continue to maintain a liberal trade policy without the cooperation of its trading partners.

¹ No further record of this meeting has been found.

11. It seems clearly in Japan's interest to have a reduction of its tariffs in the context of a liberal free world trading policy rather than to face a situation where the US and other countries are reverting to the protectionist policies which obtained before the Trade Agreements Program.

12. In conclusion you may wish to state that the reason for bringing these facts to the Ministry's attention at this time is to allow the Japanese Government ample opportunity to give them full consideration in determining the future course of its trade policy. Although we understand the domestic political problem which the Japanese Government faces in its effort to accelerate trade liberalization, the Japanese must realize that the US Government also faces serious domestic political problems in the trade area. Actions on the part of the Japanese Government which give evidence not only of a reluctance to liberalize its present import restrictions but also of a tendency to follow a more protectionist trade policy can only compound the problems which the US Government already faces in its efforts to maintain a liberal trade policy. Any serious deterioration of US-Japan trade relations would undoubtedly have serious adverse effects upon the relations between the two countries in general.

13. Request Embassy approach GOJ at high level along lines of foregoing. We expect to raise these points with Kosaka during his talk with Under Secretary.²

Herter

² A memorandum of this September 12 conversation is scheduled for publication in volume xvii. A joint communiqué was issued on September 12; see *American Foreign Policy: Current Documents, 1960*, pp. 678-679.

131. Telegram From the Department of State to the Consulate General at Geneva

September 2, 1960, 8:37 p.m.

Totan 2. Understand from various sources that Wyndham White distressed by resolution on trade agreed at OECD Ministerial Meeting,

Source: Department of State, Central Files, 394.41/9-260. Limited Official Use. Drafted by Ryss and John Renner, Office of European Regional Affairs; cleared by Adair and with Hadraba; and initialed for the Acting Secretary by Martin. Repeated to Paris and to Quito for Leddy.

July 22-23.¹ One reliable source alleges he made following points in private conversation: (a) Creation of OECD Trade Committee made it appear as if North Atlantic trade problems would be excluded from GATT. (b) In view of these developments, he questioned usefulness continuing efforts strengthen GATT for example through creation of Council. (c) He intends make full statement his views this subject to CP's at coming GATT Session. We also have indication Wyndham White feels obliged precipitate discussion at September 19-23 Council meeting to obtain clearer understanding division of labor OECD and GATT.

Department believes would be serious mistake attempt at this time in GATT to seek establish lines of responsibility and scope activities GATT and OECD Trade Committee. While useful purpose could be served by moderate Wyndham White statement on OECD functions in trade field which keeps pressure on OEEC countries to limit trade functions, injudicious or intemperate comments could be counterproductive.

No copy Wyndham White statement in Paris to Working Party on trade early July available in Department, but if it defends ability GATT deal problems QRs, export subsidies, etc., submission such comments to Council could have salutary effects and support efforts U.S., Canada, and France deal trade problems in GATT.

You requested see Wyndham White soonest in effort dissuade him from presenting alarmist view of OECD operations in trade field. You might indicate our view that July Ministerial Meeting reflected that OECD functions in trade field would not be as extensive as some OEEC countries desired; certainly not as far reaching as existing OEEC functions. In this respect agreement to abolish Part I of Code of Liberalization which pertains merchandise trade eliminates major threat to GATT. You might seek reassure Wyndham White by noting (a) United States will resist efforts to deal in OECD with trade problems which belong in GATT; (b) many problems previously discussed in OEEC will move to GATT forum, e.g. French proposal re subsidies; and (c) it is United States policy place more rather than less emphasis on GATT and we continuing study ways strengthen GATT.²

Merchant

¹ The Conference on the Reorganization of the Organization for European Economic Cooperation met in Paris July 22-23.

² Tanto 7 from Geneva, September 7, reported that Wyndham White intended to make an objective statement before the Council with no interpretative remarks. He had stressed, however, that he was "very concerned" and that the "moderation of his presentation and remarks did not reflect his deep and continuing concern." (Department of State, Central Files, 394.41/9-760)

132. Editorial Note

On June 30, Council on Foreign Economic Policy Secretary Galbreath distributed to CFEP members CFEP 592/1, a discussion paper on trade competition between the United States and Europe, which had been prepared at the request of the National Security Council. CFEP 592/1 examined import competition by analyzing petitions made to the Office of Civil and Defense Mobilization (OCDM) under the national security clause of the Trade Agreements Act and outlined the following criteria for the OCDM decisions on them:

“In accordance with the policy expressed in the enabling legislation for the purpose of evaluating the cases submitted to OCDM, emphasis has been placed on those aspects which bear the most immediate relationship to the national security. The OCDM has borne in mind the danger of allowing the national security clause to become a substitute for the ‘escape clause’ of the same Act. Some indication that industries have, in fact, tried to use the national security clause in this way is given by the fact that many of the industries seeking relief from the OCDM have also and, in some cases simultaneously, sought relief from the Tariff Commission.

“In general, the OCDM decisions of denial have been based on the determination that new weapons and strategic concepts have greatly reduced or altered current and foreseeable mobilization requirements for the commodities in question; that existing reserves, Government inventories and import availability even with reduced domestic production capability are sufficient to meet emergency requirements; and that in view of the above conclusions as to supply and requirements, the possible costs to our foreign policy interests outweigh any benefits which might be derived from limitations on imports.

“However, there is one special point in the administration of Section 8 cases that needs to be mentioned. The 1958 revision of the Act provided that the Director and President shall ‘further recognize the close relation of the economic welfare to our national security and shall take into consideration the impact of foreign competition on the economic welfare of individual domestic industries; and any substantial unemployment, decrease in revenues of Government, loss of skills or investment, or other serious effects resulting from the displacement of any domestic products by excessive imports shall be considered, without excluding other factors, in determining whether such weakening of our internal economy may impair the national security.’

“In accordance with this amendment, OCDM has included these additional economic factors to the extent possible as elements in determining the validity of the claims. In the three cases which OCDM has decided since this amendment was adopted there has been no showing that the economic factors were of sufficient significance to alter a conclusion based solely on the relevance to national security. This does not preclude the possibility that in some future case the combina-

tion of criteria based on economic welfare and its relationship to the national security may lead to an affirmative recommendation to the President.”

A footnote to the second paragraph noted:

“An exception to this line of thinking was the Heavy Electrical Equipment case in which no plea of injury to the domestic industry was made. In this case, the decision hinged on the amount and location of foreign equipment installed in the U. S., its reliability in comparison to American equipment, and the availability of maintenance and repair facilities.” (Washington National Records Center, CFEP Files: FRC 62 A 624, Trade Competition between the U.S. and Europe, CFEP 592)

The National Security Council considered CFEP 592/1 on September 7. After OCDM Director Hoegh’s presentation on the paper, “Secretary Herter observed that the guidelines developed by OCDM were very good and that extraordinary good sense had been shown in the examination of these cases. Secretary Mueller stated that he agreed completely with Governor Hoegh’s report and noted that a few of the cases that had been brought under Section 8 should have been brought as escape clause actions.” The National Security Council “concurred generally” in the OCDM guidelines. (Memorandum of discussion at the 458th Meeting of the National Security Council, September 12; Eisenhower Library, Whitman File, NSC Records)

Also on September 7, the White House released a statement by President Eisenhower giving his reasons for withholding approval from H.R. 5054. Eisenhower contended that the bill, which extended requirements for labeling imports with their country of origin, ran “counter to one of our major foreign policy objectives—the reduction of unnecessary barriers and hindrances to trade.” For text of his statement, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1960–61*, pages 687–688. Regarding H.R. 5054, see S. Rept. 1747, Eighty-sixth Congress, Second Session.

On September 8, Secretary Herter gave an address in Washington on the problems the United States faced internationally. He spoke briefly about the U.S. role in the Organization for Economic Cooperation and Development and stated that he hoped the next administration would be able to submit an OECD convention to the Congress. For text of his statement, see Department of State *Bulletin*, September 26, 1960, pages 467–473.

133. Notes by the Secretary of the Council on Foreign Economic Policy (Galbreath)

September 13, 1960.

NOTES ON GENEVA TRIP—AUGUST 29—SEPTEMBER 3, 1960

It was agreed within our GATT delegation that the tariff negotiations over the next nine months¹ will be the toughest in which the United States has participated.

The toughest problem anticipated is the negotiation with the Six. There are two phases in that negotiation: first, the level of the common market tariff which, in accordance with the GATT, must be no higher than the average of the individual country tariffs it displaces; and second, providing concessions adequate to meet the 20% cut offered across the board by the Six. The latter think we will be hard pressed to meet their 20% offer.

The agricultural policy and programs of the Six will be particularly difficult from the standpoint of the United States and other agriculturally exporting countries. Thus far there appears to be little to give hope that the Six will go far in opening up its market to outside agriculture. This can be the greatest stumbling block to successful tariff negotiations. In this connection Eric Wyndham-White suggests that it would be helpful if the United States would abandon its blanket waiver for United States agriculture and fall back upon waivers for individual items. Our people privately say they do not need the general waiver for agriculture and that Eric's suggestion has a great deal of merit. As long as the United States has a general waiver for agriculture, the Six can always point to it as a precedent for meeting their agricultural problem. This question might be a suitable one for inter-agency policy discussion in the CFEP.

I gather that the underdeveloped countries which are members of the GATT do not see much for them in the tariff negotiations. While they will be there observing, it is doubtful that they will participate in many negotiations. Their prime interest seems to be finding a way to ease their products into Western Europe, and the agricultural policies pursued by the Six will have an important bearing on the interest of the underdeveloped countries. In a sense, the problem of the underde-

Source: Eisenhower Library, CFEP Chairman Records. No classification marking.

¹ The multilateral tariff conference opened in Geneva on September 1. For text of Randall's statement at the opening meeting, see Department of State *Bulletin*, September 19, 1960, pp. 453-456. Randall commented on the GATT negotiations in a September 27 memorandum to Eisenhower. (Eisenhower Library, CFEP Chairman Records, Randall Journals, CFEP, 1960, vol. XIV, September 28 entry)

veloped countries is separate from the tariff negotiations as two committees of the GATT are studying ways and means for increasing trade in agricultural products and other items of interest to those countries.

There continues to be considerable uncertainty on the part of a large number of GATT countries as to the role which the new OECD will have in trade matters. I believe there is less apprehension about this now than there was during the summer months.

Carl Corse, who heads our delegation in Geneva for the tariff negotiations, is well equipped for this job. He is personally acquainted with the key people of most of the delegations and knows how to deal with them. I am not so certain about the makeup of his team for the first phase of the negotiations. It is in a sense largely a new and inexperienced team, somewhat junior to our representation at previous GATT sessions.

Carl will need all the help he can get, both from members of his team in Geneva and from Washington. I know he will have stronger support for the second phase of the negotiations as the TAC plans to move to Geneva to be there on the spot. It remains to be seen whether he will need the assistance of more senior people during the first phase.

The most competent all-around person Carl has is Parker Montgomery,² who is likely to return to the United States in a few weeks. The loss of Parker would be a serious blow to our Geneva team, and Carl has said to me privately that he hopes a way can be found to keep Parker in Geneva.

Some concern may be expressed in Washington over the selection of Eric Wyndham-White as Chairman of the Tariff Negotiations Conference. I think that we need to defend this choice on the basis that once McKinnon of the Canadian delegation removed himself from consideration, there was no one else of sufficient stature and sufficiently knowledgeable in GATT procedure and tariff negotiations to fill the spot.

CEG

² Special Assistant to Secretary of State Herter.

134. Memorandum From Karl Brandt of the Council of Economic Advisers to the Chairman of the Council on Foreign Economic Policy (Randall)

September 21, 1960.

In response to your request of yesterday, I hereby submit the following observations.

With reference to the economic relations between the United States and Western Europe it is obvious that in the coming years we will be in great straits to keep our balance of payments in such shape that we can maintain the free convertibility of a hard dollar and stick to a liberal trade policy. We have spent some \$80 billion to get the Europeans on the road toward rising productivity, expansion, and hard freely convertible currencies. We have given them since 1948 the last word in our technology free of charge and our industries are investing over there to get more of it to them.

The Europeans, particularly the French and the Germans, but also the Belgians, the Swiss, and the Italians, do not fully understand yet that we are in a tough spot and need their cooperation for their own sake and security at least as much as for our own. They do not realize that unless they revise their policies they will drive the U.S. sooner or later to the same tragic situation which led to the collapse of the World Economic Conference in 1933 in London which blew up because the U.S. unilaterally did what Britain had done previously, namely, it devalued the currency. If this should arise again, it would do its part to blow up NATO and start the march on the slippery downgrade in the cold war.

If this situation shall be corrected and our burden be lightened, it calls for action on both sides, in Europe as well as the U.S.

1. The Germans must shoulder a larger share in the NATO defense budget, distribute more profits to the workers, and thereby reduce the over value of the D Mark. They must participate in financing underdeveloped countries at their risk, not by investing at 6 percent in the World Bank.

2. The EEC must refrain from agricultural autarchy, erection of a CCC and cartelization of the 6 countries' agriculture. This is, however, the line of DeGaulle and Adenauer, who both subscribe to agricultural fundamentalism and the same policies our National Farmers Union and Mr. Kennedy's advisers advocate here. The new German Minister of Agriculture, Mr. Schwarz, has defeated in Bonn the moderation of Mr. Mansholt—the former Dutch Minister of Agriculture and at pres-

Source: Eisenhower Library, CFEP Records. No classification marking. Attached to an October 12 memorandum from Randall to the Council stating he had requested this memorandum from Brandt following a conversation with him on U.S.-European economic issues.

ent a Member of the EEC Council. DeGaulle has given in to the rioting French farm organizations and the combination of French and German agrarian protectionism and "parity policy" for small farmers will proceed very fast unless we stop it.

3. The U.S. must stem the tide of protectionism and negotiate under GATT and later under OECD further mutual liberalization of foreign trade. It must energetically promote its exports, boost the tourist traffic of Europeans in this country, cut down on foreign aid as the Europeans increase it, and stop borrowing from the future by holding the line on wages and costs in general.

If the latest turn in EEC policies cannot be averted by very massive action on our side, we have the best chance that the drive of all U.S. protectionists and all U.S. industries which are on the defensive against tough price competition from all sides (Asia, including Japan and Hong Kong, Great Britain, Continental Europe, Czechoslovakia, etc.) will lead us to a retreat into deliberalization of our foreign trade policy. Shutting the door to U.S. agricultural exports will have a tremendous echo in our industries, particularly all light industries.

It seems high time that we open the eyes of the European leaders who can do something about it by speaking much more bluntly and with less delicacy about these hard facts of life and security for the West. Perhaps one ought to say to Messrs. Erhard and Blessing when they come the next days to attend the International Monetary Fund meeting, that if the EEC countries want to do their part to shut their industrial goods out of the U.S. market (as the result of the U.S. internal politics and Congressional developments), all they have to do is to go ahead with their emancipation of their common market for agricultural products and the discrimination against all non-member nations, which include the U.S.

I consider this situation as extremely dangerous because it is politically most difficult to unodge the agricultural interests from their new protectionist position in the EEC once they have entrenched themselves in it. This is just as much a fact in Continental Europe as it is in the U.S. The European farm organizations, particularly in France and Germany, are past masters in the riot techniques and all sorts of revolutionary pressure group tactics.

This is perhaps the last moment for averting the drift into new belligerent agricultural protectionism in the EEC countries. It should be utilized. To utilize it requires the abandonment of kid-glove tactfulness and fear of resentment of "dollar diplomacy", etc. In the best interest of the EEC countries themselves, the U.S. should use maxi-

num moral suasion and sternest warning against the consequences of building an EEC reservation for its heavily subsidized agriculture.¹

Karl Brandt²

¹ Brandt informed Randall in an October 12 letter that at a reception on September 26, he had discussed with Erhard and Blessing the "dangerous game they are playing with the agricultural protectionism in the common market. Both of them were much impressed by what I said and I have the feeling that my words added perhaps a little additional weight to what I am sure the Secretary of the Treasury and the Under Secretary of State, as well as others, had impressed upon them." (*Ibid.*)

² Printed from a copy that bears this typed signature.

135. Editorial Note

The Council on Foreign Economic Policy held its 106th meeting on September 22. The Council first considered CFEP 554/2, September 14, which reviewed the Buy American Executive order. Among its conclusions, CFEP 554/2 stated that no change was required in the Buy American Act or Executive Order 10582 and recommended that the "Executive Branch should again make every effort to persuade the appropriation committees of the Congress of the desirability of removing the rider to the annual Defense appropriation acts that prohibits any procurement of foreign food, clothing, wool or spun silk yarn for cartridge cloth, except for perishables and battle emergencies." (Eisenhower Library, White House Office, Cabinet Secretariat Records) The Council held an "exploratory" discussion on the paper, reaching no decisions on it. (Draft Minutes of the 106th Meeting of the Council on Foreign Economic Policy, September 22; *ibid.*, CFEP Chairman Records, Papers Series, CFEP Minutes, 1960)

On October 28, the Department of State announced that the 17th Session of the Contracting Parties to the General Agreement on Tariffs and Trade would convene in Geneva on October 31. At this meeting, the announcement continued, the United States would continue its efforts to have restrictions against exports from the dollar area lifted. (Department of State *Bulletin*, November 14, 1960, pages 758-759)

The session ended on November 19. Two days later, the U.S. Delegation released a report on the meeting's accomplishments. For text, see *American Foreign Policy: Current Documents, 1960*, pages 823-829.

136. Circular Telegram From the Department of State to Certain Diplomatic and Consular Missions

November 7, 1960, 12:56 p.m.

659. Following for your information is text press release on wool fabrics tariff to be issued Washington noon November 9. Washington representatives of countries to which you are accredited (except Switzerland) will be informed November 7, but will be strongly urged to guard against public disclosure until November 9.

"The Department of State today announced that new tariff rates on certain woolen and worsted woven fabrics will go into effect on January 1, 1961, and replace the present tariff quota system. These rates, described in the attached table, were approved by the President upon recommendation of the interdepartmental Committee on Trade Agreements and the Trade Policy Committee. They have been the subject of negotiations and consultations with the interested supplier countries in accordance with the provisions of Article XXVIII of the General Agreement on Tariffs and Trade.

At the present time, these fabrics are subject to a compound tariff duty, consisting of a specific duty and ad valorem rates, both of which vary according to the nature of the fabric. The specific duty, which is compensatory for the duty on raw wool, is 37½ cents per pound for most fabrics. This part of the compound duty will remain unchanged. The ad valorem rates presently in effect have since 1956 been subject to a tariff quota under which the rates for most fabrics were 25 percent ad valorem for imports within the quota limits, and 45 percent for imports after the quota was filled. Exceptions were made for certain specialty fabrics which entered at lower rates even after exhaustion of the quota. With the exception of these specialty fabrics, the new ad valorem portion of the duty will be 38 percent for fabrics valued over \$2.00 per pound, and 76 cents per pound for lower priced fabrics, with a maximum ad valorem limit of 60 percent.

The total duty, including the specific rate, resulted in an average incidence in 1959 of 45 percent on all imports. The incidence of the new rates, computed on the basis of 1959 trade data, would be 48 percent for fabrics valued over \$2.00 and upwards of 57 percent for lower-priced fabrics.

Source: Department of State, Central Files, 394.41/11-760. Confidential; Priority; Verbatim Text. Drafted by Michael J. Dux, of the Trade Agreements Division of the Office of International Trade, on November 4; cleared by Hadraba and Martin and in substance by BNA, WE, and FE; and initialed for the Acting Secretary by Martin. Sent to London, Rome, Brussels, Paris, The Hague, Tokyo, and Geneva.

The operation of the tariff quota system has disrupted normal marketing practices in the woolen goods trade. United States importers, clothing manufacturers, and retailers were faced with many difficulties resulting from the need to place orders far in advance of delivery and from the uncertainty over the applicable tariff rates at the time of importation of the fabric. To correct these difficulties and to provide a solution better suited to the needs of all the parties concerned, the United States agreed in 1959 to enter into negotiations with the interested supplier countries for renegotiation of the so-called 'Geneva reservation' under which the tariff quota arrangement was established. These renegotiations have now resulted in the new arrangements described above.

A Presidential Proclamation will be issued in due course to give legal effect to the new rates as of January 1, 1961."

Table mentioned in the above text not being cabled because of length and technical complexity. "Specialty fabrics" mentioned in text are handloom fabrics and cloth for religious vestments, which will carry 25 percent ad valorem duty, and billiard cloth, which will have 30 percent ad valorem duty.

Embassy London requested inform Maudling that details US proposals given to British Embassy here and that release scheduled for November 9.¹

Dillon

¹ Reginald Maudling was President of the British Board of Trade. The announcement was released on November 9. (Department of State *Bulletin*, November 28, 1960, pp. 832-834) On November 22, the Embassy in Rome received a memorandum expressing the Italian Government's surprise and disappointment at this decision. (Despatch 464 from Rome, November 23; Department of State, Central Files, 394.41/11-2360) The White House released Proclamation No. 3387 establishing the new wool tariff rates on December 28; see Department of State *Bulletin*, January 16, 1961, pp. 87-90.

137. Draft Minutes of the 109th Meeting of the Council on Foreign Economic Policy

December 1, 1960.¹

[Here follow a list of participants and discussion of an unrelated matter.]

II. CFEP 554—Review of Results Under “Buy American” Executive Order.

1. The Council considered the following papers:

a. Report and recommendations of the Bureau of the Budget entitled “Procurement under the Buy American Act and Executive Order 10582”, distributed to Council members on September 6, 1960 as CFEP 554/1, and revision of such recommendations distributed to Council members on September 14, 1960 as CFEP 554/2.²

b. Staff memorandum entitled “Buy American Act Reciprocity”, on the subject of a Buy American reciprocity proposal by the Department of Commerce, distributed to Council members on October 28, 1960 as CFEP 554/3.³

c. Memorandum of the Bureau of the Budget entitled “Memorandum Respecting the Balance of Payments Implications of the Paper, ‘Procurement Under the Buy American Act and Executive Order 10582’ ” and copy of memorandum from the Assistant Secretary of Defense (Supply and Logistics) to the Director of the Bureau of the Budget, both distributed to Council members on November 23, 1960 as CFEP 554/4.⁴

Source: Eisenhower Library, CFEP Chairman Records, Papers Series, CFEP Minutes, 1960. Confidential.

¹ The meeting was held at the Executive Office Building.

² CFEP 554/1 is in Eisenhower Library, White House Office, Cabinet Secretariat Records. Regarding CFEP 554/2, see Document 135.

³ It recommended that the following statement be added to E.O. 10582: “Bids would only be valid from nationals of countries where the same opportunity would be afforded our concerns to bid on similar proposals.” (Washington National Records Center, CFEP Files: FRC 62 A 624)

⁴ The Bureau of the Budget concluded that, while its effects on the balance of payments were not precisely known, the Buy American program would have to be made more severe to achieve a savings. The Bureau recommended that the administration continue its efforts to have the rider to Department of Defense appropriations eliminated. The letter from the Assistant Secretary of Defense argued for continuing the small business differential. (Both *ibid.*)

2. The Council reached consensus that no change should be made in the Buy American Act or Buy American Executive Order 10582, and that no department or agency need change its present administration thereof.

Joseph Rand
Secretary

138. Editorial Note

On November 15, the Department of State announced that the number of public advisers in the U.S. Delegation to the 1961 Geneva tariff conference would be increased to 12. Previous delegations to meetings of the GATT Contracting Parties had had 3 or 4 public members. (Department of State *Bulletin*, December 5, 1960, pages 876-877)

Two days later, the White House released a directive by President Eisenhower on steps to be taken to rectify the balance-of-payments problem. Dated November 16, the paper declared that in the area of international trade, the United States had to:

“(a) Continue to press other countries urgently, and particularly those that are economically and financially strong, to reduce tariffs, relax quotas, and remove trade restrictions that hamper United States exports, and also urge these countries to reduce or eliminate internal taxes and other measures that have a special impact in curtailing their purchases of United States goods and services.

“(b) Continue to take all responsible means to increase our exports, including facilitating the financing of exports where this is needed to increase our sales both of consumer goods and capital goods.” (*American Foreign Policy: Current Documents, 1960*, pages 786-792; see also Document 59)

Under Secretary Dillon and Secretary of the Treasury Anderson visited Bonn November 19-23. Upon their return to Washington on November 28, they met with the President to report on their trip; see Document 61. Following this discussion, Eisenhower announced that U.S.-German conversations about the removal of German restrictions on U.S. agricultural products would continue. For text of his statement, see *American Foreign Policy: Current Documents, 1960*, pages 364-365.

139. Memorandum From the President's Special Assistant (Paarlberg) to the Chairman of the Council on Foreign Economic Policy (Randall)

CFEP 596/3

December 2, 1960.

RE

CFEP 596—Disposal Abroad of Agricultural Surpluses

In accordance with your memorandum 596/1 of November 16, 1960, I chaired a meeting to review the National Security Council policy statement on the Disposal Abroad of Government-Owned Surpluses (NSC 5415/1).¹ Present at the meeting were representatives from the Departments of State, Treasury, Agriculture, and Commerce, and the Office of Civil and Defense Mobilization, the Bureau of the Budget, and the Council on Foreign Economic Policy, and the Council of Economic Advisers.

It was agreed, without dissent, that the policy statement in question should be rescinded. The statement does not accurately describe present policies.

There exists, in law and in administrative policy, readily available, a current body of agreed procedure which adequately guides overseas movement of government-owned stock of agricultural products.

With this the fact, my committee saw no need to revise the paper.

Don Paarlberg²

Source: Washington National Records Center, CFEP Files: FRC 62 A 624, Disposal Abroad of Agricultural Surpluses, CFEP 596/1. Secret. Attached to two memoranda from Rand, both dated December 16 and also designated CFEP 596/3. The first informed the CFEP that no objections to Paarlberg's recommendations had been received and it was therefore considered approved by the Council. The second reported this decision to Lay. CFEP 596/1 is *ibid*.

¹ For text of NSC 5415 and documentation on NSC discussion and revision of it, see *Foreign Relations, 1952–1954*, vol. 1, pp. 175–196.

² Printed from a copy that bears this typed signature.

140. Letter From Secretary of State Herter to President Eisenhower

December 5, 1960.

DEAR MR. PRESIDENT: This Government's bargaining strength in the forthcoming tariff conference in Geneva has been seriously impaired by the Tariff Commission's peril point findings on the products under consideration for possible tariff concessions.¹ These findings were sent to you by the Commission on November 27, 1960, as required by law, and have also been made available to the Interdepartmental Committee on Trade Agreements.

Because of the careful selectivity exercised in determining the list of products which was published last May, with your approval, for consideration of possible tariff concessions,² the list represented only 26.3 percent of our total imports in 1959 from the countries with which we contemplate negotiations. The Tariff Commission's peril point findings are adverse to tariff concessions on products representing one-third of the trade coverage of the list, thus reducing the possible scope of our negotiating ability to only 17.5 percent of our imports from those countries. In the case of some countries, we will be able to offer concessions on less than one percent of our imports from them.

Under the circumstances, it will be exceedingly difficult, if at all possible, for us to conclude meaningful agreements with most of the countries with which we expect to negotiate, and with some of them we may not be able to conclude any agreements at all. The reduced bargaining potential with the European Economic Community (EEC), where the attrition caused by peril points is nearly 38 percent, is particularly serious. Unless the United States is able to induce the EEC to accept a one-sided agreement—and this is not a possibility to be relied upon—the United States will be unable to take full advantage of the offer already made by the EEC to reduce its common external tariff by 20 percent provided adequate reciprocity is offered by other countries in return. There is accordingly a serious risk that we will be unable to accomplish our objective of furthering the interests of the United States by securing the lowest possible level in the new common external tariff of the EEC as well as substantial tariff reductions by other countries.

Source: Eisenhower Library, Whitman File, Dulles-Herter Series. Confidential. Attached to Document 141. Another copy of Herter's letter shows it was drafted by Kallis and cleared with Weiss, Davis, Adair, Kirlin, and Martin. (Department of State, Central Files, 394.41/12-560)

¹ Not found.

² Regarding this list, see Department of State *Bulletin*, June 13, 1960, pp. 968-973.

Although there is no feasible course of remedial action which I can suggest to you at this time, I felt that you would wish to be informed of this situation.

Faithfully yours,

Christian A. Herter

141. Memorandum From President Eisenhower to Secretary of State Herter

December 7, 1960.

In your memorandum of December fifth concerning the forthcoming tariff conference in Geneva,¹ I was struck by your statement that “Unless the United States is able to induce the EEC to accept a one-sided agreement—and this is not a possibility to be relied upon—the United States will be unable to take full advantage of the offer already made by the EEC to reduce its common external tariff by 20 percent provided adequate reciprocity is offered by other countries in return.”

While the phrase “this is not a possibility to be relied upon” is possibly technically correct, it seems to me we ought to put our own current balance of payments situation very strongly before the conferees and make unmistakably clear that we have gotten into this situation through generous and liberal assistance and trading policies. Now it is time for them to do their share, and a failure on their part to do so would bring into question our basic relationships and attitudes toward these problems.

Incidentally, I wonder whether reduction by the EEC of its common external tariff by 20% is going to amount to anything like a 20% reduction in the individual tariffs its members now maintain toward us.

Dwight D. Eisenhower²

Source: Eisenhower Library, Whitman File, Dulles–Herter Series. Confidential.

¹ Document 140.

² Printed from a copy that bears this stamped signature.

142. Editorial Note

On December 7, Under Secretary Merchant joined Secretary of Commerce Mueller in Washington at a meeting of the National and Regional Export Expansion Committees. Merchant discussed the relationship between U.S. export trade and the balance of international payments and U.S. national security as well as the Foreign Service's role in the export expansion program. For text of his statement, see Department of State *Bulletin*, January 2, 1961, pages 3-7.

Two days later, the Department of State announced that on December 10, Under Secretary Dillon would leave Washington for Paris to attend a ministerial meeting to complete negotiations establishing the Organization for Economic Cooperation and Development (OECD). On December 13, the participants in the meeting issued a joint communiqué announcing that they had agreed to sign a convention creating the OECD and summarizing its contents. For text of the communiqué, see *American Foreign Policy: Current Documents*, 1961, pages 333-335.

In his statement at the signing ceremony on December 14, Dillon declared the event heralded "the dawn of a new era in international economic cooperation." "The United States," he continued, "wants the OECD to be a strong and effective organization. We regard it as a major mechanism for promoting healthy economic growth both within our own countries and throughout the free world. Acting in concert we can bring impressive intellectual, scientific, and economic resources to bear upon the great tasks before us." (Department of State *Bulletin*, January 2, 1961, pages 9-11) For text of the OECD convention, see *American Foreign Policy: Current Documents*, 1961, pages 492-501.

143. Memorandum From Secretary of State Herter to President Eisenhower

December 22, 1960.

SUBJECT

Tariff Negotiations with the European Economic Community

I wish to refer to your memorandum of December 7, 1960¹ which was brought to my attention immediately upon my return from Paris.

I am in agreement with the point expressed in your memorandum that it is now desirable for the Europeans to give continuing evidence that they too subscribe to the liberal trading policies which we have followed with mutual benefit to all of us over the past decade. In large measure, this is the basis on which we are about to enter the forthcoming negotiations with the EEC in Geneva. The EEC, in proposing a 20 percent reduction in its common external tariff, has been fully aware of the difficulties we would have in offering adequate reciprocity. With this in mind, the member countries of the EEC have, on several occasions, indicated that they were prepared to construe a smaller overall tariff reduction on our part as adequate reciprocity for a larger reduction on their part. It is my concern with our inability to make even this essential smaller tariff reduction in the forthcoming negotiations to which my letter of December 5² was addressed, for we risk the loss of a larger and significant tariff reduction on the part of the EEC, a reduction which in itself would be of great importance in solving our balance of payments problem by affording better competitive conditions in European markets to American exporters.

Source: Eisenhower Library, Whitman File, Dulles–Herter Series. Confidential. Initialed by Eisenhower. Attached to a copy of a December 24 memorandum from Goodpaster to Herter which reads:

“The President asked me to tell you he appreciates your memorandum of December 22nd on tariff negotiations with the European Economic Community. He assumes that U.S. representatives will examine the proposed common tariff closely to assure that it is not, on the whole, higher than the national tariffs it is to replace. He also reiterated that U.S. recent and present trading policies should give strong reason to press for a liberal trade policy on the part of the EEC.”

Another copy of Herter’s memorandum states it was drafted on December 20 by Kallis, Hartman, and Richard D. Vine, of the Office of European Regional Affairs, and cleared with Adair, Hadraba, Weiss, EUR, RA, and WE. (Department of State, Central Files, 374.800/12–2260)

¹ Document 141. Herter was in Paris to attend the 36th Ministerial meeting of the North Atlantic Council.

² Document 140.

You asked whether a 20 percent reduction by the EEC of its common external tariff is going to amount to anything like a 20 percent reduction in the individual tariffs its members now apply to imports from the United States. As you know, the formation of a customs union involves the merging of the national tariffs of individual participants into the single external tariff of the union. This process means that the tariffs of individual members will move both up and down toward the common external tariff.

The proposed common tariff is now under negotiation at Geneva to test its conformity with GATT standards, including the requirement that the incidence of the common tariff must not, on the whole, be higher than the national tariffs which it is to replace. In this process, the EEC may have to use some part of its offered 20 percent reduction in order to satisfy the United States and other contracting parties that the common tariff is just and equitable in terms of the pre-existing national tariffs. Beyond that point, the extent to which the EEC will go toward the full 20 percent reduction will depend on the adequacy of the concessions offered to it in the reciprocal negotiations which are to begin early next year. In answer to your specific question, the reduction of the common external tariff by 20 percent could mean that certain high national rates will come down much more in their movement toward the common external tariff than would otherwise be possible. Conversely, certain low national rates will not rise as much as they would if the offered reduction were less.

It was for these reasons that I desired to bring directly to your attention the serious impairment of this Government's bargaining strength resulting from the Tariff Commission's peril point findings. However, we shall use to the utmost what bargaining strength we have, including appeal to the Common Market nations on the basis of the good-will our assistance to them in the last ten years should have engendered.

Christian A. Herter

144. Editorial Note

On January 3, 1961, Clarence Randall, Chairman of the Council on Foreign Economic Policy, submitted a report to President Eisenhower on foreign economic policy during the Eisenhower administration. Regarding international trade, Randall wrote:

“Foremost among the matters to which I may have made some contribution has been the advancement of a liberal trade policy in world affairs, for which you have provided constant inspiration and leadership. It has not been easy at all times to withstand the importunities of those who, for their own short term advantage, would retard the long term national benefit. But the leadership of the Administration in this field has gone steadily forward. Trade barriers the world around have been steadily reduced, and the unquestioned leadership of the United States in this movement has not only been of great advantage to our own economy, but has strengthened immeasurably the economy of the entire free world.” (Department of State *Bulletin*, January 30, 1961, pages 157–159)

On January 6, Secretary Herter gave Eisenhower a summary of foreign policy during his presidency. Eisenhower administration policies, he reported, were “based on a belief that economic growth and interdependence are necessary conditions for stable and free nations.” Among the initiatives Herter cited in this area were support for the Reciprocal Trade Agreement Program, including “the longest single extension during the 25-year history of the program”; creation of the Organization for Economic Cooperation and Development; support for the European Common Market and the European Free Trade Association, greater interchangeability between Western European currencies, and broader cooperation in Western Europe; and the President’s Food for Peace proposals. For text of this report, see *American Foreign Policy: Current Documents, 1961*, pages 12–23.

U.S. INTERNATIONAL INVESTMENT AND ECONOMIC DEVELOPMENT POLICY

145. Editorial Note

On January 8, 1958, Deputy Under Secretary of State for Economic Affairs Dillon spoke in Philadelphia about foreign investment and economic development as a means to counter the Soviet economic offensive. For text of his statement, see Department of State *Bulletin*, January 27, 1958, pages 139–143.

The following day, President Eisenhower strongly endorsed the economic assistance program in his State of the Union message. After outlining the program's benefits, he noted he was promoting greater use of repayable loans and a shift to private sources of capital for economic aid. Eisenhower stressed his belief that the economic assistance program was one of the most vital tools of the U.S. security program. For text, see *American Foreign Policy: Current Documents, 1958*, pages 1–8.

146. Minutes of the 263d Meeting of the National Advisory Council on International Monetary and Financial Problems

January 14, 1958.

[Here follow a list of participants and a table of contents.]

1. General Terms and Conditions of Development Loan Fund Loans¹

The Chairman asked the Secretary of the Council to outline the problem for the information of the Council. Mr. Willis said that the Staff Committee had considered the proposed terms and conditions of

Source: National Archives and Records Administration, RG 56, Records of the Department of the Treasury, NAC Minutes. For National Advisory Council Use Only.

¹ Congress established the Development Loan Fund, which the Eisenhower administration had proposed as a means to finance international development, in Section 6 of the Mutual Security Act of 1957 (P.L. 141, Eighty-fifth Congress, approved August 15, 1957); for text, see *American Foreign Policy: Current Documents, 1957*, pp. 1554–1557.

Development Loan Fund loans under some time pressure, since the management of the Fund wished to establish the general principles of its operations as early as possible (see NAC Document No. 2204, 2d revision). The Staff Committee accordingly had submitted to the Council a draft action which represented a summary of the Development Loan Fund proposal rather than an agreed Staff Committee recommendation to the Council.²

The Development Loan Fund proposal established a basic distinction between two types of loans, the economic overhead type and the profit-earning type.

On the economic overhead type it was proposed to charge interest at a rate that would cover the cost of money to the Treasury, initially 3½ percent, and to review the rate as the cost of money to the Treasury changed. The maximum maturity of these loans would be 40 years, but it was intended to relate the actual maturities to the life of the projects. Repayments could be in either dollars or local currencies, with emphasis on payments in local currency for the earlier maturities, and with a maintenance-of-value clause for loans repayable in local currency.

The profit-earning type of loan would in general follow the pattern of Export-Import Bank loans as to interest rates and maturities, and would be repayable either in dollars or local currencies, with a maintenance-of-value clause on loans repayable in local currency. The Development Loan Fund intended to use its authority for various types of participation in earnings, especially with respect to loans repayable in dollars.

The Staff Committee discussion had touched on the relationship between the two types of loans, but no definite agency positions had been taken. One point which had been made clear was that the distinction between the two types of loans did not correspond to a distinction between public enterprise and private enterprise in the foreign countries, since in some foreign countries projects regarded in the United States as the profit-earning type may be carried on by public bodies.

The Chairman asked Mr. Dillon if he cared to comment. Mr. Dillon said that the objective of the Development Loan Fund on the economic overhead type of loan was to keep interest rates as low as possible while covering the cost of money to the Treasury, in order to be competitive with loan terms offered by Soviet Russia, particularly in loan operations in underdeveloped areas. Moreover it was important to make the loan terms attractive so as to be responsive to the

² A copy of NAC Document No. 2204, 2d revision, January 13, is in National Archives and Records Administration, RG 56, Records of the Department of the Treasury, NAC Documents. The draft action was incorporated in NAC Document No. 2204.

Congressional desire that as high a proportion of the aid program as possible be in the form of loans. He recommended an insertion in the draft action to express the basis for the interest rate for economic overhead loans, namely, that the interest rate cover the cost of money to the Treasury. He added that frequent changes in the interest rate were not contemplated unless the cost of money to the Treasury Department changed markedly, as it had in recent weeks.

On loans for the profit-earning type of project, Mr. Dillon said that there were many complex factors that would need to be considered. For example, some of those loans would be made to private United State enterprises, and therefore care would have to be taken that there was no suggestion of subsidy or preferential treatment. The Development Loan Fund was developing a policy on this type of loan that would lead to the closest possible coordination with the Export-Import Bank. As the Secretary of the Council had already pointed out, the second category of loans was not confined to private enterprise, since in many cases foreign governments engage in enterprises of this type that would be privately undertaken in the United States.

Mr. McIntosh inquired whether the action should provide for exceptionally low interest rates on economic overhead type loans under unusual circumstances. He thought that in some cases it might be desirable to make such loans at rates as low as 1 or 2 percent. Mr. Dillon replied that if such exceptional cases arose the Council would consider them; he felt that at the present time it was desirable to get a general policy rule for guidance.

Mr. Szymczak felt that the action should make it clear that United States borrowers under the profit-earning type of projects should either repay in dollars or undertake profit-sharing arrangements. He felt also that the action should specify that the terms and conditions of loans to local development banks should be considered separately by the Council. Mr. Dillon replied that the Development Loan Fund had discussed the question of requiring dollar repayment by U.S. borrowers and in general favored it, and that the DLF would probably take convertible debentures in many of these loans. He doubted that it was necessary to specify these points in the action. He continued that the terms of loans to local development banks had not yet been considered by the Development Loan Fund, and that when such terms were formulated they would be referred to the National Advisory Council. Mr. McIntosh commented that the Development Loan Fund did not contemplate lending to wholly-owned United States companies, but would lend to foreign companies in which United States investors had an interest. Mr. Waugh noted that the DLF might operate in areas where the Export-Import Bank was not interested in lending. Mr. Dillon expressed a preference for avoiding categorical positions on details of the loan operations since the situations would be complex

and could not be fully foreseen. He said that the Council would be kept fully advised of developments. Mr. Coughran expressed a preference for keeping the terms of reference broad, and Mr. Szymczak expressed his agreement on the understanding that his position was fully understood. Mr. Dillon agreed that these views would be borne in mind and action inconsistent with them would not be taken without discussion in the Council.

The Council discussed briefly the question of the use of the guarantee powers of the Development Loan Fund. It was noted that guarantees were not covered in the proposed action, and would need to be considered at a later date.

Mr. Kearns said that the Department of Commerce understood the Congressional intent as requiring that the DLF aid private investment where possible. He felt that the lower interest rate proposed on economic overhead loans would give them a priority over loans to private enterprises. He had in mind primarily native private enterprises in foreign countries, and said it was important to guard against appearing to favor government investment over private investment. Mr. McIntosh pointed out that if the Development Loan Fund makes loans to private enterprises at 3½ percent it would create problems for commercial banks and for the Export-Import Bank. Mr. Dillon said that the Development Loan Fund was not attempting to discriminate against private investment but rather was trying to stimulate it. The DLF would be glad to receive practical suggestions from the Department of Commerce and other agencies on measures to stimulate private enterprise.

Mr. Southard commented that he assumed the economic overhead type of loan would be particularly appropriate for the Development Loan Fund, in view of the fact that Eximbank facilities were available for loans for the profit-earning type of project in most areas. It was noted, however, that the Export-Import Bank does not lend in some areas of the world, and that the Development Loan Fund would not lend for projects for which Export-Import Bank financing would be available.

Mr. Reid referred to recent discussions of the Administration bill which would require that interest paid and charged by Government lending agencies cover both the cost of money and of administration. He said that the view of the Bureau of the Budget was that interest rates on loans repayable in dollars should cover the cost of administration as well as the cost of money to the Treasury. The Bureau therefore would prefer 4 percent to 3½ percent. The Bureau was also concerned that repayment in local currencies would in time lead to a Development Loan Fund consisting entirely of local currencies, and therefore would favor an interest rate of 5 percent on loans repayable in local currencies, to provide an incentive for repayment in dollars.

Mr. Baird said that the Treasury Department felt that the one percent differential provided no real incentive for repayment in dollars. Mr. Dillon agreed that the one percent differential was not effective. He thought the Development Loan Fund would collect some dollars on loans undertaken in countries where other lending agencies would not operate, for example, Taiwan. The DLF might collect interest in dollars and principal in local currency, or the other way around. In countries in which the Export-Import Bank and the International Bank made loans, to require Development Loan Fund loans to be repaid in dollars would reduce the dollar debt service capacity of the borrowing country. Therefore, in those cases the DLF would take local currency in repayment in order to keep its position junior to the positions of the Export-Import Bank and the International Bank. Referring to the interest rate bill,³ he noted that the State Department had raised strong objections on foreign policy grounds to making foreign loans subject to the bill. This remained the position of the Department of State. This view had been discussed with legislative leaders, who felt that the Development Loan Fund and other foreign lending institutions should be excepted from the bill, on the ground that the Congress should not tie the hands of the Executive Branch in economic competition with Soviet Russia. Mr. Baird suggested that the President might make exceptions to the bill on foreign policy grounds, perhaps through the National Advisory Council, and Mr. Dillon indicated that this might be appropriate, provided the exceptions were broad.

At the conclusion of the discussion the Council took the following action (Action No. 1106):

"The National Advisory Council offers no objection to the general terms and conditions proposed for Development Loan Fund loans, as follows:

"(1) On loans for economic overhead-type projects the interest rate would cover the cost of money to the U.S. Treasury and would be initially 3½ percent. The rate will be reviewed from time to time with changes in the cost of money to the U.S. Treasury. The maximum maturity of the loans would be 40 years, and the loans would be repayable either in dollars or in local currency, as specified in the loan agreements. A maintenance-of-value provision would be required for loans repayable in local currencies.

"(2) On loans for profit-earning types of projects the interest rates would be not less than the interest rates on Export-Import Bank loans for similar projects, and the maturities would be similar. Loans would be repayable either in dollars or in local currency as specified in the loan agreements, with a maintenance-of-value clause required for loans repayable in local currencies. It is understood that the Development Loan Fund would use various types of participating arrangements in some of these loans."

³ Not further identified.

147. Memorandum of Conversation

January 22, 1958.

SUBJECT

Mutual Security Program

PARTICIPANTS

Governor Herter
Mr. Macomber

Senator Mike Monroney (D. Okla.)
Mrs. Beth Short

Senator Monroney led off the conversation by saying that the Congress and the country were getting tired of the Mutual Security Program and that the Administration was going to have to use imagination to develop a substitute. He thought the Mutual Security Program was outmoded much the same way that the statue of liberty play was in football. If Bud Wilkinson, the Oklahoma football coach, used today the same play his team was using ten years ago, his team would not be as successful as it is. While the Mutual Security Program had been a good play in its day, it was time to get a new play.

In this connection, the Senator suggested that the Department should take a long look at the accumulations of counterpart funds around the world and see if a new project could be developed based on these funds. The Senator was thinking in terms of both counterpart funds left over from the Marshall Plan in Europe and the PL 480¹ funds. He was under the impression that there were substantial amounts of Marshall Plan counterpart funds still lying unused in European banks. Governor Herter questioned this and said it was his impression that the Marshall Plan counterpart funds were substantially used up.

Senator Monroney explained that what he had in mind was the United States taking the lead of calling a "Bretton Woods type" conference to set up a new international organization patterned after the World Bank which would be capitalized by these counterpart funds. These funds would be released by the United States and the various recipient countries to this new organization for this purpose. The organization would then arrange loans on low interest rates (or perhaps no interest for a period of years) to countries which could not qualify for such loans with the World Bank or other public or private lending organizations.

Source: Department of State, Secretary's Memoranda of Conversation: Lot 64 D 199. No classification marking. Drafted by Macomber and approved by Stimpson.

¹ The Agricultural Trade Development and Assistance Act, July 10, 1954, as amended. (68 Stat. 454)

Senator Monroney referred to a memorandum which had been sent to him by Assistant Secretary Hill on January 16, 1957 (copy of memo and covering letter attached).² This memorandum addressed itself to the Senator's proposal and, in the Senator's view, dismissed it on the basis of alleged facts which the Senator did not think were correct. He was particularly exercised about the figures shown in this memorandum which he believed to be erroneous and misleading.

After rather a lengthy discussion of the Senator's proposal, Governor Herter concluded the conversation by promising to give it serious study. The Governor thought as a first step the facts and figures in the memorandum referred to should be checked for accuracy and an attempt be made to determine exactly what counterpart funds were presently lying unused in various countries throughout the world.

² Not found.

148. Memorandum of Conversation

January 25, 1958.

PARTICIPANTS

Mr. James H. Smith, ICA
Mr. Dearborn, White House
Mr. Henderson
Mr. Becker
Mr. Macomber
Dr. Elliott
Under Secretary Herter¹

SUBJECT

Un-used Funds in Other Countries, and the Possible Setting Up of a Free World Economic Development Fund

The Under Secretary stated that Senator Monroney was convinced a large amount of funds was impounded abroad and wanted a full report.

Source: Department of State, Central Files, 700.5-MSP/1-2558. Confidential.

¹ Deputy Under Secretary Dillon was also present although he is not listed among the participants.

Mr. Dillon reported that the Bureau of the Budget has formal control over keeping track of these funds and should have completed by next week a study which will clear up what funds exist in all the different sources abroad and where they are. Doubt on this point has caused Congressional confusion and uneasiness.

Mr. Henderson stated that he will ask Mann, in E, to get in touch with Mr. Becker² Monday morning and will tell Mann that the E area is charged with pulling together all the data on the subject of these funds as it unfolds. In particular, it was the consensus of the meeting that it was essential that ICA provide whatever historical data it has from its own records or from the records of its predecessors which it inherited showing exactly what funds have been released in the past and, where possible, for what purposes.

It was further the consensus of the meeting that everyone agreed that serious thought should be given to the setting up of a Free World Economic Development Fund. Mr. Smith stated that, even if PL 480 funds were not included, there would be enough other funds available to start such a Fund. He suggested that even \$100,000,000 would get the Fund off to a good start, and doubted the wisdom of making it too big. The Under Secretary felt the impact would be much greater if the Fund were not kept small.

There was discussion about putting into this Fund both current funds which exist abroad and future repayments to the United States.

Mr. Macomber suggested that if such a Fund is cleared as a matter of policy, the Secretary might publicly launch the idea with a major speech. Macomber added that such an idea would do a great deal to convince Congress that we are looking ahead in the foreign aid picture and that perhaps there was an end in sight to large annual appropriations.

Mr. Smith emphasized the importance of having long-range credit available such as this would provide.

Harry F. Stimpson, Jr.
Special Assistant

² Loy W. Henderson, Deputy Under Secretary of State for Administration. Loftus Becker, Legal Adviser of the Department of State.

149. Minutes of the 69th Meeting of the Council on Foreign Economic Policy

January 30, 1958.¹

[Here follow a list of participants and discussion of agenda items I and II.]

III. CFEP 565—Tax Incentive for the Flow of U.S. Private Investment Abroad.

1. The Council on Foreign Economic Policy (CFEP) considered the draft statute and recommendation for legislation for the 14 percentage point tax credit on income derived from investment abroad contained in CFEP 565/1, dated January 24, 1958.²

2. Discussion of this matter indicated that while there was general agreement on the principle of tax incentives to promote foreign investment in the underdeveloped areas, there was opposition to some of the recommendations in CFEP 565/1. The CFEP discussed other alternatives for stimulating U.S. investment in the underdeveloped areas and agreed that the following proposals, modified in the light of the Council's discussion, seemed to offer the best present basis for legislation in this field: (Treasury asked to make clear it was reserving decision as to a final position.)

a. Permit deferral of U.S. tax on the income of a foreign branch of a domestic corporation until such income is withdrawn from the country where earned. This is the treatment now accorded foreign subsidiaries, and was recommended by the President to the Congress in 1954 and 1955.

b. Permit a domestic subsidiary, substantially all of whose income is derived from abroad, to be taxed as a foreign subsidiary. The object of this change would be to make unnecessary the present practice of resorting to the use of foreign subsidiaries incorporated under the laws of one of the so-called "tax-haven" countries.

c. Permit 14 point tax credit as follows:

(1) Limit to underdeveloped countries defined geographically or by State Department certification.

(2) Apply to existing as well as new investment.

(3) Exclude trading income except where principal activity is manufacturing.

(4) Exclude extractive industries which elect to use depletion allowances.

Source: Eisenhower Library, CFEP Records, Office Series, Council Minutes, 1958

(2). Confidential.

¹ The meeting was held at the White House.

² Not printed. (Eisenhower Library, CFEP Chairman Records, Staff Series, CFEP (1))

3. The Chairman recommended that a CFEP Subcommittee consisting of representatives of the Departments of State, Treasury and Commerce, and the CFEP staff be appointed to develop specific recommendations for the CFEP by February 28, 1958 for legislation in this field, embodying the general proposals outlined above. The CFEP approved this recommendation.

[Here follows discussion of an unrelated matter.]

Paul H. Cullen
Lt. Col., USA
Secretary, CFEP

150. Editorial Note

On February 24, Senator Monroney introduced S. Res. 264 proposing the establishment of an International Development Association which would work in cooperation with the International Bank for Reconstruction and Development. S. Res. 264 also suggested the United States contribute to the Association in conjunction with investments from other countries. For text, see *American Foreign Policy: Current Documents, 1958*, page 180. Under Secretary of State Dillon testified on the proposal March 19. After reviewing questions the resolution raised and the Association's potential relationship to existing U.S. development programs, Dillon concluded it required international discussion. (*Ibid.*, pages 179–189)

151. Draft Paper Prepared in the Office of International Financial and Development Affairs

February 27, 1958.

SUBJECT

Organization and Substantive Activities of the United Nations' Special Fund

In anticipation of the meeting of the Preparatory Commission established by the United Nations General Assembly to define the organization of the substantive activities of the Special Fund which was voted at the last session to provide technical assistance "in depth", an interdepartmental working party (State, ICA, Treasury, Commerce, Agriculture, Labor, HEW, Bu. of Budget) has been developing the U.S. position. The following is a summary of the negotiations that have evolved from the discussion of this group.¹ It is expected that these will subsequently be incorporated into formal instructions to the U.S. representative on the Commission:

I. Fund Organization

The Fund would be headed by a Manager with overall responsibility for operations and with sole power to recommend projects for financing to the appropriate *intergovernmental body* mentioned below. He would be appointed by the Secretary General and subject to confirmation, perhaps by the Economic and Social Council (the question to be decided is whether he should be an American and, if so, what names to suggest to the Secretary General); the Manager to be assigned by an Advisory Committee composed of the United Nations Secretary General, the President of IBRD and the Executive Chairman of the Technical Assistance Board (which is concerned with operating the present United Nations Technical Assistance Program). Specialized Agencies directly concerned with projects under discussion by the Advisory Committee would participate in such discussions on an ad hoc basis. While the Manager would have a small professional staff, he would utilize existing facilities of the United Nations to the greatest feasible extent, such as those of the Specialized Agencies for making technical appraisals on proposed projects and carrying them out.

Both the present United Nations Technical Assistance Program and the Special Fund would be subject to the supervision of a single *intergovernmental body*. (Precisely what the composition and the total

Source: Department of State, E Files: Lot 60 D 68, Special Project Fund. Official Use Only. Drafted by William J. Stibravy.

¹ Documentation on meetings of the Working Party on the Special Fund is *ibid*.

membership of such a body might be, what voting arrangements might apply and whether subcommittees of the intergovernmental body might be established to be concerned with programming activities of the Special Fund of the existing Technical Assistance Program will have to be worked out during the negotiations in the Preparatory Commission.) In any case, as regards the Special Fund, this intergovernmental body would (a) provide general policy guidance on administration and operations (b) be the final authority for the approval of projects recommended for financing by the Manager (c) be responsible for the coordination of the activities of the Special Fund with those of the present technical assistance program. All decisions of this body would require a $\frac{2}{3}$ vote. (Various compromises will probably be necessary with respect to such points as total membership of the intergovernmental group and the general composition of the membership.)

II. Substantive Activities of the Special Fund

The Fund would undertake projects falling largely in the fields of *assessment* of resources and *training* and *research*. It might also be authorized to undertake projects designed to provide on a broad regional basis selected fundamental benefits of existing technology that would contribute directly and immediately to the well-being and productivity of individuals in less developed countries, such as the project for world-wide malaria eradication which is currently under way.

Within these fields, the Special Fund would undertake projects which cannot now be adequately covered by existing United Nations technical assistance programs which lack the resources to undertake projects requiring substantial amounts of supplies and equipment or which must be sustained for long periods of time. Also, priority would be given to projects that would have the widest possible impact, preferably regional, so that the Fund would concentrate on a relatively few projects at any given time rather than scattering its resources among many small projects as in the case with the existing United Nations technical assistance program. Project approval would be on an ad hoc basis with no *prior* allocation of funds to countries or specialized agencies.

III. Financial Problems of the Special Fund

Three financial problems relating to the establishment of the Special Fund may be mentioned:

(a) The problem of assuring that financial support of the Special Fund does not result in a fall-off of contributions to the existing United Nations technical assistance program. The U.S. view would be that the latter at least be maintained at present levels, i.e., about \$30 million.

(b) The question of what amount of resources should be available for the Special Fund before it comes into existence. The sum of \$5 or \$10 million has been mentioned.

(c) The question of the form of contributions to the Special Fund. The view is that a strong effort should be made by the U.S. to get some partial convertibility requirement attached to contributions which otherwise would be made entirely in inconvertible currency.

In general, there is agreement among the agencies on the working party with respect to the positions set out above. Two exceptions should be noted:

(1) Agriculture is in basic disagreement with the idea of a central fund operated by a strong Manager. For example, they prefer annual allocation of resources by the Special Fund among the various functional fields represented by the Specialized Agencies—Agriculture, Labor, etc, thus assuring each Specialized Agency its “share” of the projects undertaken, rather than having projects selected without regard to this consideration. This reflects a view long held by Agriculture that governmental contributions for United Nations technical assistance activities should be made directly to each of the Specialized Agencies for work in their respective fields.

(2) Treasury feels a real push should be made to assure a substantial proportion of convertibility in cash contribution, whereas other agencies, including officers sitting for the Department, are dubious as to the political wisdom of precipitating a fight on this issue should informal soundings indicate that such a move would be vigorously resisted by the major potential contributors.²

² The U.N. Preparatory Committee on the Special Fund met in New York March 11–April 4. The U.S. position at this meeting, essentially that outlined above, was summarized in *Current Economic Developments*, No. 541, March 18. *Current Economic Developments*, No. 544, April 29, reviewed the meeting’s results. (Washington National Records Center, *Current Economic Developments: FRC 72 A 6248*) For text of the U.S. opening statement in the committee, see Department of State *Bulletin*, May 5, 1958, p. 745. Further documentation on the meeting is in Department of State, E Files: Lot 60 D 68, Special Projects Fund.

152. Minutes of the 71st Meeting of the Council on Foreign Economic Policy

March 13, 1958.¹

[Here follow a list of participants and discussion of an unrelated agenda item.]

II. CFEP 565—Tax Incentives for the Flow of U.S. Private Investment Abroad.

1. The Council on Foreign Economic Policy considered the recommendations of the Committee on Tax Incentives concerning tax incentives to stimulate private foreign investment in the underdeveloped areas. The report and recommendations of the Committee were distributed to Council members on March 6, 1958 as CFEP 565/2.²

2. The CFEP approved the Committee recommendation that United States tax on the income of a foreign branch of a domestic corporation should be deferred until such income is transferred to the United States or to another developed country. The CFEP also approved the Committee recommendation that dividends from a foreign subsidiary of a domestic corporation should be treated as foreign branch income, and that extractive industries which elect to use percentage depletion allowances should not be eligible for the deferral privilege.

3. Before reaching a final decision on the 14-percentage point tax credit as outlined in CFEP 565/2, the CFEP agreed to consider a proposal by the Treasury Department which would subject income derived from the active conduct of a trade or business abroad to a flat 10 per cent tax on net income. The CFEP requested the Committee on Tax Incentives to study the Treasury proposal to determine whether it should be substituted for its present recommendation. The Committee was asked to submit its report and recommendations by April 1, 1958.³

Source: Eisenhower Library, CFEP Records, Office Series, Council Minutes (1958). Confidential.

¹ The meeting was held at the White House. Randall's personal account of this meeting is *ibid.*, Randall Journals, CFEP, 1958, vol. VIII, February 23–April 28, 1958, March 14 entry.

² Not printed. (Eisenhower Library, CFEP Chairman Records, Staff Series, CFEP (9))

³ On April 22, Randall decided to table further consideration of this issue for the remainder of the Eighty-fifth Congress. (*Ibid.*, Randall Journals, CFEP, 1958, vol. VIII, February 23–April 28, 1958, April 23 entry)

[Here follows discussion of other agenda items.]

Paul H. Cullen
Lt. Col., USA
Secretary

153. Editorial Note

In a May 21 address before the Foreign Policy Association in New York City, Deputy Under Secretary of State Dillon suggested the United States counter the Soviet economic offensive by increasing development assistance, encouraging other industrialized nations to do so, devoting greater resources to international financial stability, renewing certain trade legislation, and promoting private investment abroad. For text, see Department of State *Bulletin*, June 9, 1958, pages 968–971.

154. Editorial Note

On August 18, Secretary of the Treasury Anderson sent President Eisenhower a letter regarding economic growth and progress in the less developed nations of the free world. Anderson recommended the industrialized nations work cooperatively to achieve this goal and suggested strengthening the International Bank for Reconstruction and Development and the International Monetary Fund. He requested Eisenhower's guidance on how the United States should approach this task at the annual meetings of the Bank and the Fund, to be held in New Delhi in October.

Anderson also referred to adoption of a Senate resolution calling for the National Advisory Council to study the feasibility of establishing an International Development Association as an affiliate of the Bank. (S. Res. 264, adopted July 23; for text, see *American Foreign Policy: Current Documents, 1958*, page 189) If the study indicated such an idea were possible, he continued, would the President want it discussed with the Bank's other member countries? Anderson's letter is *ibid.*, pages 192–193.

Eisenhower's August 26 reply endorsed Anderson's comments on the importance of international economic development and the need to pursue it multilaterally. The President instructed Anderson to propose in New Delhi an increase in the quotas assigned to member governments of the International Monetary Fund and in the authorized capital of the International Bank for Reconstruction and Development. Regarding an International Development Association, he asked Anderson to initiate negotiations toward establishing it should the National Advisory Council study be positive. Eisenhower's letter is *ibid.*, pages 189–192.

155. Memorandum From the Assistant Secretary of the Treasury (Coughran) and the Secretary of the Treasury's Special Assistant (Southard) to Secretary of the Treasury Anderson and the Under Secretary of State for Economic Affairs (Dillon)

August 26, 1958.

SUBJECT

Increase in IBRD and IMF Resources

This memorandum deals with the question of an increase in capital of the IBRD and quotas of the IMF and outlines a suggested position which the United States might take.

1. *Schedule of action*

(a) Review within U.S. Government and with Congressional leaders.

(b) At New Delhi, Governors would instruct Executive Boards to study and report.

(c) Executive Boards would prepare reports, October–November.

(d) Approval of reports by Governors.

(e) Presentation to U.S. Congress, January–March 1959. Simultaneous action by other member countries.

Source: National Archives and Records Administration, RG 56, Records of the Office of the Secretary of the Treasury, Robert B. Anderson, Subject Files, International Bank for Reconstruction and Development, IBRD–IMF Proposal to Increase Resources. Official Use Only; For National Advisory Council Use Only. The memorandum, covered by an action sheet outlining the recommended NAC action, was distributed to the National Advisory Council on International Monetary and Financial Problems as NAC Document No. 2361.

2. *Action at New Delhi* would be confined to adoption of a resolution by Governors directing Executive Boards to study and submit reports to Governors, which would be approved by them for such further action by member governments as may be necessary. The reports would also contain any proposed amendments to the Articles of Agreement.

3. The U.S. view should be tentatively agreed upon before the New Delhi Meeting, because other countries will press the U.S. Delegation for guidance. The main points of a possible U.S. position are outlined in the remainder of this memorandum.

4. *Amount of the increases in resources*

The Management of the Bank feels that an increase of 100 per cent in the Bank's capital is necessary to provide an adequate guarantee fund for Bank operations as projected. The total present capital of the Bank is \$10 billion and a 100 per cent increase would amount to \$3,175 million in the case of the United States. The tentative plan is to give assurances that the member countries would not be required to pay up any portion of the increased capital, except in the exceedingly remote contingency of large-scale defaults on IBRD loans. A doubling of the present IMF quotas of approximately \$9.1 billion would involve 25 per cent payment in gold and, in the case of the United States, Germany, and possibly several other countries, would involve encashment of non-interest-bearing notes during the next few years. The U.S. quota is \$2,750 million, which would mean a gold payment of \$687 million. It does not seem advisable to seek an increase of this size.

It is recommended that the U.S. position be as follows:

(a) IBRD capital would be increased 100 per cent, with assurance of no call-up except under stated contingencies.

(b) IMF quotas would be increased not less than 50 per cent. This would provide approximately \$2.4 billion in new resources in gold, dollars, and deutsche marks. Of this amount, the United States would contribute \$344 million in gold and \$1,031 million in dollar notes. Also, the following measures would add to available resources:

(1) The Articles of Agreement would be amended to permit countries to repay in the same currency which they had drawn. This should operate to make sterling and other semi-convertible currencies of the Fund more readily available for use, because it would free the drawing countries from the present obligation to repay in dollars.

(2) Countries wishing larger quota increases might be allowed to have them, provided the increase is reasonable and 25 per cent is paid in gold. It is understood that German officials are thinking of a quota equal to that of France, and some other countries, such as Japan, Italy, Mexico and Brazil, are unlikely to be satisfied with 50 per cent increases.

(3) If any considerable number of countries with the larger quotas wish to have increases of more than 50 per cent, the United States could propose such increase beyond 50 per cent in its own quota as would maintain the U.S. voting power. Alternatively, consideration could be given to an increase of all quotas (including the U.S. quota) by 100 per cent.

5. Increases in IBRD and IMF resources should be contingent on participation by members having at least 80 per cent of total quotas.

6. In the case of the IMF, all quota increases should be subject to 25 per cent payment in gold.

7. Two delicate political problems will have to be dealt with. One is the treatment to be accorded to China and the other is the relative position of India.

(a) Nationalist China has a quota of \$550 million in the Fund and is entitled to subscribe to \$600 million of capital in the Bank. China has made only token payments to the two institutions. It would be highly desirable to leave the Chinese quota and capital subscription unchanged. However, this would drop China from among the first five countries, which are entitled to appoint Executive Directors.

(b) India has been insistent on retaining its position among the first five countries, for prestige reasons. If the German quota in the IMF is to be increased by substantially more than 50 per cent, Germany would jump over India. However, if the Chinese quota is not increased, India would retain its position among the first five countries.

(c) It may be anticipated that the Nationalist Chinese Government will object to a move which would appear to favor India. However, as a matter of practical fact, China would not suffer, since the Chinese voting strength would continue to be large enough to elect a Director in both the Bank and the Fund.

156. Editorial Note

On September 4, the National Advisory Council on International Monetary and Financial Problems met and discussed, as agenda item 2, the U.S. position on a proposed increase in resources of the International Monetary Fund and the International Bank for Reconstruction and Development. The minutes of this portion of the meeting are printed as Document 35.

157. Memorandum From the Under Secretary of State (Herter) to Secretary of State Dulles

October 9, 1958.

SUBJECT

Draft Resolution on Economic Development Proposed for Submission to the General Assembly

In follow-up of the economic section of your address to the General Assembly,¹ the United States Delegation (Lodge, Hickenlooper, Mansfield and Phillips) have asked for authority to introduce a resolution on economic development, which closely follows the text of your address, with a view to highlighting what the United States is already doing or prepared to do in aid of the economic development of the underdeveloped countries and to counteract spurious USSR and other proposals such as the calling of a world economic conference, the establishment of a new international trade organization, the creation of SUNFED, etc. The text of such a resolution was approved by W/ MSC, ICA, E, H, S/P, IO and the Departments of Commerce, Agriculture, Health Education and Welfare, Labor and the Federal Reserve Board. In the absence of Mr. Anderson, it met with opposition in the Treasury and the text of the resolution, therefore, was transmitted to Mr. Dillon and Mr. Anderson in New Delhi. In reply, they expressed misgivings over the proposed resolution but recognized that "from this distance we have no means of weighing tactical problems faced by the United States in the General Assembly" and suggesting that the matter be brought to your attention for your determination.²

I have discussed the issue with Messrs. Wilcox, Phillips, Beale and Hanes and we agreed on several modifications in the original draft resolution designed to meet, as far as possible, the objections from New Delhi. The text of the amended draft resolution is attached.³

I am convinced that there are indeed over-riding tactical reasons which call for the introduction of such a resolution before the end of this week. I, therefore, recommend that you authorize the United

Source: Department of State, Central Files, 340/10-958. Official Use Only. Initialed by Herter, who also noted on the source text on October 10 that Dulles had approved it.

¹ For text of Dulles' September 18 statement, see *American Foreign Policy: Current Documents, 1958*, pp. 122-130.

² Dillon and Anderson responded in telegrams 814 and 844 from New Delhi, October 7 and 8, respectively. (Department of State, Central Files, 320/10-758 and 320/10-858)

³ A memorandum of this conversation is *ibid.*, 320/10-958. The draft resolution was not attached to the source text.

States Delegation to the General Assembly to introduce the resolution as amended.⁴

⁴ The United States and six other countries submitted the draft resolution to the Second Committee November 3; for text, see U.N. doc. A/C.2/L.378. After revision in the Committee, the draft was sent to the General Assembly, which adopted it without change December 12. (U.N. General Assembly Resolution 1316 (XIII); for text, see U.N. doc. A/4090)

158. Memorandum Prepared in the Department of State

Undated.

FUTURE DEVELOPMENT FINANCING

Problem:

What steps should now be taken to promote effective US financing of economic growth in the less developed areas?

Discussion:

1. Present rates of growth in less developed countries are not proving adequate to convince influential urban middle class groups that their governments are making a success of independence. The results are seen in various adverse trends—which reflect the increasing dissatisfaction of these groups—in pressures for extremist policies, as in Indonesia; in rising resentment against non-Communist governments, as in Iran; in the overthrow of constitutional authority, as in Pakistan; in a gradual weakening of the political center, as in India.

2. While an increase in existing rates of growth would not soon bring a major change in living standards, it would have an immediate political impact in many of these countries, by creating new economic prospects and opportunities for these restless and politically volatile elements.

3. Such considerations lend particular urgency to the conclusion of Basic National Security Policy (NSC 5810/1)¹ that we should “place relatively more stress on promoting growth and development in the free world.” There is strong evidence that we should now move

Source: Eisenhower Library, Harlow Records, Mutual Security, 1958–1959 (1). Official Use Only. The source text, which bears no drafting information, was sent to Harlow under cover of a November 6 memorandum from Barnes.

¹ Dated May 5, it is scheduled for publication in volume III.

vigorously to implement this policy. There are two fields in which action is most urgently needed; in neither case would such action soon result in a large increase in Federal expenditures and thus have major fiscal implications:

(a) *Promotion of private investment*: Studies are now underway separately to determine how this might best be encouraged.

(b) *Long-term DLF financing*: There is now general agreement in the Department, ICA, and the DLF that \$1 billion is about the level of annual DLF financing needed to meet major US policy requirements in the less developed areas during the next few years. This would be only a \$325 million increase from our FY 1959 request. It is doubtful that we can secure Congressional approval of this level, however, except as part of a dramatic request for multi-year DLF financing, which would (i) capture the imagination of the public and the Congress (ii) provide a standard around which the Fund's friends—in and out of Congress—could rally vigorously, and (iii) justify unusual steps to focus public and Congressional attention on the Fund. Such a multi-year request is also needed to secure the assurance of future resources required for effective operation of the Fund, and to make more clear the central role of the DLF in financing and tying together possible development initiatives (e.g., regional banks and IDA) about which some public and Congressional confusion has arisen. A request for multi-year financing would not project higher expenditure levels than would another annual request; it would not, therefore, affect the prospect of a budgetary deficit or surplus.

4. Therefore we should begin to think in terms of a two part package consisting of proposals for the promotion of private investment and long-term DLF financing, which could be submitted to the Congress reasonably early in the session. It would be separate from the Mutual Security presentation, so as not to be overshadowed by that presentation; the DLF, however, would not need to be removed from the Mutual Security Act. The present draft of the President's Colombo Plan speech² foreshadows such an approach by singling out the promotion of private investment and DLF financing for special emphasis and future Congressional action.

5. *Congressional Consultation*. If we are to advance such a request, we should, after the Colombo Plan speech has unveiled our intended program in general terms, proceed to Congressional consultation. As a first step, members of the White House and the Department's staffs could talk with key Congressional leaders to (i) advise them that the MSP discussion at the December budget meeting would place major emphasis on these proposals; (ii) indicate that the President would wish to secure their views as to the best means of securing such multi-

² For text of Eisenhower's November 10 address before the tenth meeting of the Consultative Committee of the Colombo Plan for Cooperative Economic Development in South and Southeast Asia, held in Seattle, see *American Foreign Policy: Current Documents, 1958*, pp. 1121-1125.

year DLF financing at that meeting. (The possible means of multi-year financing include: borrowing authority, contract authority, multi-year appropriation, and permanent annual appropriation. Our choice among them should be based in considerable part on the views of the leadership.)

6. *Executive Branch.* This proposal has been discussed with the Bureau of the Budget and Treasury and, of course, final decisions would have to be reflected in the President's Budget Message.

7. *Public Relations.* Following the President's Colombo Plan speech, a further series of strong statements might be made on economic development, with special reference to the DLF, by the President and others. This could be accompanied by a stepped-up press campaign and a vigorous drive by the Eric Johnston organization. Only with this kind of support are we likely to accomplish our objective.

159. **Minutes of the 273d Meeting of the National Advisory Council on International Monetary and Financial Problems**

November 25, 1958.

[Here follow a list of participants, a table of contents, and discussion of an unrelated matter.]

2. *International Monetary Fund and International Bank*

The U.S. Executive Director of the International Monetary Fund distributed a memorandum relating to quota increases in the Fund (NAC Document No. 2440)¹ and asked the guidance of the Council on two questions in particular.

The first question was the appropriate repurchase schedule for special drawings which members might seek to obtain relief from the gold payments made in connection with quota increases. The sentiment of the Council was in favor of endeavoring to hold the repayment period to three years, with a possible compromise, if necessary, of a maximum of two one-year extensions.

Source: National Archives and Records Administration, RG 56, Records of the Department of the Treasury, NAC Minutes. For National Advisory Council Use Only.

¹ Dated November 25. (*Ibid.*, NAC Documents)

With regard to special quota increases beyond 50 percent, Mr. Southard inquired whether the Council attached particular importance to a quota increase beyond 50 percent for Germany and possibly some other countries. The consensus was that it was important to have a large increase in the German quota, but that it should be linked to reasonable increases in the quotas of a few other countries having special situations.

3. *Other Business*

(a) *Guarantee Programs*

The Council gave preliminary discussion to four related questions concerning guarantee programs. The first was whether in connection with the proposed increase of \$500 million in the authority of the International Cooperation Administration to issue investment guarantees it would be desirable to preserve the present 25 percent reserve against new guarantees by seeking new obligational authority of \$125 million. Mr. Schaefer said that in view of the assets that would accrue to ICA in the event of payment of claims, and in view of the expectation that no large claims would be presented for payment, ICA was prepared to see the reserve reduced as low as 15 percent. The Treasury expressed concern about diluting the reserves behind outstanding guarantees and about giving Congress the impression that the guarantee program would always be costless. Mr. Smith indicated that Commerce favored expansion of the investment guarantee program. Mr. Furth noted that Chairman Martin was disturbed by any action that would give the impression that the program could be expanded without any cost to the Government. Mr. Harvey indicated that the Bureau of the Budget might be opposed to an increase in new obligational authority for guarantees because of its possible effect on the funds requested for the Mutual Security Program.

The second question was the continuation of the Development Loan Fund policy of maintaining a reserve of 100 percent against guarantees. Treasury and Export-Import Bank favored continuation of the 100 percent reserve policy. Representatives of other agencies did not express firm views on the matter, but the Department of State did indicate some consideration was being given to a fractional reserve system.

The third question was the limitation of interest to be charged by private United States lenders to foreign borrowers on loans covered by full U.S. Government guarantees—e.g., the case of the Development Loan Fund guarantee of a loan by commercial banks to the Ingalls-Taiwan Shipbuilding Company (see NAC Document No. 2395,

Council Minutes No. 272 and Action No. 1290).² Mr. Coughran said that the Treasury was currently thinking in terms of a maximum one percent spread above the comparable Treasury rate for loans of up to 3 years maturity, with a greater spread to be negotiated in each case for loans above 3 years maturity. The DLF representative feared that a rigid one percent formula would interfere with the DLF program. It was agreed that the agencies would consult further on this problem.

The fourth point concerned a proposed expansion of the ICA investment guarantee program by expanding war risk coverage to include risks arising from insurrection and revolution. The consensus was that such extension of the war risk coverage was reasonable, but opposition was expressed by several agencies to any credit guarantees under the ICA investment guarantee program.

² NAC Document No. 2395, September 19, is *ibid.*; minutes of the 272d NAC meeting, September 24, are *ibid.*, NAC Minutes. NAC Action No. 1290 was taken at the 272d meeting.

160. Editorial Note

The Subcommittee on Foreign Trade Policy of the House Ways and Means Committee held hearings on private foreign investment December 1–5. Under Secretary of State Dillon, International Cooperation Administration Director Smith, and Development Loan Fund Managing Director McIntosh testified before the Subcommittee December 1. For texts of their statements, see Department of State *Bulletin*, December 29, 1958, pages 1056–1066.

161. Memorandum From the Director, Office of International Finance, Department of the Treasury (Willis), to Secretary of the Treasury Anderson

December 3, 1958.

SUBJECT

General Assembly Vote on the "SUNFED" Resolution

A resolution introduced in the General Assembly urged member states "to work for the speedy establishment of a United Nations capital development fund."¹

Secretary Anderson worked out with Mr. Dillon the following substitute language which the US delegation could support: "Urges that continuing consideration be given to the establishment, as soon as practicable, of a capital development fund within the existing specialized international financial agencies, which now have relationships with the United Nations."

After further consideration of the matter the State Department decided that it would be preferable not to put forward any US amendment² but simply to abstain on the draft resolution on the ground that it could be interpreted to aim at a type of SUNFED. The delegation was instructed to make clear that abstention did not imply a negative US attitude in respect to new multilateral programs to assist underdeveloped programs and to refer specifically to Secretary Dulles' statement in the General Assembly contemplating additional financing including exploration of a possible IDA.

The vote on the resolution containing the clause relating to the "speedy establishment of a United Nations capital development fund" was—

58 For
0 Against
18 (including the US) Abstaining

The countries which joined the US in abstaining were:³

Source: National Archives and Records Administration, RG 56, Records of the Office of the Secretary of the Treasury, Robert B. Anderson, Subject Files, SUNFED. No classification marking. Sent to Anderson through Coughran and stamped, "Noted R. B. A."

¹ For text, see U.N. doc. A/C.2/L.386.

² Brazil and Mexico, however, submitted a similar amendment; for text, see U.N. docs. A/C.2/L.400 and A/4054, paragraphs 19–20.

³ A record of the vote is *ibid.*, paragraph 22. This vote, however, was on the draft resolution as a whole; the Committee had already decided to substitute the Brazilian/Mexican amendment for the original language. The record of this decision (*ibid.*) does not indicate how the United States voted on it. On December 12, the General Assembly adopted the draft resolution without change; the United States abstained. For a record of

Continued

Australia	Iceland	Sweden
Belgium	Italy	Thailand
Canada	New Zealand	Turkey
Denmark	Norway	Union of So. Africa
Finland	Portugal	U.K.
France	Spain	

the debate and vote, see U.N. doc. A/PV.788. For text of the resolution as adopted, 1317 (XIII), see U.N. doc. A/4090.

162. Editorial Note

In his State of the Union message, given before a joint session of the Congress January 9, 1959, President Eisenhower referred to the Draper Committee's establishment and to the need to continue international economic development. Regarding the latter, the President requested an increase in the U.S. contribution to the International Monetary Fund and the International Bank for Reconstruction and Development, noted U.S. participation in efforts to create an inter-American financial institution, announced he would send the Congress a program to encourage private industry's participation in foreign economic development, and discussed the Mutual Security Program's contribution to world health. For text, see *American Foreign Policy: Current Documents, 1959*, pages 1–7. Regarding the Draper Committee, see Documents 235 ff.

On January 14, Secretary of State Dulles testified before the Senate Foreign Relations Committee on the basic purposes underlying U.S. foreign policy, one of which was "that free nations shall attain a more rapid rate of economic growth, so that their independence will be more secure and vigorous and so that there will be greater opportunities for cultural and spiritual development." For text, see *American Foreign Policy: Current Documents, 1959*, pages 7–15. Two days later, Under Secretary of State Dillon defined the imperatives of international development in an address before the Foundation for Religious Action in the Social and Civil Order. For text, see Department of State *Bulletin*, February 2, 1959, pages 165–168.

The President sent his budget request for fiscal year 1960 to the Congress on January 19, highlighting several of its features in his transmittal letter. He listed economic development assistance second, noting that the success of newly independent nations to improve their economic and social status was "vital not only to the freedom and

well-being of the millions of people within their boundaries but also to the population of the entire world." Eisenhower therefore recommended the United States increase its IBRD and IMF subscriptions, enact a supplemental appropriation of \$225 million for the Development Loan Fund, create with the Latin American countries a joint development banking institution, increase the Mutual Security Program's emphasis on economic development, and enact legislation to expand the mutual security investment guaranty program. For text, see *American Foreign Policy: Current Documents, 1959*, pages 16–30.

Dillon reiterated the President's comments in testimony before the Senate Foreign Relations Committee on January 21, when he also emphasized the need to stimulate economic development through private investment in order to counter the Soviet economic offensive. Text of his statement is *ibid.*, pages 1424–1432. The latter theme was repeated in the Report of the Committee on World Economic Practices, the "Boeschstein Report," which was submitted to the President January 22 and made public March 2. Text of the report is *ibid.*, pages 1432–1449. Regarding the Boeschstein Committee, see Documents 11 ff.

163. Memorandum for the Record by the Secretary of State's Special Assistant (Boster)

January 23, 1959.

In a discussion with the Secretary re the World Bank and International Monetary Fund on January 23, Secretary Anderson said that they would be ready to send the proposed increases on this to the Congress early in February. He said he had sent to Mr. Paarlberg, with the request that it also be sent here, the legislation and accompanying draft letter for the President to send. He said the idea would be to play up this legislation to keep the initiative we had shown at New Delhi. Mr. Anderson said he understood that there was a feeling by some in the Bureau of the Budget and on the White House staff that this should be handled as a supplemental appropriation with the President sending up "one line" on it. Mr. Anderson said he did not have strong feelings on it, but noted that he and Mr. Dillon would have to testify

on it and it seemed that we would lose if we treated it as an ordinary supplemental. Before taking a stand, Mr. Anderson said he wanted to be governed by the Secretary's views.

The Secretary said he felt this was an opportunity that should not be missed to put forward something constructive. There were complaints that our leadership was not sufficiently constructive and imaginative and here was an important opportunity to do something. He pointed out that from a foreign policy point of view this would clearly be to our good. The Secretary said he would reinforce what he had just said and Mr. Anderson said he might call on him to do that.

D.E. Boster¹

¹ Printed from a copy that bears this typed signature.

164. Editorial Note

On February 2, the International Bank for Reconstruction and Development and the International Monetary Fund announced they had approved proposals to increase the institutions' resources. Implementation of the increases required acceptance by the member governments. (Department of State *Bulletin*, February 23, 1959, page 279) On February 12, President Eisenhower sent the Congress a request for an increase in the U.S. capital subscription to the Bank and in the U.S. quota for the Fund. For text of his letter, see *American Foreign Policy: Current Documents, 1959*, pages 206–210.

165. Memorandum of Meeting

February 12, 1959.

SUBJECT

Proposals for the Taxation of Foreign Investment

PARTICIPANTS

Treasury Department

Secretary Robert B. Anderson
Under Secretary Fred C. Scribner, Jr.
Mr. David A. Lindsay
Mr. George N. Buffington, Jr.
Mr. Jay Glassmann

Commerce Department

Secretary Lewis L. Strauss

Department of State

Acting Secretary Douglas Dillon
Mr. Stanley Metzger
Mr. Hamlin Robinson

This meeting was called pursuant to Mr. Clarence Randall's request that the Departments of State, Commerce and Treasury endeavor to reach agreed positions on the various proposals for the taxation of foreign investment, particularly those of the Straus Group and the Boeschstein Committee. Mr. Lindsay summarized the various proposals which were discussed in general terms without getting into the details of each proposal. According to my notes, checked later with Mr. Buffington of the Treasury tax staff, the conclusions of the meeting can be summarized informally as follows:

Source: Department of State, Central Files, 811.05100/2-1259. Confidential. Drafted by Robinson. Attached to a February 17 note from Robinson asking Dillon for his comments on it and stating Robinson hoped the Straus report would not be limited to the consensus reached at the meeting. The note bears Dillon's handwritten response: "This is as I remember meeting. I certainly intend that Straus report be published as is to bring public light to bear on all recommendations. Could you keep in touch with Lindsey [sic] & let me know how he is doing. He should have something concrete by March 1." Acting as Dillon's special consultant, Ralph I. Straus had prepared a report, "Expanding Private Investment for Free World Economic Growth," in accord with Section 413 (c) of the Mutual Security Act, as amended. The Department of State released the report April 1; for a summary, see *American Foreign Policy: Current Documents*, 1959, pp. 1688-1691.

1. Tax Deferral Through Foreign Business Corporation (FBC) Device

It was agreed that this proposal had merit and deserved further consideration. Secretary Anderson expressed concern at the potential revenue loss, particularly if income from exports is eligible for deferral treatment, in whole or in part.¹ He felt that the tax deferral proposal would have some impact on the budget, perhaps enough to unbalance it, and asked his staff to prepare an estimate of the revenue impact. Secretary Strauss suggested that few companies would be able to organize FBC's immediately, so that the revenue impact on the present year's budget would probably be slight. Under Secretary Scribner remarked that, even so, one should have an estimate of the possible budgetary impact in later years.

Secretary Strauss asked whether the tax benefit could be limited to new investment only, to which Secretary Anderson replied that such discrimination would be unconstitutional in his opinion.

The Treasury representatives expressed a preference for taxing the FBC when it distributes income, as in the Boggs Bill,² rather than taxing the dividends solely when received by shareholders of an FBC.

The Treasury representatives agreed that the tax-free transfer of assets to FBC's should be permitted, but presumably not to foreign corporations as proposed by the Boechenstein Committee.

The Treasury representatives agreed that the FBC should have the option of the over-all limitation on foreign tax credits.

2. Tax Treatment of Foreign Capital Losses

Mr. Lindsay said that the recommendation for treating foreign capital losses as ordinary losses for tax purposes could involve significant revenue losses, particularly because the domestic tax base of the taxpayer would be affected. Secretary Anderson felt that this recommendation had merit if it could be limited so as to avoid abuse by providing, for example, that it was restricted to capital loss incurred during the first five years of an investment. He felt that this proposal should be thoroughly considered as it gave promise of providing an effective incentive.

¹ There was little opportunity to discuss the effect of the exclusion in both the Straus and Boeschstein recommendations of companies deriving more than half of their income from exports—i.e. in eliminating export companies and reducing the revenue impact. [Footnote in the source text.]

² H.R. 5, the "Foreign Investment Incentive Tax Act of 1959." For text, see *Foreign Investment Incentive Act: Hearings Before the Committee on Ways and Means, House of Representatives, Eighty-sixth Congress, First Session* (Washington, 1959), pp. 1–8.

3. Tax Deferral for Foreign Branch Banks

Mr. Lindsay referred to the complexity of legislation designed to defer the tax on foreign branches, and felt that its inclusion in a tax bill might jeopardize the bill as a whole. He was skeptical, therefore, of a special arrangement for branch banks abroad and wondered how much effect such a special arrangement would have on the willingness of American banks to extend their foreign operations. I pointed out that several banks had attached some importance to this matter, although I could not confirm that their expansion abroad would be greatly enhanced by the treatment suggested. It was agreed that the Treasury would consult representatives of banks operating abroad and banks which were becoming more interested in foreign operations, and that this matter would be considered further on the basis of such conversations.

4. Foreign Taxes "In Lieu Of" Income Taxes

Mr. Dillon emphasized that the percent interpretation of such taxes had raised difficult problems in some cases. He agreed that it probably could not be dealt with by legislation but hoped that it could be handled more effectively in treaty negotiations. Secretary Anderson asked his staff to take another look at this problem to see what further might be done.

5. Tax Treaties

Mr. Lindsay confirmed the Treasury's support for tax sparing provisions in tax treaties, and doubted the efficacy of handling tax sparing by legislation as in the Boggs Bill.³

6. Regulated Investment Companies

Mr. Lindsay reported that he had talked again with representatives of some of the investment companies about passing through foreign tax credits to their shareholders. They felt the administrative problems were difficult and that, in most cases, the amount of credit was too small to be meaningful. Mr. Dillon said this was not one of the most important recommendations, and it was clear that an investment company established primarily to invest abroad could pass through its foreign tax credit under existing law.

³ There was no mention of the Straus Group's suggestion that other countries be asked to defer their tax or undistributed (or reinvested) earnings as a counterpart of U.S. tax deferral through the FBC device. [Footnote in the source text.]

7. Devaluation of Foreign Balances

Mr. Lindsay stated that foreign losses arising from the impact of currency devaluation on bank balances and accounts receivable can be treated as ordinary losses under present law, so he saw no need for additional action in this field.

8. Deferral of U.S. Tax on Investment of Property and Technical Services

Mr. Lindsay felt that tax deferral for technical services invested in return for stock in a foreign company, particularly where those services might be rendered in the United States, would constitute a difficult precedent and does affect the domestic tax base. Little was said about the similar investment of property although it seemed to present a less difficult problem for the Treasury which would give it further study.

9. Tax Deduction for Reserves to Guarantee Loans

Secretary Anderson remarked that this seemed to offer opportunities for abuse. The release of the guaranty and the return of the reserve to taxable income could be timed, for example, to occur when most advantageous to the taxpayer. Mr. Dillon said he felt this was an imaginative recommendation but did not press it.

Secretary Anderson reported that the House Ways and Means Committee had a full schedule until at least the end of March, and thus would not be in a position to take up the Boggs Bill or any Administration proposals regarding taxation of foreign investment until after that date. He suggested that, tactically, it would be advisable for the Administration's proposals to be prepared in the form of a report upon the Boggs Bill. Mr. Dillon said this was quite agreeable to him as it would seem to offer certain advantages. At the conclusion of the meeting, Secretary Anderson requested his staff to prepare such a report along the lines of the conclusions summarized above, and to keep in touch with the State and Commerce staffs.

166. Editorial Note

From March 3 to 6, a subcommittee of the House Banking and Currency Committee held hearings on President Eisenhower's request to increase U.S. contributions to the International Bank for Reconstruction and Development and the International Monetary Fund. Secretary of the Treasury Anderson testified on behalf of the administration's proposal on March 3, while Under Secretary of State Dillon appeared before the subcommittee on March 4. For text of Anderson's statement, see Department of State *Bulletin*, March 30, 1959, pages 445-454. For text of Dillon's statement, see *American Foreign Policy: Current Documents, 1959*, pages 210-216.

The Senate Foreign Relations Committee held its hearings on the proposal on March 9, 12, and 17. Dillon testified March 12; for text of his statement, see Department of State *Bulletin*, March 30, 1959, pages 457-461. The Committee reported a bill on the proposal, S. 1094, on March 18. It recommended the Congress adopt the bill, noting:

"For many years the Committee on Foreign Relations has urged the administration to do its utmost to utilize private capital for promoting economic development abroad. It has also urged that independent nations endeavor to stabilize their currencies so that world trade may thereby be encouraged.

"The International Bank and Monetary Fund are international institutions which have encouraged the flow of private capital into developmental projects and promoted monetary stability. As international institutions they not only have served the financial needs of the international community, but have acted as educational institutions, often capable of promoting sound financial practices with vigor, forthrightness, and objectivity."

The Committee proposed, however, charging the increase to fiscal year 1960, rather than fiscal year 1959, as the President had requested. (S. Rept. 109, Eighty-sixth Congress, First Session) The House Banking and Currency Committee also reported its version of the bill, H.R. 4452, March 18. (H. Rept. 225, Eighty-sixth Congress, First Session)

The Senate adopted S. 1094, including the amendment making the funds available in fiscal year 1960, on March 19. The House adopted H.R. 4452 on March 25, but subsequently decided to adopt S. 1094 instead, substituting the House text for the provisions adopted by the Senate. Action on the bill then passed into conference.

167. Editorial Note

On March 23, the National Advisory Council on International Monetary and Financial Problems discussed the Department of State proposal to eliminate the maintenance-of-value requirement on U.S. loans of local currency. The minutes of that portion of the meeting are printed as Document 45.

168. Memorandum of Conversation

USDel MC/4

March 23, 1959.¹

SUBJECT

International Development Association

PARTICIPANTS

Prime Minister Macmillan
Foreign Secretary Lloyd
Ambassador Caccia
Secretary Anderson
Secretary Strauss
Mr. Dillon

The Prime Minister briefly recapitulated his views regarding the heavy electrical case² and expressed the hope that there could be a rapid decision on the woolen tariff quota with some arrangements made for special treatment of high-priced fabrics and then asked Secretary Anderson to speak on the IDA.

Secretary Anderson outlined the U.S. position stating that he saw in the IDA the only really effective counter to the movement toward some sort of UN activity in this field such as SUNFED, and also a useful means of providing some check on the appetite of the underdeveloped countries for soft loans. This check would operate through the requirement that the underdeveloped countries put up a certain amount of capital in convertible currencies. Secretary Anderson then said he had in mind that each country would put up maybe 10% to 15% of the capital in gold and the rest in convertible currency of one

Source: Department of State, Central Files, 398.10/3–2359. Confidential. Drafted by Dillon.

¹ The conversation was held at the British Embassy. Macmillan visited Washington March 19–24 at Eisenhower's invitation for informal discussions on the international situation.

² See Documents 88, 89, and 93.

sort or another, and that the stock holdings of the IDA should be roughly in accord with those of the World Bank. He said the U.S. might want to put in some of our own local currency in addition in the form of non-voting stock.

The Prime Minister indicated sympathy for the basic idea of IDA and inquired as to our views regarding the size of the institution and the length of time it would take to expend its funds. Secretary Anderson said that as a very preliminary guess he was thinking of something on the order of about \$1 billion capital and said that it would probably take some time to utilize its funds. He did say, however, that it would probably be necessary to have a replenishment of IDA's convertible funds from time to time.

The Prime Minister said that what the UK was really interested in was not so much the size of their subscription as the amount of funds that were drawn down from year to year and the effect of this on their balance of payments. Both the Prime Minister and Secretary Anderson were in full accord that the IDA should be operated as an adjunct or subsidiary of the World Bank, with the same officers and staff as the World Bank. Secretary Anderson expressed a desire to talk in further detail about the IDA with the Chancellor of the Exchequer. He said there was some problem in finding a way of their getting together without too much publicity. It was agreed by all concerned that such a meeting would be desirable. The British suggested that it might take place if Secretary Anderson found it convenient sometime late in May when there was an important meeting scheduled in England of American business people.

After the meeting broke up, Selwyn Lloyd told me that he was a great backer of this idea within the British Cabinet. He said that the one chief concern that he had was that this was somehow tied in with our program for disposal of agricultural surpluses and would be in effect a means by which we would hope to dispose of larger amounts of agricultural surpluses. This, he said, was the problem with the Commonwealth countries. I reassured him that this was not the case at all, and that our idea of contributing local currencies to this institution was merely to make use of them wherever the World Bank might find them useful, and there would be no attempt to force these currencies on the IDA, or to use the IDA as an excuse for increasing the PL 480 program. Mr. Lloyd said he was reassured to hear this as it had given the British cause for concern.

169. Editorial Note

The question of a supplemental appropriation for the Development Loan Fund rose at a legislative leadership meeting held at the White House the morning of March 24. President Eisenhower had asked the Congress for an additional \$225 million for the Fund in his January 19 budget request for fiscal year 1960 (see Document 162), and again in his March 13 Mutual Security request (see Document 234). At the leadership meeting, Under Secretary of State Dillon "stated the urgent need for a supplemental appropriation since the presently available funds are, in effect, obligated although the technical definition of 'obligated' will not be fulfilled until detailed agreements are signed in subsequent months. However, he said, the full faith of the United States is already at stake as a result of preliminary commitments. Messrs. Harlow and Taber stressed the need for Mr. Dillon to make available current information adequate to refute Mr. Passman's allegations about the vast sums available. Mr. Taber believed the House could not be induced to approve more than \$100 million for the supplemental (\$225 million requested) but that the Senate might accomplish an increase." (Notes on Legislative Leadership Meeting; Eisenhower Library, Whitman File, Legislative Meetings)

Later that day, Dillon testified in support of the President's request before the House Foreign Affairs Committee. For text of his statement, see Department of State *Bulletin*, May 4, 1959, pages 638–643.

On May 14, the House and Senate passed a compromise version of a supplemental appropriation for fiscal year 1959 which included \$150 million for the Development Loan Fund. President Eisenhower signed the legislation, P.L. 86–30, the "Second Supplemental Appropriation Act, 1959," on May 20. For text of the section pertaining to the Development Loan Fund, see *American Foreign Policy: Current Documents, 1959*, page 1682; for full text, see 73 Stat. 36.

170. Minutes of Meeting 59-3 of the National Advisory Council on International Monetary and Financial Problems

April 27, 1959.

[Here follow a list of participants and a table of contents.]

1. Repayment Guaranties

The Council considered the question of appropriate policy toward more active use of repayment guaranties by the U.S. Government (NAC Documents 59-98 and 59-95).¹ The Chairman said that it was important to exercise the guaranty authority in the soundest possible manner. He noted that the Export-Import Bank already had authority to make repayment guaranties and that this authority had not been used extensively in recent years, largely because of the need of coordination with Treasury financing operations. The Chairman added that the Bank had had remarkable success in developing the export of capital with private participation. He referred to the studies and reports which had been prepared under the direction of Mr. Boeschenstein and Mr. Straus, and felt that the U.S. Government would enlarge its activities in this area. He believed that such enlarged use of repayment guaranties should be accomplished through the Export-Import Bank, which already had the necessary experience and the available funds. He saw an advantage from the point of view of the State Department in having this done by the Export-Import Bank, since the seeking of new funds or new authority for repayment guaranties might operate to reduce the availability of other foreign aid funds.

Mr. Waugh noted that in the years 1952 to 1958 private participation without the guaranty of the Export-Import Bank in projects partially financed by the Bank totaled about \$884,000,000. In addition he noted that all Cooley Amendment loans made thus far had carried with them private U.S. capital. Private capital participated in projects financed by the Bank both by direct investment and by purchase of the Bank's loan paper without recourse on the Bank. Mr. Waugh said that the Bank was anxious to assist in facilitating the movement of private capital abroad, and was not holding back on guaranties, but had been cooperating with the Treasury Department.

Governor Szymczak said that the Federal Reserve Bank favored expanding the guaranty program through the Export-Import Bank, especially in view of the United States balance-of-payments position and in view of the Treasury financing and public debt problem. He

Source: National Archives and Records Administration, RG 56, Records of the Department of the Treasury, NAC Minutes. For National Advisory Council Use Only.

¹ Dated April 24 and 9, respectively. (*Ibid.*, NAC Documents)

referred also to the wide contacts and experience of the Bank, and its considerable success in facilitating the movement of private capital abroad, with or without the guaranty of the Bank.

Mr. Fisk² said that the Department of Commerce felt that the existing authority of the Export-Import Bank and the Development Loan Fund were sufficient for an expanded guaranty program, and that Secretary Strauss thought it would not be wise to seek new legislative action at this time.

Mr. Dillon commented that there was a considerable amount of Congressional pressure for a program of increasing private investment abroad, and that the key question appeared to be that of providing a new stimulus. He noted that the Export-Import Bank guaranty authority had been relatively unused, and expressed doubt that the Bank's efforts to obtain private capital participation had been of much effect in certain underdeveloped areas, such as South Asia. There was a general feeling that the United States should do more in such areas than it had been doing. Mr. Dillon added that he had no strong views on which agency of the Government should undertake the task, and that he was not opposed to increased use of the guaranty authority of the Export-Import Bank. He noted, however, that Export-Import Bank guaranties would be tied, and that there was a possibility that increased use of the Export-Import Bank guaranty authority would reduce the amount of private participation in Export-Import Bank loans without guaranty by the Bank.

Mr. Dillon suggested, as a possible alternative to using the Export-Import Bank's authority, the broadening of the ICA investment guaranty authority to encompass repayment guaranties. No additional funds would be needed beyond the previously contemplated increase of \$500 million in the authority to issue guaranties, and a limit could be placed on the amount of repayment guaranties, possibly as low as \$100 million. If this were approved, Mr. Dillon would contemplate administrative action to require the Development Loan Fund to approve any repayment guaranties, since the ICA investment guaranty staff were not trained in appraising loans. Mr. Dillon concluded, however, that he would support more active use of the Export-Import Bank's guaranty authority if this approach would be likely to work.

Mr. Reid commented that from the management standpoint it appeared preferable to utilize existing authority and staff in the Export-Import Bank and the Development Loan Fund rather than to seek new legislation.

Mr. Waugh commented he was not sure that the Congressional advocates of increased private investment were aware of the amount of private investment going abroad in association with Export-Import

² Bradley Fisk, Deputy Assistant Secretary of Commerce for International Affairs.

Bank loans. He felt that the balance-of-payments aspect was a serious matter which should be taken into account, and he noted that the existing policy of the Bank on guaranties had not been decided by the Bank alone but had been developed in response to the needs of Treasury financing policy. Mr. Arey also noted the close tie between Export-Import Bank dollar loans and loans of Cooley Amendment funds, and said that in many cases it was possible to work out financing which would use both types of funds.

Mr. Dillon said that if the Bank would be able to do an effective job it would be appropriate to try this avenue. He suggested that the Bank might differentiate as between areas in which it would be willing to give guaranties, and noted that the use of the Bank's authority would be more likely to be successful if it became generally known that the Bank was ready to operate in new areas of the world.

(At this point the Chairman left the meeting, and the chair was assumed by Mr. Baird as Acting Chairman.)

Mr. Baird (Acting Chairman) expressed the consensus as being that it was appropriate for the U.S. Government to try some increased use of guaranties; and that the Export-Import Bank was the appropriate channel for this effort. It was also agreed that the interest rate aspects of guaranteed loans should be explored further by the Staff Committee; also that the Staff Committee would prepare an action which would record the decision of the Council that as a matter of principle the use of guaranties by the Export-Import Bank should be expanded. (The text of the Council action is as follows (NAC Action 59-101)):

"The National Advisory Council recommends to the Export-Import Bank a more active use of its guarantee authority, particularly with reference to repayment guarantees on loans made by private U.S. lenders for the development of less-developed areas. General policy matters concerning the operation of a more active program should be referred to the Council for its consideration in accordance with usual practice. The Council is of the view that no additional legislative authority should be sought with respect to a repayment guarantee program."

Mr. Waugh informed the Council that the Export-Import Bank was considering the issuance of transfer guaranties, and was thinking in this connection of charging a rate of $\frac{1}{2}$ percent per year. He expressed the hope that information on the performance of the Bank to date in facilitating the movement of private capital abroad would be brought to the attention of those pressing for increased use of repayment guaranties. Mr. McIntosh commented in this connection that a very large amount of U.S. private investment abroad—some \$25 billion worth—had taken place without any loans or guaranties by the U.S. Government.

171. Editorial Note

At his April 29 press conference, President Eisenhower commented favorably on a proposal by Senator Fulbright to appropriate \$1.5 billion a year for 5 years for the Development Loan Fund. Eisenhower also noted that he accepted the principle of long-range commitment and believed such a commitment could save the United States money. (*Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1959*, pages 353–354)

172. Memorandum of Conference With President Eisenhower

May 21, 1959.

OTHERS PRESENT

Secretary Dillon
General Goodpaster

[Here follows discussion of an unrelated matter.]

Mr. Dillon next referred to proposals and questions regarding the Development Loan Fund, and specifically to Senator Fulbright's suggestion for a five-year commitment of \$1.5 billion per year, with the Fund to be financed like the Export-Import Bank. Mr. Dillon said that he had told the Congress the Administration had planned to raise the matter next year, with another year's experience to draw upon. When pressed he had said that State favored the proposal, although he could not say what the Administration position would be. Now, however, he has reached agreement with Mr. Stans and Secretary Anderson on taking a position generally as follows: The President does not take a position on proposals not in his program until the specific legislation comes before him; however, on the basic idea of the Fulbright suggestion the Administration favors the long-range basis for the Development Loan Fund, and would have no objection to the appropriation of \$1.5 billion for it, it being clearly understood that there is no commitment that that amount would be expended each year.

Source: Eisenhower Library, Whitman File, Eisenhower Diaries. No classification marking. Drafted by Goodpaster on May 22.

The President said his idea on the Development Loan Fund would be for an amount of approximately \$5 billion in "no year" money constituting a revolving fund. The Executive Branch would advise Congress each year how much it planned to spend, and also what their projection would be for the following year.

The President said that he viewed foreign development not primarily as competition for the United States, but as the building up of markets, standards of living and foreign wage levels, all of which would increase the demand for U.S. products and reduce the wage differentials as between the U.S. and foreign labor. He thought the Development Loan Fund should be made a regular banking program. He recognized that there is one difficult point, in that we now prefer not to finance it by selling bonds to the Treasury, although this was our proposal two years ago. Mr. Dillon said we can simply report that we have changed our minds on this. He added that he thought a proposal along these lines should be made next year if the Fulbright proposals do not go through during this Congress and the President indicated agreement.

[Here follows discussion of an unrelated matter.]

G

Brigadier General, USA

173. Editorial Note

Senate Foreign Relations Committee Chairman Fulbright wrote to President Eisenhower on May 25 to solicit the President's support for his proposals for financing the Development Loan Fund. "I see little likelihood of acceptance by the Congress of these amendments," Fulbright wrote, "unless you and your Administration give them your full, unqualified support." For text, see Department of State *Bulletin*, June 22, 1959, pages 927-928.

Eisenhower was asked at a June 3 press conference about Fulbright's suggestion that the Development Loan Fund be authorized to borrow from the Department of the Treasury to ensure its long-term funding. He replied that he opposed the Federal government's borrowing funds except in a great emergency, but did support giving the Development Loan Fund the authority to make long-term commitments. The means for making such commitments, however, would

have to be approved by the Appropriations Committee. For text of his comments, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1959*, page 430.

The following day, the President stated in a letter to Fulbright that he hesitated to increase the Development Loan Fund's appropriation, since he hoped that other nations would increase their financing for the less-developed areas as their own economies improved. Eisenhower also reiterated his opposition to empowering the Fund to borrow from the Treasury, asserting that "our common objective can best be accomplished through a long-term authorization of appropriations in reasonable amounts, together with the concurrent enactment in one appropriation bill of appropriations for each of the years for which the program is authorized—a specified appropriation for each year, each appropriation to remain available until expended."

This would not give the Fund the flexibility of the Export-Import Bank and the International Bank for Reconstruction and Development, but should enable it "to put its operations on a satisfactory long-term basis." (*American Foreign Policy: Current Documents, 1959*, pages 1682–1684)

On June 10, the Senate Foreign Relations Committee adopted an amendment to the fiscal year 1960 Mutual Security legislation authorizing the Development Loan Fund to borrow \$1 billion a year from the Treasury for 5 years. The Committee reported the bill, S. 1451, with this amendment on June 22. (S. Rept. 412, Eighty-sixth Congress, First Session)

174. Memorandum of Discussion at the 408th Meeting of the National Security Council

May 28, 1959.

[Here follow a paragraph listing the participants at the meeting and agenda item 1.]

2. U.S. Policy Toward South Asia

[Here follow a list of references and discussion of unrelated matters.]

Secretary Dillon replied that in its essentials the problem was simple. It was a matter of finding the means of financing aid to these nations without doing violence to our financial traditions and principles. He feared that the Treasury Department was strongly opposed to providing aid on a multi-year basis.

Secretary McElroy inquired whether the Soviet economic assistance to India took the form of loans or of grant aid? Secretary Dillon replied that most of the assistance provided by the Soviet Union to India was in the form of loans but he warned that the Soviet Government could be flexible if need be, as had been demonstrated by its grant aid to Nepal.

Mr. Gray inquired whether it would be possible for the U.S. to undertake to provide aid to India on a multi-year basis without being obliged to use similar methods in other areas of the world and most particularly in Latin America. Secretary Dillon replied that such a course of action was possible and seemed to imply a preference for the provision of aid on a multi-year basis as opposed to providing aid on a year by year basis.

Mr. Gray then suggested that it was perhaps unwise for the Council to pursue this issue in the absence of the President and said he would try to undertake to have the Planning Board frame the issue in clearer form.

Secretary Dillon warned that we needed a decision in the matter of legislative authority for provision of aid on a multi-year basis in order to respond to Senator Fulbright's position on the Hill. Mr. Stans, however, insisted that there was more to the problem than a simple decision as to whether the U.S. was going to provide assistance to other nations on a year by year basis or over a longer range of time. The fundamental problem in Mr. Stans' view was whether we would resort to "backdoor financing." This, said Mr. Stans, is what Senator Fulbright was advocating. He would authorize extension of aid on a multi-year basis but Congress would appropriate money only on a year by year basis with the results, said Mr. Stans, that we would have to go to the Treasury to get the money needed to carry out our commitments. In short, how do we commit ourselves to a long-range aid program without at the same time getting from Congress long-range appropriations? This was the major problem that had to be resolved.

Mr. Stans also said that there was yet another problem in connection with the extension of long-range aid. Were we to deal with multi-year programs through the medium of existing institutions or were we to create other institutions for this purpose? He felt that a discussion of these problems in the NSC Planning Board or elsewhere should be used to develop these points before they are brought back to the NSC.

Mr. Gray expressed the opinion that the kind of questions posed by Mr. Stans were not appropriate for solution in the Planning Board or in the NSC itself. These questions involved techniques rather than policy. The real problem, as it appeared to Mr. Gray, was what policy differences existed with respect to South Asia.

Mr. Scribner said he assumed that Mr. Gray would bring these matters up at a later meeting. Mr. Gray replied that he intended to do so but not in the form of further consideration of the Discussion Paper but as part of a revised statement of policy on South Asia which would presumably contain split views.

Mr. Scribner said he had a question to put to Secretary Dillon. Was it Secretary Dillon's thought that we should now depart from our policy, with respect to foreign aid, of trying to find aid projects which seemed promising, and instead shift to some kind of general assistance project which really amounted to nothing more than pumping a certain amount of money into a country like India regardless of how it was to be spent? Secretary Dillon denied any intention to move in this latter direction and said he fully agreed with the Treasury on the need to come to an agreement with India with respect to the projects for which the U.S. would provide financial assistance.

[Here follow NSC Action No. 2094 on South Asia and the remaining agenda items.]

S. Everett Gleason

175. Editorial Note

On June 4, House of Representatives and Senate conferees reported a compromise version of S. 1094, which authorized an increase in U.S. contributions to the International Bank for Reconstruction and Development and the International Monetary Fund. (H. Rept. 435, Eighty-sixth Congress, First Session) The following day, both the House and Senate approved the conference report by voice votes. S. 1094 thus became P.L. 86-48, which President Eisenhower signed June 17. For the text, see *American Foreign Policy: Current Documents, 1959*, pages 216–217.

176. Current Economic Developments

Issue No. 573

June 9, 1959.

[Here follow articles on unrelated matters.]

US Views on Multilateral Aid to Underdeveloped Countries

The recent suggestion of French President de Gaulle that the West should take the initiative at the Summit in proposing joint Soviet-Western participation in aid to the less-developed countries has resulted in the US presenting a memorandum¹ to France which rebuts that proposal and explains the alternative philosophy underlying the proposal for an International Development Association. US thinking on the latter has also been made available through the International Bank Board to all member governments.

De Gaulle Proposal On March 25 de Gaulle made a speech in which he called for a large joint East-West program of multilateral assistance to underdeveloped countries. He also indicated that he intended to discuss this question at a future summit conference should the foreign ministers meeting produce sufficient accord to result in a summit meeting. Although de Gaulle's statement contained no concrete proposals, it aroused considerable interest throughout the world. It is still not exactly clear what he had in mind, but apparently he was motivated by two objectives. He feels keenly the obligation of economically mature countries to assist the underdeveloped areas and he believed such a move would provide initiative for the free world and place the Soviet Union on the defensive, as he is convinced the USSR would not accept this challenge to peaceful cooperation.

US Objections to Joint Western-Soviet Aid After carefully considering the matter, the US reached the conclusion that it would be contrary to Western interests for the West to take the initiative in proposing joint Soviet-Western participation in aid to the less-developed countries. This would contribute to the successful pursuit of the Soviet economic offensive, which is an essential element of Soviet strategy for undermining the West. That this economic offensive plays a key

Source: Washington National Records Center, *Current Economic Developments*: FRC 72 A 6248. Secret.

¹ De Gaulle offered his initiative in a statement at the beginning of a March 25 press conference; for text, see *Major Addresses, Statements and Press Conferences of General Charles de Gaulle, May 19, 1958-January 31, 1964* (New York: French Embassy, Press and Information Division), pp. 41-51. The text of the U.S. memorandum, which was sent to Paris in telegram 4651, May 29 (Department of State, Central Files, 398.10/5-2459), is presented nearly verbatim here.

role in furthering Soviet political objectives in the less-developed areas has been confirmed to us from many sources, and it is clear that the offensive is being pressed with increasing vigor.

Western endorsement of Soviet participation in economic development of the less-developed countries would immediately give the Soviet Union an important propaganda opportunity. It would be used to demonstrate that the West regards the Soviets as a worthy and important contributor to the future of underdeveloped areas and would destroy the effect of the warnings which have been given by several Western powers to these countries as to the dangers of becoming too heavily involved with Soviet assistance.

We have considered the possible argument that the Soviet economic offensive would be less dangerous if it were channeled through a multilateral program with Western participation rather than through the present Soviet bilateral programs. We believe it certain, however, that the Soviets would refuse to participate in any possibility of Western control over Soviet activities. Furthermore, even if the Soviets participated in limited arrangements or in selected areas to which they have not secured access previously, this participation would not mean the abandonment or lessening of their bilateral programs. We are also sure, from past experience in ECOSOC and elsewhere, that in any multilateral program involving Soviet participation the Soviets would make every effort to penetrate or otherwise influence the operations of the organization to further Soviet political objectives. Among other things, they would insist on full membership for the satellites, use the forum for creating propaganda against Western Europe and the US, and advance unsound economic policies having great appeal in underdeveloped areas. They would also seek prominent representation on the technical staff and secretariat and in the field of technical assistance, where they are capable of delivering competent technicians on a larger scale and with greater despatch than many Western governments. Through these channels they would certainly seek to influence the governments of less-developed areas in the direction of communist economic methods. In short, competition between the Soviets and the West for the favor of the less-developed areas would be intensified and East-West frictions would be increased.

We have also considered and agree with the argument it is unlikely that the Soviets would agree to a multilateral assistance program or organization with provisions and safeguards acceptable to the West. However, this fact would not deny them the opportunity to obtain great propaganda advantage from a Western proposal. The most likely course of events would be that the Soviets, while not rejecting a Western proposal in principle would introduce modifications highly appealing to the less-developed countries but unacceptable to the

West. Failure of the project would thus be blamed on the West, with the Soviets appearing as the champions of the less-developed countries.

Even graver is the possibility of the damage that might be done to practical efforts which the US and other Western governments are now making to obtain sufficient capital for helping the less-developed countries. Soviet attempts to undermine the economic structure of the free world and to subvert the governments of the weaker nations have been an important factor in motivating Western legislatures to support development assistance programs in the underdeveloped areas. A proposal now to collaborate with the Soviets on such aid could well weaken public support in the West for development funds to help the less-developed areas. Such a result would be a major victory for the Soviet Union.

US Proposals for IDA The US fully shares de Gaulle's views that economic assistance to the less-developed areas is of the greatest importance and is indeed one of the most vital issues in the struggle for freedom. We are convinced, however, that the interests of the West can be advanced on this front only through a greater concerted effort among the free world countries themselves.

It is for this reason that the US is proposing that consideration should be given to the establishment of a new International Development Association (IDA) whose purpose would be to provide additional capital for the development of the less-developed areas, on flexible terms, and in a manner which would supplement the newly increased resources of the World Bank and of bilateral and regional programs of the Western governments.

The US paper as made available to IBRD member countries, and which is now the basis of discussion with some other countries, envisages IDA as an affiliate of the IBRD, therefore benefiting from the same effective management the latter has enjoyed. Membership in IDA would be open to all members of the World Bank, and voting in the organization would be on a weighted basis, assuring adequate influence by contributing members. US thinking is that the initial capital should be \$1 billion, with provision for considering increases in the capital at five-year intervals. The US subscription would be proportional to its subscription in the International Bank, taking into account the proposed increases in the IBRD. If the IDA is set up with the capitalization we envisage, the US share would amount to about \$320 million. IDA should also have the authority, we believe, to borrow from member governments or other sources.

US suggestions as to payment of subscriptions and use of the currencies subscribed are as follows. Members would pay in 50 percent of their subscriptions immediately and the remainder in equal installments over five years. Members would make their subscriptions

in part (20%) in gold or fully convertible currencies, which would be freely disposable by the IDA; 30% in their own national currencies, which should, we believe, be convertible on demand unless IDA grants a suspension of that requirement but which would, as a minimum, be usable for procurement of nationally produced goods and services for use in connection with IDA-financed development projects within the country concerned or for export of such goods; the remaining 50% in national currencies. The extent to which this remaining 50% should be convertible is a matter for further consideration. It is, however, the US view that if all the other industrialized countries made their subscription available on a fully convertible basis, the US would do the same with this portion of its subscription. Also, the US believes arrangements should be made to permit the IDA to accept special contributions from one member in the currency of another member. Transfers by members of portions of existing accumulations of local currencies should not be on terms which impose greater restrictions on the use of the currency by IDA than previously applied to its use by the donor country. We believe that efforts should be made to secure agreement of member countries, in accepting the IDA charter, to cooperate in facilitating reasonable transfers to IDA of its currency which another country wished to contribute.

In summary, the US believes that Western interests can be advanced effectively in the field of multilateral aid to underdeveloped countries through cooperative Western arrangements such as the proposed International Development Association, but that a Western proposal for joint Soviet-Western participation in such aid, implying endorsement by the West of Soviet aid, would be dangerous to the interests of the West.

[Here follow articles on unrelated matters.]

177. Editorial Note

During floor action on fiscal year 1960 Mutual Security legislation, the Senate rejected Senator Fulbright's proposals, contained in S. 1451, to provide the Development Loan Fund with multiyear financing by empowering it to borrow from the Department of the Treasury. The Senate instead voted on July 2 to authorize \$750 million for the Fund in fiscal year 1960 and \$1.25 billion in fiscal year 1961, to be available only in an appropriation bill. These provisions remained in the final version of the bill which the Senate passed July 8, H.R. 7500. See Document 245.

On July 7, Under Secretary of State Dillon testified before the House Ways and Means Committee on H.R. 5, the "Foreign Investment Incentive Tax Act of 1959." For text of his statement, see Department of State *Bulletin*, July 27, 1959, pages 128-130. Although the House Ways and Means Committee subsequently approved the bill in principle, it was not reported out of Committee in either the House or the Senate before the first session of the 86th Congress adjourned early in the morning of September 15.

178. Current Economic Developments

Issue No. 575

July 7, 1959.

US Policy Liberalized on Aid to Foreign Agriculture

US policy concerning aid to underdeveloped countries to be used in the production of agricultural commodities currently in world surplus has recently been moderately liberalized. This resulted from approval by the Council on Foreign Economic Policy of Department of State proposals for revisions in the ICA policy governing assistance to foreign agriculture.¹

Old Policy Since 1956, ICA policy has been that the US should not in general directly assist foreign countries to increase production of surplus agriculture commodities so as to result over a reasonable period of time in increased exports or decreased imports of such commodities. While exceptions in this policy were made, the presumption was against such aid and the burden of proof of the necessity for an exception was on the initiator of such a project to increase the production of a surplus commodity. USOM's were instructed to give the most careful consideration to this policy decision in framing their yearly projects. Any decision to support or to continue to support such an activity had to be based on a written justification, and exceptions were

Source: Washington National Records Center, *Current Economic Developments*: FRC 72 A 6248. Confidential.

¹ The Department of State proposals were presented in CFEP 585/1, June 9 (*ibid.*, CFEP Files: FRC 62 A 624, CFEP 585, Assistance to Agriculture Abroad), which the Council approved in principle on June 18. (Approved Minutes of the 91st Meeting of the Council on Foreign Economic Policy; Eisenhower Library, CFEP Records, Office Series, CFEP Minutes, 1959 (1)) In a July 1 memorandum, Cullen advised CFEP members that the Departments of State and Agriculture and the Council of Economic Advisers had agreed to retain the original language presented in CFEP 585/1, which thereby became policy. (Washington National Records Center, CFEP Files: FRC 62 A 624, CFEP 585, Assistance to Agriculture Abroad)

allowed only when it appeared that it was in the over-all best interests of the US. Furthermore, no such decision would be supported by the ICA until it was proved that the production of the surplus commodity would be increased on a sound economic basis for the purpose of increasing domestic consumption or maintaining domestic consumption at least at subsistence levels and that no practical means existed of increasing imports of surplus commodities from the US or other friendly exporting countries. This policy was an attempt to carry out ICA programs of assistance to agricultural development in accordance with certain principles, the purpose of which, insofar as possible, was to reconcile a conflict between US surpluses and foreign agricultural programs.

New Policy One of the basic foreign policies of the US is to support the progress of free peoples in their efforts to further their economic development and thus to strengthen their freedom. The Department believes that this policy can be implemented by a vigorous program of agricultural development to increase production capacities in underdeveloped areas and hence suggested the policy revision.

Under the revised policy, subject to normal programming procedures, US aid of any kind may be provided to a country for the purpose of increasing the production of food and feeds for domestic consumption. Such aid, however, may not be given to increase the production of surplus foods and feeds so as to result in substantially increasing exports or increasing production of surplus agricultural commodities other than food and feeds. It is the responsibility of the USOM proposing such a project to assure that the assistance to be rendered the producing country will in fact be used for production of food for domestic consumption. If it should appear, however, that such assistance will also have the direct effect of substantially increasing the production of a commodity for a purpose for which aid is not permitted under this policy, such assistance would not be extended. If, in the judgment of the USOM, it is important to the US objectives in the area to support a project of a kind not permitted under this policy, a full written justification should be referred to Washington for consideration by the Director of ICA in the light of total US interests.

Included under the term "surplus agricultural commodity" are all commodities determined by the ICA to be surplus for the purpose of the new policy. Until changed, this term will include the following commodities which have been continuously in world or US surplus: rice, sugar, wheat, vegetable oils, citrus fruits, cotton, coffee and tobacco. The term "production of commodities" means the growing, harvesting or processing of the commodity. Thus, for the purpose of the new policy, the term wheat production would include growing

wheat and milling it into flour but not baking it into bread; and cotton production would include growing, harvesting and ginning cotton but not spinning it into textiles.

This modest liberalization of US policy constitutes an affirmative statement of the importance of assistance to foreign agriculture. It now permits aid, both technical and economic, for the production of food and feeds for domestic consumption even though food imports from the US might so be reduced. It also permits aid for the production of food and feeds even though, as a result, exports of food and feeds might be increased provided that such an increase is not substantial. It invites the USOM's to ask for exceptions where, in their judgment, the restrictions laid down in the policy interfere with the accomplishments of US objectives in the area. The practical effect of the new policy in the absence of an exception will be: a) no aid for the production of cotton and tobacco whether for domestic consumption or for export (affected countries include Pakistan, Sudan, UAR, Brazil and some African countries); b) aid for wheat, rice, sugar, oils, coffee, citrus fruits for domestic consumption or for modest increases in exports; and c) no aid for coffee production in Africa or citrus production in Spain if the result would be substantially to increase exports; and d) no aid to Burmese, Viet-Nameese, Korean, Thai, Cambodian, or Formosan rice production if the result would be substantially to increase rice exports.

This revised policy will govern all ICA aid to foreign agriculture, whether it is through the use of appropriated funds or local currency receipts from PL-480 sales. It will not, however, govern aid furnished by either the DLF or the Eximbank.

[Here follow articles on unrelated matters.]

**179. Minutes of Meeting 59-4 of the National Advisory Council
on International Monetary and Financial Problems**

July 17, 1959.

[Here follow a list of participants and a table of contents.]

1. *Export-Import Bank and Other Foreign Lending Interest Rates* (NAC Document 59–185)¹

The Secretary of the Council reviewed the history of the problem and the conclusions of the Staff Committee as contained in NAC Document 59–185. He pointed out that under the earlier actions on rates charged by the Export-Import Bank the rates on loans for more than 2 years had been set at “2 percent above the current yield (actual or computed) of U.S. Government securities of comparable terminal maturities” (NAC Actions 615 and 883).² The Staff Committee had proposed two alternative amendments to the earlier actions. Alternative A would advise the Export-Import Bank that the appropriate rate for loans of 2 or more years maturity should be at least 5-³/₄ percent until further review by the Council. Alternative B would in effect suspend for the present the principle of a 2 percent differential by providing that rates need not exceed 5-³/₄ percent until further review by the Council. Under both formulations it was proposed to delete from the earlier actions language relating to loans to governments and to private borrowers. With respect to the Development Loan Fund, the Staff Committee had submitted a draft action³ which would call for the continuation of the 3-¹/₂ percent rate on economic overhead loans.

Mr. Upton said that some weeks earlier the situation had been reached where if rates on Export-Import Bank loans were raised to 6 or 6-¹/₄ percent according to the formula U.S. exports would be made still more costly at a time when we were particularly aware of the need for keeping the U.S. competitive. Similarly, raising the rate on DLF economic overhead loans to 4 percent would create psychological warfare problems. There was the choice of dropping the formula and establishing an ad hoc rate (Alternative A) or of keeping the formula and agreeing to deviate temporarily from it (Alternative B).

However, it was important to continue to work toward a new set of rates that would eliminate some of the present anomalies. At present the DLF was financing foreign goods at 3-¹/₂ percent while the Export-Import Bank was financing American goods at 5-³/₄ percent. On the other hand, any decrease in rates on Export-Import Bank loans to bring them closer to the rates on DLF loans would make it more difficult for the Export-Import Bank to obtain private participation in its loans. Treasury had looked forward to the Export-Import Bank’s selling some of its paper this year to help balance the budget. Any increase in the rate on DLF economic overhead loans would raise the

¹ Dated July 15. (*Ibid.*, NAC Documents)

² For text of NAC Action 615, taken May 18, 1953, see *Foreign Relations, 1952–1954*, vol. 1, pp. 323–324. Taken May 18, 1956, NAC Action 883 is in Washington National Records Center, RG 59, NAC Files: FRC 71 A 6682, NAC Actions.

³ Incorporated in NAC Document 59–185.

question of the U.S. rate versus the Soviet rate, but there was a question as to the significance of a 3-1/2 percent rate payable in local currency that remained in the foreign country as against a Soviet rate of 2 percent that was taken out of the borrowing country in real goods. Alternative B was preferable but there was a very difficult rate problem and it was necessary to go further towards solving it than we have in this ad hoc measure.

Mr. Waugh said that he thought the proposal that had been made in the paper and the discussion that had been presented by the Staff and by Mr. Upton covered the matter very well.

Mr. Mann said he would emphasize what Mr. Upton had said as to this being an ad hoc solution to the immediate problems with which we are faced. He thought the State Department would prefer Alternative A to Alternative B since the decision was ad hoc, but if Treasury preferred Alternative B State would agree.

Mr. Szymczak said he agreed with everything Mr. Upton had said. It was necessary to emphasize the temporary nature of the solution and the need for continuing study of the problem of interest rates so that another look could be taken at it in the fall. Mr. Kearns also agreed with Mr. Upton.

Mr. Macy⁴ observed that Mr. Upton had indicated that if the rate fell below 5-3/4 percent it would interfere with selling loans from the Export-Import Bank's portfolio. He inquired whether there would be any difficulty if the rate remained at 5-3/4 percent. Mr. Waugh thought the 5-3/4 percent rate was satisfactory. He added that he was finding more interest on the part of the private capital market and referred to the participation of the commercial banks in the program of financial assistance to Spain.

Mr. Macy said the Bureau of the Budget wanted some assurance that this decision would not unduly affect the understanding with the Export-Import Bank with respect to the budget. Mr. Waugh said that the understanding was that the Export-Import Bank should use every effort to avoid drawing on the Treasury during the current fiscal year. Whether or not the Bank could do that would depend on the regulations laid down by Treasury on the differential on guaranties over and above what Treasury is paying. The Bank was still trying to sell paper on a non-recourse basis. The difference between 5-3/4 and 6-1/2 percent was not going to affect the problem the Bureau of the Budget was raising. The Chairman agreed.

Mr. Waugh observed that coordination by the Council was particularly appropriate in the field of interest rates and although the Bank was willing to accept either Alternative A or B thought that from the standpoint of the Council Alternative B was preferable.

⁴ Robert M. Macy, Chief of the International Division, Bureau of the Budget.

Mr. Mann moved the adoption of Alternative B and the Chairman stated it was the sense of the meeting to adopt B.

The interest rate on loans by the Development Loan Fund was then discussed. Mr. Waugh said he did not like the idea of referring to an Export-Import rate and a DLF rate. He would like to have a ruling by the NAC that certain rates be charged by the two institutions.

Mr. Upton repeated that he was concerned about the anomaly of using U.S. funds at low interest rates to finance the purchase of goods abroad, and asked how important the 3-1/2 percent was, particularly since it was charged in local currency.

Mr. Mann said the State Department felt that the 3-1/2 percent rate was about the right level for economic overhead projects. The DLF charged 5-3/4 percent on the profit-earning types of projects, and the average interest rate on DLF loans was about 4.4 percent last year. The State Department thought some regard should be paid to the fact that the DLF was created as a substitute for grants, that it is a prime instrument of U.S. foreign policy, and that even less than the Export-Import Bank and the International Bank is it a profit-making institution. The Soviets make a great deal of the fact that we charge higher rates than they do. The State Department did not think the traffic would bear more than 3-1/2 percent. You could not go much above that figure without endangering our psychological objectives. There was also the argument of status quo—any increase would be a shock to the borrowing countries.

Mr. Willis pointed out that when the 3-1/2 percent rate was set it was related to the then cost of money to the U.S. Government of about 3-1/4 percent. Mr. Mann said we were talking about loans most of which are repayable in local currency, and questioned whether anything would be gained by raising the interest rate by 1/2 or 1 percent.

Mr. Upton thought a more important factor was the relationship with other rates in this country as well as the impact on exporters. He was still disturbed about purchases abroad.

Mr. Mann agreed it was unfair competition. He recognized the validity of the argument and the seriousness of the balance-of-payments situation, but wondered whether the problem was not one of procurement, not merely related to DLF but of general application. The State Department had begun an independent study on what to do about it. Mr. Dillon felt strongly that the problem was one of procurement and that it should be dealt with directly rather than through the interest rate. The Chairman agreed that this was the effective way to deal with the problem.

Mr. Waugh said he was glad to hear the statement that the DLF was a substitute for grants. He did not think you could compete with the Soviets on interest rates. They could always change their rates, whatever our practice was. However, if there was any argument for

increasing interest rates it was that the repayment would be in local currency. He cited as examples of anomalies in rates that the International Bank had made a \$72 million highway loan to Iran at 6 percent, the DLF a \$25 million loan to the same Government at 3-1/2 percent, and the Export-Import Bank a highway loan to Liberia at 4-3/4 percent.

He said that the Filipinos had been in that day to discuss some loans. He had told them that he thought the U.S. Government should take the position that the Philippines could buy dredges anywhere they wanted but if they bought in Germany the U.S. should not furnish the financing. His only serious disagreement with the DLF was that he thought the DLF was making loans in fields where they should not. The same thing would be true of the Inter-American Bank. He added that the U.S. economy is vital to the whole free world and he thought we were financing ourselves out of the international market to the extent that we might weaken our position.

The Chairman observed that the important factors with respect to the DLF loans were the character of the loans and the fact they were not tied. Mr. Waugh said a third factor was the cost of money to the U.S. He added that if the loans are tied and two institutions make loans in the same field, one should go out of business.

Mr. Szymczak thought the only thing to do was to bring the matter back to the Council for review as often as possible.

The Chairman announced that it was the sense of the meeting that on a temporary basis the rate of 3-1/2 percent would be continued on economic overhead loans by the Development Loan Fund. The following action was taken:

I. Paragraph 1 of NAC Action 883, May 18, 1956, is amended as follows:

The National Advisory Council advises the Export-Import Bank that the appropriate rate of interest on loans of two or more years maturity should be 2 percent above the current yield, actual or computed, of U.S. Government securities of comparable terminal maturities, provided that the interest rate need not exceed 5-3/4 percent until further review by the Council.

II. The first two sentences of paragraph 1 of NAC Action 1106, January 14, 1958,⁵ relating to Development Loan Fund loans, are amended as follows:

On loans for economic overhead-type projects, the minimum interest rate should be 3-1/2 percent until further review by the Council.

[Here follows discussion of an unrelated matter.]

⁵ See Document 146.

3. Proposed International Development Association

Mr. Willis stated that the Treasury Department might be called upon to appear before the Senate Foreign Relations Committee the following Tuesday (July 21) to make a brief statement on the proposed International Development Association. The timing presented a problem since it had been anticipated to bring to the Staff Committee soon a draft NAC report which could go to the Congress later this session and which would be considerably more full than the brief report made to Senator Fulbright in May 1959 (see NAC Document 59–121). He recalled that in January 1959 the Council had transmitted an interim report to the Congress (NAC Action 59–6 and NAC Document 59–3), that in April a “talking paper” had been prepared which had been used for discussions with other countries (NAC Document 59–104), and in May the letter referred to previously had been sent to Senator Fulbright.⁶

Since that time there had been discussions with the Executive Directors of the International Bank as well as with Mr. Erhard, Mr. Pinay, the British, and other distinguished visitors. Reactions were generally favorable. At this stage the questions which might be raised by other countries were not entirely clear, but there were some definite indications as to the matters of most concern to the foreign technical people. There was a considerable amount of hesitation about soft loans. The other countries have done little in the way of providing assistance, as distinct from hard loans, within their own colonial spheres, and this brings them into a multilateral assistance program for the free world as a whole. There was a question as to the eligibility of colonies and a problem with respect to countries like Australia which consider themselves in an intermediate category, and which feel they would contribute without qualifying for soft loans from IDA. There were special problems relating to countries such as the Netherlands and China. Despite these particular problems, it was hoped to have a document soon which the International Bank would transmit to all the Governors indicating that the United States would probably wish to introduce a resolution regarding IDA at the September meetings. The matter of a possible contingency item in the 1961 budget had also been discussed with the Bureau of the Budget.

⁶ Dated May 19, NAC Document 59–121 is in National Archives and Records Administration, RG 56, Records of the Department of the Treasury, NAC Documents. NAC Action 59–6 has not been found. NAC Documents 59–3, January 8, and 59–104, April 30, are *ibid.* The letter sent to Fulbright on May 15 is NAC Document 59–121. (*Ibid.*)

The testimony to be given on Tuesday would be based on the documents already distributed. It was hoped not to anticipate the discussions which should be held within the Council forum during the next week or two.

Mr. Waugh asked whether the Council had ever been presented with the question whether the U.S. would actively support IDA. When the idea of an International Development Association was started it was solely in terms of local currency but now it had changed completely. It was pointed out that the talking paper had been circulated to Council agencies and had received their approval, and that the letter of May 15, 1959, to Senator Fulbright had been cleared by Secretary Anderson with the other Council members, although this may have occurred during a visit abroad by Mr. Waugh.

Mr. Macy inquired whether figures would be discussed in the Tuesday testimony. Mr. Willis said the letter to Senator Fulbright had stated that we assumed the initial capital should be in the range of \$1 billion and that U.S. participation would be about \$300 million. The \$1 billion figure was the one Senator Monroney had used. Mr. Waugh thought this referred to local currency. Mr. Willis said this was not entirely clear. Senator Monroney gave an important role to local currency but it was not clear it was the only aspect he had considered. While not all of the talking paper had been discussed with Senator Monroney, a number of the problems had been reviewed with him. Senator Monroney had stressed local currency, but also an element of capital which should be available for loans at low interest rates for long terms repayable in local currency.

Mr. Macy inquired whether the Treasury representatives would refer to any figures other than those included in the May letter. Mr. Willis said there would be no other dollar figures. There were indefinite amounts of local currency involved.

Mr. Ross⁷ stated that the State Department had also been asked to testify.

[Here follows discussion of an unrelated item.]

⁷ Emerson Ross, Special Assistant in the Office of International Financial and Development Affairs.

180. Editorial Note

On July 31, Secretary of the Treasury Anderson wrote to the President of the International Bank for Reconstruction and Development and asked him to place the topic of an International Development Association on the agenda for the Bank's annual meeting. Anderson wrote that he intended to introduce a resolution instructing the Bank's executive directors to study the question of establishing an association and to formulate articles of agreement for submission to member governments. He also attached a set of guidelines for the study. For texts of the letter and guidelines, see *American Foreign Policy: Current Documents, 1959*, pages 221–223.

Anderson's letter and the guidelines were also published in a report on the proposed association prepared by the National Advisory Council on International Monetary and Financial Problems. The report, which Anderson forwarded to the Senate Foreign Relations Committee on August 14, endorsed creating an International Development Association. For text of its conclusions, see Department of State *Bulletin*, September 14, 1959, page 393.

President Eisenhower left Washington on August 26 for consultations with European leaders at Bonn, London, and Paris. On August 31, he and British Prime Minister Macmillan gave a joint report on their discussions. In this report, which was televised live from Macmillan's official residence, the Prime Minister asked Eisenhower about the need for international development. The President replied:

"I believe the biggest cooperative job that all the world that calls itself civilized, including the Soviets, ought to address themselves to is this problem and on a cooperative basis help to solve it so that these people can achieve their legitimate aspirations. And that is a problem that every one of us must address himself to and see what we can do, what our proper part is." Macmillan agreed. (*American Foreign Policy: Current Documents, 1959*, page 908)

Eisenhower reiterated his comments in a September 10 address to the nation on the results of his trip; text is *ibid.*, pages 916–920. Documentation on the President's visit is in Washington National Records Center, RG 59, Conference Files: FRC 83–0068, CF 1440–1458. Only one discussion specifically addressing aid to underdeveloped areas has been found; a memorandum of this September 3 conversation in Paris between the President and Italian Prime Minister Segni and Foreign Minister Pella is *ibid.*, CF 1449.

181. Memorandum of Conference With President Eisenhower

September 14, 1959.¹

OTHERS PRESENT

Secretary Herter, Secretary Dillon, Secretary Murphy, Secretary Merchant, Ambassador Thompson, Mr. Kohler, Secretary Anderson (first few minutes only), General Persons, Mr. Hagerty, General Goodpaster

Secretary Anderson said he had wanted to express his concern regarding any tendency to think of a joint effort with the Russians through SUNFED to aid the underdeveloped countries. The President said he had no thought of expanding the use of SUNFED, where a great many countries would be making decisions on this matter when they were supplying little or none of the resources. Mr. Anderson went on to say that he is fearful of any joint development effort with the Soviets because they use a managed currency and would be putting in money of inferior quality while we were putting in hard dollars. The President said he had simply thought of inviting the Russians to contribute resources in support of projects that had been set up and cleared by the World Bank. Mr. Anderson said that the Russians are not being invited into the IDA.

The President said that the suggestion he has been putting forth presupposes a complete change in the international atmosphere, in which the Russians would want to act cooperatively and constructively rather than in "cold war" measures. Mr. Anderson said another problem is that they would be enabled to send Soviet agents out all around the world. He said he is strongly desirous not to get into a mutual effort with the Soviets.

The President said what he has been trying to do is to hold out before the Russians the possibility of their functioning on the same basis as any other country.

Mr. Anderson said that the recent discussion over these possibilities has resulted in some of the other countries shying away from the IDA proposal and tending to favor SUNFED. The President repeated that he is not thinking of SUNFED in this connection. Mr. Anderson recalled that de Gaulle, some time ago, had said he would favor inviting the Soviets in to a joint operation.² The President said de Gaulle had told him that France has a special task. As a result, they do not have the resources to take on projects outside the community, and did not want to let anyone else initiate efforts within the community,

Source: Eisenhower Library, Whitman File, Eisenhower Diaries. Secret. Drafted by Goodpaster.

¹ The conference was held at the White House.

² See Document 176.

always excepting the United States. De Gaulle stressed that his effort is to try to defeat the unilateral penetration in Africa by the Soviets. At this point Mr. Anderson left the meeting.

[Here follows discussion of unrelated matters.]

G
Brig. Gen., U.S.A.

182. Editorial Note

President Eisenhower was asked at his September 17 press conference about reports that he intended to suggest to Soviet Chairman Khrushchev, who was visiting the United States, that the two countries jointly assist the underdeveloped nations. He replied that “until there is some kind of peaceful solution of the political differences between ourselves and the Soviets, it is manifest that we couldn’t ask them to be partners in any exercise of this kind.” (*Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1959*, page 669)

The President’s response substantively followed a suggested reply which Secretary of the Treasury Anderson had sent him the previous day, and which Eisenhower had initialed. (Eisenhower Library, Whitman File, Administration Series, Anderson, Robert B., Secy Treasury, 1959 (1))

Also on September 17, Secretary of State Herter addressed the 14th session of the U.N. General Assembly in New York, and summarized U.S. actions in the field of economic development. He concluded:

“Make no mistake about it: Wherever men despair of being able to meet their needs through peaceful means, there will be found the seeds of tyranny and conflict. If peaceful change is to be accomplished in the political and military field, it must also go forward at an increasing pace in the economic field.” (*American Foreign Policy: Current Documents, 1959*, pages 93–105)

183. Memorandum of Conversation

October 8, 1959.¹

SUBJECT

1. Suggestions for High Level Meetings on Economic Policy
2. International Development Association (IDA)

PARTICIPANTS

Mr. Dag Hammarskjold, UN Secretary-General	Mr. C. Douglas Dillon, Under-Secretary
Mr. Philippe de Seynes, Under-Secretary (UN)	Mr. Christopher Phillips, US Representative to ECOSOC
Mr. Robert Huertematte, UN Commissioner for Technical Assistance	Mr. John Leddy, Department of State Mr. S. M. Finger, USUN

Mr. Hammarskjold said he would like to discuss in particular two suggestions: (1) the possibility of occasional meetings under the auspices of the United Nations Economic and Social Council at which officials of ministerial level would discuss important questions of economic policy; and (2) the nature of any relationship between the proposed International Development Association and the United Nations.

With respect to the first suggestion, Mr. Hammarskjold noted with regret a decline in the influence and prestige of ECOSOC. As a consequence, the Second and Third Committees of the General Assembly had tended to become much more prominent. This tendency was most regrettable since a body like ECOSOC was much better constituted and equipped to enable serious and responsible discussion of economic and social problems. He thought that a high level discussion of an important economic issue under ECOSOC auspices would not only be useful in itself but would also add to the prestige of ECOSOC.

What Mr. Hammarskjold had in mind was an Ad Hoc meeting lasting not more than four or five days. Such a meeting would be devoted to a specific subject, and would be provided with good documentation, distributed sufficiently in advance to enable serious study. Mr. Hammarskjold hoped that under these circumstances there would be a real exchange of views instead of mere statements of position. He did not mean to reflect in any way upon regular sessions of ECOSOC, which he thought were most effective, but it was true that delegations

Source: Department of State, Central Files, 340.4/10-859. Confidential. Drafted by Finger and cleared by Leddy.

¹ The conversation was presumably held in New York, where the 14th session of the U.N. General Assembly was meeting.

to ECOSOC had to make statements in line with precise instructions worked out beforehand. There was little opportunity for representatives to express their reactions to policy statements by other representatives. Mr. Hammarskjold thought that economic policy officials at the ministerial level might engage in a real exchange, particularly if discussions were informal. In his view, there would be no resolutions emerging from such sessions but simply an agreed report.

Mr. Dillon appreciated the Secretary-General's clarification. He noted that the United States Government had a general aversion to more regularly scheduled meetings, since there already were so many. He noted further the general reluctance of finance ministers to indulge in international discussions of policy.

Mr. Hammarskjold said he did not necessarily have in mind ministers of finance; rather he was thinking of officials who made general economic policy. In some countries this might be an official in Mr. Dillon's position, in others a minister of economics, in others a minister of trade and in some a minister of finance. It all depended on who was in charge of economic policy.

Mr. Dillon observed that the difficulties in arranging for United States participation in such a meeting would be lessened if participation were not reserved for ministers of finance.

As to the possible nature of such meetings, Mr. Hammarskjold, for illustrative purposes, noted that one topic might be the question of policy toward producers of primary materials. He noted the increasing pressure from the primary producers for some action to improve their situation. The Soviets have seized upon this interest as a means of advancing their proposal for a World Economic Conference. Mr. Hammarskjold was shocked even by the name of such a meeting and was convinced that it would do far more harm than good. As an alternative, he thought that one should consider re-invigorating ECOSOC by a high level discussion of pressing economic problems.

Mr. de Seynes said that another possible suggestion for a high level meeting under ECOSOC auspices would be a review of current policy affecting economic development. Mr. Dillon thought this was an interesting idea, but wondered whether it had not been put forward in Resolution 1316 (XIII),² a proposal initiated by the United States.

Mr. de Seynes agreed that the elements in Resolution 1316 (XIII), would form an excellent basis for a high level meeting. He said, however, that only the United States had replied fully and well to the requests put forward in that resolution for a report on current policies affecting economic development.

² See footnote 4, Document 157.

Mr. Leddy asked whether the high level meeting would be open or closed. Mr. Hammarskjold said it could be arranged either way, depending on the view of potential participants.

In reply to a question from Mr. Dillon on the reaction of other governments to Mr. Hammarskjold's tentative proposals, the Secretary-General said the four Latin American countries he had visited in August had been most interested. The United Kingdom was keen about the idea; Foreign Minister Lloyd took it up with Hammarskjold on his own initiative. Lloyd commented jokingly that he did not "know if it was you or Ormsby-Gore who started this."

Mr. Dillon said he had been impressed by the suggestion of Australian Foreign Minister Casey in his statement to the General Assembly. Mr. Casey had suggested that ECOSOC might propose topics to be considered by the General Assembly each year.³

Mr. Phillips inquired what if any role the Secretary-General had in mind for General Assembly action to promote his ministerial level meeting idea. The Secretary-General said he would welcome current GA action recommending that ECOSOC consider such a proposal, but of course ECOSOC would have full responsibility to work out arrangements.

The discussion next turned to the question of a relationship between the United Nations and the proposed International Development Association. Mr. Dillon said that anything decided would have to be in agreement with Mr. Black. Likewise, anything which suited Mr. Black would also suit the United States. This was, of course, subject to the reservation that there would be no influence or intervention in the actual operations of the International Bank or the IDA.

Mr. Hammarskjold emphatically affirmed that he did not have in mind any sort of United Nations role in the actual operation of the Bank or the IDA. He thought, however, that there were two good reasons for setting up a Consultative Board for the IDA which might be similar to the Consultative Board of the Special Fund. The discussions of the Consultative Board had helped greatly in clarifying the relationship of the various other programs to the Special Fund. On the other hand, views expressed by members of the Consultative Board were purely advisory and the Managing Director could accept or reject them as he saw fit. Mr. Hammarskjold thought that, in the case of any similar board that might be set up for the IDA, the complete independence of IDA and International Bank operations must be safeguarded.

The second reason why Mr. Hammarskjold favored a Consultative Board for IDA was tactical. Frankly, he considered the tactical problem more urgent. There was the feeling among many underdeveloped countries that they should have more opportunity to ex-

³ For text of Casey's September 30 address, see U.N. doc. A/PV.814.

press their views. Among the developed countries, many like the Scandinavians, Canada and the Netherlands were eager to have some sort of symbolic tie between the IDA and the United Nations in order to resist more firmly the pressure for a UN Capital Fund as well as IDA. Supporters of SUNFED would find it difficult to switch their support exclusively to IDA in the absence of some gesture toward the UN. Sometimes when two groups are two miles apart the gesture of walking a hundred yards helps enormously to solve the problem. Mr. Hammarskjöld felt that this was just such an occasion and a gesture would give UN members a feeling that their views are in the picture, if such a gesture were made in the immediate future. He expected a visit from Mr. Black shortly and would discuss these points at that time.

Mr. Phillips noted that in all likelihood we would be confronted with a General Assembly resolution urging that consideration be given, in drafting the articles of agreement of the IDA, to a link with the United Nations. He thought that, provided the Secretary-General and Mr. Black had agreed on some relationship, we might go along with a resolution calling for an "appropriate link".

Mr. Huertematte, who had been to almost every meeting of the Board of Governors of the International Bank, in his capacity as Governor representing Panama, supported Mr. Hammarskjöld's suggestion. Mr. Huertematte felt that the desire of the under-developed countries for a voice in the policy of IDA might give rise to some concession in voting procedure. He thought it would be very bad, since it would give the under-developed countries an entering wedge into the management of the IBRD as well as IDA. On the other hand, however, a Consultative Board including the Secretary-General of the UN would be an effective gesture toward the under-developed countries and would not carry the risk of interference in the operation of either the IDA or the IBRD.

Mr. Hammarskjöld pointed out that he would be seeing Mr. Black from time to time on an informal basis and periodically at sessions of the Consultative Board of the Special Fund. At such times the IBRD, the IDA and the Special Fund would inevitably be talked about; consequently, the main significance of having some sort of Consultative Board for the IDA would be symbolic.⁴

⁴ Dillon discussed this conversation with Anderson on October 13. They agreed to allow Black to define the U.N.-IDA relationship. (Informal notes of telephone conversation; Department of State, Secretary's Memoranda of Conversation: Lot 64 D 199) Black informed Hammarskjöld in an October 23 letter that he opposed establishing a consultative committee. (National Archives and Records Administration, RG 56, Records of the Office of the Secretary of the Treasury, Robert B. Anderson, Subject Files, International Development Association)

184. Editorial Note

On October 20, Vance Brand, Managing Director of the Development Loan Fund, announced that in light of the economic recovery of other industrialized nations and the U.S. balance-of-payments deficit, the Fund would begin to give priority to projects that financed U.S. goods and services. For text of his statement, see *American Foreign Policy: Current Documents, 1959*, page 1686.

Asked at his October 22 press conference in Augusta, Georgia, whether this represented a departure from past policy of purchasing commodities and equipment from free world sources, President Eisenhower stated: "This is not a turnaround, a reversal, or going in another direction. It is simply to point out that when we are making this money available, it's dollars that's being made available; and where it is feasible and reasonable, we want that money to be spent here." (*Ibid.*)

Interest in this policy continued. In response to an inquiry at his October 28 press conference, Eisenhower commented further:

"What we say is that we are examining all of these procedures that we use in extending credit to the world to see whether or not we shouldn't have some arrangements whereby our own trade, our own exports are increased." (*Ibid.*, page 1681)

On November 16, Herter explained to the National Foreign Trade Council in New York that the United States had no plans to apply the DLF policy to the International Cooperation Administration because ICA procurement operated under different circumstances and because such restrictions could hamper private enterprise in the recipient countries. Appropriate ICA projects, however, might be transferred to the Fund and would then fall under the new criteria. (*Ibid.*, pages 30–36) Under Secretary of State Dillon reiterated these points at the November 19 Council on Foreign Economic Policy meeting. (Minutes of the 95th Council on Foreign Economic Policy Meeting; Eisenhower Library, CFEP Chairman Records, Papers Series, CFEP Minutes, 1959)

At his November 24 press conference, Herter asserted the policy had been promulgated not to prevent more severe congressional action, but because it was "a prudent step and not too vital a step from the point of view of trying to be of assistance in rectifying" the balance-of-payments situation. (Department of State *Bulletin*, December 14, 1959, page 861)

185. Memorandum From Secretary of the Treasury Anderson to President Eisenhower

December 2, 1959.

I am attaching a memorandum regarding "Points on European Lending to Less Developed Areas for Your Conversations with European Heads of Government."

Though we have apparently made some progress already in shifting European thinking toward increased lending to less developed areas, I think it is very important for you to impress upon the Germans, Italians and British—at the heads-of-government level—the urgency of their taking the lead with early, concrete actions in this field.

The main points I feel you should stress, in any conversation with Europeans, are:

(1) The need for a substantial increase in *bilateral* European lending to less developed areas—in addition to their support of World Bank activities and the International Development Association.

(2) The importance of their doing such lending *on a project basis and on long maturities*—like our Export-Import Bank does.

(3) The urgency—as an essential first step—of their *establishing appropriate public or semipublic banking institutions* for the purpose of such bilateral lending.

Special points for individual conversations on this subject with the German, Italian, British and French heads of government are contained in the longer memorandum.

I am passing a copy of this memorandum to Under Secretary Dillon at the State Department.

[Attachment]¹

Memorandum From Secretary of the Treasury Anderson to President Eisenhower

December 2, 1959.

SUBJECT

Points on European Lending to Less Developed Areas for Your Conversations with European Heads of Government

Source: Eisenhower Library, Whitman File, Administration Series, Anderson, Robert B., Secy Treasury, 1959 (1). Official Use Only. Prepared for the President's December 3–22 good will trip to 11 nations in the Near East, Europe, and Africa.

¹ Official Use Only.

Background

Our general view that the financially strong countries of Western Europe should now provide a substantially increased flow of financing for less developed areas was clearly and publicly stated by Mr. Dillon and me at the recent IMF-IBRD meetings in Washington.² It is also well-known to the Europeans from numerous private statements, including your own comments during your previous trip to Europe.

In a general way, our view on this matter is already widely accepted by European government officials as well as private observers. As one example of this, the Marshall Plan countries (in a recent meeting of the Economic Policy Committee of the OEEC) concluded unanimously that Europe should provide increased capital to less developed areas as one means of avoiding an unnecessary and harmful further increase in its own foreign-exchange reserves.

However, the European countries have not yet translated these general principles into any significant concrete action; and we may not see prompt and substantial results unless we press them further, both at a high level and in a somewhat more specific way.

Each of the European countries, individually, would really like to accumulate somewhat more reserves and is afraid its present strong position may for some reason be temporary. Each of them has a strong feeling that one or more of its neighbors is in a better position than itself to shoulder this burden, and all of them show a tendency to over-emphasize somewhat the question of rather detailed "coordination" of whatever they might do in this field with similar U.S. and IBRD-IDA activities. Finally, and perhaps most important, none of these countries presently has any fully satisfactory banking or budgetary arrangements for providing long-term lending which is adapted to the needs of the less developed areas.

Our recent action with respect to financing provided by our Development Loan Fund is already causing some European exporters to bring the matter of the need for more European financing to the attention of their governments. Over time this incentive, which did not exist as long as our DLF was providing financing for European exporters, should provide an important additional motivation for action by European governments.

Meanwhile, in order to get early and significant results from the Europeans in this field, it seems necessary to impress upon the strongest and largest of the European countries, at the heads-of-government level, the urgency of their cutting through the apparent difficulties and

² For text of Anderson's September 28 and 30 statements at the 14th annual IBRD and IMF meetings, held in Washington September 28-October 2, see Department of State *Bulletin*, October 19, 1959, pp. 532-537. For text of Dillon's September 30 address, see *American Foreign Policy: Current Documents, 1959*, pages 223-225.

getting forward with early and concrete bilateral action (in addition to supporting the World Bank's activities and the proposed International Development Association) to provide an increased flow of European funds into the less developed areas. In this connection, substantial actions by both Germany and Italy plus at least some action by the United Kingdom are probably prerequisite to any significant action by other European countries.

General Points

The following general points on this subject would be worth stressing *in any conversation with European heads of government*:

(1) Europe's strong financial position, the Free World's political objectives in less developed areas, and the need to keep world trade in balance at a high level all require increased European financing for less developed areas—both multilaterally (through support of World Bank activities and the proposed International Development Association) and also through a substantial increase in bilateral European lending to such areas at long term.

(2) Such bilateral European lending ought to be selectively related to projects which are economically useful to the borrowing countries and extended on a long-term basis appropriate to the kinds of equipment involved, whereas present bilateral European financing is almost exclusively limited to short-term export-credit guarantees.

These European export-credit systems were designed basically to move exports without regard to the economic needs of the borrowing countries. Moreover, their short maturities (limited to a maximum of 5–7 years even for heavy equipment which the Europeans would finance for their own domestic use on maturities of 20–25 years) have frequently contributed to financial crises in the borrowing countries and frequently had to be refinanced with longer-term funds from non-European sources.

(3) Our own experience in this field has convinced us that industrial countries cannot successfully carry out their responsibilities in financing less developed areas solely through private investment or purely-private lending institutions. In the light of this we believe one urgent and essential first step for virtually all of the European countries, to enable them to provide long-term bilateral financing for less developed areas, is the establishment of appropriate public or semi-public banking institutions for this purpose.

Though many of these countries may be reluctant to appropriate budgetary funds for foreign-lending institutions, most of them could establish some sort of bank for bilateral long-term foreign lending (similar to the loans by our own Export-Import Bank) which would finance itself through sale of governmentally-guaranteed securities on the local capital market.

Individual Conversations

The following *special points* on this subject might be stressed in individual conversations *with Chancellor Adenauer, Premier Segni, Prime Minister Macmillan, and President de Gaulle, respectively:*

Germany. Germany is generally acknowledged to be financially able to make the largest European contribution to this problem, and is probably also the most important exporter of heavy equipment to many less developed areas.

The Germans do have a public bank (Reconstruction Loan Corporation) which has recently been given limited authority and funds to make long-term loans to less developed countries. What seems to be most needed now is a substantial increase in the funds available to this bank for foreign lending, a clear policy recognition that such lending is to become a major and continuing function of this bank, and a positive effort by this bank to seek out suitable lending projects in less developed areas.

The Germans currently argue that they have been losing rather than gaining foreign-exchange reserves during 1959 as a result of large "capital outpayments"—and that this demonstrates they are already doing as much as they properly should or can in total foreign lending. However, their total gold and liquid U.S. dollar holdings still exceeded \$4 billion at end of June (down only some \$200 million from the end of last year); and, against this, they have virtually no short-term liabilities to other countries. Moreover, our understanding of the current situation is that:

(a) A very large amount of the German "outpayments" during the first part of this year represented special, one-time transactions (including an advance payment of \$150 million on long-term debt to the United States) which are unlikely to recur.

(b) There are no real signs that any significant decline is to be anticipated in Germany's large export surplus or other current earnings from the rest of the world.

(c) In addition, the Germans will apparently be receiving rather heavy debt repayments over the next few years from other European countries, particularly France.

Consequently, we believe that Germany is likely to be accumulating further gold and dollar reserves, to the detriment of the less developed countries and others, unless it promptly undertakes a substantial and continuing foreign lending program directed toward the needs of the less developed areas.

The Germans have also been stressing their strong desire for a rather high degree of "coordination" of any long-term lending they might provide bilaterally to less developed areas with similar loans or other aid extended by the World Bank and the United States. We have

already indicated our receptiveness to some informal exchange of information, centered in the World Bank, on the economic needs and priorities of borrowing countries as well as their existing financial commitments; and Mr. Black and his staff are currently exploring the details of what might usefully be done along this line. While we seek to satisfy legitimate German concerns on this point, we are anxious not to let any overly-perfectionist ideas about "coordination" get in the way of early progress by Germany on practical measures to provide increased bilateral lending.

Italy. The problem with the Italians is mainly psychological; they still consider themselves poor, as well as small; and they point to the development problems of Southern Italy in support of this view. However, their official gold and dollar reserves are now the third largest in Europe (rapidly approaching those of the United Kingdom) and show every sign of continuing to grow.

Though Southern Italy's needs may make it somewhat more difficult, politically, for the Italians to finance foreign lending, it also seems clear that Italian heavy industry has a heavy stake in the sale of equipment to less developed areas outside of Italy. In any case, world trade and payments cannot be kept in satisfactory balance if Italy continues to absorb gold and liquid dollar holdings from less developed countries and others at anything like recent rates (\$1.2 billion during the year and half ending June 1959). Moreover, the Italian banking system appears highly liquid and the capital market increasingly strong; and establishment of some special bank to provide financing to less developed areas on a long-term basis should be relatively easy, as a technical matter.

United Kingdom. The British feel they are presently doing about all they can in the foreign financing field—on the grounds that their gold and dollar reserves are still low in relation to their trade needs and financial responsibilities, that their prospective balance of payments surplus is very small, and that they already have heavy development responsibilities within the Commonwealth. On the whole, we can agree that the United Kingdom has been doing a good deal in this field over a considerable period of time and in the face of financial difficulties of its own.

However, in view of our interest in obtaining increased bilateral development lending from many of the European countries, rather than only one or two, it would be of great help if the British could exercise some leadership by taking some definite additional steps in this direction. This would involve moves to provide more financing for development projects outside, as well as inside, the Commonwealth; and to finance more heavy-equipment purchases by less developed countries on appropriate long maturities rather than through present short-term export credits. (The British already have a procedure—

under Section 3 of their Export Guarantees legislation—for providing long-term loans to overseas countries on a project basis; but the funds so far made available under this procedure are quite modest and have been mainly used for Commonwealth countries.)

France. It is probably not desirable to press the French, right now, for any action in this field—other than their firm support of the proposed International Development Association under World Bank management. French financial capability to provide additional foreign lending is presently limited by the fact the recovery in their foreign-exchange reserves has come later than, and is still somewhat short of, that in other European countries—plus the heavy developmental responsibilities they already have inside the franc area, particularly in Africa. Moreover, it is currently of great importance to restrain President de Gaulle from pressing his previous notions about some new multilateral scheme for financing economic development with Soviet participation.

(Later on, if the French export and reserve positions continue to improve as they have been doing and if concrete further actions to increase bilateral lending to less developed areas are obtained from the Germans, Italians and British, then we may be in a somewhat better position to urge similar action on the French.)

186. Memorandum From Secretary of the Treasury Anderson to President Eisenhower

December 3, 1959.

SUBJECT

International Development Association (IDA)

The IDA would be a new international institution, affiliated with and staffed by the World Bank, to provide financing for economic development of less developed areas on terms easier than World Bank terms, for example, by offering “soft” loans, i.e., loans repayable in local currency, or loans repayable in hard currency but at low interest rates and with long repayment periods. Membership would be open to all members of the World Bank, and financing would be available to the less developed countries joining IDA and to dependent territories

Source: Eisenhower Library, Whitman File, Administration Series, Anderson, Robert B., Secy Treasury, 1959 (1). Official Use Only. Prepared for Eisenhower’s good will trip.

of the industrialized countries. Initial capital would be \$1 billion of which the United States would subscribe about \$320 million and the other industrialized countries about \$440 million, all in convertible currencies freely usable in member countries. Less developed countries would subscribe the remainder, most of which would be in their own currencies. Subject to special agreements, IDA could receive and make use of foreign currencies acquired by the United States Government under agricultural surplus sales programs. Consideration would be given every five years to the desirability of increasing IDA's resources by additional multilateral subscriptions.

The consideration of IDA grew out of a suggestion by Senator Monroney which resulted in a Senate Resolution in July 1958. In August of that year, the President, in reply to a letter from Treasury Secretary Anderson, requested the Secretary to initiate negotiations looking toward the establishment of an IDA as an affiliate of the World Bank if, as the result of informal discussions with other governments, the creation of such an Association appeared feasible.¹ Broad international acceptance of the idea developed.

In his address of welcome to the Governing Boards of the World Bank, the International Monetary Fund and the International Finance Corporation at their Annual Meeting in September 1959, the President gave his support to the creation of an IDA. (The text of the President's address is attached.) During the course of the meeting the World Bank Governors unanimously approved a United States Resolution that a charter of an IDA be drafted.² This charter is now being negotiated by the Executive Board of the World Bank, the U. S. member of which is Assistant Secretary of the Treasury T. Graydon Upton. It is anticipated that the charter will be ready for formal submission to governments early in 1960 and that presentation to Congress will follow shortly thereafter.

Primary United States interest in IDA is based on recognition of the need for capital in many areas of the free world for financing sound development projects which cannot now be financed on terms offered by the World Bank and other sources, and on the recognition that other industrialized countries can and should make substantial additional capital available to these less developed areas. It is important, however, that any provision of easier financing be supplementary to the World Bank and not compete with it or impair its strength or prestige. The first draft of an IDA charter now under consideration demonstrates clearly the broad agreement among industrialized as well as less developed countries that an IDA can become an important

¹ See Document 154.

² For text of Eisenhower's September 28 address, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1959*, pp. 702–704. For text of the IBRD resolution, see *American Foreign Policy: Current Documents, 1959*, p. 227, footnote 10.

new source of capital for promoting economic development within a framework which would safeguard existing institutions and traditional forms of private finance.

If appropriate during his discussions, it might be desirable if the President expressed confidence that the country concerned will wish to give its support to IDA and to join in this cooperative effort.

One of the most difficult questions which has arisen during the negotiations of the IDA charter is whether IDA should have the authority to make grants as well as loans. As the result of pressure for a provision on grants, the charter as now drafted contains some flexibility on this question in connection with future capital. The U.S. Delegation is taking a firm position, however, that IDA should have no authority to make grants from its initial capital, and it is believed that a satisfactory charter will be worked out on this basis. The reason for the especially firm U.S. position is the belief of the importance of this point in presenting the IDA charter to Congress.

187. Memorandum From Secretary of the Treasury Anderson to President Eisenhower

December 3, 1959.

SUBJECT

U.S. Government Financing Policy regarding Economic Development Loans, and the Basis for this Policy

Public Statements: On October 20, 1959, the Managing Director of the Development Loan Fund stated:¹

“It has therefore been decided that particularly in financing the foreign exchange costs of development projects and programs the DLF will place primary emphasis on the financing of goods and services of U. S. origin. The Board of Directors of the DLF in the application of this new policy will, in the case of those projects or programs which have reached an advanced point of consideration by the DLF under its previous policies, give consideration to the avoidance of undue hardship.”

Source: Eisenhower Library, Whitman File, Administration Series, Anderson, Robert B., Secy Treasury, 1959 (1). Official Use Only. Prepared for the President's good will trip.

¹ See Document 184.

On November 16, 1959, Secretary of State Herter, in a speech before the National Foreign Trade Council, stated² that:

"In short, the circumstances under which I.C.A. operates generally differ from those applying to the D.L.F. Therefore, for the present we do not contemplate basic changes in the I.C.A. procurement policies.

"We recognize, however, the desirability of transferring from the I.C.A. to the D.L.F. to the greatest extent possible, assistance which I.C.A. grants in the form of help to specific development projects. We intend to move in this direction. Projects so transferred would then be financed under the new procedures of the D.L.F."

Basis: The basis for the new financing policy is this. The economic and financial strength of other industrialized countries is such that continuation of DLF financing of their exports to less developed countries is no longer warranted. By using Development Loan Fund money largely to finance procurement from United States sources and by leaving other industrial countries to extend their own financing on reasonable terms in connection with their exports to less developed countries, we hope that the total amount of goods available for less developed countries may be increased.

Placing primary emphasis on D.L.F. financing of goods and services of U.S. origin cannot be regarded as a departure from a multilateral trade policy, and it is erroneous for the D.L.F. decision to be construed as a new "Buy American" policy. If a loan applicant desires long-term financing to procure equipment abroad it is the D.L.F. view that he should, when funds are not available from other international lending sources, look principally to the producing country to supply such funds on reasonable terms and conditions rather than to the D.L.F. Because of the presumption that offshore procurement can be financed abroad, the D.L.F. will now give primary attention to providing, in accordance with its criteria, development loan financing for those applicants who wish to buy goods and equipment of U. S. origin. Whether they buy in America, however, is a question of choice, a situation made possible by the improved financial position of other industrialized countries.

For various reasons, whether through export credit facilities or other formally tied financing arrangements, through traditional marketing arrangements, through discrimination against other country's exports, or through other factors, the bulk of the development financing provided by other industrialized countries is used to buy their own products or those of the monetary areas of which they are the center. Moreover, what direct government financing they do extend is usually

² See Document 184.

repayable in the lender's currency and for a medium term of years, whereas D.L.F. generally accepts repayment in the currency of the borrower and frequently permits long repayment periods.

Under our new policy, less developed countries which find it advantageous to buy equipment from industrialized countries other than the United States will seek financing in those countries for such procurement. They will tend to concentrate on seeking D.L.F. financing for those development projects for which they may procure most efficiently in the United States. In determining the country from which they procure, they are apt to consider many factors, including price, quality, financing terms, delivery period and service facilities.

The new policy should also help to reduce this country's losses of gold and dollars to other industrialized countries. These losses have become extremely large in the last ten years. It is hard to overemphasize the need for maintaining a sound dollar, both internally and externally, particularly at a time when the United States is playing such an important role in the leadership of the Free World and in support of the economic growth of the less developed countries.

In 1958 the outflow of gold and liquid dollars to foreigners was \$3.4 billion. An even larger outflow nearer to \$4 billion is likely this year. The outflow this year would be even greater in the absence of some large debt prepayments by other industrialized countries which ordinarily would have repaid their debts over a period of years in accordance with the servicing schedule. For example, in March, Germany prepaid \$150 million on postwar indebtedness, and in October the United Kingdom made a \$250 million prepayment on a loan by the Export-Import Bank.

The current deficit reflects the continuation at high levels of U.S. public and private capital outflow and military expenditures abroad at the same time that our export surplus of goods and services has declined. Because of the notable uncertainty of balance of payments forecasts due to the many unpredictable elements involved, it is not possible to arrive at any definite judgment as to when the current unfavorable trend in our payments will be terminated.

It must be recognized that if deficits were to continue, they could create important difficulties for this country. Although the gold holdings of the United States amount to approximately \$19.5 billion, they are some \$3 billion less than two years ago. During the same period United States liquid liabilities to foreign countries rose approximately \$3 billion and now, on the basis of data not yet published, amount to about \$18 billion (excluding holdings of international institutions but including U.S. Government bonds and notes).

Results to Date: There have been several indications to date that the new D.L.F. policy is putting pressure on European countries to do their own financing of their exports to less developed countries and on

terms more appropriate for development projects. For example, Pakistan recently announced a \$6 million credit from Germany for financing railway equipment which prior to the new D.L.F. policy Pakistan would have purchased in Germany with D.L.F. dollars. Similarly, there is now talk that European governments are actively considering the possibility of providing governmental guarantees on private export credits for maturities of up to 15 years, on capital equipment exports, compared with the present maximum of 5–7 years.³

³ Eisenhower discussed aid to underdeveloped countries in conversations in Rome with Italian President Gronchi, Prime Minister Segni, and Foreign Minister Pella on December 4 and 5. (US/MC/1, US/MC/3, US/MC/5, and US/MC/11; Washington National Records Center, RG 59, Conference Files: FRC 83–0068, CF 1527) Murphy, who accompanied the President, discussed it in Tunis on December 17 with Tunisian Defense Secretary Ladgham and Foreign Minister Mokaddem. (US/MC/22; *ibid.*)

188. Telegram From the Embassy in the United Kingdom to the Department of State

London, December 9, 1959, 7 p.m.

3009. From Dillon.¹ Paris for USRO; Department inform Treasury.

[Here follow paragraphs 1–4.]

5. Amory mentioned possible use OEEC as means encouraging other countries, particularly Germany and Italy, to increase development lending. In general British favor using OEEC this purpose, and say they understand Germans also favor. Problem is French. Dillon said IBRD suitable place for agreeing on programs for specific borrowers, but Ministerial discussion preferable for burden-sharing. Therefore U.S. may favor use of OEEC, but not decided. Would have to be discussed with Congress. U.S. decision should be reached prior to OEEC Ministers meeting January.

6. Dillon said we thought Japan should be associated somehow this effort. British agreed but concerned about associating Japan with OEEC group owing European trade problems with Japan. They also favor excluding non-industrial OEEC countries.

Source: Washington National Records Center, RG 59, Conference Files: FRC 83–0068, CF 1548. Confidential. Drafted and authorized by Bean and cleared in draft with Dillon. Repeated to Paris, Bonn, Rome, New Delhi, Karachi, Tokyo, and Ottawa.

¹ Regarding Dillon's December 7–14 trip to Western Europe, see Document 116.

7. Amory suggested that if U.S. were to take more active part in OEEC, reorganization would be advisable and suggested might be desirable for U.K. to drop chairmanship. Dillon said some form of rotation might be answer.

[Here follows paragraph 8.]

9. British concerned about Dutch and Belgian effort to reduce IDA subscription below IBRD formula. Said if successful, Australia and South Africa will want to do same. Dillon agreed and said U.S. doing what it can to hold line.

Separate tel covers discussion dollar liberalization.

Whitney

189. Telegram From the Embassy in the United Kingdom to the Department of State

London, December 9, 1959, 7 p.m.

3010. From Dillon. Discussion economic aid commenced toward close of Chancellor's luncheon December 8. Amory opened with following points. Both countries agree on importance economic development. During meetings with Commonwealth HMG had stressed importance of (1) maintaining strength of own economy as essential element in economic health of Commonwealth, (2) importance underdevelopeds maintain favorable climate private investment, and (3) where a choice exists trade preferable to aid.

UK now committed "to the hilt." Current surplus in past year fully devoted to aid and overseas investment and projected surplus in coming year more than committed these purposes. Amory volunteered, however, that much private investment going to countries other than underdevelopeds. While further strain on UK balance-of-payments not justified, he said UK should be able afford additional aid in form of unrequited exports. In this connection Indians had asked UK whether they prepared sacrifice their own standard of living in order to increase economic development. British had replied their ability this direction limited by public opinion.

Source: Washington National Records Center, RG 59, Conference Files: FRC 83-0068, CF 1548. Confidential. Drafted by John W. Evans, First Secretary of the Embassy in London, and cleared in draft with Dillon.

Finally, UK welcomes IDA though still not happy about soft currency loans, but assumes some satisfactory solution to latter problem can be found.

Dillon replied that UK position largely in agreement with ours. We agree to trade versus aid and importance private investment, but these have limits and private investors not enthusiastic about underdeveloped countries. US is doing its best to encourage investment that direction, for example, by investment guarantee agreement with India and recent US–India tax treaty.¹ IDA useful but not adequate for total job. Concerning soft currency loans, this a desirable way of maintaining control over what otherwise would have to be grant aid.

Dillon called attention to need for greater coordination among leaders. Germany, for example, could do more. Possibility using OEEC as forum for bringing pressure on other lending countries. Believed this would induce greater German help and perhaps also help from Italy. Italian budgetary position difficult but balance of payments would permit greater aid. British asked whether use of OEEC mechanism would not exclude Japan. Dillon answered not necessarily as it advisable include Japan in discussions of aid patterns.

[Here follows a brief comment on an unrelated matter.] Concerning US aid to underdevelopeds, we have reached decision not to cut absolute level our aid but hope our proportionate share will be reduced by increased help from others.²

[Here follows a brief discussion on an unrelated matter.]

At this point luncheon adjourned to meeting of Sixes and Sevens chaired by Foreign Secretary.

Whitney

¹ For text of the agreement supplementing the September 19, 1957, agreement on guaranty of private investments, signed at Washington and entered into force on December 7, 1959, see 10 UST 1997. For text of the agreement of September 19, 1957, see 8 UST 1442. The tax treaty has not been further identified.

² Dillon repeated the comments in the two preceding paragraphs during a December 11 conversation with Adenauer. (Memorandum of conversation; Washington National Records Center, RG 59, Conference Files: FRC 83–0068, CF 1548)

190. Editorial Note

On December 21, the French, German, British, and U.S. Heads of State and Government, who had been meeting at Paris and Rambouillet since December 19, issued a special communiqué on the world economic situation. It asserted that Western Europe's economic progress enabled nearly all of the industrialized nations of the free world to increase their efforts to further international economic development and to pursue trade policies promoting sound use of economic resources and international harmony, and noted that the Heads of State and Government had agreed to meet in Paris soon to discuss the means to reach these ends. For text, see *American Foreign Policy: Current Documents, 1959*, pages 576–577. Further documentation on this meeting is in Washington National Records Center, RG 59, Conference Files: FRC 83–0068, CF 1569–1570.

On January 7, 1960, John Leddy, Under Secretary Dillon's Special Assistant, briefed the Council on Foreign Economic Policy on Dillon's recent trip to Western Europe. (Regarding Dillon's trip, see Document 116.) He stated Dillon had discussed increased free world participation in supplying emerging nations with development capital and informed the Council that the first meeting called for in the December 21 communiqué would be held in Paris January 12–13. It would examine "the procedural aspects involved in the formation of a new economic organization comprised of all of the Western industrialized nations including Japan" to consider economic problems. (Minutes of the 96th Meeting of the Council on Foreign Economic Policy; Eisenhower Library, CFEP Chairman Records, Papers Series, CFEP Minutes, 1960)

In the evening of January 7, President Eisenhower devoted a large part of his State of the Union address to international economic development. He spoke of the need to provide technical and investment assistance to lesser-developed countries and of international cooperation in working toward this goal. For text, see *American Foreign Policy: Current Documents, 1960*, pages 1–9.

Dillon left Washington for Paris on January 10. On January 12 and 13, he attended a meeting of the Special Economic Committee, consisting of representatives from 12 European nations, the United States, and the European Economic Community Commission; for text of his January 12 statement before the Committee, see *ibid.*, pages 319–326. During this meeting, the representatives of Belgium, Canada, France, Germany, Italy, Portugal, the United Kingdom, and the United States and the EEC Commission resolved: "to meet together to discuss various aspects of cooperation in their efforts, and to invite other additional capital exporting countries to participate in their work or to meet with them as may from time to time appear desirable, and to consult

with such multilateral organizations as the International Bank for Reconstruction and Development and the European Investment Bank.” (*Ibid.*, page 327)

On January 14, Dillon participated in a meeting of 20 members or associate governments of the Organization for European Economic Cooperation and in an OEEC Ministerial meeting. For text of his statement before the former, see Department of State *Bulletin*, February 1, 1960, page 145. The Under Secretary returned to Washington on January 16. Further documentation on his trip is in Washington National Records Center, RG 59, Conference Files: FRC 83–0068, CF 1579–1583.

Also on January 14, Eisenhower forwarded his report on the operation of the Mutual Security Program for the period January 1–June 30, 1959, to the Congress. In it he spoke again of emerging nations’ desire for economic progress and of the free world’s need to assist these efforts in order to ensure its own security. He also recommended longer-range funding for the Development Loan Fund and more flexible use of surplus agricultural commodities. Chapters I–IV of the report are in Department of State *Bulletin*, pages 159–169; for the complete text, see H. Doc. 299, Eighty-sixth Congress, Second Session.

In his January 18 budget message to the Congress, the President reiterated his calls for accelerated economic and technical assistance through the Development Loan Fund and increased private investment in lesser-developed countries, and noted the International Bank for Reconstruction and Development’s approval in principle of a proposal to establish an International Development Association. Excerpts of the President’s message are in Department of State *Bulletin*, February 8, 1960, pages 202–212; for complete text, see H. Doc. 255, Eighty-sixth Congress, Second Session. Eisenhower highlighted international economic development, private investment, the Development Loan Fund, and the International Development Association in his economic report, which he sent to the Congress January 20. For excerpts of the report, see Department of State *Bulletin*, February 22, 1960, pages 301–307; for complete text, see H. Doc. 268, Eighty-sixth Congress, Second Session.

191. Minutes of Meeting 60-1 of the National Advisory Council on International Monetary Financial Problems

January 5, 1960.

[Here follow a list of participants and a table of contents.]

1. *Financial Support for Private Home Ownership in the Less Developed Countries* (NAC Document 59-296)¹

The Council considered the problem of certain means of providing financial support for private home ownership in the less-developed countries, which had been referred to the National Advisory Council by the Council on Foreign Economic Policy. The Secretary of the Council reviewed the background and summarized the Staff Committee discussion of the matter, and noted that the Staff Committee had prepared a draft action for consideration by the Council.²

The Chairman commented that there was wide agreement on the desirability of encouraging the expansion of private home ownership abroad, and that it was important to consider carefully the various means of doing so. He noted that the first question before the Council was whether legislation which would permit U.S. Federal savings and loan associations to invest in foreign savings and loan associations would be desirable from the foreign financial policy point of view. He asked the representative of the Federal Home Loan Bank Board for comments.

Mr. Hallahan said that the Federal Home Loan Bank Board would not support legislation of the type appended to the paper, but would support the chartering of a single private central organization that would undertake the investments in foreign savings and loan associations as a form of "seed capital", in modest amounts, possibly amounting to \$3 million-\$5 million within a few years. The Council discussed the proposed legislation particularly with respect to the character and extent of the risks involved in such investments abroad, the current U.S. credit situation, the current balance-of-payments problems of the United States, and the problems that would be involved in attempts to apply standards of price stability with respect to such investments. The

Source: National Archives and Records Administration, RG 56, Records of the Department of the Treasury, NAC Minutes. For National Advisory Council Use Only.

¹ Dated December 3, 1959. (*Ibid.*, NAC Documents)

² The Council on Foreign Economic Policy discussed this issue on October 8, 1959. (Minutes of the 94th Meeting of the Council on Foreign Economic Policy; Eisenhower Library, CFEP Chairman Records, Papers Series, CFEP Minutes, 1959) The draft action prepared by the NAC Staff Committee was incorporated into NAC Document 59-296.

Council did not reach agreement on whether support by the Executive Branch of such a legislative proposal would be advisable, and took no action in this regard.

The Council discussed and agreed that there would be no objection to the use of U.S. local currency holdings on a modest basis for promoting home ownership in less-developed countries through loans or investments to help establish foreign savings and loan associations. It was noted that such use of local currencies should take into account the alternative uses for the currencies and the economic development priorities in the countries concerned.

The Council also discussed the possibility of U.S. Government dollar loans and guarantees of repayment of private investments to help establish savings and loan associations in the less-developed countries. It was agreed that such loans and guarantees would not be generally desirable. It was suggested that in exceptional cases in which it appeared to be in the national interest, such loans and guarantees might be considered, and that the conditions relevant to the consideration of such exceptional cases should include the following:

- 1) that U.S.-owned local currencies were not available for the purpose;
- 2) that the country concerned was not undergoing severe inflation;
- 3) that the loan or guaranteed investment would be only a small proportion of the total investment in the project; and
- 4) that the loan or guarantee would be undertaken only in order to begin the project and not as a continuing investment.

The Council also discussed the possibility of investment guarantees covering expropriation, non-convertibility and war damage, for private U.S. investments in foreign savings and loan associations, and for other forms of investment in housing abroad. It was agreed that any proposals for such U.S. Government guarantees of housing investments abroad would need to be considered carefully, and that the method of handling such proposals would be discussed further by the interested agencies.

192. Minutes of Meeting 60-2 of the National Advisory Council on International Monetary and Financial Problems

January 21, 1960.

[Here follow a list of participants, a table of contents, and discussion of a unrelated matter.]

2. *International Development Association* (NAC Document 60-14)¹

The Council then discussed the developments in the preparation in the International Bank of a draft charter for the International Development Association. The Chairman asked Mr. Willis to review the situation for the information of the Council.

Mr. Willis noted that the President of the International Bank had called the Executive Directors of the Bank to meet on January 25, 1960, to vote formally on transmitting the draft charter to the member governments of the Bank for action, and that the U.S. Executive Director of the Bank would need authority to record the vote of the United States in favor of this referral. The draft Articles of Agreement would be sent by the Executive Directors directly to governments. Mr. Willis reviewed the structure of the proposed International Development Association, the procedure and schedule for the coming into force of the Articles of Agreement, and the principal matters which had arisen in the negotiation of the charter. The Council was informed that a draft Special Report of the Council on the International Development Association would shortly be presented to the Staff Committee for consideration.

At the conclusion of the discussion the Council took the following action (NAC Action 60-13):

Action:

The National Advisory Council authorizes the U.S. Executive Director of the International Bank for Reconstruction and Development to approve the transmittal from the Board of Executive Directors of the Bank to the members of the Bank of the proposed Articles of Agreement of the International Development Association. He may agree to such changes of detail in the draft as he may consider desirable in the light of Board discussion.²

Source: National Archives and Records Administration, RG 56, Records of the Department of the Treasury, NAC Minutes. For National Advisory Council Use Only.

¹ Dated January 19. (*Ibid.*, NAC Documents)

² On January 31, the International Bank for Reconstruction and Development announced that the articles of agreement for the International Development Association were ready for acceptance by prospective member governments. Regarding this announcement, see Department of State *Bulletin*, February 29, 1960, pp. 345-346. For text of the articles of agreement, see 11 UST 2284.

193. Notes of the Legislative Leadership Meeting

February 16, 1960, 8:30–11:15 a.m.¹

[Here follow a list of participants and a summary.]

International Development Association—Sec. Anderson described briefly the plans for this new organization which would be a part of the World Bank. He noted the size of the U.S. subscription to be paid over the next five years, and he said that a bill would be submitted that would authorize the Executive to accede to the Agreement.

Sec. Anderson mentioned certain particular advantages of the arrangement: (1) that it had been proposed at New Delhi as a means of covering “marginal” loans which the World Bank could not make; (2) that it had a potential for putting to use some of our P.L. 480 soft currencies, (3) that it provides a means for this sort of activity outside of the UN, thus avoiding the creation of an opportunity for Russia to exploit, and (4) that the United States was able to withstand the effort that was made to provide for grants as well as loans.

The President asked about the new countries that would be gaining independence in Africa. Sec. Anderson said they could apply for membership. Sen. Kuchel inquired if Russia could apply for membership. Sec. Anderson replied affirmatively but believed that the application would not be approved, unless we should so desire, since the United States possesses a large share of the voting power in the World Bank.

The President commented on the importance of activity such as this to help insure that the economies of the underdeveloped nations progress along with the rest of the free world.

[Here follows discussion of unrelated subjects, including the Mutual Security Program. For text of that portion of the discussion, see Document 253.]

LAM

Source: Eisenhower Library, Whitman File, Legislative Leadership Meetings. Confidential. Drafted by L. Arthur Minnich, Jr.

¹ The meeting took place at the White House.

194. Editorial Note

On February 18, President Eisenhower sent the Congress a National Advisory Council on International Monetary and Financial Problems report on the International Development Association. (H. Doc. 345, Eighty-sixth Congress, Second Session) The President recommended in his transmittal letter that Congress enact legislation authorizing U.S. participation in the Association and providing funds for the U.S. subscription to it. He emphasized again the need for free world industrialized nations to promote economic progress in underdeveloped countries. For text of the letter, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1960-61*, pages 199-201.

A subcommittee of the House Committee on Banking and Currency held hearings on Eisenhower's proposal March 15-17. Under Secretary of State Dillon testified before the subcommittee on March 17; for text of his statement, see Department of State *Bulletin*, April 4, 1960, pages 529-531. The Senate Foreign Relations Committee held its hearings on the proposal on March 18 and 21.

195. Telegram From the Department of State to the Mission at the United Nations

April 1, 1960, 7:35 p.m.

803. For Lodge from Dillon. Subject: UN Economic Aid Topic at Summit Meeting. Your 970, 971.¹

1. As a result of French proposals in Paris East-West Relations Working Group for Summit consideration of joint aid to LDC's in collaboration with USSR, we have concluded that serious disadvantages are inherent in suggestions of this nature, notably:

Source: Department of State, Central Files, 800.0000/4-160. Secret; Priority. Drafted by Kotschnig, Gold, and Heyward Isham, staff assistant in Secretary Herter's office; cleared by Nunley, Wilcox, Martin, Merchant, Dean, S/S, SOV, and ARA and with Bohlen; and initiated by Dillon.

¹ Eisenhower, Macmillan, de Gaulle, and Khrushchev were scheduled to meet in Paris in May. Telegram 970 from Paris, March 27, reported a Yugoslav proposal that the summit participants consider the question of economic aid to underdeveloped countries. (*Ibid.*, 800.0000/3-2760) Telegram 971 from Paris, March 28, transmitted Lodge's suggestion that Eisenhower challenge Khrushchev to participate in U.N. economic programs. (*Ibid.*, 800.0000/3-2860)

(a) fundamentally divergent and competitive objectives of East and West in extending aid to LDC's, making collaboration deceptive to world opinion and impracticable of execution;

(b) opportunity thus afforded Soviets of advancing their penetration to areas from which they are now excluded.

2. Recent discussions in NATO Council have revealed high degree of agreement among members regarding disadvantages of proposals for joint initiatives in this field.

3. If Soviets do raise topic at Summit, we would plan to counter with proposal for increased USSR contributions to UN economic programs (e.g. WHO), excluding, however, World Bank and IDA.

4. In light your Tel 971 will give further consideration desirability approaching USSR at opportune time (but not in Summit context, unless raised as noted para 3 above) to increase contributions to ETAP and Special Fund in form of convertible rubles. In view Khrushchev public statements Paris, he is already on record as being opposed to any increase Bloc contributions to UN voluntary funds. This not likely go unnoticed by LDC's and definitely to our advantage. Under circumstances we doubt whether we should put on additional pressure which, if successful, might have seriously adverse impact on UNTA programs. We have misgivings that increases in USSR contributions would result in substantial increase number Soviet experts sent to sensitive areas such as Africa under UN umbrella, and UN become cover for seriously increased number of fellowships and training grants to be used in Bloc countries.

For above reasons I am sure you will agree that Yugoslav initiative reported your tel 970 unfortunate. Would also regret Brazil lining up with neutralist countries as suggested. Hope you can not only convince Freitas-Valle soundness of position but stimulate action on his part to keep other LA countries from joining Yugoslav initiative. You may want point out US already on record as ready join with other countries provide additional aid to LDC's when measure internationally controlled disarmament achieved, but pending progress disarmament Yugoslav initiative not likely prove fruitful.

Herter

**196. Minutes of Meeting 60-3 of the National Advisory Council
on International Monetary and Financial Problems**

April 5, 1960.

[Here follow a list of participants and a table of contents.]

1. Export Credit Guarantees and Financing

The Council considered the proposals of the Export-Import Bank for expanding its activities in the field of export credit guarantees and financing (NAC Document 60-83). The Chairman noted the importance of guarding against premature disclosure of the proposals, in view of the desire of the Bank to work out the details in advance of any public discussion. (See also NAC Action 60-50 and NAC Document 60-54).¹

Mr. Arey referred to draft application and contract forms for the proposed short-term political risk guarantees, and described the manner in which the Bank envisaged their operation. He noted that the Bank intended to discuss these draft forms and a draft contract for a medium-term political risk guarantee with commercial banks in various parts of the country at meetings arranged by some of the Federal Reserve Banks, and that the draft forms were still subject to change in the light of further consideration of their details. The Bank had already had numerous discussions with exporter groups, and planned to have further meetings with exporter groups after the plan became effective. The Bank would charge the total amount of the guarantee contracts against its lending authority, but since there was about \$2 billion of unused lending authority available, the Bank did not expect the guarantee program to interfere with project lending.

Mr. Arey called the attention of the Council to the proposal to participate under certain conditions with commercial banks in medium-term export credits considered by the Export-Import Bank to be otherwise eligible, in sole reliance on the credit judgment of the commercial banks.

At the conclusion of the discussion the Chairman commended the Bank for its promptness in developing these proposals, and noted that the facilities to be offered U.S. exporters appeared to compare very favorably to guarantee and financing facilities available to European

Source: National Archives and Records Administration, RG 56, Records of the Department of the Treasury, NAC Minutes. For National Advisory Council Use Only.

¹ Dated April 4, NAC Document 60-83 is *ibid.*, NAC Documents. NAC Action 60-50 has not been found. Dated March 15, NAC Document 60-54 is *ibid.*

exporters. The Council agreed that approval of the proposals presented to it would not limit the views of member or other agencies with respect to further developments in this field.

The Council then took the following action (NAC Action 60–75):

Action:

The National Advisory Council approves the proposals of the Export-Import Bank for expanding its activities in the field of short-term export credits and guarantees and medium-term export credits. It is understood that the Export-Import Bank will offer short-term guarantees to exporters against 90 percent of the political risks (non-transferability of foreign currencies; losses resulting from war, civil commotion, and expropriation; or from the imposition of import restrictions or the cancellation of import permits). Guarantees on short-term transactions would cover substantially all of an exporter's eligible export shipments as they are made and fees would be paid on this basis. It is further understood that the Export-Import Bank will participate with commercial banks in financing medium-term credits for exports which the Bank considers are otherwise eligible, in sole reliance on the credit judgment of the commercial banks when they carry a stated portion of the credit for their own account and risk and without recourse to the exporter, and when the importer pays at least 20 percent of the invoice value in cash.

[Here follows discussion of an unrelated matter.]

197. Minutes of Meeting 60–4 of the National Advisory Council on International Monetary and Financial Problems

May 9, 1960.

[Here follow a list of participants and a table of contents.]

1. Investment by Domestic Savings and Loan Associations in Foreign Savings and Loan Associations (NAC Document 59–296)¹

The Council discussed Senate Bill 3282,² which would authorize Federal savings and loan associations to make investments in foreign savings and loan associations, and an alternative proposal of the Federal Home Loan Bank Board (FHLBB) which would provide for the

Source: National Archives and Records Administration, RG 56, Records of the Department of the Treasury, NAC Minutes. For National Advisory Council Use Only.

¹ See footnote 1, Document 191.

² S. 3282 was referred to the Senate Committee on Banking and Currency on March 24, but was not reported out of the Committee.

chartering of a corporation, whose capital would be subscribed by individual domestic savings and loan associations, to make investments in savings and loan associations in underdeveloped countries.

The Chairman reviewed the earlier Council discussion of the general legislative proposal, and recalled that the Council had reached no decision on the matter at that time (see Council Minutes 60-1).³ Since Senate Bill 3282 was scheduled for prompt consideration by the Senate Committee on Banking and Currency, and the Home Loan Bank Board proposal had been advanced as a possible Executive Branch alternative, it was necessary to reach an opinion as to the appropriate Executive Branch position on these proposals.

The Council discussed the risks and problems involved in dollar investments in foreign savings and loan associations to meet essentially local currency costs, in the light of the inflationary and balance-of-payments conditions prevailing in many less-developed countries. In view of the particular difficulties of undertaking such investments by individual savings and loan associations and the absence of restriction of such investments to the less-developed countries, the Council agreed that in its opinion the Executive Branch should not support Senate Bill 3282.

It was noted that the corporation proposed by the Federal Home Loan Bank Board would centralize the investments in foreign savings and loan associations and would have advantages with respect to the availability of information and the appraisal of proposed investments in foreign associations. The major risk in such investments, however, was the transfer risk, and under conditions existing in most of the less-developed countries losses from this source appeared likely. Since such a corporation would be created under U.S. Government sanction and authority, the Government would be reluctant to permit the corporation to become financially unsound, in view of the possible repercussions on Treasury financing operations. Thus in effect the corporation would have a general Government guarantee against losses. In addition, specific legislation affecting Development Loan Fund guarantee of investments in housing ventures abroad was in prospect in the pending Mutual Security legislation, so that investments in foreign savings and loan associations would probably be accompanied by applications for such guarantees. The Council also noted the difficulties that would result for the less-developed countries from undertaking dollar servicing burdens on account of investments that would not earn or save foreign exchange, such as investments in housing. The importance of a history of reasonable price stability for the success of

³ Document 191.

thrift institutions such as savings and loan associations, and the relatively small number of less-developed countries in which such conditions existed, were also noted.

At the conclusion of the discussion the Council agreed that in its opinion the Executive Branch should not at this time support the proposal of the Federal Home Loan Bank Board, and that further study should be undertaken by the Council of the problems that would be raised by dollar loans and investments for local currency purposes by U.S. savings and loan associations acting through a Government-created corporation. The Council took the following action (NAC Action 60-109):

Action:

The National Advisory Council is of the opinion that the Executive Branch should not support legislation which would authorize individual Federal savings and loan associations to make investments in foreign savings and loan associations, or institutions of a similar type.

The National Advisory Council is of the opinion that the Executive Branch should not at this time support legislation which would authorize the establishment of a corporation, whose capital would be subscribed by individual savings and loan associations, to make investments in foreign savings and loan associations, or institutions of a similar type.

This whole problem of dollar loans and investments for local currency purposes by U.S. savings and loan associations acting through a Government-created corporation, raises certain difficult questions which will receive further and prompt study by the National Advisory Council.

198. Memorandum of Conversation

May 24, 1960.

SUBJECT

FY 1962 Preview Estimates for the Mutual Security Program

PARTICIPANTS

The Under Secretary

State: Messrs. Bell, Murphy, Wilson, Kaplan, Graham Martin, Kerr

ICA: Messrs. Riddleberger, FitzGerald, Grant

DLF: Messrs. Brand, Perry, Gordon

Source: Department of State, Central Files, 700.5-MSP/5-2460. Confidential. Drafted by Jacob J. Kaplan of U/MSC and approved by Dillon on June 13.

Mr. Dillon indicated the following tentative reactions to the issues raised by the agency estimates:¹

1. The U.S. Government needs authority to make balance of payments loans involving long-term commitments, where such loans are required to support sound economic development. We cannot be tied down exclusively to a project approach, although project loans should be the preferred technique where needs can be met in this fashion. Afghanistan and India illustrate situations where present authority is inadequate.

2. The needed authority should be sought for the DLF in FY 1962. This year's legislation and legislative history raised certain problems, but we should not hesitate to make sound proposals for next year. The new Administration can decide to adopt or modify such proposals. The DLF should be in a position to finance the economic development needs of such countries as Taiwan, Turkey and Thailand, as well as India, in part by means of balance of payments loans if that is what is required. In such cases as India, the level of DLF lending, combined with PL 480 operations, may create problems with respect to the disposal of local currency. It probably does not make sense to relend the local currency at market rates of interest, thus building up even greater accumulations in future years. Probably the best solution is for ICA to be given authority in the first instance to dispose of PL 480 local currency repayments through grants.

3. Great advantages obtain in continuing on a loan basis with at least the more advanced of the under developed countries, especially India. These countries don't want to be the object of charity; they prefer to get help for their economic development requirements through loans. Our machinery should be flexible enough to meet this view.

4. Special reasons do exist for more ICA money for Africa. Belgian Congo may need budget support and other newly independent countries may also have special needs which are more suitable for grant aid programs. The question remains whether such money should be sought for specific programs in Africa or whether a substantially increased contingency fund should be sought, identifying the increase with requirements in Africa.

5. The need for increased activity in Latin America is clear, but the advisability of providing it through Special Assistance programs is questionable. Discussions are going on in the Executive Branch about increasing the resources available to the Inter-American Bank. A special appropriation may be sought in order to make an additional U.S. contribution to the Bank's special fund without the necessity for any

¹ Not found.

matching contribution from the Latin American countries. Work on this proposal is going forward with a view to having a U.S. position in August.

6. Mr. Dillon noted the desirability of stepping up assistance for economic development to other countries that are able to make effective use of increased assistance. However, he felt it undesirable to use the term "Islands of Development" which gives rise to invidious comparisons and may raise excessive expectations.

7. Mr. Riddleberger commented that as far as the regular ICA programs were concerned, ICA expected to make modifications in its proposals as the process of programming continues. A reduction of \$40 million might be possible in the major grant country programs if political considerations would permit a reduction in the programs for Spain, Israel and Tunisia below the levels which ICA currently thought was desired by the State Department. On the subject of Island of Development, he mentioned that the concept may fall if the Congress refused to appropriate funds for the Taiwan program or if Taiwan fails to fulfill its economic policy commitments. Finally, he noted that ICA undertakes certain types of projects of a non-income earning variety which are not customarily undertaken by the DLF; economic infrastructure projects have been undertaken by both ICA and DLF.

8. Mr. Dillon observed that Congress had suggested, and he agreed, that the Executive Branch should prepare a complete new redraft of the Mutual Security Act for FY 1962. The proposal should provide a new legislative basis for the DLF and should also eliminate the arbitrary limitations inherent in current definitions of Defense Support and Special Assistance.

9. Mr. Brand observed that some of the best loans made by the Ex-ImBank were balance of payments loans. DLF might undertake such loans on a local currency basis. He considered it to be nonsense that the DLF must only undertake project loans. We might indicate to the Congress that, say \$700 million of the FY 1962 request would be used for project loans and \$300 million for balance of payments loans. This was preferable to giving ICA the responsibility for making balance of payments loans in support of economic development.

10. Mr. Dillon observed that Mr. Hardy's criticism of DLF operations had never involved arguing that the DLF had made bad loans; the Congressman had only contended that the Executive Branch had never told the Congress that the DLF was going to make loans not strictly tied to individual specified projects at the time the funds were earmarked or committed. Mr. Dillon thought that the DLF should provide more resources to countries like Taiwan and Turkey which have the capacity for more rapid economic growth. The DLF should have the authority to provide balance of payments loans to such countries if their development program required it. Such loans would

increase the problem of disposing of local currency accumulations. This problem is made worse by relending repayments at the going interest rate thus assuring even larger future accumulations. The problem might be handled by giving ICA responsibility for making local currency grants out of such repayments. The main problem lies with PL 480 local currencies, but local currencies from all sources must be considered together.

11. Mr. Grant² observed that the U.S. procurement policy was a further obstacle to giving the DLF responsibility for meeting the needs of countries like India. Mr. Brand replied that the DLF is financing certain amounts of offshore procurement for India this year; some offshore procurement could be handled if necessary.

12. Mr. Grant commented that the present Special Assistance Program included about \$140 million of financing of non-revenue earning TC-type projects such as those now proposed for Latin America and Africa.

13. Mr. Bell observed that it might be desirable to seek the kind of data from our Latin American Missions that we have recently requested from the African Missions identifying those needs which might be appropriate for U.S. financing. Mr. Dillon noted that the Treasury Department had registered its unhappiness with the cable on Africa, but thought it would be desirable to send an appropriately worded message.

14. Mr. Brand observed that he expected the Ex-ImBank to adopt a more aggressive attitude toward making loans in Latin America. The DLF would undertake other types of loans such as housing, land resettlement and local currency requirements. However, it might be appropriate for ICA to take the responsibility for projects in Latin America which were extensions of its Technical Cooperation work and for projects like hospitals and schools.

15. Mr. Murphy asked whether ICA proposed to obligate funds in Africa and Latin America for projects which do not meet Section 517³ requirements. He felt that authority to waive the Section 517 requirements would be much more difficult to obtain from the Congress than authority to make balance of payments loans. This led Mr. Dillon to comment on the necessity for ICA to undertake more feasibility studies in order to have projects ready when commitments were desirable. DLF had undertaken surveys of this type in the past, but he felt it would be more appropriate for ICA to make a major effort in this direction.

² James P. Grant, Deputy Director for Program and Planning, International Cooperation Administration.

³ Section 517 of the Mutual Security Act of 1954, as amended through the Mutual Security Act of 1959, restricted agreements or grants over \$100,000.

199. Notes of the Legislative Leadership Meeting

June 2, 1960, 9–11:15 a.m.¹

[Here follow a list of participants, a summary, and discussion of unrelated matters.]

International Development Association—Sec. Anderson spoke of the effort that had been made to add a “free transit of waterways” amendment. He said this would open the way to the addition of qualifications by other countries and ultimately the death of the project. He recalled his efforts, which appear to be successful, to work out an exchange of letters that would satisfy Rep. Multer and obviate the issue.²

Mr. Anderson said that the most important thing was to get quick action in either the House or the Senate so that hearings could begin in appropriations committees.

Sen. Saltonstall noted that hearings had begun on the extension of the Development Loan Fund, that the IDA would be the seventh lending institution (4 international and 3 by the United States), and that the apparent duplication would have an adverse effect on the Development Loan Fund. The President noted the psychological factor involved in the desires of various regions to have such an institution tailored to its own situation. The President stressed the coordinating function of the National Advisory Council, and he said he had talked with Sec. Anderson and others on the possible desirability of setting up within the State Department an individual to act as full-time Executive Secretary for the NAC. Sec. Anderson said that the IDA was simply a third “window” inside the World Bank, and that behind all of the windows was the desk of Eugene Black.

Sen. Saltonstall then inquired why the DLF should grant loans if all three windows of the World Bank declined. Sec. Anderson said that the World Bank could not make “political” loans which were sometimes necessary, as in the case of a recent \$100 million to Argentina. The President added that these may very well be good loans, that certain soft loans had to be made and the U.S. had to make them. He went on forcefully to emphasize his efforts to wage peace, something that could not just be done with pretty words; instead, these newly developing nations had to have the chance to make a living. He

Source: Eisenhower Library, Whitman File, Legislative Leadership Meetings. Confidential.

¹ The meeting was held at the White House.

² Multer sent the text of the proposed amendment to Senator Monroney May 10; a copy of the letter, the amendment, and a statement of congressional intent are in National Archives and Records Administration, RG 56, Records of the Office of the Secretary of the Treasury, Robert B. Anderson, Subject Files, International Development Association.

asserted that if the DLF were scrapped it would become necessary to revise extensively our security arrangements and perhaps even be required to fall back to some "citadel" concept. The importance of this type of activity had to be recognized and approved even if it lacked any specific pressure group to help it along. Sen. Dirksen asked about the IDA arrangement for using local currencies and noted that Senators Lausche, Capehart and others would move to strike out that provision. Sec. Anderson explained the arrangement whereby some of the contributions of a country could be in this local currency. This was a means of making the best of a bad situation where any country was not financially able to make a contribution in hard currency. Also, there would sometimes be occasions for using local currencies and this would be of benefit to the United States, however infrequent, since we presently have soft currency holdings without opportunity to use them. The President suggested that Sec. Anderson approach Sen. Lausche and present the case for this arrangement.

[Here follows discussion of unrelated matters.]

200. Memorandum for the Files by Alfred Von Klemperer of the Department of the Treasury

June 3, 1960.¹

SUBJECT

Consultative Board—IDA and UN

A meeting was held today in the Secretary's office where the following visitors met with the Secretary, Mr. Willis and myself:

Ambassador Cabot Lodge
Mr. Christopher Phillips, UN
Mr. Finger, UN
Mr. Chauncey Parker, UN
Mr. John Leddy, State
Mr. Walter Kotschnig, State

The purpose of the visit was to enlist the Secretary's support in having Mr. Eugene Black, in his capacity as President of IDA, agree to join a consultative board composed of Mr. Hammarskjold, Secretary General

Source: National Archives and Records Administration, RG 56, Records of the Office of the Secretary of the Treasury, Robert B. Anderson, Subject Files, International Development Association. No classification marking.

¹ The meeting was held at the Department of the Treasury.

of the UN, Mr. Paul Hoffman, Managing Director of its Special Fund and Mr. David Owen in charge of technical assistance at the UN. This Board would be established by an exchange of letters between Messrs. Hammarskjold and Black agreeing to meet informally from time to time to discuss in a general way the operations of IDA.

Ambassador Lodge indicated that the main argument for such a Board on the U.S. side was a political one inasmuch as it would create the image of a close relationship between the UN and IDA and thus help our delegation at the UN to beat back the SUNFED argument. Several countries, among them Holland and the Scandinavian Nations, would find this a convenient reason for dropping their former strong support for SUNFED, and in fact, such a Board would lay to rest any important SUNFED agitation. The second political argument in favor of such a Board would be that it will make the Western Nations show up favorably in relation to the Russians who are not members of IDA.

Ambassador Lodge has discussed this matter informally with Mr. Black and Mr. Dillon. The latter had indicated that he saw no difficulties provided Mr. Black approved.

For tactical reasons, the U.S. Delegation at UN would like to have Mr. Hammarskjold make announcement of this Board in Geneva on July 11. This would forestall those who intend to press for SUNFED during the Economic and Social Council Meeting in the Fall.

Ambassador Lodge will send us a letter outlining this plan and suggesting the wording for the terms of reference establishing the Board. Secretary Anderson will try to meet with Mr. Black during the week beginning June 13 to discuss the matter.²

² Neither Lodge's letter nor a record of Anderson's conversation with Black has been found.

201. Memorandum From the Deputies Committee of the National Advisory Council for International Monetary and Financial Problems to the Council

NAC Document 60-188

June 29, 1960.

SUBJECT

Report of the NAC Deputies Committee

Introduction

The Chairman of the Council, in April, asked that a Special Committee of Deputies to the Council members be convened to discuss and make recommendations to the Council on several problems of NAC coordination of activities of U.S. lending agencies, in accordance with the Bretton Woods Agreement Act, as amended. The Deputies have held ten meetings and have reached a general consensus on the problems given in their terms of reference. These questions are:

- (1) Coordination between Export-Import Bank and the Development Loan Fund
- (2) The Role of the DLF in Latin America
- (3) The "Dollar Option" Clause in DLF Lending Operations
- (4) Dollar Repayments in DLF Loans
- (5) Use of DLF Loans to finance Local Currency Expenditures

1. *Coordination Between Export-Import Bank and DLF.* The Deputies have considered a number of aspects of coordination between Export-Import Bank and the DLF. The majority of the Committee recommends approval of an action (or such other disposition as the Council agrees) as indicated in Appendix A.

2. *Role of the DLF in Latin America.* The Deputies have considered the relationship of the activities of the DLF and the Ex-Im Bank in Latin America and recommend to the Council the approval of an action (or such other disposition as the Council agrees) as indicated in Appendix B.¹

3. *The "Dollar Option Clause" in DLF Lending.* The Deputies held extended discussion of the proposal to make arrangements under DLF loans for a provision which would permit the DLF, under appropriate circumstances, to convert to dollars local currency receipts from payments of interest and amortization, or to use local currencies to finance

Source: National Archives and Records Administration, RG 56, Records of the Department of the Treasury, NAC Documents. For National Advisory Council Use Only.

¹ Not printed.

exports to other areas in connection with DLF projects. This right was to be exercised if and when, in the future, the borrowing country's situation had improved greatly through the discovery and exploitation of natural resources, improvement of production and trade, and other factors in its balance of payments which markedly increased its capacity to service loans in foreign exchange, or to finance some exports to other developing areas. Part of the problem was to specify the conditions under which the DLF might exercise the "dollar option".

The Deputies concluded that it would be desirable for DLF to enter into "local currency use agreements", supplemental to individual loan agreements, relating to the uses of local currencies received in payment of principal and interest on DLF loans. A draft model agreement has been submitted to the DLF Board and accepted by it.

4. *Dollar Repayment in DLF Loans.* The Deputies, after considering various aspects of the problem, concluded that the DLF should, in appropriate cases, make loans partially or totally repayable in dollars. It is their view that dollar repayment is not indicated for all cases of DLF loans, but that it may be required when a country has reasonable prospects for servicing dollar loans in the future, particularly where it does not receive loans at the present time from the Export-Import Bank or the International Bank. The Deputies, however, realized that it was difficult to set in advance the precise conditions under which partial dollar payment should be required or to determine in advance all of the circumstances which might be relevant. Accordingly, the paper in Appendix C² represents a general consensus of the majority of the Committee, expressed in the form of conclusions to a study paper but formal Council action is not recommended at this time.

5. *DLF Loans for Local Currency Costs.* The Deputies have concluded that the DLF might properly finance, with dollar loans, certain local currency expenditures in connection with loans whose foreign exchange costs are financed by the Export-Import Bank or the DLF, or, certain projects which involve primarily local expenditures but which will contribute importantly to the development of the borrowing country. Dollar financing of local currency expenditures may be necessary when local currencies cannot be supplied from non-inflationary sources by countries to which the extension of loans by the DLF would be in accordance with U.S. policies. Under some circumstances, particularly when the International Monetary Fund has agreed upon a stabilization program in the country, the financing of local currency expenditures from external resources may be required to avoid interference with the stabilization program and so adding to inflationary pressures in the country. The Deputies believe, however, that such local currency financing must be considered carefully and should take into

² Not printed.

account the willingness and ability of the country to devise and apply measures which would reduce its dependence upon foreign exchange sources for desirable investment in development projects. The general consensus of the Deputies (Appendix D)³ is expressed in the form of conclusions of the study made, but they do not recommend a formal Council action at this time in view of the difficulties in formulating a precise policy and specifying all of the necessary conditions appropriate to local currency financing.

Appendix A

COORDINATION BETWEEN EXIM AND DLF

The NAC recommends to Exim and DLF the following procedures as guidelines in their coordination activity.

(1) The division of borrowing countries into three groups as follows:

- Countries of primary interest to Exim (List A);
- Countries of primary interest to DLF (List B);
- Countries of joint interest (List C).

Countries not listed will be treated on a case-by-case basis.

(2) To have applications from countries of primary interest to Exim directed to Exim, applications from countries of primary interest to DLF directed to DLF, and applications from countries of joint interest directed to U.S. Government Loaning Agencies—and Embassies in individual countries to be so informed. This would not preclude informal understanding in special cases between U.S. Government and applicant countries as to how particular projects or groups of projects were to be handled.

(3) To have the Exim–DLF Joint Committee recommend allocation of applications from countries of Joint Interest to each individual agency for consideration, processing, and action either individually, or on a Joint Loan basis as agreed by the Joint Committee.

(4) For Exim and DLF to prepare on a parallel basis, monthly reports to the NAC on all applications received and accepted, to show by countries, the amount, project, date received, and status of processing.

(5) For Exim to invite a senior official from the DLF staff to attend its Board Meeting when a project from a country of joint interest is under consideration, in order to complement the coordination achieved through the membership on the DLF Board of the President of Exim.

³ Not printed.

(6) To arrange, when made possible by common interest of two agencies, field trips to countries of joint interest on a joint participation basis, and to let it be known on such field trip that the joint team represents U.S. Government Loaning Agencies.

(7) To accept the principle that circumstances have arisen, and will probably arise in the future, where either in countries of primary DLF interest, or of Joint Interest, the interests of the U.S. Government may make it desirable that all or a portion of a DLF loan should be repayable in dollars. However, where such dollar repayment exists in a DLF loan, it is understood that, as a matter of U.S. Government internal policy, if problems of ability of the borrower to repay both DLF and Exim loans arise, then dollar repayments still owed to DLF will be subordinated to those due to Exim.

(8) To accept the above guidelines as flexible, with the necessary adaptation to be made for changing conditions, (including changing of country categories), as agreed by the Joint Committee, with any matters, or individual loans, where agreement is not reached, in the Joint Committee, to be referred to the NAC Deputies Committee, for review and recommendation for further action.

List A.

Countries of Primary Interest to Exim

All European countries except Greece, Spain, Turkey, and Yugoslavia.

Australia	Japan	New Zealand	Venezuela (?)
Canada	South Africa	Mexico (?)	

List B.

Countries of Primary Interest to DLF

Burma	Korea	Vietnam
Cambodia	Laos	Jordan
China (Taiwan)	Nepal	

List C.

Countries of Joint Exim–DLF Interest

All countries in Latin America except Mexico (?) and Venezuela (?)

Greece	Iran	Afghanistan	Philippines
Spain	Israel	Ceylon	Indonesia
Turkey	Lebanon	India	Guinea
Yugoslavia	U.A.R.	Pakistan	Liberia
		Thailand	Libya

**202. Minutes of Meeting 60-5 of the National Advisory Council
on International Monetary and Financial Problems**

July 1, 1960.

[Here follows a list of participants.]

The Council discussed the report of the NAC Deputies Committee (NAC Document 60-188, June 29, 1960).¹

*Coordination between Export-Import Bank and Development Loan Fund (Appendix A)*² (Numbers below refer to paragraphs of Appendix A, as discussed.)

1. The Council agreed in principle to dividing borrowing countries into three groups. Since, however, not all countries were included in the list, Mr. Dillon suggested that all countries not otherwise listed should be in List C, i.e., countries of joint interest. It was agreed to refer this problem to the Export-Import Bank-Development Loan Fund Joint Committee for further study and report to the NAC Deputies Committee.

2. Mr. Waugh indicated that he would wish to study further the matter of handling of applications and would give his views to the Council at a later date.

3. It was pointed out that this paragraph described what was already taking place. There was agreement on this paragraph.

4. With regard to the monthly reports from the Eximbank and DLF proposed, it was agreed that the Eximbank-DLF Joint Committee would consider and report to the NAC Deputies on an appropriate form adequate to meet the needs of coordination and safeguarding particular interests of the agencies. It was agreed that the NAC Deputies Committee would try to have ICA prepare a similar report on its loans and try to secure from the IFC a more informative monthly report. It was also agreed that reports from DLF and Eximbank when made would have a distribution limited only to the NAC members, the Managing Director of DLF, and the Treasury staff.

5. Mr. Waugh indicated that because of the legislative history of Eximbank and DLF, it was not appropriate to have a staff member of DLF attend Eximbank meetings, particularly since several other Agencies or Departments were interested in attending the Eximbank Board meetings, or being represented on the Eximbank Board. Mr. Brand

Source: National Archives and Records Administration, RG 56, Records of the Department of the Treasury, NAC Minutes. For National Advisory Council Use Only.

¹ Document 201.

² To Document 201.

observed that DLF needed better information of Eximbank's activities in countries of joint interest so as to prevent any unnecessary interference by DLF in matters of Eximbank interest.

6. It was agreed that in selected cases it would be desirable that joint field trips in countries of common interest be made by Eximbank and DLF, but that the decision should be made on a case-by-case basis.

7. With regard to partial or total dollar repayment on certain DLF loans, there was general agreement that the matter had to be approached on a case-by-case basis. Mr. Waugh pointed out, however, that he wished to study the whole matter further before reaching a conclusion.

8. *Flexibility of Guidelines* (Eximbank–DLF Joint Committee)

There was agreement on this paragraph.

Role of DLF in Latin America (Appendix B)³

There was general agreement on the paper as a whole, but Mr. Waugh felt he could accept it only if it applied to other areas as well as Latin America. Mr. Upton noted that the paper was designed for Latin America, though much of it would be applicable in certain other areas. Secretary Anderson suggested that the paper should be accepted as it stands with regard to DLF operations in Latin America and that to the extent it is found applicable to the rest of the world it would be so applied. This was agreed.

NAC Deputies Committee

It was agreed that the NAC Deputies Committee would continue to meet, as appropriate, to work further on the papers presented to the Council and to receive reports from the Eximbank–DLF Joint Committee on their recommendations.

³ To Document 201; not printed.

203. Letter From the President of the International Bank for Reconstruction and Development (Black) to Secretary of the Treasury Anderson

July 7, 1960.

DEAR MR. SECRETARY: I have been giving further thought to the subject of the appropriate relationship between the International Development Association and the United Nations, concerning which you requested my views.

As you know, I am strongly opposed to the creation of any Consultative Board or Advisory Committee of the kind which the U.N. Secretary General has proposed to me. I believe that the basic defect in this proposal is that such a Board or Committee would make it appear that IDA and the Bank itself were subject to political influences, and this would, in my judgment, have a seriously adverse effect upon the marketability of the Bank's bonds.

On the other hand, I have always considered that it would be necessary and desirable to establish a close and effective working relationship between IDA and the United Nations, such as exists between the Bank and the United Nations, and I would have no objection to an appropriate formalization of such relationships.

As you may know, for some time representatives of the Secretary General, the U.N. Technical Assistance Board, the U.N. Special Fund and the Bank have been meeting, every few months, to exchange information about their respective economic development and technical assistance activities, for the purpose of coordinating their programs in those fields. The meetings have proved extremely valuable, I believe, in helping to avoid duplication and overlapping of effort, and in enabling the agencies concerned to plan more efficiently than would otherwise have been the case.

A similar arrangement would, in my opinion, be equally appropriate in the case of IDA. Since the arrangement involving the Bank was developed subsequent to the conclusion of the agreement between the Bank and the United Nations,¹ it is not specifically mentioned in that document and has, in fact, never been formalized. However, in the case of IDA, I think it would be unobjectionable if provision were included in the formal agreement between IDA and the United Nations for the creation of a liaison committee, to be composed of the

Source: National Archives and Records Administration, RG 56, Records of the Office of the Secretary of the Treasury, Robert B. Anderson, Subject Files, International Bank for Reconstruction and Development. No classification marking. The source text is stamped "Noted R.B.A." and bears a July 20 handwritten notation stating it was not answered.

¹ Presumably the IBRD articles of agreement.

Secretary General of the United Nations and the President of the Bank and of IDA, or their representatives, which the Executive Chairman of the U.N. Technical Assistance Board and the Managing Director of the U.N. Special Fund, or their representatives, would be invited to join as full participants. The function of this liaison committee would be to enable the Bank and IDA to keep the other participants, and the other participants to keep the Bank and IDA, fully informed on their current programs and future plans in areas of common interest and concern, thereby assuring coordination of their activities in the fields of economic development and technical assistance. Such a provision would establish on a formal basis, and would include IDA within, the informal liaison arrangements presently in effect between the Bank and the other participants in the proposed liaison committee.

I feel confident that the Bank's Executive Directors would agree to a proposal along these lines, but there has been no occasion as yet to discuss it with them and until I do so, at the appropriate time, the suggestion I have made is necessarily a tentative and personal one.

You have indicated that the United States delegation to the current session of the Economic and Social Council may want to take some initiative in connection with this matter. I feel strongly that this would be inadvisable. In the first place, the staff of the Bank has not yet had an opportunity to discuss the problem in any detail with the U.N. Secretariat, and almost all of the U.N. officials concerned are now in Geneva. I believe that the Secretary General and his staff would take it very much amiss, and that it would cloud our relationship, if any specific proposal were advanced with my implicit endorsement before we had had a chance to clear it with them. In the second place, as I have pointed out, I have not discussed this matter with my own board and would certainly wish to do so before there were any public discussion of a position which I would be understood to have accepted. Finally, and most important, I feel sure that in the event of a United States initiative, the other members of ECOSOC would take it for granted that the proposal had been discussed with the Bank's management in advance. In a sense, therefore, by making any proposal the United States might be regarded as in effect speaking for IDA, an impression that I know we would both be anxious to avoid.

In my judgment, the proper time for this whole matter to be negotiated and discussed is the fall, after IDA comes into being, when the formal agreement between IDA and the United Nations will be drafted and brought before ECOSOC for approval. I would hope that this would be the position taken by the United States delegation at the current session of ECOSOC.

Sincerely yours,

Eugene R. Black

204. Letter From Secretary of the Treasury Anderson to Secretary of State Herter

August 2, 1960.

DEAR MR. SECRETARY: As you know, Public Law 565, 86th Congress, approved on June 30, 1960,¹ authorized the President to accept membership for the United States in the International Development Association. On July 14, 1960, legislation providing the necessary appropriation² was approved.

Accordingly, acceptance of membership by the United States is now in order. Although the Articles of Agreement provide that the institution may not come into being before September 15, 1960, in my opinion an early signature by the United States would be helpful in encouraging prompt acceptance of membership by the other countries.

The Agreement establishing the Association provides that membership shall be accepted by signing the Agreement and depositing with the International Bank for Reconstruction and Development an instrument setting forth that the United States has accepted the Agreement in accordance with its own laws and has taken the steps necessary to enable it to fulfill all of its obligations under the Agreement.

I believe it would be appropriate for me to represent the United States in carrying out these steps. This would follow the precedent under which the Secretary of the Treasury has signed on behalf of the United States the Articles of Agreement of the International Monetary Fund, the International Bank for Reconstruction and Development, the International Finance Corporation, and the Inter-American Development Bank.

If you concur, I request an Instrument of Acceptance and a document according me full powers to sign the Agreement and to deposit the Instrument of Acceptance on behalf of the United States be prepared for submission to the President for his approval and signature. A draft Instrument of Acceptance and a draft document according me full powers similar to those used for other international financial institutions are enclosed.³ I hope the full powers and the Instrument of Acceptance in final form can be made available as soon as possible.⁴

Source: National Archives and Records Administration, RG 56, Records of the Office of the Secretary of the Treasury, Robert B. Anderson, Subject Files, International Development Association. No classification marking. Drafted by Leve and Picknell on July 22.

¹ The International Development Association Act; 74 Stat. 293.

² P.L. 86-651, the Supplemental Appropriation Act, 1960; 74 Stat. 509.

³ Neither printed.

⁴ Anderson signed the Articles of Agreement and deposited the U.S. Instrument of Acceptance August 9. The Articles of Agreement entered into force September 24.

Sincerely yours,

R.B. Anderson⁵

⁵ Printed from a copy that bears this stamped signature.

205. Editorial Note

On August 4, the Department of State released a special report, "Economic Assistance as a Cooperative Effort of the Free World." Prepared in accordance with Section 413 (d) of the Mutual Security Act of 1954, as amended, the report analyzed bilateral and multilateral efforts to promote international economic development. Parts I and II of the three-part report are printed in Department of State *Bulletin*, August 22, 1960, pages 289–295.

206. Current Economic Developments

Issue No. 608

October 11, 1960.

Annual Meetings of IBRD, IMF, and IFC

The 1960 annual meetings of the Boards of Governors of the International Monetary Fund, the International Bank for Reconstruction and Development, and the International Finance Corporation, which took place in Washinton September 26–30, went smoothly. As expected, attention centered on the state of the US economy, the international balance-of-payments, and on aid to less-developed countries.

The International Development Association came into being at the beginning of the meetings, as a result of a sufficient number of countries completing the process of ratification. The IDA, establishment of which was endorsed at last year's meeting, will provide aid for

Source: Washington National Records Center, *Current Economic Developments*: FRC 72 A 6248. Official Use Only.

development projects in less-developed countries on more flexible repayment terms than have been available from international organizations.

Quite a few of the Governors from the less-developed countries pointed out that now that the IBRD's reserve against losses has passed the \$500 million mark, as against loans outstanding of less than \$3 billion, it is time to consider a reduction in the IBRD's one percent charge for this reserve. The President of the IFC recommended that the Corporation's charter be amended to permit the IFC to invest in equities. No opposition was expressed by any of the Governors. The Chairman said that the matter should be considered by the Executive Directors who would bring it before the Governors upon completion of their studies and recommendations (without necessarily waiting until the next annual meeting).

As usual, the Governors considered the annual reports of the institutions. Nigeria's applications for membership in the Bank, Fund and IFC were approved as were Nepal's applications for membership in the Bank and Fund and Sudan's for the IFC. Approval was also given to Yugoslavia's application for an increase in its quota in the Fund and in its subscription to the Bank.

[Here follows discussion of the soundness of the U.S. economy.]

Long-Term Loans to Less-Developed Countries It was emphatically pointed out by many speakers that there should be an increase in long-term loans to less-developed countries, particularly by those countries accumulating large foreign exchange surpluses, not only because of the need for such loans on the part of the less-developed countries, but also as a means of assisting in reaching a state of more equilibrium in the international balance of payments. In this context Germany was specifically mentioned by Mr. Jacobsson, and by the US Governor and alternate Governor.¹

The German response was favorable in tone and recognized Germany's obligation, but lacked specificity. Minister Erhard said that the means of raising the necessary funds for development aid is being discussed within the Federal Republic. He reiterated a statement which the Federal Government and the Central Bank made a few weeks ago that appreciation of the deutschemark was not one of the intended measures. Erhard maintained, as Germany did last year, that there needs to be better coordination of aid to less-developed countries. He remarked that the Development Assistance Group is now

¹ For text of Dillon's September 27 statement and Anderson's September 28 statement, see Department of State *Bulletin*, October 17, 1960, pp. 608-616.

established² which will lead to better reciprocal information on the resources needed and available for development aid. However, he said, two other goals Germany has in mind remain to be achieved: 1) voluntary consultations and individual development projects and 2) if the circumstances of the individual case so indicate, the combination of several suppliers of capital for joint operations. He noted that these tasks are outside the scope of the DAG, but welcomed the fact that the International Bank has made itself available for consultations on development projects to be carried out bilaterally and is already working energetically to bring about joint operations. Erhard expressed hope that there would be an expansion of these encouraging initial results.

[Here follows discussion of the International Monetary Fund.]

International Bank W.A.B. Iliff, Vice-President of the International Bank, struck several optimistic notes in his address to the Governors. He noted that in the last three years IBRD lending has almost equalled the total of its first ten years. The cumulative total of Bank lending now exceeds \$5,000 million in 53 countries. Ten years ago, its available funds came almost entirely from the paid-in capital of the US and Canada and from \$250 million in borrowed money, all of which had been raised in the American market. Five years ago, while the Bank's sources of finance had taken on a more international complexion, the paid-in subscription of the US, amounting to \$635 million, exceeded the sum of all usable subscriptions from the other members. Today, the international character of the Bank is thoroughly established. Members' paid-in capital available for lending—exclusive of the US subscription—amounts to more than \$1,000 million. Of the Bank's outstanding funded debt which now exceeds \$2,000 million, more than half is held outside the US—a very remarkable change from five years ago. Ten years—or even five years ago—it was still largely a dollar bank; today the IBRD is in every sense of the word an international bank. Its securities have been established in the money markets of Belgium, Canada, Germany, the Netherlands, Switzerland, and the UK as well as the US. Investors in more than 40 countries are holders of Bank securities. Also, the over-all financial position of the Bank continues to grow stronger. A further \$85.6 million was added to its reserves during the past fiscal year and these reserves now stand at more than half a billion dollars.

While it is not easy to look into the future, Iliff said there does not appear to be any shortage in sight of development capital prepared to move on conventional terms. The volume of private international lending and investment in foreign securities has been growing; foreign

² The Development Assistance Group, established in Paris on January 14, held its first meeting in Washington March 9–11. For text of the communiqué issued by the Group at the end of this meeting, see *American Foreign Policy: Current Documents, 1960*, pp. 329–330.

bonds publicly issued in the major capital markets during 1959 and 1958 amounted to three times the total floated in 1952 and 1953—and this exclusive of refunding operations. This expansion has been marked by an increase in the number of countries able to invest abroad, notably those countries of Western Europe which have experienced sustained improvement on domestic and foreign account. Even the recent pattern of interest rates suggests the possibility of a continuing growth in the supply of conventional development capital, according to Iliff. While attention today is directed to the recent rise in long-term interest rates in Europe, it should not be overlooked that European interest rates are significantly lower than they were in the peak of the earlier European boom in 1957. Moreover, since 1957, controls over capital movements have been eased. These are indications that the supply of capital in Europe has expanded substantially in the past three years, giving still further support to the view that capital flows to the low income countries can continue to increase.

However, the past decade has also brought some new problems which are taxing both resources and ingenuity, Iliff pointed out. The first of these is that of the new countries—those to whom national independence comes, in many instances, with little or no preparation or warning. In some of these countries we know now that the first roadblocks on the path to development are the lack of the most basic services of government, particularly adequate education. Somewhere men and women must be found, or trained, to build the very foundations without which economic and social progress cannot be built. All development agencies—national, regional and international—will have to stretch the limit of their resources and ingenuity to meet the demand. The IBRD hopes and expects to do its share, but Iliff stressed that something more than the existing forms of technical assistance is required.

The second problem arises from the fact that once a country embarks on a development program in earnest and sets out to find capital to finance it, that country can, with great rapidity, reach the point where its ability to borrow foreign capital on conventional terms is very limited in comparison with the amount it could effectively employ. Iliff pointed out that this is certainly the case with India and Pakistan today and it may already be the case of some other countries. India's external debt already creates an onerous burden on her economy and, if hard loan continues to be piled on hard loan, the service and repayment burdens will very quickly reach an intolerable level. Clearly, if the tempo of progress in the underdeveloped world is not dangerously retarded, some other forms of development financing must be made available on a substantial scale. "The free world has come to realize this and is experimenting with a whole orchestra of

novel financial instruments—bilateral and multilateral³ The objective is to get some harmony out of these instruments. The risk is that—if we are not careful—we could produce not an orchestra, but nothing more than a haphazard ensemble making quite discordant noises.”

In considering these problems one can discern a trend in the international community in the direction of greater reliance on the multilateral approach, Iliff said. Today’s trend differs importantly from similar trends in the past; the search now is not for once-and-for-all solutions to the broad problems of development; rather it is a search for solutions to specific problems—solutions which can be fitted together like pieces of a jig-saw puzzle to make a more hopeful prospect for a picture of peace and human betterment. He added that the historic transformation which is going on in the underdeveloped world today defies any general “solution”; but it does offer infinite possibilities to the practitioners of economic development. “By marrying the needs of development with international cooperation, more and more statesmen the world over are trying to make something of these infinite possibilities. Instead of searching for the elusive grand design, they are seizing on specific development opportunities and trying to use these as a means of promoting harmony and tranquility within and among nations.” In this context, he mentioned the recent Indus Waters settlement, the Indian and Pakistan consortiums, the coming into being of the new International Development Association, the formation of the Inter-American Development Bank, and the movement to amend the function and membership of the Organization for European Economic Cooperation.

International Development Association The International Development Association came into being September 26 as an affiliate of the World Bank. By that date fifteen countries with total subscriptions of the equivalent of \$626 million had met the membership requirements. If all of the members of the IBRD join IDA, its initial resources will be the equivalent of \$1,000 million, of which the equivalent of \$787 million will be available on a fully convertible basis. The first meeting of the Executive Directors of the IDA, representing its member countries, will be held later in the fall. At that time IDA will formally begin operations.

The new organization will provide development finance to the less-developed areas of the world included within its membership on terms more flexible and bearing less heavily on their balance of payments than conventional terms, thereby furthering development objectives and supplementing the activities of the IBRD. A considerable degree of flexibility is given to IDA by its Articles of Agreement,

³ Ellipsis in the source text.

both in the purposes for which it may provide finance and in the terms on which it may make loans. IDA will finance a wider range of projects than the Bank, but since both agencies will have the same management, it is to be expected that IDA will maintain the same high standard as the Bank with respect to planning, management and financing of the projects which it assists.

A unique feature of IDA is the division of member countries into two groups for purposes of subscription of funds. Subscriptions will be payable over a five-year period, and the countries in both groups will pay 10 percent of their initial subscriptions in gold or freely convertible currencies. One group—the 17 more industrialized member countries of the Bank—will pay the remaining 90 percent in five equal installments in gold or freely convertible currencies; the other group—the 51 less-developed countries—will pay their 90 percent in their national currencies, which IDA will not be free to convert into other currencies or to use to finance exports from the country concerned without its consent.

Members as of September 26 were Australia, Canada, China, Germany, India, Italy, Malaya, Norway, Pakistan, Sudan, Sweden, Thailand, the UK, the US and Viet-Nam. In addition, Ecuador, Ethiopia, Honduras, and the Netherlands have also signed the Articles of Agreement but still have to complete other formalities for membership.

International Finance Corporation In the four years since it has been in operation, the IFC, which provides capital to private enterprises in less-developed areas where private investors put in an equal amount or more, has made investments in 17 countries and has investigated projects in 17 others. As of June 30, 1960 it had made a total of 33 investments, amounting to more than \$42 million. This year saw 13 new investments in nine countries totaling \$21,747,000, with first investments being made in Argentina, Peru, Venezuela, Tanganyika, Finland and Italy.

The IFC has observed the growing interest of business and financial investors, both local and foreign, in the opportunity for private industry in the developing countries. Though aware of the obstacles and risks involved, the IFC is convinced that there are corresponding attractions and rewards. In the developing areas are growing markets, untapped raw materials and abundant labor able to acquire modern skills. For efficiently managed enterprises, potential profits are greater than in the highly competitive industrialized countries. As evidence of its conviction that the rewards can outweigh the risks, the IFC points out that it is investing in the developing areas, sharing the risks and participating in the potential returns.

The IFC notes that there is an unquestioned trend toward joint ventures under international and local sponsorship, based on growing evidence that the advantages outweigh the difficulties. It stresses that today's modern operations call not only for complicated technical skills but also for executive management capable of dealing with the more complex problems of planning, financing, taxes, labor and public relations, advancing techniques and the development of new products. Regardless of the special difficulties involved in introducing new techniques into the developing areas, IFC President Garner emphasized that "the sound principles of business and finance are the same everywhere."

Perhaps the most important problem confronting the Corporation is that of investment in equity securities. This problem has become clear only after considerable experimentation on the part of the Corporation with convertible debentures, stock options, and other techniques. To properly perform its function, the Corporation needs new tools, according to President Garner, and he is advocating that the Charter be amended so as to enable the Corporation to invest in capital stock of private enterprises.

DAG Countries Confer on Aid at Washington Meeting

The Development Assistance Group of capital exporting countries had its third meeting in Washington just after the annual IBRD-IMF meeting and, as prearranged, concentrated on pre-investment technical assistance activities for less-developed countries and the relationship of these activities to development planning and programming. Also, the country representatives informed the Group of developments in their aid policies, programs and institutions. The intention of several countries to increase their contributions to the UN Special Fund and the Expanded Technical Assistance Program was announced, and hope was expressed that the total annual resources of these two programs would soon reach the target figure of \$100 million.

The meeting, which took place October 3–5, was attended by representatives of all the members—Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Portugal, the UK, the US and the EEC Commission. Representatives of various UN and other international organizations participated in the discussion of pre-investment technical assistance. Mr. Thorkil Kristensen, Secretary General Designate of Organization for Economic Cooperation and Development (OECD), attended for the first time and stressed his desire to facilitate the transition of the DAG to a committee of the OECD to be called the Development Assistance Committee. He emphasized the importance

of consultation among the principal capital exporters to ensure that the flow of funds to the less-developed countries is both adequate and effective.

The US used the occasion to have informal discussions with other capital-exporting countries, outside the DAG meeting, on the importance of increasing Western aid to various countries, particularly the Congo and Afghanistan.

The next meeting of the DAG will be in London in the spring of 1961.

Pre-Investment Technical Assistance The main topic for discussion at this meeting was pre-investment technical assistance to the less-developed countries, and various international organizations were invited to send representatives to participate in the discussion. Represented were the UN, including its Special Fund, the Expanded Technical Assistance Program and UN regional economic commissions; the IBRD; the OAS; the IDB; the European Productivity Agency; and the Commission on Technical Assistance in Africa South of the Sahara.

The discussion centered around four topics: technical assistance for economic development policies and planning; linking the results of pre-investment technical assistance to operations of capital lending institutions; the role of national and international organizations; and coordination of pre-investment technical assistance activities. There was general agreement on the importance of having competent governmental and other institutions in the less developed countries in the field of development programming and economic policy formulation. Stress was placed on the need for integrated country development programs based on adequate resource surveys and on the shortage of qualified personnel in the less-developed countries at the planning, managerial and technical levels. The view was expressed that greater priority should be attached to intensive training programs on a local and regional basis, as well the enlargement of opportunities for training in the more advanced countries. The condition under which foreign nationals could best provide effective assistance in national planning was discussed.

Two aspects of the problem of linking the results of pre-investment technical assistance to operations of lending agencies were discussed inconclusively: the possibility of standardizing feasibility and engineering surveys and the difficulty of relating those surveys. The IBRD and DLF have not found it possible in their operations to attempt to standardize the requirements for surveys, according to the representatives of these agencies. Other delegates commented that the IBRD type activity was principally concerned with large loans for basic development purposes and did not cover the problem of smaller loans or of meeting the requirements of private foreign capital. The subject will be studied further.

The discussion of the role of national and international organizations indicated that both types of agencies have important roles to play in technical assistance. International programs frequently are more acceptable to recipient countries and more appropriate for projects which affect several countries, in countries having great political instability, or in situations where conflict is possible between political considerations and technical views. The overriding consideration is the voluntary choice of the recipient government in selection of a national or an international agency to provide assistance. The need for greater coordination between bilateral and multilateral programs was stressed.

There was agreement on the importance of avoiding competition among different agencies and duplication of work. The international agencies and DAG members agreed to cooperate towards avoiding such competition.

Throughout the discussion, the spokesmen for the international organizations emphasized the inadequacy of the present flow of aid for pre-investment activities as compared with that devoted to investment proper, the result being a significant amount of wasteful and abortive investment. They saw an urgent requirement that programs of pre-investment technical assistance should be long-term and continuing.

The consensus was that experts from DAG countries and the international organizations should meet to discuss further the questions of pre-investment technical assistance.

Other Topics The DAG discussed reports of two working parties—one on the improvement of information on financial assistance to the less-developed areas and one prepared by public affairs experts. The first deals with some modifications of the OEEC Secretariat's basic report on financial assistance provided 1956–59; proposes that further reports be prepared periodically from 1960; and contains proposals for reporting specific financial transactions by DAG members. Suggestions for improving such information were approved in the form of a resolution. The working party is to remain in existence and meet in Paris.

The public affairs experts reported that more needs to be done to increase understanding and acceptance in the DAG countries of the necessity for assisting the economic development of the less-developed nations. The growing awareness of the importance of the public information function in the various economic assistance programs is producing improvements in the quality and magnitude of information efforts directed toward domestic audiences, the people of less-developed countries and citizens of third countries. Attention was given to the need to increase understanding in member countries of the contribution to development by other member countries and to the need for information to be exchanged to this end. The difficulties inherent in

presenting the facts on aid to the people of the less-developed nations were recognized as was the need to take full account of the political and psychological problems involved.

[Here follow articles on unrelated matters.]

207. Telegram From the Department of State to the Mission at the United Nations

November 4, 1960, 6:50 p.m.

838. Re USUN 1213–1265.¹ UN Capital Development Fund.

1. USDel should try dissuade Iraq or other Dels from submitting SUNFED Resolution.

2. In efforts dissuade or if such efforts unsuccessful Del should inform Iraq and other Dels the US feels obliged vote against a UN Capital Development Fund if put to vote.

3. USDel should take every opportunity explain U.S. position fully and carefully at same time not give impression that US attempting solidify opposition or soliciting support in opposition.

4. While numerous valid and reasonable arguments in support US position well known to USDel, it is suggested in explaining US opposition to SUNFED to caucus leaders and groups of Dels from aid donors as well as developing countries following points among others may be emphasized.

(a) US traditional support of and contributions to multilateral aid programs well known.

(b) It is not additional aid machinery that is required, but more support to existing multilateral aid agencies, e.g., Special Fund and ETAP which still below target level. (Emphasize poor record of Sovs and Soviet bloc countries.) Note also many countries have not yet joined IDA; and some newly independent countries have not yet taken steps to join.

Source: Department of State, Central Files, 800.0000/11–360. Confidential. Drafted on November 3 by Gold and John Plakias, Officer in Charge of Technical Assistance, Office of International Economic and Social Affairs; cleared with Department of the Treasury; and approved and initialed for the Secretary by Wallner.

¹ Telegram 1213, November 1, transmitted the preliminary text of an Iraqi draft resolution on a U.N. Capital Development Fund. (*Ibid.*, 800.0000/11–160) Telegram 1265, November 3, reported that several delegations would not support the draft resolution on the Fund in its present form, and that a modified text might be developed instead. (*Ibid.*)

(c) IDA will be UN specialized agency; will be source of soft loans; will finance social as well as economic development of type proposed for new fund. Moreover IDA articles provide for expanding capital when this should appear desirable in light of IDA experience. Therefore, a new UN Capital Fund redundant.

(d) If UN Capital Fund established there is little likelihood that it could command substantial resources, while contributions thereto might well be at expense needed support to already established UN aid programs.

5. USDel should make clear to other delegations that if this resolution adopted US will not participate drafting Charter and US does not intend contribute to such a Fund.

6. If as reported your 1265 possibility exists of watered down version of resolution which similar to resolutions adopted at previous GA's and on which US has abstained, USDel should communicate text requesting review present instructions and possibly obtaining authority abstain again rather than vote against.²

Herter

² Telegram 1331 from USUN, November 9, transmitted suggested revisions for the draft resolution. (*Ibid.*, 800.0000/11-960) On November 25, the United States expressed its opposition to the resolution in a statement before Committee II of the U.N. General Assembly. For text, see *American Foreign Policy: Current Documents, 1960*, pp. 87–88. On December 15, The General Assembly adopted Resolution 1521 (XV), which decided in principle that a U.N. Capital Development Fund should be established. Text is *ibid.*, pp. 90–91.

208. Editorial Note

On November 17, the White House released a paper on the balance-of-payments problem. In the field of international finance, it instructed the U.S. Government to

“(b) Continue urgently to insist that the other economically advanced countries of the free world increase their share of the *long-term*, truly developmental type of financing extended to the developing countries.” (Department of State *Bulletin*, December 5, 1960, page 862)

See Document 138.

209. Telegram From the Department of State to the Mission at the United Nations

December 5, 1960, 7:30 p.m.

1054. Your 1594.¹ Delegation authorized support draft resolution including new target \$150 million combined Special Fund and ETAP. It should, however, attempt replace words "not later than for 1962 programmes" by some such phrase as "as soon as possible". Also suggest deletion words establishing separate targets for two funds in order preserve full right discretion member governments.

Delegation should make statement along following lines:

We think ETAP and Special Fund valuable high priority programs. Recognize technical assistance and pre-investment needs great and increasing. Think it reasonable to raise our sights now from \$100 million target which UN approaching to \$150 million as suggested in resolution. Would hope that governments would increase their contributions, especially those governments whose voluntary contributions fall far below what the contributions would be were they on an assessed basis. Would hope also that contributions be made available in convertible currency so that pooled funds could be used where most economical and effective. For its part, United States Government would continue, subject of course approval Congress, to give full support these programs. Statement should make clear that, by voting for resolution, it is not making commitment to increase its present percentage or dollar pledge.²

Herter

Source: Department of State, Central Files, 398.051/12-160. Official Use Only. Drafted by David Wilken, U.N. Adviser in the Bureau of Economic Affairs; cleared by Martin, Bell, Gold, Claxton, Wallner, Kotschnig, and Westfall, and with the Bureau of the Budget; and initialed for the Secretary by Bohlen.

¹ Telegram 1594 from USUN, transmitted the text of a draft U.N. General Assembly resolution urging members to increase their contributions to the U.N. specialized agencies and the International Atomic Energy Agency. (*Ibid.*)

² The General Assembly adopted a slightly revised version of the proposal, Resolution 1529 (XV), on December 15. For text, see *American Foreign Policy: Current Documents, 1960*, pp. 95-96.

210. Editorial Note

Under Secretary of State Dillon arrived in Paris on December 11 to attend a ministerial meeting of the Organization for European Economic Cooperation. At the end of the December 13 meeting, a communiqué was issued announcing the participants' intention to sign a convention establishing an Organization for Economic Cooperation and Development, which would replace the Organization for European Economic Cooperation. For text of the communiqué, which also outlined the new organization's objectives, see *American Foreign Policy: Current Documents, 1960*, pages 333–335.

The convention was signed on December 14; Dillon signed for the United States. Text of the convention is *ibid.*, 1961, pages 492–501. For text of Dillon's statement before signing, see Department of State *Bulletin*, January 2, 1961, pages 9–11.

211. Editorial Note

On January 6, 1961, Secretary Herter submitted a report to President Eisenhower on foreign policy during Eisenhower's presidency. Herter included the following among the accomplishments listed in the report's summary: participation in the establishment of the United Nations Special Fund; creation of the Development Loan Fund; efforts to encourage private investment in lesser developed countries, including the Investment Guaranty Program, negotiation of treaties creating a more favorable environment for private investment abroad, assistance to nations founding development banks and productivity centers, and participation in the creation of the International Finance Corporation; establishment of the International Development Association; and the restructuring of the Organization for European Economic Cooperation into the Organization for Economic Cooperation and Development. For text, see *American Foreign Policy: Current Documents, 1960*, pages 12–23.

U.S. MUTUAL SECURITY AND FOREIGN AID POLICY

212. Editorial Note

In a January 11, 1958, letter, President Eisenhower asked Eric Johnston, President of the Motion Picture Association of America and former Chairman of the International Development Advisory Board, to convene a bipartisan conference on the foreign policy aspects of U.S. national security. Eisenhower requested that the conference examine ways to disseminate information about this topic to the public. For text, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1958*, pages 16–17.

The President emphasized his support for the Mutual Security Program in a January 13 statement transmitting his fiscal year 1959 budget proposals to the Congress and in the Economic Report of the President, sent to the Congress on January 20. Texts are printed in *American Foreign Policy: Current Documents, 1958*, pages 12–25, and Department of State *Bulletin*, February 10, 1958, pages 228–235, respectively.

213. Minutes of the Cabinet Meeting

January 17, 1958, 9:05–10:45 a.m.¹

[Here follows a list of participants.]

This meeting was devoted almost entirely to reports by Cabinet members on steps being taken to implement 1958 programs.

[Here follows discussion of “Farm Legislation” and “Defense Legislation.”]

Source: Eisenhower Library, Whitman File, Cabinet Series. No classification marking. Drafted by Minnich.

¹ The meeting was held at the White House.

Mutual Assistance and Related Items—Mr. Dillon noted the status of recommendations and accompanying presentations to Congress for the Mutual Assistance program. He cited Eric Johnston's efforts to develop grass-roots support. He stated that the carry-over for "pipeline" purposes had been reduced from \$6 billion to less than \$3 billion this year. It will be reduced further in the next two years to a bare minimum. Mr. Dillon hoped that the Defense Department could advance the timing of its part of the Mutual Security budget preparations so that specific programs could be developed in time for Congressional presentations.

Mr. Dillon expected that problems involving the coordination of the Development Loan Fund with the Export-Import Bank would be worked out very shortly. He also noted how the slowness of other countries in submitting detailed applications for loans had held back the program.

Mr. Dillon pointed to the need for giving attention to the problem of the mounting level of local currencies held by US citizens, a matter causing difficulty for both P.L. 480² and Mutual Assistance activities. He indicated that State might soon recommend the establishment of a Cabinet-level Committee on this.

The President again expressed his concern with the problem of providing almost unlimited amounts of local currencies to traveling Congressmen and their staffs. Mr. Herter stated that the Executive Branch had no discretion in this matter for which the responsibility rested squarely with the Congress. The President asked that the matter be reviewed, particularly as to any Executive responsibility for stating publicly the amounts disbursed.

[Here follows discussion of "Reciprocal Trade Legislation" (see Document 63), "Scientific Cooperation and Research," "Education," "Labor Legislation," "Special Messages," "Preparation of Draft Legislation," and "1958 Operation Alert."]

LAM

² The Agricultural Trade Development and Assistance Act, enacted July 10, 1954, as amended. (68 Stat. 454)

**214. Memorandum for the Record by the President's Assistant
(Harlow)**

January 30, 1958.

At 1:00 p.m. on January 27 the President gave a luncheon in the State Dining Room for the persons indicated on the enclosure.¹

At 2:00 p.m. the President opened the discussion, explaining that the general idea of the luncheon was to develop public support for the Mutual Security program, then asked Mr. Eric Johnston to explain the matter more fully to the group. Mr. Johnston stated that he would like to have the Vice President first make a few remarks and then hear from Clarence Randall inasmuch as the group would be meeting with him after the luncheon and would get his views at that time.

The Vice President said that as far as this group was concerned very little could be said that they did not already know. He pointed out that there is no problem whatsoever in getting adequate funds for the military side of the Administration program but that there will be real difficulty on the economic side. The reasons for this difficulty, he said, are political and lack of understanding—political because this is an election year, and therefore a time when defense can be supported and foreign aid cut, and lack of understanding because the public has been inadequately informed. He said it is of great importance, therefore, that we make it absolutely clear to the American people that mutual security is an essential part of the nation's defense and of our armed strength. He stated the Administration will take that position and has done so in the past, but that this concept is very difficult to get across. He mentioned Korea (citing the casualties and national treasure invested there) and Afghanistan (citing Soviet economic penetration) as examples of critical areas dependent upon United States economic programs. He placed India, Africa, and Latin-America in the same category, saying that our national objective is to maintain their independence which in turn is the greatest enemy to world communism.

He stressed how difficult it is to get this concept across to millions of people in the country so that Members of the Congress who themselves acknowledge the need for these programs will be able to support them without facing political reprisal for doing so.

Mr. Randall first thanked Eric Johnston for the luncheon and the group for coming to it. He said he could scarcely comprehend the attitude of the business community in respect to the nation's foreign economic requirements. He said the businessmen willingly accept the

Source: Eisenhower Library, Whitman File, Eisenhower Diaries. No classification marking.

¹ Not printed.

spending of hundreds of millions for added defense but rebel at giving the defense effort a foreign economic foundation to make it work. He pointed to the drive for cutting the budget six months ago as contrasted to the present zeal for more defense spending. He, too, said that it is principally a matter of lack of understanding, observing that every businessman who comes to Washington into a responsible Government position becomes a firm supporter of these programs once he has really grasped their meaning.

Mr. Randall then mentioned that he had just returned from a trip abroad. He pointed out that Laos and Cambodia are places that most businessmen can't even identify on a map, yet they are the granary of Asia and should they fall to communism, the free world would lose Taiwan, Korea and the Philippines, forcing our defenses back to the Hawaiian Islands. As regards allegations of waste and inefficiency, he said these are almost always a distortion of fact—and pointed anyway to the fact that every great organization makes periodic errors (citing Ford and Inland Steel) yet does not discontinue the needed activity merely because some error has been made. He then stressed the economic threat of the Soviet Union and said that Sputnik is perhaps a "celestial red herring" to divert American attention from the economic warfare being waged and to thrust us into an over-accentuation of military programs. He cited the vast natural resources of the underdeveloped nations and their great potential value as markets for U.S. products, and mentioned the possibility of the Soviet Union deliberately undertaking a program to dislocate the markets of the free world by selling below cost, using 2-1/2% loans for 40 years, and other such measures. He concluded by calling upon the business community to get strongly behind these programs.

Mr. Johnston then asked Under Secretary Herter to comment. Mr. Herter mentioned an instance in Charlotte, North Carolina, where after speaking to a group there and stressing the fact that since World War II 20 new nations have been born, a lady asked him why the United States let them get away. This, he explained, is clear evidence of the total lack of understanding of the basic world problems facing America. This situation, he said, is what Congressmen face at home, so that clearly the most critical need is to help Congressmen have informed constituencies who recognize the need for these programs.

Mr. Johnston then asked Mr. William Foster² to comment. Mr. Foster took exception to the "celestial red herring" figure of speech used by Mr. Randall, saying that America is thrust today into total war and that Sputnik has grave meaning in itself and therefore is no red herring. He said that one of the important parts of this total war is in the economic area but that on Capitol Hill there is grave difficulty

² Executive Vice President, Olin Mathieson Chemical Corporation.

unless the general public better understands the true nature of the threat and the measures that must be taken to counter it. He cited economic assistance in Europe as an example of success, and mentioned that most of the money is spent at home, not abroad, but that the "give-away" tag is very hard to counteract in the public mind.

The Vice President observed that Mr. Foster was Acting Chairman of the Gaither Report³ and that emphasis on these economic programs was included as a Gaither Report recommendation. Mr. Foster responded that he was not at liberty to comment on the contents of the Gaither Report.

Mr. Johnston then asked Director Smith to comment. He said he was happy that the group had assembled because he obviously would be its beneficiary. He pointed out that he spent some three or four years working on weapons of destruction and only recently entered the economic field. He said that he is now more alarmed than he was when he was working on weapons and is deeply convinced that America's economic programs must be moved forward as quickly as possible.

Mr. Johnston mentioned a letter he had received from the United States Representative in Burma, written from Rangoon where there has been a rice crop failure causing great economic distress in Burma. He said loans are being made by Red China and Russia, with Red technicians also entering the country. The U.S. representative said that the Reds are thereby making great strides in Burma. Mr. Johnston said that American businessmen must understand the deep significance of such a development and cited Western Europe and West Berlin as examples of lucrative trade areas saved for free enterprise through economic programs of the past.

Mr. Johnston then said he would give the group a brief outline of the program that would be proposed in his office after the luncheon. He said that Foster Dulles, Allen Dulles, and Mr. McElroy, amongst others, would speak to this group, followed by a luncheon, the afternoon being devoted to a panel discussion open to questions from the floor. That evening the President is to make a foreign policy address to the nation. On that occasion the leaders of both political parties and other public figures will be at the head table. This will be followed by an extensive TV-radio educational campaign, plus newspaper and magazine articles and special pamphlets. He said the object is to elicit discussion at the grass roots, that it is a wholly non-partisan effort

³ The Report to the President by the Security Resources Panel of the ODM Science Advisory Committee on Deterrence and Survival in the Nuclear Age (Gaither Report), November 7, 1957, is printed as NSC 5724 in *Foreign Relations, 1955-1957*, vol. XIX, pp. 638-661. The report is named for the Panel's first Director, H. Rowan Gaither, Jr.

devoted to making it possible for Congressmen to support the program without facing political defeat. He said it is a crash effort—"a grand effort not a puny one."

The President then said he had one question to pose to the group as representatives of their particular element in American society. He said he might fairly be classified now as a politician. Those present, he said, as businessmen are not political. He said that he had asked, as President, some businessmen to help in such programs as this and had found in them exactly the same instinctive reaction against foreign assistance as the uninformed had. Then, however, he mentioned George Humphrey, saying that when Humphrey first entered the Cabinet he was strongly opposed to foreign assistance but, being a man who saw great virtue in facts, soon conceded, after learning the facts, that these programs had to be done. Humphrey said, the President commented, that while we must indeed carry out these programs, let's just be careful in doing so.

The President then asked why it is that businessmen who come to Washington are strongly in support of these programs when they leave. He said most businessmen just haven't studied the problem, even though it is likely to be the critical question of this generation.

The President offered one additional thought: he said the Vice President commented that the Congress is always ready to furnish needed military funds. Nothing, he said, could be more untrue, looked at from the standpoint of history. Then he said that six months ago the Congress was a group of great economizers and cut the budget. The object, the President said, was political benefit. Then he stressed that this is not a political proposition. With the same threat in the world, why the sudden change in the Congress? Reason: because of the heat that comes on the Congress from the States. He said that when Eric Johnston told of the Senator who knows these programs are needed but opposes them for political reasons, he almost wanted to put his napkin over his face. He said he couldn't understand how any man of responsibility could do such a thing—but if this is the situation in America, then we must build a public sentiment that will assure backing for such people to support the program. This, he said, should be the responsibility of all businessmen and every American. He said we cannot have prosperity without security and that we must have friends abroad with whom to trade. He said he could not overemphasize his feeling of deep conviction on this matter and while he thought no one at the table needed convincing, yet he thought they should get their friends to proselyte their friends and bring about in the country a renaissance of conviction and determination to carry through these programs. That kind of effort, he said, will be far more influential than

any sponsored by political persons. He said that he didn't care who got elected by undertaking this great enterprise; it is totally for America, regardless of party.

Mr. Johnston then invited the group to come to his office for an hour's meeting. The luncheon adjourned at 2:45 p.m.

BNH

215. Editorial Note

On February 19, President Eisenhower sent the Congress a message outlining his fiscal year 1959 appropriations request for the Mutual Security Program. For text, see *American Foreign Policy: Current Documents, 1958*, pages 1557–1563. On February 25, Eisenhower and Secretary of State Dulles addressed the Conference on the Foreign Aspects of United States Security, which had been convened at the President's request. For texts of their statements, see Department of State *Bulletin*, March 17, 1958, pages 411–417. An internal, classified Department of State publication noted that Eisenhower's and Dulles' activism on this issue was part of an administration effort to garner congressional support for the Mutual Security Program. (*Current Economic Developments*, no. 540, March 4, 1958, page 15; Washington National Records Center, *Current Economic Developments: FRC 72 A 6248*)

216. Memorandum From the Representative at the United Nations (Lodge) to President Eisenhower

Paris, February 21, 1958.

SUBJECT

Economic Aid Abroad

1. The well-advertised Soviet silo in Afghanistan, filled with grain from the U.S. (which is not advertised), tells a story. So does the fact that in both India and Iran officials want our economic projects to be such as to get the U.S. more credit. My first recommendation, therefore, is that *a small percentage of funds be earmarked for projects which will make a definite and favorable impact on the mind of the man in the street*. A policy of “no bricks and mortar” is erroneous because bricks and mortar which provide a medical school, for instance, are good public relations. The Russians have gone so far as to donate busses and taxi cabs in Kabul and the fact that they paved the main road to the airport is well known.

2. Economic aid is today the most crucial field in which we are contesting with the Russians. Because it is the most direct way into men’s minds, we should do whatever needs to be done to win this contest.

This much having been said, it should then be set down that *our programs should not arouse expectations which cannot be fulfilled*.

In the Orient, over the centuries, man has become adjusted to the prevailing state of affairs, with all its hardships, dangers and diseases, and has relied on religious beliefs to sustain him. It is justifiable to upset all this if by so doing a true improvement is created. But it is wrong to upset it if one problem is merely to be followed by another.

If, for example, you train young men as engineers and then put them to work building power plants, you have made a net gain for everybody. But, if, on the other hand, you train young men to be lawyers and they then are unable to find work, you have merely created a particularly dangerous and unscrupulous kind of agitator. The Communist victory in the Indian province of Kerala was due partly to the apathy of the members of the Congress Party, but a

Source: Department of State, Presidential Correspondence: Lot 64 D 174. Secret. Initialed by Lodge who left New York at the end of January to visit Iran, Pakistan, Afghanistan, and India. The source text was attached to a covering letter from Lodge to the President transmitting reports on his trip.

fundamental cause was the fact that this State had the highest literacy of any state in India (75 per cent) and that it therefore had a large number of educated people who had no jobs.

The adoption of a policy of not arousing expectations which cannot be fulfilled, when this can be done consistent with our struggle with the Soviet Union, would not only be right, it might also save us money.

3. *Foreign aid should be pledged over a long period of time rather than on a yearly basis.* You get a bigger effect by pledging a large amount over many years than you do by pledging on a yearly basis, even though the large amount divides itself up into smaller annual amounts than you pledge annually. The public relations effect of a pledge over several years is much better, and is also cheaper.

4. In all countries—and particularly in those which are closely allied to us—we are under constant pressure to give more and more. Our officials who are on the spot must be fighting these demands, which is a most unpleasant occupation and which also does not increase our popularity. *Handling economic aid on a multilateral basis takes us "off the spot."* The most destructive political position is that of saying "No" all the time. It is better for us to have the UN or some other organization say "No." The multilateral method, if it ever became a going concern, is a way out of the present dangerous competition with the Russians.

5. I was much impressed with the high caliber of the ICA personnel in all the countries visited. I also thought the UN Technical Assistance people were doing very helpful work.

6. *The new UN Special Projects fund for Undeveloped Regions¹ is being welcomed in these countries.* They see it as a way to get inventories of natural resources. The creation of this fund has finally convinced some of these officials that capital development cannot be undertaken until there is a real inventory. This therefore tends to postpone demands for capital development, which is one of the arguments I made to Secretary Humphrey for such a fund several years ago. In Afghanistan, for example, it is understood that private capital will not presently interest itself in developing oil or uranium resources, for example, until an aerial map has furnished some guide to the lines which development should follow.²

¹ Established by U.N. General Assembly Resolution 1219 (XII), December 14, 1957; for text, see U.N. doc. A/3805.

² Lodge briefly repeated these comments at the March 7 Cabinet meeting. (Minutes of Cabinet Meeting; Eisenhower Library, Whitman File, Cabinet Series) At Dulles' request, he also prepared a brief paper on March 20 amplifying his report to the President. (Department of State, Central Files, 700.5-MSP/3-1958)

217. Editorial Note

Participants at the April 22 legislative leadership meeting discussed a proposal to separate military assistance legislation from economic assistance bills:

*“Mutual Security—*After Rep. Chipfield’s comment on the likelihood of a Committee reduction in the authorization of approximately \$400 million, and Rep. Vorys’ statement of the question over separate economic and military assistance bills or a single bill, Mr. Dillon said that the Department’s attitude on the latter was to be neutral and willing to accept whatever the Committee decides. He emphasized, however, that the money request had been drawn very tightly and that a reduction of \$100 million, or perhaps \$200 million at the outside, would be the most the program could stand. In further discussion several Leaders thought a single bill most desirable since it thus precluded the need for fighting the battle on two occasions instead of one, and also allowed the strong points of the economic program to aid passage of the military program and vice versa. Speaker Martin suggested that the Department furnish statistics on domestic benefits that result from the program.

“The President stated firmly his belief that it was more important to put adequate funds into this program than to keep searching for new ways to put more money into the defense complex.” (Notes on Legislative Leadership Meeting; Eisenhower Library, Whitman File, Eisenhower Diaries)

218. Memorandum of Discussion at the 365th Meeting of the National Security Council

May 8, 1958.

[Here follow a paragraph listing the participants at the meeting and agenda items 1–4.]

5. *U.S. Security Effort Overseas, FY 1958 and FY 1959* (NSC Action No. 1828; Memos for NSC from Executive Secretary, same subject, dated March 4 (and references listed therein) and April 29, 1958)¹

Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Gleason on May 9.

¹ Taken December 12, 1957, NSC Action No. 1828 instructed the Department of Defense and the Joint Chiefs of Staff to report to the Council on the feasibility of preparing a study on U.S. military assistance programs for the period 1960–1965. For text, see *Foreign Relations, 1955–1957*, vol. XIX, pp. 708–709. Lay’s March 4 memorandum transmitted the feasibility study. (Department of State, S/P–NSC Files: Lot 62 D 1)

Continued

General Cutler briefed the Council on the Planning Board's proposal, which he described as a "look-ahead" to see what would be the trends through June 30, 1962. (A copy of General Cutler's briefing note is filed in the minutes of the meeting, and another is attached to this memorandum.)²

Secretary Quarles expressed the opinion that the Planning Board's new proposal brought the problem down to dimensions which the Defense Department could handle, particularly if the State Department would furnish Defense with the political and economic assumptions upon which to base the study. Secretary Herter agreed on the great value which the State Department would place on the proposed study. He pointed out that in providing the political and economic assumptions, the State Department would be obliged to resort to the crystal ball.

*The National Security Council:*³

a. Noted and discussed the memorandum from the Acting Secretary of Defense on the subject and the views of the Joint Chiefs of Staff attached thereto, prepared pursuant to NSC Action No. 1828-b and transmitted by the reference memorandum of March 4, 1958; in the light of the comment and recommendation of the NSC Planning Board thereon, transmitted by the reference memorandum of April 29, 1958.

b. Agreed, as recommended by the NSC Planning Board subject to amendments proposed at the meeting, that, assuming a continuation of approved basic national security policy:

(1) The Department of Defense and the Joint Chiefs of Staff be asked to submit, not later than September 1, 1958, a report to the National Security Council on the kind of force posture (missions, major force levels, and major types of armament by service) thought to be desirable as of June 30, 1962, for those nations (approximately 15) which, under military assistance which is contemplated from funds requested for FY 1959, would receive the major dollar portion of such assistance or advanced weapons systems; supplemented by brief mention of other nations which it is contemplated would receive such assistance.

(2) The Department of State be asked to submit, on or before June 1, 1958, to the Department of Defense, the political and economic assumptions upon which such a report should be based.

His April 29 memorandum transmitted the Planning Board's comments and recommendations on the study. (*Ibid.*)

² Not printed.

³ Paragraphs a and b and the note that follows constitute NSC Action No. 1908. (Department of State, S/S-NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

Note: The action in b above, as approved by the President, subsequently transmitted to the Secretary of State for implementation of b-(2), and to the Secretary of Defense and the Chairman, Joint Chiefs of Staff, for implementation of b-(1).

[Here follows agenda item 6.]

S. Everett Gleason

219. Editorial Note

In May and June, the White House and the Department of State closely followed congressional action on the administration's Mutual Security appropriations request. The House Foreign Affairs Committee reported the authorizing legislation, H.R. 12181, on May 7. H.R. 12181 cut \$339 million from President Eisenhower's Mutual Security budget, including \$100 million from the President's Contingency Fund; for text, see U.S. House of Representatives, Committee on Foreign Affairs, *Selected Executive Session Hearings of the Committee, 1957–1960*, volume XIX, *Mutual Security Program, Part 6* (Washington, 1987), pages 789–820. At the May 13 legislative leadership meeting, Under Secretary of State Dillon stated he hoped the Senate would authorize the full \$200 million requested for the Contingency Fund; "it might then be possible to salvage \$150 million in Conference." In response to comments on the inadvisability of separating military and economic assistance appropriations, Eisenhower "emphasized that both programs were devoted to a single purpose: the security of the United States." (Supplementary Notes; Eisenhower Library, Whitman File, Eisenhower Diaries)

The House of Representatives passed H.R. 12181 and sent it to the Senate May 14. Senators Wiley and Smith reported at the May 19 legislative leadership meeting that the Senate Foreign Relations Committee was inclined to restore the full amount of the President's request to the Mutual Security Program. Senator Knowland, however, believed the situation in the full Senate was less favorable. The President reiterated his belief that cuts in the defense budget were preferable to reductions in Mutual Security. (*Ibid.*) On May 23, the Senate Foreign Relations Committee voted to restore \$110 million to the bill, still \$229 million less than the President's original request. The Committee also approved amending the Mutual Defense Control Act of 1951 (Battle Act) to permit aid to any country except the Soviet Union,

People's Republic of China, or the Democratic People's Republic of Korea. (S. Rept. 1627, Eighty-fifth Congress, Second Session, May 26, 1958)

The need for maximum Senate support for the Mutual Security Program was restated at the June 5 legislative leadership meeting. It was also noted that the administration favored increased flexibility in administering the program, but felt amendment of the Battle Act should be handled in separate legislation. (Letter from Minnich to Stans; Eisenhower Library, Whitman File, Eisenhower Diaries) That day the Senate deleted the Battle Act amendment from the Mutual Security bill. The following day, it adopted the bill with some amendments from the floor; total funding for the program remained at the level the Foreign Relations Committee had recommended, however.

Senate and House conferees reported a compromise version of H.R. 12181 on June 26, providing \$3,031,400,000, \$266.5 million less than the President's request. (H. Rept. 2038; for text, see U.S. House of Representatives, Committee on Foreign Affairs, *Selected Executive Session Hearings of the Committee, 1957-1960*, volume XIX, pages 946-977) That day, Jack Z. Anderson, Eisenhower's Administrative Assistant, briefed the President on the progress of the Mutual Security appropriation legislation, H.R. 13192. At 11:35 a.m., he gave Eisenhower a memorandum outlining cuts the House Appropriations Committee had made in the bill (Eisenhower Library, White House Office Files, OF 133-L, 1958), and noted the Department of State had suggested the President telephone Congressman Martin and Speaker of the House Rayburn to request their support for restoring the funds. (Memorandum from Anderson to Whitman; *ibid.*, Whitman File, Eisenhower Diaries) Eisenhower informed Anderson at 12:13 p.m. that both Martin and Rayburn "had agreed to go to bat" on H.R. 13192. The President also recommended that Anderson call Rayburn and discussed having the Secretary of the Treasury do so as well. (Memorandum from Anderson to Whitman; *ibid.*)

Anderson reported at 8:27 the following morning that Rayburn had been unsuccessful in his attempts to change members' minds, but was continuing his efforts. (Memorandum from Anderson to Whitman; *ibid.*) Later that day, the House Appropriations Committee reported H.R. 13192, having cut \$872 million from the President's request. (H. Rept. 2048, Eighty-fifth Congress, Second Session) Eisenhower released a statement emphasizing the importance of these funds and describing himself "deeply disturbed" by the Committee's action. "It is my hope and belief," he concluded, "that this action of the House Appropriations Committee will not be the final action of the House of Representatives or of the Congress." For text, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1958*, page 508.

On June 27, the House and Senate also passed the compromise authorization legislation. H.R. 12181 thus became P.L. 85–477, the Mutual Security Act of 1958, which Eisenhower signed June 30. For text, see *American Foreign Policy: Current Documents, 1958*, pages 1566–1583.

220. Supplementary Notes of the Legislative Leadership Meeting

July 1, 1958, 8:33–10:35 a.m.¹

Mutual Security—An extensive discussion covered Republican and Democratic attitudes in the House, the need for extensive public support, and from the Administration viewpoint the importance of the program to resisting Communist inroads abroad. The President cited the two hour conversation he had had the day before with the Shah of Iran.² The Shah made very clear what could happen from Communist inroads if the free world didn't maintain its efforts. Given time, the Shah would have the Iranian economy in sufficiently good shape to withstand communism on its own. The fact that there was at least this much encouragement was strictly the result of our mutual security assistance in past years. Not to be forgotten was the strength of the Communists in Iran only five years before. But, said the President, it's disheartening to work so hard with a country only to have the Appropriations Committee threaten to wreck the effort.

Sec. Dulles stressed that no areas of the globe had been lost to Communism since 1952, but that happy situation could well change if the House Committee cuts were allowed to stand. The U.S. would not be able to put funds into each of the critical areas. It would be almost serving notice that we would have to take some losses.

Sec. Dulles felt that once Republicans forced the issue on the important points, the Democrats would have to give some support.

Source: Eisenhower Library, Whitman File, Legislative Meetings. Confidential. Drafted by Minnich.

¹ The meeting took place at the White House. The time of the meeting is taken from the President's Daily Appointment Books. (*Ibid.*)

² A memorandum of this conversation is scheduled for publication in volume xii.

When mention was made of Rep. Passman's effective allegations of waste in Laos, a situation which had long since been corrected, the Vice President commented that if it hadn't been for similar "waste" in Iran some years ago, the Shah would not be visiting the United States today.

Rep. John Taber pointed out that on various critical votes taken in Committee, the most support forthcoming from the Democrats was seven votes out of thirty, whereas as many as thirteen Republicans out of twenty supported the President's request. He thought Speaker Rayburn was playing the same old game as last year and would deliver the Democratic votes against the restorations. Mr. Taber said that Rep. Rooney was doing his best for the program, but it was not good enough.

At issue were three things: (1) a \$75 million increase in defense support, (2) increasing the Development Loan Fund from \$300 million to \$500 million, and (3) increasing the President's contingency fund by \$55 million. Approval of all three would still be \$545 million short of the President's request.

Rep. Arends said he had begun a poll of Republicans, and thus far it had shown a majority of responders favoring the first but not the other two.

The President said he was really frustrated when one Appropriations Committee action was to push an unwanted billion dollars at him while another was to take away desperately needed funds.

Rep. Vorys pointed out that Rep. Tom Morgan was lobbying his colleagues on the Foreign Relations Committee to support the bill but would not commit himself.

The Vice President feared that at least two of our Latin American neighbors would be oriented within two years towards the Soviet bloc unless we got the Development Loan Fund Money to assist in their projects. The President added that he had heard from a number of businessmen that investments of private capital abroad would slow up unless the Federal government effort also continued.

Much attention was given in the discussion to the possibility that the Eric Johnson Committee would be able to encourage Congressional support.

The President said he would invite Mr. Rayburn for breakfast or lunch for a discussion of the matter.

As for Senate action, Sen. Knowland foresaw some difficulty, since the Senate cannot be expected to appropriate the full amounts approved in the authorization bill. Sen. Saltonstall noted that the toughest opponents of Mutual Security are right in the Appropriations Committee. Sen. Bridges stated his concurrence in this discouraging outlook, but Sen. Dirksen said he was always optimistic and felt that most of the funds could be restored. He believed much could be done

by a tough approach in Conference. Sen. Knowland thought it would be helpful to Senate leaders, especially in Conference, if the level of appropriations made by the House could be gotten somewhat above the Committee proposal, even if this meant having to settle for something less than was being tested in the poll.

Rep. Jos. Martin summarized the discussion as showing the need for some fighting statements from the top leaders and for lining up all the individual votes that could possibly be obtained.

The President concluded the discussion by inviting the Leaders to call him at any time, night or day, if they saw any additional way he could help.

[Here follows brief comment on the economic situation.]

LAM

221. Editorial Note

Throughout the summer, the Eisenhower administration continued to monitor the progress of fiscal year 1959 Mutual Security legislation and to campaign aggressively to restore funds previously cut by the Congress. Secretary of State Dulles commented during a July 1 press conference and President Eisenhower also made a statement on the risks of an inadequate Mutual Security program at a press conference the following day. For texts, see *American Foreign Policy: Current Documents, 1958*, pages 1583–1584. The House of Representatives nonetheless adopted H.R. 13192 that day without restoring the \$872 million it had cut from the President's request. The reductions included cuts in military assistance, defense support, the Development Loan Fund, special assistance, and the President's Contingency Fund.

Action on H.R. 13192 then shifted to the Senate. On July 8, Under Secretary of State Dillon testified before the Appropriations Committee, and Dulles testified July 18. Texts of their statements are *ibid.*, pages 1597–1603 and 1584–1588, respectively. The White House continued consulting with congressional leaders; Eisenhower informed Dulles on the morning of July 16:

"We had quite a conf on MSA and Dillon was there but one important thing happened after he left. The Pres made an eloquent plea. Bridges said as much as he admired Smith etc. his year-round Congressional liaison was poor and people were working in ignorance. The Pres asked Dillon to help out because it should be coordinated with us. After Dillon left the subject was still discussed and he

read the cable from the 3 and it made a terrific impression and finally Saltonstall said if you believe these funds should be increased he would suggest promptly asking for the authorization bill to be beefed up to what you requested. Say it was made on a minimum estimate and should now be increased. No matter what the Sen Approp Bill is if you can get it up the Fin Comm would give you a better deal. The Pres said we might send a quick message to both Houses. It might not be received well but we could clear first. Bill said he did not know for sure." (Memorandum of telephone conversation; Eisenhower Library, Dulles Papers, White House Telephone Conversations)

The cable under reference has not been further identified. "Bill," whom the President quoted in the last sentence, is presumably Senator William Knowland, the only William to attend this legislative leadership meeting. (*Ibid.*, President's Daily Appointments)

222. Minutes of the Cabinet Meeting

July 25, 1958, 9 a.m.¹

[Here follows a list of participants.]

Mutual Security—Adding this item to the agenda, the President marked this legislation—along with reciprocal trade and Defense reorganization—as his three prime interests this year. He felt strongly that the country simply cannot continue to throw additional money into things where there is no real need and fail to provide those things that can do a tremendous amount of good. Since the mutual security appropriation was about ready to be marked up in the Senate Committee, he asked every member of the Cabinet to do what he could with his friends on the Hill toward getting the highest possible amount approved by the Senate so that the low House figure could be counteracted for Conference purposes and a reasonably high final appropriation be obtained.

The President said that he might be putting out a public statement about this if it could first be determined that the Congressional leaders would not regard such a statement as undercutting them and being a basis for a charge of lobbying that would hurt rather than help the bill.

Source: Eisenhower Library, Whitman File, Cabinet Series. Confidential. For another portion of this meeting, see Document 13.

¹ The meeting was held at the White House.

Sec. Benson asked for some coordination as regards who should talk to whom, and the President directed Gen. Persons to provide it. Sec. Weeks requested a briefing memorandum so that Cabinet members could talk knowledgeably and Under Sec. Dillon stated that one would be forthcoming promptly. The President suggested that Mr. Dillon might get available members of the Cabinet together for a briefing session if he could spare time from his pressing work on the Hill.

[Here follows discussion of other matters.]

223. Memorandum From the President's Administrative Assistant (Anderson) to the President's Personal Secretary (Whitman)

Undated.

Conference—August 15, 1958—11:24 to 11:58 a.m.

The Vice President, General Persons, Secretary Dillon, Bryce Harlow and I conferred with the President on the current status of the Mutual Security program.¹

Bryce detailed the recent conversations he had with Clarence Cannon, John Taber and others. He emphasized the fact that Cannon is the key vote as far as the House conferees are concerned, and although Taber has promised to confer with him, he has not yet had the opportunity and consequently we have no report.

The President as usual emphasized the need for adequate funds, not only for MSA, but to carry out his recent commitments in his speech to the General Assembly of the United Nations Organization,² indicating that the two are tied closely together. The President stated that he hoped Lyndon Johnson might rise to the height of real statesmanship and suggest to the Senate that they provide not only the \$440 million reported by the Appropriations Committee, but provide all the funds contained in the authorization bill. Bryce and Dick Nixon will check this out with Johnson.

Source: Eisenhower Library, Whitman File, Eisenhower Diaries. No classification marking.

¹ The Senate Appropriations Committee reported H.R. 13192 on August 5, having restored \$440 million to the Mutual Security appropriations.

² For text of Eisenhower's August 13 address, see *American Foreign Policy: Current Documents, 1958*, pages 1032–1039.

There was also some discussion about the advisability of having the President invite the four key Senators and key Congressmen to an "Off the Record" meeting at the Mansion. This was left in abeyance pending further discussions.

J.Z.A

[Attachment 2]³

SUMMARY

1. *New Developments.* Since the House action on the Mutual Security Appropriations Act, the revolt in Iraq⁴ has created the possibility that country will withdraw from the Baghdad Pact. This would weaken the military position of Iran and Turkey, and therefore of the entire free world. To compensate for this will require additional expenditures in this area from military assistance and additional defense support for Iran. The new stabilization program in Turkey, vital for the position of the free world, will require additional economic assistance to that country. Economic dislocations in the area will require double the previously planned assistance for Lebanon and Jordan, and may require more support for countries like Greece, Pakistan, Israel, Ethiopia, the Sudan and Afghanistan. The total of the new requirements now foreseen amounts to about \$350 million.

2. *Funds Available.* Such new requirements cannot be met through the \$8,278 million "available for expenditure". Of these funds \$5,142 million are *already obligated or reserved for previously determined needs*. Based on the action of the House, the only funds available to carry the Mutual Security Program forward are \$3,135, consisting of \$3,078 in new appropriations and \$57 million in the carry over of old funds. While the entire \$8,278 remains to be spent, it is not all available for use. The \$5,142 which has been obligated or reserved is to pay for orders of items of assistance which are still needed. The use of these funds would leave a gap in some previously determined need and would not assist in carrying forward the program.

3. *Transfer Authority.* The new situations described under (1) above cannot be met through the use of the ten percent transfer authority. As pointed out in (2), this authority would only have meaning with respect to the \$3,135 in funds available for carrying the program forward. The transfer authority can also only be used if some

³ No classification marking. Prepared in the White House. Attachment 1, consisting of 2 pages of charts presenting an analysis of reductions in Mutual Security appropriations, is not printed.

⁴ Reference is to a July 14 coup d'etat during which King Faisal, Crown Prince Abdul Ilah, and Prime Minister Nuri el-Said were assassinated and a republican government established under General Qassim.

category of aid contains sufficient resources that part of these resources can be withdrawn without serious damage to the program. In view of the cuts already made, and the new requirements for additional assistance which now exist, such a situation does not prevail.

4. *Levels of Aid.* The Executive Branch considers that the appropriation of the full \$3,518 in the Senate bill is essential if we are adequately to maintain the security position of the free world and support the foreign policy objectives of the United States. This figure will require serious reductions in planned levels of aid; any lesser figure would represent a far more costly gamble with our security and might in the long run amount to greater expenses for the American taxpayer. A compromise between the Senate and House, which might put \$100 million into the Development Loan Fund, \$75 million into Defense Support, and \$45 million into the Contingency Fund would have the following consequences:

a. *Development Loan Fund.* During the first six months of actual operation, the DLF used funds in the amount of \$283 million. Maintenance of this rate would require the \$580 million recommended by the Senate Committee. A \$400 million figure would mean less development assistance than was given in FY 57 and a 31 percent reduction in the rate of the DLF this past half-year. Alternately, if the DLF for reasons of national security continued at the present rate, all funds would be exhausted by about March and it would be necessary to seek a supplemental appropriation.

b. *Defense Support.* A compromise figure of \$775 million would represent a reduction of \$60 million in the President's request. New requirements already identified mean that in effect a reduction of about \$85 million would have to be absorbed in the programs of South Asia and the Far East. With the Communist Chinese moving MIG 17's to the mainland coast opposite Taiwan, it would seem foolhardy to reduce our support for those countries which border on Communist China: Korea, Taiwan and Vietnam. Yet these programs will have to be reduced under the \$790 figure of the Senate. Any further reductions would be reckless folly on our part.

c. *Contingency Fund.* Requirements have already arisen in this fiscal year which will use \$65 million in the Contingency Fund. Under the House figure, this would leave the President only \$35 million—obviously inadequate even to last until January. The Senate figure would leave \$90 million. Resources of this magnitude would seem to be the minimum margin to last until Congress reconvenes, at which time further action could be taken if the situation indicated that such action was necessary.

d. *Special Assistance.* The compromise figure suggested in (4) above would provide no increase in the figure of \$185 appropriated by the House. This figure represented a cut of \$27 million from the amount requested by the President in aid which was planned for such countries as Jordan, Ethiopia, Morocco, Tunisia, Libya in the Middle Eastern region; a program in Bolivia which is important to our whole

Latin American policy; and the world-wide program of malaria eradication. None of these countries appears able to absorb a proportionate cut of \$27 million without serious damage to its economy.

224. Memorandum by the President's Administrative Assistant (Anderson)

August 19, 1958.

*Meeting on Mutual Security Legislation at the Mansion, Tuesday, August 19, 1958—6:00 to 7:00 p.m. (Off the Record)*¹

PRESENT

The President, Secretary Anderson, Secretary Dillon and Jack Anderson
Senators Knowland, Johnson, Saltonstall and Hayden
Congressmen Martin, Rayburn, Taber and Cannon

All arrived by 6:10 except Congressman Taber who came in at 6:30. Sam Rayburn started the meeting off on a pleasant note by congratulating the President for his speech and appearance before the General Assembly of the United Nations Organization.² He said that it was definitely the President's finest effort since taking office.

The President made a good pitch for the entire amount of \$440 million restored to the Mutual Security Appropriation Bill by the Senate Committee.³ He indicated strongly that he felt he needed "every nickel" in the interest of establishing a more stable world peace.

He mentioned the proposals that he had made to the General Assembly of the United Nations Organization and spoke of the possibility of land and water development in the Middle East. He stated that there was an absolute need for adequate funds to implement his proposals.

Secretary Dillon then emphasized the need for the full amount for the President's Contingency Fund, defense support, and the Development Loan Fund.

Secretary Anderson brought out the need for adequate funds in order to not only take care of the Middle East situation, but compelling obligations in South America.

Source: Eisenhower Library, Whitman File, Eisenhower Diaries. No classification marking.

¹ Another record of the meeting and an August 20 note from Dillon transmitting it to Anderson were attached to the source text.

² See footnote 2, Document 223.

³ See footnote 1, Document 223.

Senators Knowland and Johnson agreed that the Senate would vote to retain the full amount of \$440 million recommended by the Committee. Lyndon indicated that he had 27 Democrat Senators for the amount, 11 who would vote to raise it, and the balance would vote to reduce.

Knowland indicated that he had between 25 and 30 Republicans for the full amount.

Congressman Cannon then indicated that he was the "key" vote as far as the House conferees are concerned, but he further stated that he didn't like to "coerce" his subcommittee chairman! (baloney)

Cannon and Rayburn said that the House will support whatever amount is reported by the Appropriations Committee.

Joe Martin then stated emphatically that two-thirds of the Republican House Members will support the full \$440 million if it is reported by the Committee. In response to the President's inquiry Cannon indicated that the conference report and/or the statement by the managers will indicate that if the President has to spend money in excess of the amount finally appropriated, he can come back to the Congress for supplemental funds in January. Rayburn concurred.

I then indicated to Cannon that we had no desire to have him "coerce" Passman, but would appreciate his "persuasion." Rayburn and Martin then said that Cannon's persuasive powers were great indeed.

Only one sour note was struck during the conference. That occurred when the President suggested that the number of House conferees be increased. Rayburn immediately said that he always appointed the conferees requested by Committee chairmen. The President dropped the subject at once.

There was no commitment of any nature on what figure would be agreed to, but Johnson and Knowland stated that the Senate conferees would hold out for the full \$440 million if this amount is voted by the Senate.

J.Z.A.

225. Editorial Note

On August 22, the Senate adopted Senate Appropriations Committee amendments restoring \$440 million to the Mutual Security appropriations legislation, H.R. 13192.

The Senate adopted H.R. 13192 the following day. House and Senate conferees then reported a compromise version of the bill which reduced the Senate figure \$220 million, \$652 million less than President Eisenhower had originally requested. (H. Rept. 2704, Eighty-fifth Congress, Second Session, August 23) The House agreed to the conference report by voice vote August 23, the Senate early August 24. H.R. 13192 thus became P.L. 85-853, the Mutual Security Appropriations Act, 1959, which provided \$3.3 billion for the Mutual Security Program in fiscal year 1959. Eisenhower signed P.L. 85-853 on August 28. For text, see *American Foreign Policy: Current Documents, 1959*, pages 1591-1594.

226. Memorandum From Secretary of State Dulles to President Eisenhower

September 13, 1958.

SUBJECT

Military Aid Component of the Mutual Security Program

We have discussed on several occasions, in the context of securing necessary Congressional and public support for the Mutual Security Program, the basic problem of achieving a realistic balance between the military and non-military components of that program. We have recognized on the one hand the vital necessity for increasing efforts to meet the economic challenge of the underdeveloped countries and on the other the requirement for continuing military assistance at a level adequate to meet our genuine security needs.

Source: Eisenhower Library, Whitman File, Dulles-Herter Series. Confidential. The source text bears Eisenhower's handwritten notation: "Time element will be important. OK in principle. D" Another copy of the memorandum notes it was drafted by Wilson and concurred in by Assistant Secretary of State for Policy Planning Gerard Smith and Special Assistant for Mutual Security Coordination Robert G. Barnes. It also bears the following handwritten notation: "9/22 AG[oodpaster] at Newport says President approved in principle but there will need to be continued close coordination between State & Def. FH" (Department of State, Central Files, 700.5-MSP/9-1258) Fisher Howe was Director of the Executive Secretariat, Department of State.

Senator Green's letter to you of August 25¹ makes it clear that unless we are able to justify a military assistance program in forthright and explainable terms, however, we will be faced with increasing pressures for indiscriminate cuts in military assistance funds in the interest of devoting the resulting savings to economic development programs. These pressures will be most difficult to resist without definitive assurances that the programs recommended by the administration are in fact sound and fully justified in the national interest. I am not convinced that we can provide such assurances if we are simply to present a military assistance program to the next Congress in terms fundamentally similar to those used in the past.

I believe therefore that before the next Mutual Security Program appropriation is requested of the Congress, it would be desirable that the basic purposes of our military aid, and the standards to be used in fixing its level, be appraised by a public committee of respected and qualified private citizens. The results of that appraisal would be embodied in a public report; its implications might be further elaborated in a classified annex. These results could be taken into account by the Congress in passing on the FY 1960 program and by the State and Defense staffs in fixing for FY 1961 the force goals which underlie levels of military aid.

The public reports which were prepared last year by committees under Benjamin Fairless and Eric Johnston² were helpful in securing Congressional acceptance of the Development Loan Fund and the concept of long-term development financing which it implied. I believe that a similar report which concentrated more on our military aid could be similarly helpful in placing this vital aspect of the Mutual Security Program on a sound long-term basis.

If you approve this proposal, Secretary McElroy & I will submit recommendations concerning the persons to serve on this committee.

I am forwarding a copy of this memorandum to Secretary McElroy.³

JFD

¹ For text, see *American Foreign Policy: Current Documents, 1958*, pp. 1588–1590. Eisenhower's September 11 reply is *ibid.*, pp. 1594–1595.

² Reference is to the "Report to the President by the President's Citizen Advisers on the Mutual Security Program," March 1, 1957 (Washington, 1957) and "A New Emphasis on Economic Development Abroad: A Report to the President of the United States on Ways, Means and Reasons for U.S. Assistance to International Economic Development" (Washington: The International Development Advisory Board, 1957), submitted to the President on March 4, 1957. For extracts of these reports, see *American Foreign Policy: Current Documents, 1957*, pp. 1514–1529.

³ McElroy discussed the memorandum with the Joint Chiefs of Staff the morning of September 17. The Department of Defense generally concurred with the idea. (Memorandum from Howe to Goodpaster, September 17; Eisenhower Library, Staff Secretary Records, ICA)

227. Memorandum for the Record by the President's Deputy Assistant (Merriam)

Augusta, Georgia, November 24, 1958.¹

CONFERENCE

The President, General William Draper, Mr. Hagerty and Mr. Merriam

November 24, 1958—8:00 to 8:45 a.m., Augusta, Georgia

SUBJECT

The President's Committee to Study the United States Military Assistance Program

General Draper thanked the President for giving him the opportunity to serve as chairman of this very important study. The President reiterated his hope that the study would take a good hard look at the whole Military Assistance Program. In particular, he emphasized his own belief that some of the defense forces had been overextended, particularly in underdeveloped countries.

Mr. Draper asked that all studies and material which might be of help to the Committee be made available to it, and specifically stated his hope that the Joint Chiefs and the CIA would be asked to cooperate fully. The President agreed that this was necessary, and directed me to so inform Secretary McElroy and Allen Dulles (accomplished). He indicated that, of course, all agencies would cooperate in every way possible.

Mr. Draper discussed briefly his proposed method of operation including use of the Institute for Defense Analyses, and perhaps other similar organizations, his appointment of Tracy Voorhees as Committee counsel and Colonel Lincoln as a staff coordinator, and mentioned that he hoped James Perkins of Princeton might head up the economic side of the study. General Draper also indicated that he was going to ask Eugene Black of the World Bank and Sam Waugh of the Export-Import Bank to help informally. The President indicated no objection to any of these arrangements.

General Draper informed the President that he had already met with Senators Fulbright and Mansfield, both of whom seemed favorably impressed by the membership of the Committee, and he asked if the President would have any objection if, within appropriate bounds, Congressional leaders on both sides of the aisle were kept informed of the Committee's progress. The President indicated agreement.

Source: Eisenhower Library, Whitman File, Eisenhower Diaries. No classification marking. Robert E. Merriam was the President's Deputy Assistant for Interdepartmental Affairs.

¹ Eisenhower was in Augusta on a working vacation.

I told the President that some of the other leaders who had been informed of the pending appointment of the Committee were concerned that there was no member representing a “conservative” point of view, and told him of my invitation to Herbert Hoover, Jr.,² to participate with the Committee. The President indicated that he would be willing to urge Mr. Hoover to accept. He also agreed that if Mr. Hoover cannot accept, Mr. Joseph Dodge should be invited to participate.

In talking about the relationship between this study and the President’s Mutual Security message, the President suggested that either the Budget message or the State of the Union message make reference to the Committee and indicate that the findings of the Committee would be available to the Congress before the end of the next session. He suggested that to the extent feasible conclusions of the Committee be discussed with the appropriate Departments as the study goes along so that acceptable conclusions could be worked into the Mutual Security message. General Draper informed the President that he had already established contact with Doug Dillon and Jack Irwin of Defense with this in mind.

REM

² Former Under Secretary of State.

228. Editorial Note

On November 24, the White House in Augusta, Georgia, released the text of a letter from President Eisenhower to General William Draper appointing Draper head of the President’s Committee to Study the United States Military Assistance Program and defining the committee’s role. For text and a list of the committee members, see *American Foreign Policy: Current Documents, 1958*, pages 1595–1596.

Draper held an organization meeting of the committee that day. He reported on his conversation that morning with the President (see Document 227), then initiated discussion of the committee’s functions and how it would accomplish them. (Minutes of Organization Meeting; Eisenhower Library, Draper Committee Records) This conversation continued at a December 2 dinner hosted by Institute for Defense Analysis President General James McCormack. (Notes of Discussion; *ibid.*)

The committee held its first meeting at 9 a.m. on December 4. Minutes of this and subsequent meetings, as well as additional committee documentation, are *ibid.*

**229. Memorandum From Director of the Bureau of the Budget
Stans to the President's Assistant (Persons)**

December 10, 1958.

SUBJECT

Meeting with the President, Secretary of Treasury Anderson, Assistant to the President Persons, and Budget Director Stans on December 3, 1958¹

The Budget Director explained to the President that budget allowances for most of the agencies had now been worked out, and that the matter of a balanced budget hinged upon figures still to be determined for the Department of Defense and the Mutual Security Program. He stated that while he had originally urged, and still believed, that the Defense budget should not exceed \$40 billion, there was still room for balancing the budget if Defense were allowed as much as \$40.8 billion in expenditures, and if the Mutual Security expenditures were limited to \$3.5 billion.

The President indicated his strong desire for a balanced budget. Secretary Anderson reviewed the various reasons in support of so doing, including particularly the need of preserving the integrity of the dollar. The President indicated that he would go along with the \$3.5 billion figure for Mutual Security and suggested that the cut be made principally from the Military Assistance Program. He also supported the effort to resolve the Defense budget at \$40.8 billion, and directed General Persons to meet with Secretary McElroy along these lines.

M.H.S.

Source: Eisenhower Library, Whitman File, Eisenhower Diaries. No classification marking.

¹The meeting began at 11:18 a.m. and ended at noon. (*Ibid.*, President's Daily Appointments)

230. Memorandum of Discussion at the 388th Meeting of the National Security Council

December 3, 1958, 2:30–4:35 p.m.¹

[Here follows a paragraph listing the participants at the meeting.]

1. *U.S. Security Effort Overseas, FY 1958 and FY 1959* [here follows a list of references]

The Special Assistant to the President explained the background of the written report by the Joint Chiefs of Staff on the reference subject reminding the Council that last May it had asked for a report from the Joint Chiefs of Staff on the kind of force posture (missions, major force levels, and major types of armament by service) which the Chiefs thought would be desirable as of June 30, 1962, for those nations receiving the major part of our military assistance. Mr. Gray also noted certain facts of particular interest which the Planning Board had discussed when the Joint Chiefs of Staff report had been considered. He then suggested that unless Secretary McElroy or General Twining had some comment to make on the report that the Council, in view of the heavy agenda to follow, merely note the report. (A copy of Mr. Gray's briefing note is filed in the Minutes of the Meeting and another is attached to this Memorandum.)²

Secretary McElroy said he had no further comment to make but General Twining³ said he would like at this time to explain the procedures by which the Joint Chiefs of Staff currently formulated force levels in connection with the military assistance program because the difficulty apparently lies not so much in the process itself but in a general lack of understanding of how it works. Forthwith General Twining read a statement on the subject, a copy of which is filed in the Minutes of the Meeting.⁴ The chief objective in General Twining's statement was to emphasize that in the latter part of the process political and economic factors, for example the capability of the economy of the country to which military assistance is provided by the U.S.

Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Gleason on December 5.

¹ The time of the meeting is taken from the President's Appointment Books. (*Ibid.*)

² Gray's briefing note is not printed. The JCS report was sent to NSC members under cover of a September 2 memorandum from Lay. (*Ibid.*, Whitman File, NSC Records) Regarding the May 8 NSC decision, incorporated in NSC Action No. 1908, to request the report, see Document 218. The Planning Board discussed the JCS report on October 21. (Record of meeting of the NSC Planning Board; Department of State, S/P-NSC Files: Lot 62 D 1)

³ General Nathan F. Twining, USAF, Chairman of the Joint Chiefs of Staff.

⁴ Not printed. (Eisenhower Library, Special Assistant for National Security Affairs Records, National Security Council Series, Administrative Subseries)

to support the force levels determined to be desirable by the U.S., have to be considered. He also stressed the view of the Joint Chiefs of Staff that when U.S. military assistance is used primarily for a political purpose in a foreign nation rather than for strictly military purposes, the Joint Chiefs of Staff desire this fact to be clearly identified both in discussions in the National Security Council and in the discussions of the military assistance program in the U.S. Congress.

Mr. Gray pointed out that further discussions of this subject were scheduled between officers of the Joint Chiefs of Staff and officers of Under Secretary Dillon's office in Mr. Dillon's capacity as Coordinator of the Mutual Security Program. The subject would also be treated, he was sure, by the President's newly appointed committee headed by General Draper.⁵

The President pointed out that it was very difficult indeed to distinguish between political and military reasons for providing U.S. military assistance to friendly foreign powers. In essence, continued the President, military assistance was merely a tool of U.S. political or national security policy. General Twining stated that he agreed generally with the President's view but that there were instances such as Ethiopia where our military assistance could be clearly distinguished as given for purely political reasons.

Mr. Gray commented that the subject of the discussion was one of the issues singled out by the NSC Planning Board in its discussion paper⁶ as an issue which ought to be discussed at this meeting by the National Security Council. He then read the statement of the issue from the Planning Board paper together with the comment of the Planning Board which reads as follows:

"The U.S. should concentrate military aid programs on military objectives on a priority basis, using, wherever feasible, other means to accomplish political objectives. Where in exceptional cases national security objectives necessitate providing military assistance for primarily political purposes, the U.S. should provide that kind of military assistance which would be most useful militarily and least detrimental economically while still being consistent with our political purposes."

When Mr. Gray had concluded his statement, the President reverted to General Twining's observation about Ethiopia as an example of military assistance given for purely political purposes. [1 line of source text not declassified] He was, however, concerned about Ethiopia as a part of Africa. If we were to lose Ethiopia, this might well be the beginning of a process by which we might ultimately lose large parts of the rest of Africa. Accordingly, he repeated that the differentiation

⁵ See Document 228.

⁶ "Policy Issues Relating to the Mutual Security Program," sent to NSC members under cover of a December 1 memorandum from Lay. (Department of State, S/P-NSC Files: Lot 62 D 1)

between giving aid for military and political purposes was very hard to make and constituted a distinction without a difference so far as the general problem of U.S. national security was concerned. He added that he did not actually object to making the distinction as General Twining proposed.

Secretary Dillon commented that from the point of view of his people, it was better to play down the distinction between military assistance given for political and for military purposes especially when it came to dealing with the U.S. Congress. The President indicated that he was well aware of the fact that many members of Congress regarded U.S. assistance to foreign nations, given for political or economic reasons, to be simply "a give-away". It was far from a give-away. Such assistance made a vital contribution to the overall national security of the U.S., however difficult it was to make Congress understand this fact.

Secretary McElroy expressed agreement with the views of Secretary Dillon and went on to say that the Joint Chiefs of Staff were not making any strong recommendation in favor of a distinction between aid given for political as opposed to military assistance, except insofar as it concerned the officials around this table.

The President advised all concerned that when they went to Congress to get appropriations for military assistance for political purposes or to get economic assistance, they should simply describe all such assistance as national security assistance.

The Vice President expressed his agreement with this suggestion and added his conviction that Secretary Dillon's point was very wisely taken. As far as possible in dealing with Congress political assistance to foreign nations should be tied into military assistance. Congress was as generous in providing funds for military assistance as it was niggardly in providing funds for assistance for political purposes.

*The National Security Council:*⁷

a. Noted and discussed the report on the subject prepared by the Joint Chiefs of Staff, pursuant to NSC Action No. 1908-b (transmitted by the reference memorandum of September 2, 1958).

b. Noted and discussed an oral statement by the Chairman, Joint Chiefs of Staff, outlining the procedures currently employed in formulating force levels in connection with the Military Assistance Program.

c. Noted in connection with b above, the President's view that political factors are involved in all military assistance programs and must be taken into account in their formulation.

⁷ Paragraphs a-c constitute NSC Action No. 2010. (*Ibid.*, S/S-NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

2. *Status of National Security Programs on June 30, 1958: The Mutual Security Program (NSC 5819)*⁸

Mr. Gray pointed out that this item on the agenda was closely related to the previous one and would consist initially of a presentation on the annual Mutual Security Status Report as of June 30, 1958. It was his understanding, said Mr. Gray, that the presentation would be led off by Under Secretary Dillon as Coordinator of the Mutual Security Program. Mr. Dillon would be followed in turn by Assistant Secretary of Defense Irwin on the Military Assistance Program. He in turn would be followed by Mr. James Smith, Director of the International Cooperation Administration who would outline those parts of the Mutual Security Program which were the direct responsibility of ICA. The last speaker would be Mr. Dempster McIntosh, Managing Director of the Development Loan Fund.

At the conclusion of these formal presentations, Mr. Gray added that the Council would take up the series of policy issues on the Mutual Security Program which had been prepared by the Planning Board and which had been circulated to the National Security Council in advance of the meeting (a copy of Mr. Gray's briefing note is filed in the Minutes of the Meeting and another is attached to this Memorandum).⁹

The presentations followed the order outlined by Mr. Gray and copies of each of the aforementioned reports are filed in the Minutes of the Meeting.

*The National Security Council:*¹⁰

Noted and discussed the report on the status of the Mutual Security Program on June 30, 1958, prepared by the Departments of State and Defense (transmitted as Part 2 of NSC 5819); as summarized orally at the meeting by the Acting Secretary of State in his capacity as Coordinator of the Mutual Security Program, the Director of the International Cooperation Administration, the Managing Director of the Development Loan Fund and the Assistant Secretary of Defense (International Security Affairs).

3. *Policy Issues Relating to the Mutual Security Program (NSC 5819, Part 2; Memo to NSC from the Executive Secretary, same subject, dated December 1, 1958)*

⁸ "Status of National Security Programs on June 30, 1958," Part 2, dated September 15, addressed the Mutual Security Program. (*Ibid.*, S/S-NSC Files: Lot 63 D 351)

⁹ Regarding the Planning Board paper, see footnote 6 above. Gray's briefing note is not printed.

¹⁰ The following paragraph constitutes NSC Action No. 2011. (Department of State, S/S-NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

When the formal presentations were concluded, Mr. Gray directed the Council's attention to the statements of the seven most important issues which the Planning Board believed desirable for the Council to discuss in the light of these presentations. The first issue, he pointed out, concerned the level of military aid deliveries. Using a chart which indicated the decline of carry-over funds for military assistance, Mr. Gray pointed out that while there had been good program management to have reduced the huge carry-over which existed in 1953, the reduction can no longer continue. For FY 1959 the Congress had voted 1.5 billion in new appropriations; we are actually spending about 2.4 billion. Accordingly, we have come to the point where we must either fail to meet approved program requirements or obtain an increase in the annual funds from the Congress. In presenting this issue Mr. Gray emphasized that he was not suggesting that the Council reach a decision today but was merely warning that our former flexibility in our military assistance program is about over.

Secretary McElroy confirmed Mr. Gray's warning by indicating that the minimum lead time we now have in military assistance deliveries is down to about a year. Accordingly, we were about at the end of the road unless we proceeded to reduce deliveries under the Military Assistance Program.

The President observed that the Joint Chiefs of Staff have reached the point where they are simply going to have to decide whether another new missile program or another aircraft program was or was not more important than provision of financial support for our Military Assistance Program. This would be unquestionably a hard decision involving among other things a terrible domestic political problem because of the fact that our politicians do not like to see us spend money for these assistance programs. The President said that, compared to some of the less essential U.S. military programs, the Military Assistance Program represented a better investment of funds for our national security. To illustrate his point of view, the President then cited the case of Pakistan. Here was a nation divided into two geographical parts by India and a nation which was weak from the military, political and economic point of view. Military assistance to Pakistan in the President's view was of very doubtful value beyond the provision of such assistance as would be required to cope with local security for Pakistan. What Pakistan really needed was more economic assistance. To make matters worse the fact that we provide military assistance to Pakistan scares India to death. The President indicated that he wished the Joint Chiefs of Staff to look carefully into the problem of providing military assistance for Pakistan. Secretary Dillon pointed out that this subject was already being carefully considered and the President accordingly dropped his request on the Joint Chiefs of Staff.

The President then asked Mr. James Smith the number of employees in his International Cooperation Administration. Mr. Smith replied that the ICA had about 10,000 people overseas. The President then asked Mr. Smith how many employees there were in this country. Mr. Smith said he could not provide this figure at the moment.

The President then observed that in all our discussions of the problem of underdeveloped countries and the kind of assistance which we could effectively provide them, we had not faced up to what was really the most serious problem, namely, that of exploding population growths. As far as he could see, continued the President, the only solution to this problem throughout the world was finding an effective two cent contraceptive. Otherwise no matter what we do, as these reports indicate, we keep falling behind in our efforts to raise the standard of living in so many parts of the world where it is desperately low. In connection with his argument the President cited Germaine Tillion's recently published volume on Algeria. Indeed an explosive increase in population could be predicted for our own country as well as for the less developed areas of the world.

Secretary Dillon observed that when he had been at the Colombo Plan meeting¹¹ he had had a discussion with a high Indian official in the United Nations economic and social organization. The Indian official informed Dillon that he had been preparing a report on the problem of exploding population rates and was at least himself an ardent believer in the necessity of the widespread use of contraceptives if the problem of over-population was ever to be solved. The President added that certainly something drastic had to be done to solve this problem. He certainly did not know how to get started on this solution and he furthermore could not himself get it started. If there were any ideas on how to deal with the problem, they should certainly be brought to this table.

The Vice President remarked that when the new Draper Committee begins its study of foreign assistance it would be essential to tackle the basic problem of whether U.S. policy is actually running against the tide of affairs in the world. It was a genuine question whether or not the U.S. could continue to try to promote democracy and free enterprise, in the forms we understand these systems, in the underdeveloped countries. It comes down essentially to this: we may have to reconsider whether or not we must not learn to go along and play ball with political and economic institutions in these underdeveloped

¹¹ Dillon was Deputy Chairman of the U.S. Delegation to the Ministerial Meeting of the Consultative Committee on Cooperative Economic Development in South and Southeast Asia (Colombo Plan), held in Seattle, Washington, November 10-13.

countries which resemble less the kind of system that works in the U.S. but rather systems which are moving in the direction of nationalized economies.

The President stated that whenever he and Secretary Dulles got together and had an opportunity to philosophize, they always came back to the fundamental question, namely, whether free government in this world is going to be able in the future to hold out against ruthless dictatorships. That, said the President, was our basic problem. The Vice President returned to his point and cited Sukarno's guided democracy as constituting a concrete illustration of what he had meant in his remark about the U.S. running against the tide in many of the less developed areas of the world.

Secretary Anderson then warned the Council that in the next session of the Congress this is what we were going to have to be talking about in terms of increasing FY 1959 or FY 1960 financial commitments of the U.S. in the various categories of foreign assistance. As Secretary Anderson outlined these commitments they reached a magnitude of some ten billion dollars. In concluding Secretary Anderson expressed his great anxiety about the effect of such commitments on the problem of the flow of dollars from the U.S. abroad which was already in his view serious enough. The Director of the Budget added to the commitments outlined by the Secretary of the Treasury items concerning the Export-Import Bank and PL-480. In Mr. Stans' view this brought the total up to some eleven billion dollars in a single year. Were we not thus trying, asked Mr. Stans, to fill a completely bottomless pit?

The President observed that there was at least some hopeful evidence that some of our more prosperous allied countries are beginning to move in to help us in dealing with the problem of meeting the aspirations of the underdeveloped countries. Moreover, said the President, in considering such matters he always came back to the problem that if we do not ourselves provide for assistance to underdeveloped countries, what conceivable alternative is there which provides any hope of solution? In other words, said the President, this problem was not only a dollar problem.

Mr. Gray intervened at this point to indicate that the problem which the Council had just been discussing was in fact the 7th issue which the Planning Board had believed the Council should discuss. This issue, continued Mr. Gray, concerned the relationship between mutual security and the U.S. contribution to international organizations. What offsets, if any, should be made in the Mutual Security Program in view of the planned increase in the U.S. quotas for the International Bank for Reconstruction and Development and the International Monetary Fund, proposed U.S. contributions to new multilateral organizations, and a potential contribution to the International

Development Association. It had been the view of the Planning Board that maximum offsets should be made in the Mutual Security Program consistent with U.S. policy objectives.

Secretary Dillon commented that in administering the Mutual Security Program we have already agreed among ourselves that this recommendation should be followed as far as possible. Unhappily experience indicated that you could not always reduce the size of the Mutual Security Program through resort to these offsets.

Mr. Gray then raised the second issue which the Planning Board thought the Council should discuss and which concerned the inadequacies of the current flow of capital to achieve economic development objectives overseas. After reading the alternatives which it seemed to the Planning Board were open to the U.S., Mr. Gray emphasized the extreme difficulties involved in either alternative, that of continuing the effort to achieve the desired economic development in underdeveloped countries even though the task seemed hopeless in the light of experience or else recognizing that the achievement of all these objectives everywhere is unrealistic and re-examining our aid program with a view to concentrating on selected areas.

The President, reacting to the pessimistic views which had been expressed, observed that perhaps it would be more realistic to put up the white flag now to judge from the way that Mr. Gray and members of the National Security Council had been talking here today. Mr. Gray replied by stating that he still felt that the objectives of National Security Council policy for economic development in the underdeveloped countries of the Free World were too broad. Perhaps concentrating on a selective basis would provide an answer.

The President was clearly not impressed by this argument and said that the question of selectivity was not relevant. After all, continued the President, we had been studying this problem of foreign aid for years. As the President saw it, if we were to single out one or two countries in a given area for continued assistance and abandon our programs for all the other countries in that area, then the country or countries which we have actually selected will ultimately be outflanked and overwhelmed by the forces opposed to the U.S. It was the Soviets who, because they were on the offensive, were in the perfect position to make use of a policy of selectivity in their assistance programs. So again we face the problem of how to deal with the issue of exploding populations world-wide. Equally important with a practical solution of this problem was the necessity that the United States provide moral and spiritual support and moral and spiritual power in these countries. What was really essential to a solution of this problem was a spiritual Renaissance in the whole western world.

Secretary Anderson added that we must also teach the underdeveloped peoples all around the world that if they wanted to raise their standards of living they must make up their minds that they could not do it overnight in one long leap. The process of raising standards must go on slowly and methodically and within the human capacities of the peoples of these underdeveloped countries. There was no sense in providing them with plants and installations which they could boast produced more of this or more of that than any other similar plant in the world if it was beyond their capacities effectively to run such an industrial plant or dam or other installation. In reply to Secretary Anderson, the President asked the question whether the Soviet emissary in one of these underdeveloped countries was not certain to point out to the people of that country what enormous strides the U.S.S.R. had made in the course of some forty years. The achievements of the Soviet Union obviously have a tremendous appeal for the underdeveloped peoples.

Secretary Dillon said it was some comfort to note a considerable degree of skepticism in India of the great strides towards industrialization now being made by Communist China at such terrible cost to human values which the Indians cherished. The President observed that the statistics seemed to suggest that this all was an impossible problem to solve unless we can do something to change human nature and human habits. Mr. Smith informed the President that the ICA was presently attempting to grapple with the problem of over-population in so many parts of the world.

The time set for the end of the meeting was now approaching and Mr. Gray asked the President if he could at least briefly outline the remaining three issues which the Planning Board had singled out as worthy of Council discussion. The first of these was the 4th issue concerning the nature of future U.S. military assistance to NATO. Was the need to achieve the MC-70 force goals regarded by us as so compelling that we should give all feasible support to their achievement even if this means reducing military assistance programs in other parts of the world? Secretary McElroy commented at some length, with respect to this issue, on the fact that the U.S. alone could not be expected to carry additional burdens in NATO while other NATO countries were tending to reduce their own contributions. Secretary Dillon made the added point that up until the present the U.S. has not had a very clear and precise idea of the total cost of meeting the MC-70 goals. The first step was therefore to clarify this cost.

Mr. Gray, noting that the 5th issue had already been discussed in the Council in connection with the Council's discussion of the first item on the agenda, briefly set forth the final issue raised by the Planning Board, namely, the relationship between military assistance and the overseas internal security programs. Was it realistic to expect

that the overseas internal security program (OISP) would permit any substantial reduction in military assistance funds in the foreseeable future? In any event, were the merits of OISP on its own sufficient to justify continuation of present types of programs, including provision of equipment where appropriate?

In further comment Mr. Gray suggested that the Council request a review of the OISP program by the Operations Coordinating Board reporting the appropriate portions of such a review to the National Security Council. Mr. Gray's recommendation was accepted.

The President closed the meeting with the remark "Well, is there any bright news around here?"

*The National Security Council:*¹²

a. Noted and discussed the statement of issues relating to the Mutual Security Program, prepared by the NSC Planning Board, and transmitted by the reference memorandum of December 1.

b. Requested the Operations Coordinating Board to review the Overseas Internal Security Program (OISP) with respect to:

(1) The validity of the policy stated in the following portions of paragraph 19 of the Basic National Security Policy (NSC 5810/1),¹³ reporting the results of this review to the Council:

"To the extent possible without sacrifice of U.S. security, the United States should seek to reduce requirements for military assistance by encouraging selected recipient nations (principally non-European) * * *¹⁴ (b) to emphasize police and constabulary type forces for internal security purposes in lieu of large indigenous military establishments."

(2) Certain operational matters raised in the Status Report on the Mutual Security Program.

Note: The action in b above, as approved by the President, subsequently transmitted to the Operation Coordinating Board.

S. Everett Gleason

¹² Paragraphs a and b and the note that follows constitute NSC Action No. 2012. (Department of State, S/S-NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

¹³ This report, "Basic National Security Policy," May 5, is scheduled for publication in volume III.

¹⁴ Asterisks in the source text.

231. Notes of the Legislative Leadership MeetingDecember 15, 1958, 8:45 a.m.–5:25 p.m.¹

[Here follow a list of participants and discussion of unrelated matters.]

Mutual Security—Mr. Dillon first noted indications in recent months of a toughening of communist attitude in the Middle East, Quemoy, and Berlin which he regarded as a testing of the free world's will to resist. He also noted the intensification of communist activity in world markets, making specific reference to the recent action on aluminum and tin.

Mr. Dillon believed that to meet this competition there was needed a greater cooperative effort from the free world, not just the United States. He noted that West Germany and Britain are stepping up their efforts.

He referred again to the increased authorizations needed for the International Monetary Fund and the World Bank.

Mr. Dillon then presented in some detail the specific mutual security program, pointing out that 65 countries were included of which 31 would receive both military and economic aid, 23 would receive economic aid only, and 11 would receive military aid only. The request for FY 60 would be \$3.93 billion as compared to \$3.95 billion requested in 1959 and \$3.3 billion appropriated. After going over the seven categories of programs, he pointed out that the pipeline had been reduced from \$8.5 billion in 1953 to \$2.6 billion in 1959, and it would stand at \$2.3 billion at the end of 1960. Beyond this he thought it could not be reduced without affecting deliveries.

Mr. Dillon stressed that the Development Loan Fund would all be committed by January, that more than \$1.5 billion worth of applications were still under consideration, hence it would be necessary to ask for an additional \$225 million for operations in the remainder of FY 59. He said it was hoped that operations under the Fund would be continued into the future at a level of about \$700 million per year.

The President asked Mr. Quarles about the JCS views on the mutual security program. Mr. Quarles said they regard it as a very essential part of the over-all defense effort. He thought the JCS would prefer, if reductions were necessary anywhere to cut certain domestic programs than to cut our military assistance program. The President noted the current studies of the Draper Committee.

Source: Eisenhower Library, Whitman File, Legislative Meetings Series, Legislative Minutes 1958 (4). Confidential. Drafted by Minnich.

¹ The meeting took place at the White House.

Sens. Dirksen and Bridges hoped that Department officials would set up a bookkeeping account to cover items committed but not technically obligated so as to overcome the inevitable criticism from Rep. Passman. Sen. Saltonstall hoped that the mutual security message might be sent to Congress earlier this year, even earlier than March. Mr. Dillon thought this not possible. The President remarked that Congress always seemed to hold this program anyway until the end of the session, perhaps to use it for bargaining power even though it was part of our national security.

[Here follows discussion of unrelated matters.]

LAM

**232. Memorandum From the President's Special Counsel
(Kendall) to President Eisenhower**

February 9, 1959.

In any approach on the Hill in respect to changing the Connally Reservation, the paramount importance of our other programs, including Mutual Security, in this Session ought to be kept uppermost in mind.

A lot of the same people or same thinking which went into the Connally Reservation are still present, or extant, in the Senate and John Bricker has only just gone. It would seem unfortunate to stir things up if they would hurt the current program.

For that reason (and I am sure Secretary Dulles would agree with this), almost exquisite care should be taken as to (a) who is approached first and how the approach is made; and (b) such approach should be closely coordinated with Bryce Harlow and our own Hill group.¹

DWK

Source: Eisenhower Library, Whitman File, Dulles-Herter Series. Attached to the source text was a February 3 memorandum from Dulles to the President regarding revision of the Connally Amendment, which addressed the issue of jurisdiction of the International Court of Justice.

¹ On February 9, Eisenhower told Dulles the administration should not initiate revision of the Connally Amendment, but might accede to congressional attempts to change it. (Memorandum from Meeker to Becker, February 16; Department of State, Central Files, 360/2-1659)

233. Notes of the Legislative Leadership MeetingFebruary 17, 1959, 8:30–10:30 a.m.¹

[Here follow a list of participants, a summary, and discussion of unrelated topics.]

Development Loans—The President, Sen. Dirksen, and Mr. Halleck all stressed the difficulty of achieving full public understanding of the importance of the mutual security program as an essential part of our security arrangements. There was general agreement that educational efforts to this effect must be continued and increased.

Sen. Saltonstall called attention to the effective statement of JCS views against cutting mutual security.² He stressed the importance of softening the views of a few key members of Congress, such as Reps. Passman and Cannon and Senators Long and Eastland—beginning well ahead of the period of crucial consideration.

The President spoke repeatedly and at length on the importance of the mutual security program as the most efficient money that we spend and he called attention to the indications that the United States is pricing itself out of the foreign market and the ensuing requirement for the United States to be concerned with the economic growth of countries that are buyers of US production.

Rep. Arends thought it would be helpful to use the case of Turkey, with facts and figures, to illustrate the value of the program.

Considerable attention was given to the matter of timing of the Administration effort to thwart the professed intention of Democrats to compensate for increased spending on domestic programs by reducing the mutual security appropriation. Mr. Halleck concluded that Rep. Passman could be successfully beaten on the floor of the House if it were clear that the country as a whole was soundly convinced of the need for mutual security programs.

[Here follow the President's brief comments about Secretary Dulles' health.]

LAM

Source: Eisenhower Library, Whitman File, Legislative Meetings. Confidential. Drafted by Minnich.

¹ The meeting took place at the White House.

² Not found.

234. Editorial Note

President Eisenhower submitted his fiscal year 1960 Mutual Security appropriations request to the Congress on March 13. It reviewed U.S. activities under the program in 1958 and described at length the components envisioned for fiscal year 1960. For text, see *American Foreign Policy: Current Documents, 1959*, pages 1534–1548. Three days later, Eisenhower delivered an address over nationwide radio and television on the situation in Berlin and free world security. After speaking about Berlin and U.S. defense requirements, the President turned to international defense efforts and the Mutual Security Program, emphasizing their importance to U.S. and world freedom. The text is *ibid.*, pages 626–634.

235. Memorandum of Conference With President Eisenhower

March 17, 1959.¹

OTHERS PRESENT

General W. H. Draper, Messrs. Dillon Anderson, Joseph Dodge, Marx Leva, John McCloy, George McGhee, James Webb, Generals Gruenther and McNarney, Admiral Radford, Colonel G. A. Lincoln, Messrs. Tyler Wood and Tracy Voorhees, General Goodpaster²

Mr. Draper reviewed with the President the Interim Report of his group, and a covering letter,³ both of which he then handed to the President.

He commented that the group had found that some of the criticisms of the program are justified. There have been long delays, and programming has been slow on many occasions. They feel that the errors in execution are of some importance, but stress that they are

Source: Eisenhower Library, Whitman File, Eisenhower Diaries. Secret. Drafted by Goodpaster on March 20.

¹ The meeting was held at the White House. Lincoln's notes of this meeting are *ibid.*, Draper Committee Records.

² Lincoln and Wood served on the steering committee for the Draper Committee, while Voorhees was its counsel. The other participants in this meeting, except the President and Goodpaster, were members of the Draper Committee itself.

³ For text of the report, "Preliminary Conclusions of the President's Committee to Study the United States Military Assistance Program, Submitted to the President With the Committee's Letter of March 17, 1959," see Department of State *Bulletin*, June 1, 1959, pp. 798–804. For text of the letter, see *American Foreign Policy: Current Documents, 1959*, pp. 1549–1551.

quite incidental and minor in relation to the value of the program. The President said that it is frustrating to him that after six years of constant effort we still can't get the degree of efficiency we wish.

Mr. Draper next commented that the group is thinking in terms of clear recognition and acceptance that this is a long-term program. He pointed out that as long as it is kept on a short-term basis we will not get the best people to man it.

At Mr. Draper's request Mr. McCloy next spoke about the NATO area. He said that this area is so potentially strong that any idea of not building up its strength would be both fantastic and foolish. There is a need to modernize the weapons of the forces in the area. These weapons in almost every case have quite long lead times. General McNarney said he and Mr. McCloy had gone carefully into the strategy in the area and he concurred that there is a great lack of modern weapons such as the Honest John, the Sergeant and the Mace which have great value in deterring the Soviets.

The President asked what impression the group had gotten of NATO thinking on the problem of authorizing the use of atomic weapons in the event of attack. He also mentioned a Chamber of Commerce survey which concluded by proposing to save money for the United States by cutting mutual security. He added that the argument that there has been excessive carry-over has been used to defeat the program in the past.

Mr. McCloy said there is much that is ominous in French attitudes.⁴ The President agreed, commenting that de Gaulle tends to take a tough attitude towards the Soviets while withdrawing his own forces and using them as he wishes—thus being firm with other people's troops. The President said he has always thought that we should be ready to have the French fleet put on the same basis as the U.S. and U.K. As for himself, he would have gone further and would have put the U.S. and U.K. fleets completely under NATO.

With regard to the final report of the group, the President asked if they would have to go back for more material or whether their remaining task is chiefly one of analysis. Mr. Draper said it is a problem of analysis, study of the legislation, etc.

With regard to the Development Loan Fund, the President recalled that we have studied the matter carefully and felt that we should have about \$600 million a year or so. It has been terribly hard going to get anything like adequate funds to make this program effective.

⁴ The French Government had decided to withdraw its fleet from the NATO Mediterranean Command.

Mr. Draper next assured the President that the group is ready to help in any way it can. The President was very grateful for this comment and said that action by the group would be a very fine thing. Our people know the members of this group and have confidence in them. The members have investigated the situation themselves. He asked them to organize what they thought they could do and let him know what they thought the Administration could do. The President recalled an incident which he called "the conversion of George Humphrey," who was a strong opponent of the program initially. The President said on several occasions he would lay out the problem to Mr. Humphrey and ask what he would do. Invariably Mr. Humphrey would come to accept the program but always on an intellectual basis, still saying that while he would do it he wouldn't like it.

G.
Brigadier General, USA

236. Memorandum From Acting Secretary of State Herter to President Eisenhower

March 19, 1959.

SUBJECT

Legislative Prospects for Mutual Security Program

Any cuts Congress may make in this year's Mutual Security Program would pose considerably greater risks than has been the case in the past. This is so because of an increase in economic needs throughout the world as compared with last year and because of the decrease in the Military Assistance pipeline and the austerity of the figure requested for Military Assistance. A careful study indicates that if Congress should reduce the Program below the level of \$3.75 billion we may well face serious dangers to our security position throughout the world. (See attachment for breakdown of \$3.75 billion figure.)¹

Last year Congress voted \$3.3 billion for Mutual Security as against a request for \$3.94 billion. It is now reasonable to expect last year's appropriation will be raised by some \$100 to \$150 million, as a

Source: Eisenhower Library, Whitman File, Dulles-Herter Series, March 1959, Mutual Security. Secret Enclosure. Another copy of the memorandum indicates Dillon drafted it on March 18. (Department of State, Central Files, 700.5-MSP/3-1959)

¹ Not printed.

result of the \$225 million deficiency request for the Development Loan Fund now before Congress. This, if approved, will give us a total of something over \$3.4 billion for Mutual Security in the fiscal year 1959. This figure has proved to be an absolute minimum and its austerity has been the cause of considerable difficulty in administering the Program. So low a figure would definitely be inadequate for FY 1960.

A careful check of Congressional opinion indicates that opposition to the Program at present is more widespread and vigorous than at any time in the past. This is so because in addition to those who have traditionally opposed the Program, a number of other members of Congress favor large cuts this year for purely domestic, political reasons having to do with such things as the overall Administration position on domestic spending programs of the welfare type and the decision to undertake no new public works starts this year.

As a result, in the absence of extraordinary and sustained high-level efforts, and in the absence of some world crisis of frightening proportions, we can expect that this year's Mutual Security appropriation will be cut to a figure of around \$3 billion, or even less. The effects of such a cut would be grave indeed. Since so much of the opposition this year is domestic in character and does not appear to be responsive to persuasion by the Department of State, it is becoming clear that a strong and sustained effort led by the White House along the lines of your recent persuasive efforts and having all-out support from all elements of the Administration as well as from civilian groups will be necessary if the Program is to be kept relatively intact. May Mr. Dillon and I have the opportunity to discuss the outlook with you, General Persons and Bryce Harlow.²

Christian A. Herter

² No record of such a meeting has been found. During a meeting on April 3 with Herter and Dillon, however, Eisenhower asked if Dillon had read the draft of a speech the President was to give at Gettysburg College the following day. Dillon replied he had and stated he felt it would "help the Mutual Security Program a great deal." (Memorandum of conference with the President; Eisenhower Library, Whitman File, Eisenhower Diaries) For text of the address, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1959*, pp. 309–317.

237. Editorial Note

In April, the Department of State released a report on the impact of the Mutual Security Program on the U.S. economy. Done in accord with Section 413(c) of the Mutual Security Act of 1954, as amended by the Mutual Security Act of 1958, the report was prepared by an inter-agency group comprising representatives from the Departments of Agriculture, Commerce, Defense, Interior, Labor, and State, the International Cooperation Administration, and the Development Loan Fund. It concluded the Mutual Security Program had relieved the U.S. economy of an additional defense burden by increasing allies' defense postures; promoted and protected the economy's interest by furthering U.S. foreign policy objectives; and provided expanding opportunities and markets for U.S. business by furthering economic growth in the less-developed countries. See *American Foreign Policy: Current Documents, 1959*, pages 1551–1566.

238. Notes of the Legislative Leadership Meeting

April 22, 1959, 8:32–10:06 a.m.¹

[Here follow a list of participants and a summary.]

*Draper Committee Report*²—Mr. Dillon presented the preliminary findings of the Draper Committee as recommending an additional \$400 million, mostly for the NATO military support program. After reviewing this, State Department agreed that \$400 million is approximately in order, especially since the original submission to Congress was held at a minimum pending the Committee study. Mr. Dillon stated that the Administration thought it best to transmit the report to Congress without asking for additional funds at this time since the contingency fund can cover any immediate requirements, and a further request can be made next session should that be necessary.

Mr. Dillon commented on the high qualifications of the members of the Committee and on the further work they would do to stimulate a public committee supporting the mutual security program.

Source: Eisenhower Library, Whitman File, Eisenhower Diaries. Confidential. Drafted by Minnich.

¹ The meeting took place at the White House.

² See footnote 3, Document 235.

The President characterized the report as very objective, then went on to speak of the problem that would develop in the public mind as regards authorization and expenditures. The President wanted it understood that very little was needed at the moment for expenditures and that there was no hurry about obtaining the desired authorization.

The President then stressed the importance of the NATO concept to defense of the North Atlantic area and his own willingness to give up an eminently desirable position at Columbia because of his belief in this concept. He noted that he had not yet seen any evaluation of the ability of NATO nations to make an increase in their own efforts. Mr. Quarles heartily confirmed Mr. Dillon's comments on the merits of the preliminary findings, which he could substantiate from his own travels around Europe. Modernization of NATO forces is clearly needed, and the United States must provide the modern weapons even though the other nations intensify their own efforts. The JCS, he said, strongly supported the conclusion that the military program should continue to be maintained at the expenditure level of about \$2.2 billion, whereas the pending NOA request stands at \$1.6 billion.

Sen. Dirksen thought that political advantage lay on the side of vigorous assertion of the case for mutual security. Mr. Halleck thought the report would be extremely valuable in the effort to get the actual appropriation increased nearly to what the Administration had requested. He concurred in the desirability of postponing any requests for additional authorization specifically in connection with the Draper Committee report. Sen. Saltonstall hoped that the Administration would not now forecast the possibility of a supplemental request next year. Mr. Dillon stated that any supplemental next year could only serve to make up the difference between the Administration's original request and whatever Congress authorizes this year, since it should not be expected that Congress would put through new basic legislation (which an authorization bill is for this program) on a supplemental basis.

The President again emphasized the worth of the report. He stated the dependence of the nation's security in the long run on a balanced budget. He commented ironically on the demagoguery involved in requests for additional appropriations for the Department of Defense by people who argue against the mutual security program. He continued to believe that a reduction of \$½ billion in mutual security could require up to \$15 billion additional in DoD funds. He repeated his desire to see a more careful analysis of UK and French capability, since they can accomplish many things in their own countries at much less expense than can we. He noted that he would himself talk with General Draper before any definite action is taken.

[Here follows discussion of unrelated topics.]

LAM

239. Memorandum of Conference With President Eisenhower

April 23, 1959, 10:30 a.m.¹

OTHERS PRESENT

General Draper, Mr. McCloy, General Gruenther, Mr. Voorhees, Mr. Merriam,
General Goodpaster

The President said he had asked to talk with the group as a means of assisting him in making up his mind in just what way to act on the recommendations of Mr. Draper's committee. He commented that what is principally lacking in his mind at the present moment is an assessment of whether the NATO countries, on their side, are doing enough to advance the modernization of their forces. He recalled also the criticism of waste in the administration of the program that has been made, and said that Defense is looking into all possible ways to tighten up and streamline the program. In addition, he noted that the report indicates that the carrying out of its recommendations would not involve substantially increased expenditures in FY 1960.

With regard to Mr. Draper's appearance at the Congress today,² the President said he saw no reason why the Mutual Security story cannot be told in just the way it was submitted to him in the report of the Committee. He added that he wants to send the report down to the Congress today or tomorrow with a letter which is not inconsistent with the recommendations of the report.

The President said he is very mindful of the necessity to maintain the soundness of the American dollar, and referred to reports made to him by Secretary Anderson on his return from New Delhi some months ago.³ Secretary Anderson had told him that more than twenty of the national representatives in New Delhi for the World Bank meeting said that the most critical element in the whole world economic

Source: Eisenhower Library, Whitman File, Eisenhower Diaries. Secret. Drafted by Goodpaster.

¹ The meeting took place at the White House.

² For Draper's testimony, see *Mutual Security Act of 1959: Hearings Before the Committee on Foreign Affairs, House of Representatives, Eighty-sixth Congress, First Session* (Washington, 1959), vol. 2, pp. 1269-1301.

³ Not found.

picture is the soundness of the American dollar. The President said that he has the responsibility of keeping demagogues from attacking his whole budgetary effort, as well as this program, on the basis that, in submitting the new recommendations he was unbalancing the budget. He said he would, of course, stress that this is not correct and that expenditures under the recommended increase will not come until fiscal year 1961.

Mr. Draper said his group felt that if the Administration doesn't ask for the \$400 million increase his group has recommended, the Congress will cut the program much more than would otherwise be the case. He said that in the view of his Committee a "four square" acceptance of the recommendations of the Committee by the President could have real effect in strengthening Western European resolve at the time of the forthcoming negotiations. On the other hand, not to come out four square and ask for the additional appropriations will look fuzzy and will damage the program, in his judgment. He assured the President of the support of the Committee nevertheless. He commented that the program is in difficulty. There is a strong drive under way in the Chamber of Commerce to have that body come out against the program in its meeting next week. He reiterated his fear that failure to recommend the additional appropriations now will weaken the whole program.

Mr. McCloy, at Mr. Draper's request, spoke next. Regarding the President's point on the adequacy of the Europeans' own contribution, he agreed that there is much in this. These countries are gaining substantially in economic strength. At the same time only the United States is in position to provide, technologically, the newest types of weapons. There is a feeling in Europe that they are on the verge of having a real deterrent force of their own, rather than a "trip wire" type of force which is inadequate to give real confidence.

The President recalled that when he went to Europe he exerted himself to have U.S. troops brought over on an emergency basis while the Europeans formed their own forces. Now the British have cut their forces on the Continent to a fraction of what they were; the Belgians have cut down on their training period; the French have removed the bulk of their forces from Europe to North Africa. He felt that there should be some stimulation of mutual effort on their part. Instead we are the only ones who have kept up our strength there. Mr. Draper suggested that the President include in his message a passage to the effect that now is the time for the Europeans to make a greater contribution. The President indicated some sympathy with this suggestion. Mr. Draper also suggested that the President stress the difference between appropriations and expenditures in order to preclude charges that he has upset his own budget. The President said he had in mind to point out that the added expenditures would be very small in FY

1960 but that it is hard to put across the difference between appropriations and expenditures, even if he "read a lesson to the Congress" in the letter to them.

In concluding the President said he agreed with the conclusions of the Draper Committee. He is somewhat uncertain on the best way to act on them, since he noted that Mr. Draper seemed to think it would weaken the program not to submit a recommendation for the full additional appropriations now. He said he would give further thought to this matter.

G.
Brigadier General, USA

240. Memorandum of Conference With President Eisenhower

April 27, 1959, 3:48–4:05 p.m.¹

OTHERS PRESENT

Secretary Anderson, Director Stans, Mr. Harlow, Mr. Morgan, General Goodpaster

Secretary Anderson said that he had talked to Republican members of the Ways and Means Committee. They are opposed to an increase in the gas tax (or in any tax, for that matter). If funds are insufficient they say the road program should be cut back. However, he doesn't feel they would stand with this position when the pressure builds up.

Mr. Anderson said the picture on taxes is that it looks as though receipts will run somewhat higher than estimated. But outlays will run higher also—he mentioned that interest payments will exceed estimates. Regarding the recommendations of the Draper Committee, he would like to see re-programming efforts carried out to cover \$250–300 million of the \$400 million recommended by the Draper Group.

Source: Eisenhower Library, Whitman File, Eisenhower Diaries. Secret. Drafted by Goodpaster on April 28.

¹ The time of the meeting was taken from the President's Daily Appointment Books. (*Ibid.*) The meeting took place at the White House.

The President recalled that the Committee had thought that not much of their recommended addition would actually be expended in fiscal 1960. Mr. Anderson said that this is a distinction that it is impossible to get across to the public, who would be told by members of Congress that the President had broken his own budget.

Mr. Stans said there seemed to be only two approaches to accommodating the recommendations within budgetary limits. The first is to say to Defense that they should add some \$250 million to the aid program, taking it out of Defense proposals, particularly those which seem to be in difficulty on the Hill such as the proposed carrier. The second is to reprogram within Defense and the Mutual Security Program so as to bring together sufficient assets to carry out the Draper Committee recommendations. The figures recommended come to \$345 million for the NATO area. Mr. Quarles has agreed that it would be possible to take out some \$45 million of this.

The President said that what the Committee has brought out is that what the Administration asked for this year is \$400-\$500 million too little to keep the program going at the rather constant level that is required to maintain world security. They do not believe we would ever go back up in total program funds once the program has been dropped to this lower level. The result would be a let-down all around the world.

Mr. Stans said that there are possibilities in the field of excess determinations and declarations which might help this program very greatly. Defense maintains an "economic retention inventory" aggregating nearly \$5 billion of items stored for possible future need, but not in use by the services. A hard look at this inventory should make available very sizeable proceeds.

The President said that the Draper Committee by its action has put him into a position where he does not know what to do. He thought that if we could find ways of reprogramming we could advise the Congress that we are meeting the Draper recommendations through extraordinary measures but that next year the program level will have to go up. He felt that those chiefly concerned in the program must reach agreement on some money figure as to net needs, if any, in additional funds to carry out the Draper proposals. He thought that Mr. Draper must be made a party to this determination. The President said he felt he is committed to this group of men, who are very fine men who have given up a great deal of their own time in order to make this study for him. He asked me to arrange to get Mr. Dillon and Mr. Quarles in with Mr. Anderson and Mr. Stans to arrive at a figure.

Following the meeting with the President, my discussion with Mr. Anderson and Mr. Stans disclosed that there were differing interpretations of what the President had asked. Mr. Stans and Mr. Anderson felt that the President had said that the Draper recommendations

should be carried out through reprogramming this year and through a statement that he would ask for an increase in the level of the program beginning in FY 1961. I had thought the President's instruction was to get a group together to see what could be accomplished through reprogramming, having in mind that if the residual figure were quite small it could be left over to next year. Accordingly, I spoke to the President later in the day. He confirmed that what he wanted was to have the group in to see what they thought they could agree upon in the way of reprogramming. In connection with this consideration, they should address themselves to the question of what is the best thing for the President to do in acting on the Draper recommendations. If the problem can be met through reprogramming, this would be most desirable. If not, is there any practical and satisfactory method to proceed other than sending up a supplemental.

G.

Brigadier General, USA

241. Editorial Note

In remarks at the annual meeting of the U.S. Chamber of Commerce on April 27, President Eisenhower spoke of the benefits of military and economic assistance and of the role private industry could play in these efforts. In addition to making private investments abroad and promoting a greater volume of trade, business could create "a better national awareness of the challenge before" the United States and the response it required. "Success," the President asserted, "demands the force of an informed public opinion to strengthen the instruments of freedom in the free world community." U.S. business and community leaders were in a unique position to "promote the understanding through which the needed public opinion can be produced." For text, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1959*, pages 339-343.

On April 29, the President forwarded copies of the Draper Committee's preliminary report to Vice President Nixon, in his capacity as President of the Senate, and to Speaker of the House of Representatives Rayburn. In identical covering letters, Eisenhower endorsed the Committee's findings, stating they confirmed "the imperative need for Congress to authorize and appropriate the full amount requested for both economic and military assistance in the Mutual Security Program for Fiscal Year 1960." But even if the Congress did appropriate the full

sum, he noted, it might be necessary to request additional funds later. Text is *ibid.*, page 356. Regarding the Draper Committee's preliminary report, see footnote 3, Document 235.

242. Memorandum From Acting Secretary of State Dillon to President Eisenhower

June 8, 1959.

SUBJECT

Draper Committee Second Interim Report¹

I have received the second interim report of the Draper Committee dealing with the organization and administration of the Military Assistance Program and submit the following preliminary comments both in my capacity as Acting Secretary of State and as Coordinator of the Mutual Security Program.

As indicated in our earlier discussions of this subject, I fully support the two basic concepts recommended by the Committee: (1) the strengthening of the Secretary of State's position in the foreign policy direction and coordination of this program and (2) the focusing of responsibility on the Department of Defense for the program's administration and execution.

We have previously accepted your decisions regarding (1) the transfer of the military assistance funds to the Department of Defense budget and the continuing authorization of such funds and (2) corresponding clarification of the responsibilities of the Secretary of State for foreign policy direction and program, as transmitted last week to the Senate Foreign Relations Committee in the form of an Executive Branch position.² These are the only aspects of the report on which immediate action was required. The other parts on which executive action is recommended are separable from these legislative actions and do not in my opinion require immediate decisions.

Source: Department of State, Central Files, 700.5–MSP/6–859. Confidential. Drafted by Wilson and concurred in by John O. Bell and in draft by Graham A. Martin.

¹ H. Doc. 186, 86th Congress, 1st Session, "The Organization and Administration of the Military Assistance Program." For text of the Committee's June 3 transmittal letter, see *American Foreign Policy: Current Documents, 1959*, pp. 1581–1584.

² Neither found.

I find in any event that in several important respects the Committee's detailed recommendations which have just been received³ appear to contradict the two basic concepts set out in the second paragraph above. They would seem, however, to fragment and diffuse even further the lines of executive responsibility for the coordination of this program and would in effect place back upon you the responsibility for day-to-day coordination, which has been recently delegated to me. I feel this to be contrary to the general principles of executive organization you and your Advisory Committee on Government Organization have indicated you wish to see followed. I believe accordingly that the Draper Committee's detailed recommendations should be thoroughly examined and analyzed in the light of the action taken by Congress on the current legislative recommendations before any conclusions are reached. As Coordinator of the Mutual Security Program, I have directed that such a study be prepared and we will submit to you at a later date the Executive Branch analysis and recommendations.

In the meanwhile, I recommend that the Committee's detailed report be withheld from publication until such time as the study referred to above can be completed and final Executive Branch positions are reached. I have no objection to publication of the summary letter of transmittal.

Douglas Dillon⁴

³ The Committee did not approve the report until June 5, but dated it June 3 to conform to the date of the transmittal letter, which had already been delivered to the President. On June 5, the Committee also authorized its Secretary to deliver the report to the White House the following day. (Minutes of the Eleventh Meeting of the President's Committee; Eisenhower Library, Draper Committee Records)

⁴ Printed from a copy that bears this stamped signature.

243. Notes of the Legislative Leadership Meeting

June 16, 1959, 8:30–10:35 a.m.¹

[Here follow a list of participants, a summary, and discussion of unrelated topics.]

Source: Eisenhower Library, Whitman File, Legislative Meetings. Confidential. Drafted by Minnich.

¹ The meeting was held at the White House.

Mutual Security—Acting Secretary Dillon described at length the changes made by the House Committee and others by the Senate Committee on the mutual security authorization. While a number of them could be lived with, he considered very serious the following: (1) the House 10% reduction in military assistance in face of the Draper Report requesting additional funds; (2) the directive to terminate aid to any country expropriating American owned property without immediate compensation; and (3) the Fulbright proposal for borrowing funds for the Development Loan Fund from the Treasury.² He cautioned also against the Rep. Hardy amendment to be offered on the Floor prohibiting all public information activities by ICA even on request. He mentioned several other items where the Department's objections were not so serious, but it would be desirable to avoid them.

The President read from a memorandum he had received the previous day from Sec. McElroy³ stating further the JCS feeling of urgency about maintaining the military assistance program at the \$1.6 billion level. To cut 10% would inevitably require an increase in DoD funds in FY 61 of perhaps \$2.5 billion.

Sen. Bridges expressed some favor for the amendment concerning expropriation. Mr. Dillon saw some merit in the principle but felt that it should not be a mandatory requirement, and Sen. Bridges suggested State make that position clear.

The President then requested comments from others present. Sen. Wiley stressed the desirability of a strong position on mutual security by the President and perhaps some sort of reassurance to domestic manufacturers hurt by imports, as for instance the shoe industry. Sen. Hickenlooper recounted some of the Committee in-fighting and expected that the bill as reported by the Committee could be upheld on the Senate Floor. Mr. Chipperfield noted that the item concerning a 30% transfer from one activity to another was permissive and would help overcome the military assistance reduction. He felt that the Democratic Majority would support the Committee bill without further reduction. Mrs. Bolton noted the unsuccessful effort made to eliminate the mandatory provision regarding expropriation.

The President stressed the large portion of the military assistance program required immediately for Korea, Taiwan and Viet Nam, leaving not a great deal for other necessary activities.

² The House Foreign Affairs Committee reported H.R. 7500 on June 5; for text, see U.S. House of Representatives, Committee on Foreign Affairs, *Selected Executive Session Hearings of the Committee, 1957–60*, vol. XX, *Mutual Security Program, Part 7* (Washington, 1983), pp. 637–657.

³ Not printed. (Eisenhower Library, Whitman File, Administration Series, McElroy, Neil H., 1959 (2))

Rep. Halleck raised the question as to whether Republicans on the Floor should endeavor to restore the items cut or merely work to prevent further cuts. Mr. Dillon and the President both felt that was up to the Leaders to determine, though the President wondered if there would be more of a chance for restoring strictly the military assistance item. Rep. Halleck thought it necessary to inquire further as to the risks involved in opening up the Committee bill.

[Here follows discussion of unrelated topics.]

LAM

244. Memorandum From the Deputy Coordinator of the Mutual Security Program (Bell) to Acting Secretary of State Dillon

June 17, 1959.

SUBJECT

Fiscal Year 1961 MSP Budget Requirements

I understand that the Fiscal Year 1961 budget will be the subject of further discussion at the Cabinet meeting on Monday. We have, as you know, provided the Budget Bureau staff with the revised projections of our Fiscal Year 1961 requirements for new obligational authority, pursuant to your recent reconsideration of these estimates. For your convenience I tabulate below the broad categories showing the amount requested for each for Fiscal Year 1960 and the projected request for Fiscal Year 1961.

	<u>FY 1960</u>	<u>FY 1961</u>
	(in millions of dollars)	
Military Assistance	\$ 1,600	\$ 2,250
Development Loan Fund	700	1,000
Contingency Fund	200	200
Economic and Other	1,430	1,430
Investment Guaranty Fund	0	100
Indus Waters	0	180
TOTALS	\$ 3,930	\$ 5,160

Source: Eisenhower Library, Herter Papers. Confidential. Initialed by Bell and sent to Dillon through S/S.

It is not clear to me to what degree this meeting will either (a) replace the discussions between you and Mr. Stans which he had suggested take place this month or (b) narrow the range of such discussions. However, I would hope that in any case you could have a reasonably early discussion with Mr. Stans with a view to firming to the maximum degree possible the order of magnitude within which we are to plan our FY 1961 program. I am firmly convinced that there is very little to gain by a repetition of our previous practice of presenting requirements in magnitudes which have no possibility whatsoever of serious consideration and that it is to everyone's advantage to reach agreement at an early date. As nearly as I can see, the controversial areas are pretty well confined to the question of the dimension of military assistance on the one hand and the figure for DLF on the other. I would hope that it would be possible to reach agreement with Stans on all of the figures but, even if military assistance and the Development Loan Fund were left as variables, obtaining his concurrence that we could plan for the non-military requirements in the dimensions suggested would enable us to have a much more effective and orderly program development and would assist our job of constructing the FY 1961 presentation quite materially. I think there is a considerable sympathy for this point of view both in ICA and in the Bureau although I don't believe that either has taken an agency position.

We are planning to get guidelines to the field for the development of the non-military fiscal year 1961 program by the end of this month. These guidelines will necessarily include a schedule for preparation of material and its review in Washington. The timing of this schedule and its structure can be materially influenced if, by the first of July, we have an understanding with the Bureau as to the acceptability of the order of magnitude we have set forth in our projections. The situation on the military program is somewhat more advanced, and presents rather different problems but, needless to say, settlement on the figures which you and Mr. Gates agreed to back would be most helpful. I cannot see we would be in any better position to debate them with the Bureau a few months from now than we are at this time. It is perfectly apparent that requirements for greater amounts can be identified and put forward; it is equally apparent that our projections probably represent the outside dimension of compatibility with the budgetary problem. Consequently, I would think that it would be well worthwhile to negotiate this one out with the Bureau now on a broad basis.

I am not suggesting that a more detailed review of the composition of the programs would be denied to the Bureau but rather that we at least can proceed on the basis of a common mutual assumption as to the dimensions within which programs are to be reviewed and justified.

So far as the DLF is concerned, it makes much less difference whether a figure is decided now or later since the justification does not depend on the construction of a detailed program but rather on an entirely different kind of argument. It would not seriously damage our position if we had to wait some time on this figure since presumably the justification would be essentially the same whether the figure was 700 or more.

Recommendation:

That you attempt to obtain agreement on the part of Mr. Stans to an order of magnitude for FY 1961 Mutual Security Program at as early a date as possible and, in any case, you attempt to reach agreement on the non-military component before June 30th.¹

¹ Dillon initialed his disapproval on June 19. He wrote below his initials:

"You can plan *firmly* as of now on economic funds of approximately & not less than the amounts recently indicated. On Indus waters there may be an agreement as to whether we get it all at once or just get the authorization but that should not be important from your point of view. DLF can wait."

245. Editorial Note

Congressional action on the administration's fiscal year 1960 Mutual Security request continued from mid-June through August. During this period, President Eisenhower also forwarded three additional reports by the Draper Committee to the Congress.

The House of Representatives adopted the Mutual Security authorization for fiscal year 1960, H.R. 7500, with amendments on June 18. Four days later, the Senate Foreign Relations Committee reported its version of the bill, S. 1451. (S. Rept. 412, Eighty-sixth Congress, First Session)

On June 24, the President forwarded the Draper Committee's second interim report to Vice President Nixon, in his capacity as President of the Senate, and Speaker of the House Rayburn. In identical covering letters, Eisenhower wrote:

“I am in full agreement with the basic concepts enumerated by the Committee in its letter, and urge that the Congress provide for continuing authorizations for the Military Assistance Program, and hereafter make appropriations for military assistance to the Secretary of Defense under a separate title in the Department of Defense budget. In addition, I believe that legislative action along the lines suggested by the Executive Branch is necessary to clarify the administration of the Military Assistance Program.” (*Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1959*, pages 473–474)

The President reiterated his support for the Committee’s conclusions and recommendations in a letter, also dated June 24, to Committee Chairman Draper. “In these troubled times,” he wrote, “I can think of no more important problem upon which the devoted attention of outstanding citizens is needed. As I have noted many times, our Military Assistance Program is a vital part of our security effort.” For complete text, see *ibid.*, pages 474–475.

On July 8, the Senate passed H.R. 7500 with amendments, but failed to authorize the full amount of funds the administration had requested.

The Draper Committee sent the President its third interim report on July 13. For text, see *Letter to the President of the United States From President’s Committee to Study Military Assistance Program and Committee’s Third Interim Report—Economic Assistance Programs and Administration*. For text of the Committee’s covering letter, see *American Foreign Policy: Current Documents, 1959*, pages 1584–1588. Eisenhower forwarded the report to Nixon and Rayburn on July 23; for text of his transmittal letter, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1959*, pages 548–549.

House and Senate conferees reported a compromise version of H.R. 7500 on July 21. For text, see Committee on Foreign Affairs, U.S. House of Representatives, *Selected Executive Session Hearings of the Committee, 1957–60*, vol. XX, *Mutual Security Program, Part 7* (Washington, 1983), pages 801–837. The following day, both the House and Senate adopted it. H.R. 7500 thus became Public Law 86–108, the Mutual Security Act of 1959. For text, see *American Foreign Policy: Current Documents, 1959*, pages 1589–1664.

On July 23, the House Appropriations Committee released testimony by Comptroller General Campbell criticizing the administration of U.S. foreign aid programs. Among the items Campbell cited was failure by the Department of Defense and the International Cooperation Administration to provide their reports to the General Accounting Office. Regarding Campbell’s statement, see *The New York Times*, July 24, 1959.

The following day, the Committee reported the Mutual Security appropriations bill, H.R. 8385. H.R. 8385 appropriated \$743,495,000 less than President Eisenhower had originally requested, with cuts in

military assistance, defense support, the Development Loan Fund, technical assistance, special assistance, and the President's Contingency Fund. (H. Rept. 712, Eighty-sixth Congress, First session) The White House released a statement expressing the President's disappointment: "The President most earnestly hopes that the ultimate action of Congress will be to restore the appropriations to the full amounts authorized." (*Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1959*, page 549)

Also on July 24, the President signed the Mutual Security Act of 1959. For text of his signing statement, see *American Foreign Policy: Current Documents, 1959*, page 1664.

The House passed H.R. 8385 on July 29. Among amendments added to the bill was one forbidding expenditure of any Mutual Security funds, except those for military assistance, should the International Cooperation Administration fail to provide documents requested by the Congress or the General Accounting Office within 20 days.

On August 17, the Draper Committee submitted its final report to the President; for text, see H. Doc. 215, Eighty-sixth Congress, First Session. The Committee's covering letter restated its support for the Mutual Security Program, asserting much of the criticism aimed at it was unjustified. Little improvement in this situation could be expected, however, without changes in the program's administration. The Committee reiterated its previous recommendations for increased Mutual Security funds and predicted the outcome if appropriations continued to decline. It discussed the Communist effort worldwide and the response required from the United States and its economically advanced allies to combat it. "The challenge," it concluded, "points to the need for greater unity of purpose, for a more dynamic effort, for combining and exchanging among all the free world the benefit of skills and energies of those that compose it. In such a combination and use of these skills and energies, we believe the required new dynamism can be found." (*American Foreign Policy: Current Documents, 1959*, pages 1665-1667)

Eisenhower forwarded the report to Nixon and Rayburn August 20. In his letter of transmittal, the President pointed to the Committee's comments about the level of fiscal year 1960 Mutual Security appropriations, noted he had already approved its recommendations for reorganizing the military assistance program, and stated the remainder of the report required further study. (*Ibid.*, pages 1668-1669)

246. Notes of the Legislative Leadership MeetingAugust 25, 1959, 8:30–10:45 a.m.¹

[Here follow a list of participants, a summary, and discussion of unrelated topics.]

Mutual Security—Acting Sec. Dillon stressed the need for securing during the Senate Committee markup some restoration of the cuts made by the House, particularly in view of the recommendations of the Draper Committee. He noted three bad amendments presently in the bill pertaining to cost-benefit ratios, employment rights of people leaving ICA and finally, availability of internal papers. He noted that the White House had taken the position that forced access to these papers is unconstitutional. Sen. Saltonstall thought there would be some difficulty in taking care of the papers question.

The President spoke with considerable feeling on the importance of carrying on the war against poverty and disease among nearly two billion people. Lacking progress in these areas, there might well be a great explosion leading to an absolutely desperate situation surpassing even World War II. He stated that one of the objectives of his trip to Western Europe² would be to get our allies to participate more in this effort. The President could not understand how people could oppose the money for development programs when they were willing to vote incomparably larger sums for military defense. He would prefer to cut \$5 billion from the latter to use for development in this vital field.

Sen. Saltonstall stated his concurrence with the President's views, and then spoke of the need for military assistance funds for maintaining NATO. The President replied in terms of how the U.S. got into the Korean War because of lack of funds and the continuing need for supporting Rhee's divisions at present. He commented wryly on the willingness of Congress to put much money into other areas where it could not profitably be used, as in medical research.

[Here follows discussion of unrelated topics.]

LAM

Source: Eisenhower Library, Whitman File, Legislative Meetings. Confidential. Drafted by Minnich.

¹ The meeting took place at the White House.

² Eisenhower left Washington on August 26 for consultations with European leaders at Bonn, London, and Paris, returning September 7.

247. Editorial Note

The Senate passed the Mutual Security appropriations bill, H.R. 8385, September 14. On the following day, House and Senate conferees reported a compromise version of the bill which appropriated \$704,182,000 less than President Eisenhower had originally requested. Among the bill's provisions were a requirement that the President submit a report to the House and Senate Appropriations Committees on the allotment of funds provided by H.R. 8385 and a prohibition on the expenditure of Mutual Security funds, except those for military assistance, should the International Cooperation Administration fail to furnish within 35 days documents requested by the Congress or the General Accounting Office, unless the President forbade their disclosure. (H. Rept. 1190, Eighty-sixth Congress, First Session)

The Senate adopted the compromise bill by voice vote early on September 15, the House by roll call vote the same day. H.R. 8385 thus became P.L. 86-383, the Mutual Security Appropriation Act, 1960, which provided \$3,225,813,000 for the Mutual Security Program in fiscal year 1960. Eisenhower signed P.L. 86-383 on September 28. For text, see *American Foreign Policy: Current Documents, 1959*, pages 1669-1673.

248. Draft National Security Council Report

NSC 5916

November 24, 1959.

[Here follow a cover sheet and a note from Lay transmitting the paper to the National Security Council.]

STATEMENT OF POLICY ON COMMITMENTS FOR GRANT
MILITARY ASSISTANCE TO CERTAIN FREE WORLD
NATIONS WITH WELL-DEVELOPED ECONOMIES

*Majority**Treasury-Budget*

1. As a matter of general policy, new commitments for grant matériel military assistance

1. New commitments for the provision of military equipment on a grant basis should not be

Source: Department of State, S/S-NSC Files: Lot 63 D 351, NSC 5916. Secret. The source text indicates a revision of the proposals for paragraph 1 had been substituted for the original texts on December 1.

should not be made to the United Kingdom, Germany, Austria and France; future programs for grant matériel military assistance to Italy, Belgium/Luxembourg, the Netherlands, Portugal and Japan should not be undertaken unless they include cost sharing or other similar efforts designated to elicit from such nations greater contributions than they would otherwise make, both in the form of defense expenditures and in other forms such as manpower and bases which are important to the security of the United States.

offered to nations which are financially able to pay for such equipment.¹

2. This policy does not preclude assistance in accordance with prior commitments,² nor the provision of grant assistance for training programs.

Majority

Treasury–Budget

3. Exceptions may also be made with respect to selected nuclear delivery or advanced weapons and support equipment when deemed by the Secretaries of State and Defense to be of fundamental importance to the security interests of the United States.

3. Exceptions in the case of military equipment may be made where, in the judgment of the President, overriding political considerations require a phasing-out period for U.S. grant aid.

[Here follows an annex comprising a table showing Department of Defense Military Assistance Program estimates for fiscal year 1960 for the United Kingdom, Germany, Austria, France, Italy, Belgium/Luxembourg, the Netherlands, Portugal, and Japan.]

¹“Financially able to pay” is determined on the basis of economic criteria, without regard to political willingness—including such considerations as total output, balance of payments, and budget. At the present time the countries considered to have this financial ability are the United Kingdom, Germany, Austria, France, Italy, Belgium/Luxembourg, the Netherlands, Portugal and Japan. [Footnote in the source text.]

²The commitments referred to are those which involve the good faith of the United States in relations with the countries concerned, but do not include unilateral U.S. programming which does not represent a commitment. [Footnote in the source text.]

249. Memorandum of Conference With President Eisenhower

November 25, 1959, 11:03 a.m.–12:23 p.m.¹

OTHERS PRESENT

Secretaries Herter, Dillon, McElroy, Gates, Irwin, Shuff, Anderson, Mr. Saccio, Mr. Bell, General Twining, General Palmer, Director Stans, General Persons, General Goodpaster

Mr. Dillon said the group had come in to discuss the Military Assistance Program for FY-61. He said that State and Defense had recommended a program of \$2.3 billion and Budget had indicated they would not recommend a program above \$1.4 billion. He said that the program as developed by State and Defense reflected the best and most thorough preparation of any program to date. Because the difference is so wide, however, he did not think it would be worthwhile to take up details of the program. While the State-Defense submission could be varied by 10% without too much difficulty, any such change as suggested by the Budget would breach our present foreign policy and security policy.

Last year, Mr. Dillon indicated he had agreed to going in for \$1.6 billion and referred to the study by the Draper Committee in relation to a possible increase above that figure. The Draper Committee recommended an additional \$400 million. After long argument, the Administration took the position it could not ask for the additional funds last year, and the request was put off for tactical reasons. The President had, however, told the Congress he would have to ask for more funds if the Congress made a cut in the Military Aid program, which they did. He said he and Defense had spread the funds thin to cover the program this year, but could not do it again. He recalled that Mr. Spaak had told the President that any substantial unilateral cut in U.S. aid programs without prior consultation would be extremely damaging to NATO.² General Draper and Mr. Voorhees had said that if the Administration dropped below a \$2 billion request this year this would be very disheartening to the Draper Committee. They had made a searching review of basic policy, and concluded that anything less than \$2 billion would be taken as a change of security concept.

Mr. Irwin then said that the Defense Department is very conscious of the foreign policy aspects of the Military Aid program. He said it is a close mixture of military and political considerations. There are four classes of recipient nations—those that will be allies in war, those

Source: Eisenhower Library, Whitman File, Eisenhower Diaries. Confidential. Drafted by Goodpaster on January 20, 1960.

¹ The time of the meeting is taken from the President's Appointment Books. (*Ibid.*)

² A memorandum of this November 24 conversation is scheduled for publication in volume VII, Part 1.

where we have bases, those having the potential of helping us in war or in actions to stabilize important regions in peacetime, and those where there are strong foreign policy motivations. He then made a brief presentation with charts of the program³ for the information of the President.

The President asked whether this proposal took account of the reduced valuation on old equipment. Mr. Irwin said that it did, but commented that the program is shifting to newer weapons. The President asked why so much money is destined for NATO. Mr. Dillon said that \$15 million is for the UK, for the Thor program. There is nothing for Germany. There is \$30 million for France to finish a past commitment. The major programs are for Greece and Turkey, with sizeable programs also for the Netherlands and Italy. The Netherlands has stepped up its outlays, and has in fact possibly taken on too much. Italy is increasing as much as it should, in wisdom. In both of these countries the aid is being given on a matching basis. If a major review were to be made, this would be all right, but no unilateral decision should be taken on a program we have agreed to. He commented that the force goals in Greece and the Netherlands may well be somewhat too high. The Belgians are not doing enough themselves; however, what we are giving them is on a matching basis. The size of the Portuguese program is related to our need to retain the Azores bases. The President asked why we have not talked with our NATO partners and told them that they must take on more of the load. Mr. Dillon said that we had done so, and it was as a result of these talks that our aid was put on a matching basis in many cases.

The President commented that the bigger the Mutual Security program is, the more the Congress is given the chance to balance the budget at the expense of the MSP. Personally, he believes this is the biggest and best investment for America that can be made. It does give the political opposition a chance to increase other programs in the budget without increasing the over-all total, simply by drawing money from this source.

Mr. Dillon said we should not discredit the Draper Report. He thought we could keep an unassailable public position if the approved aid figure stayed over \$2 billion. Mr. Irwin said that if it is kept at \$2.1 to \$2.3 billion we will have a sound program which we can defend against any attack. If the sum is less, we become much more vulnerable. Mr. Dillon commented that we already have the authorization for this year, and it will only be necessary to go up to Congress once—i.e., for appropriations. He commented that Congressman Passman is more reasonable this year, but this is not saying much.

³ Not found.

Director Stans said the difference between himself and Mr. Dillon is the difference between \$3.5 and \$4.9 billion. There is question of policy involved. The higher figure would in his opinion knock out any possibility of achieving an \$80 billion budget. He thought the general attitude in Congress and in the country is adverse to this program. The President said he recognized this but felt that this attitude was wrong and that if he had the choice he would take \$1 billion out of the Defense appropriation and put it in MSP. Mr. Stans then said he thought he should take up the proposed program with State and Defense in detail. He added that he is fearful that if the Administration asks for more funds for this purpose than last year the whole budget posture would be destroyed and other departments would demand increases. The President said he disagreed utterly and completely with this view, so long as he felt the increased funds were truly necessary. He did not think they were in the case of many of the other departments. Mr. Stans said he was speaking of public opinion, and wished to urge that we keep within the FY-60 submissions.

The President asked what total figure Mr. Dillon was proposing and the reply was a figure of \$4.9 billion. The President then asked what Mr. Dillon felt he could justify as really firm needs for the program. Mr. Dillon said he thought it could be gotten down to about \$4.4 billion but not below. This is not too far from the figure requested last year.

Secretary Anderson said the question is whether the President wished to go to Congress with the largest peacetime budget in history. He commented that every program must be looked at both for itself and in over-all terms. The President said that his great problem is to take care of the things that have to be done such as defense, payment of interest and the Mutual Security program—to find the funds for these things without giving way to increases all along the line, many of which are not necessary at all. He felt that a figure of \$4.9 billion would strain the budget very badly and that several hundred million of this probably is not strictly necessary. He asked State and Budget to see if a program could be worked out at that general level that would meet needs all around. He commented that we have never been able to get across the idea to the Congress or to the public that through this program we are keeping wars from occurring.

In connection with the President's query as to any need for increases in other parts of the Mutual Security program, Mr. Dillon said he wants to add to the Development Loan Fund at least as much as was asked for last year. He would like to go up to \$850 million. The President asked the group to study an over-all figure of about \$3.9 billion. He said this is by no means sacrosanct, however. He does not

wish to make his decision on budgetary factors alone. If a figure this small would involve undue risk, it could well be false economy since the cost to us later would be much greater.

He asked that the group be prepared to see him later the same week or early in the next.³

G.
Brigadier General, USA

250. Memorandum of Discussion at the 427th Meeting of the National Security Council

December 3, 1959.

[Here follows a paragraph listing the participants at the meeting.]

1. *Status of National Security Programs as of June 30, 1959: the Mutual Security Program (NSC 5912)*¹

and

2. *The Mutual Security Program for FY 1961 (NSC 5912, Part 2)*

Mr. Gray said that two items listed separately on the Council agenda would be taken up together. Mr. Dillon would make a general presentation on the status of the mutual security programs as of June 30, 1959 and the outline of the mutual security program for the Fiscal Year 1961. Mr. Irwin would then make a separate presentation of the military assistance aspects of the mutual security program.

Mr. Dillon then made his presentation, a copy of which is filed in the Minutes of the Meeting.²

Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Boggs on March 23, 1960.

¹ NSC 5912, "Status of National Security Programs on June 30, 1959," comprised a series of papers on nine components of the national security program. Part 2, October 10, addressed the Mutual Security Program. (Department of State, S/P-NSC Files: Lot 62 D 1)

² Not printed. (Eisenhower Library, Special Assistant for National Security Affairs Records, National Security Council Series, Administration Subseries)

The President noted that Mr. Dillon had mentioned the Inter-American Bank in his presentation. The President understood that a certain percentage of the capital of the Bank must be paid in by the end of this year. He had heard that payments were slow in coming in.

Secretary Anderson said that 85% of the Bank's capital must be paid in by December 31, 1959, but only 53% had been received. The Department of State had transmitted a notice to our Latin American embassies pointing out that unless there was an acceleration in Latin American accessions to the Bank we would have to request Congress to extend the December 31 deadline.³

The President said action should be taken to speed up the Latin American accessions. He then referred to a chart displayed by Mr. Dillon³ showing that the Sino-Soviet Bloc had committed \$912 million in economic aid to Free World countries in the first eleven months of 1959 and had 4675 technicians stationed in these countries. The United States had 5700 technicians stationed in countries receiving assistance and U.S. appropriations for economic and technical assistance in FY 1960 were nearly two billion dollars. However, he did not feel that the figures showing the relative U.S. and Soviet efforts were strictly comparable. Our appropriations figure included both money for direct grants and money for the salaries of our officials.

Mr. Dillon agreed that exact comparisons between the U.S. and Soviet figures he had presented would be misleading. His purpose in mentioning Soviet assistance had been to show that this assistance was substantial and was increasing.

The President said he wished to ask an accounting question. Did Mr. Dillon have at hand any statistics which indicated how much of our assistance expenditure was attributable to overhead in Washington and in the field and how much went into actual equipment furnished other countries?

Mr. Dillon said that administrative costs on the economic side of ICA amounted to about \$41 million a year, while the administrative cost for the Development Loan Fund was about \$2 million a year.

The President, noting that Congress usually gets competitive when its attention is called to Soviet aid activities, expressed further interest in the figure of 4675 Soviet technicians. Apparently, the Soviets had 4675 propagandists for an expenditure of \$912 million, whereas we spent more money and had fewer propagandists. He wondered how many of the Soviet technicians were actually technicians and how many were subversion experts. He thought some kind of comparison between U.S. and Soviet efforts might be useful.

³ Not found.

Mr. Dillon agreed that some Soviet technicians in the underdeveloped countries were propagandists, but pointed out that many were "pure technicians" with no political assignment, as indicated by the fact that many Soviet technicians sent abroad did not speak the local language. For example, Iraq now has a large number of Soviet and no U.S. technicians; but the Soviet technicians find their situation difficult because they speak neither the local language nor English (which is a second language in Iraq). Mr. Dillon added that the Soviets had 1000 technicians in India while we had only 150, the reason for the difference being the Soviet construction of a steel mill.

The President said that any curve designed to show increased Soviet aid efforts would have to take into account Soviet long-term grants recently extended as well as current expenditures. Secretary Herter pointed out that the chart on Soviet aid did not include the military assistance.

Mr. Gates wondered whether it was not dangerous in presentations to Congress to separate economic and military assistance as completely as Mr. Dillon had separated them in his presentation. Such a separation opened the way for the tactic of driving a wedge between economic and military assistance. Mr. Dillon felt a separation between the two forms of assistance was necessary and noted that Congress was tentatively thinking of dealing with the two types of assistance separately. The President said the press had caught him on this question in a recent press conference.⁵

Secretary Anderson then called attention to a particular danger existing in connection with Soviet loans to India. Some Soviet aid has been provided to India in the form of rupee loans repayable at Soviet option in products, in rupees or in pounds sterling (the currency in which Indian monetary reserves are maintained). The Soviets have been drawing down the Indian pound sterling reserves. India is in a position where the USSR can determine its trade balance and its monetary reserves. There appeared to be no immediate danger in this situation, but he was nervous about the possibility of Soviet pressure on the Indian reserves. However, if Indian reserves fell to a sufficiently low point, India could draw against the International Monetary Fund, or might be faced with the necessity of imposing an embargo on sterling withdrawals.

Mr. Dillon said the situation described by Secretary Anderson stemmed from the original Soviet-Indian aid agreement. The Indians had not agreed to similar provisions in later agreements.

⁵ Eisenhower presumably was referring to his press conference the previous day, when, in responding to a reporter's question, he had been unsure if and when the foreign military assistance appropriation would be included in the defense budget. See *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1959*, pp. 790-791.

The President said wherever the Soviets made loans in rubles and did not permit repayment in rubles, the borrower was receiving less than he appeared to be receiving.

Mr. McCone referred again to the chart on Soviet economic aid and asked whether the figure given by Mr. Dillon for U. S. technicians abroad included personnel sent abroad by U.S. contractors and engineering firms. Mr. Dillon said the figures did not include personnel of private contractors unless under contract to the government. Mr. McCone said the comparison made between numbers of U.S. and Soviet technicians was not a good one; all Soviet technicians but not all U.S. technicians were included. The President remarked that this result stemmed from the fact that the Soviets had a system of state capitalism. Mr. McCone said Russian technicians were undoubtedly indoctrinated and ours should be. Mr. Dillon said a program was now under way in which businessmen going abroad studied foreign affairs at American University, while some Foreign Service Officers about to go to a new assignment abroad studied business. The business community was financing this arrangement. The Vice President felt the comparison made between U.S. and Soviet technicians abroad was not a valid one in the sense that all Russian technicians abroad were included in the figures, but only U.S. Government officials were included. Mr. McCone believed private businessmen going abroad could do much for U.S. foreign policy if they were properly indoctrinated. In response to a question from Mr. Dulles, Mr. Dillon said the figures on his chart for Sino-Soviet Bloc technicians included Chinese Communist technicians.

Mr. Stans said some of his studies indicated that the figure for total Free World assistance to underdeveloped countries was twice the U.S. figure. Responding to a question from the President, he said the U.S. was providing about 50 per cent of the assistance provided by the Free World. Mr. Stans also pointed out that there was a lag between Soviet commitments and Soviet expenditures. Soviet expenditures were less than one-fourth the Soviet commitments. Did this mean Soviet commitments were very long-range or did it mean that these commitments were not carried out completely? Mr. Stans said his studies showed that during the period 1954-1958 all Soviet expenditures for assistance totaled \$375 million, while during the same period the Free World spent \$17 billion on assistance. In India there were 2400 Free World technicians, counting both governmental and private contractor personnel. There were about 99,000 U.S. technicians overseas, most of whom were connected with private enterprise. Mr. Stans suggested that in future the Mutual Security Status Report should take account of all factors in making a comparison of U.S. and Soviet Bloc assistance to other countries.

The President agreed that studies of the kind suggested by Mr. Stans would be useful. However, he felt it was not correct to equate the activities of personnel overseas for private enterprise with the activities of government officials indoctrinated in the problems of the day, whether these officials were Soviet propagandists on the one side or our technicians on the other side. Statistics of the type mentioned by Mr. Stans could provide a good measure of normal business activity, but could not measure political effort. U.S. propaganda must be as effective as Soviet propaganda if we are to derive full advantage from our assistance programs.

Mr. Dillon thought that an improved statement of Soviet effort could be devised for future Status Reports. However, he did not want the Council to form the impression that the Soviets were not carrying out their aid commitments. The Soviets often make long-range development assistance commitments and later decide toward which specific projects the aid will be directed, a procedure which explains the lag in Soviet practice between commitment and expenditure.

The Vice President believed it would be useful to stimulate the preparation of some sound periodical articles on U.S. aid abroad. The President agreed, noting that Senator Johnson had recently told him that it was difficult for members of Congress to explain to the people why we cannot afford \$800 million for public works while we are spending billions for foreign aid.

Mr. Stans pointed out that the Mutual Security Status Report on Page 8 stated that: "Our policy statements indicate that the unilateral contributions of European nations to less developed areas . . . and their anticipated increased contributions to multilateral development organizations . . . ⁶ are not to substitute for U.S. assistance efforts but are to be essentially additive thereto." Mr. Stans did not believe that any provision of this kind appeared in our policy statements. On the contrary, he felt it was consistent with our policy to expect that our contributions to assistance would decrease as the contributions of others increased.

The President said the underdeveloped world needs new capital faster than it can be obtained. We have recently been paying more attention to the serious problem of overpopulation and we know that the world has an awakening sense of justice and desire for better living conditions. He believed we could sustain peace more effectively by economic aid expenditures than by the provision of military equipment to other nations, even though military assistance may be more popular in Congress and perhaps among the people. The Free World was not providing enough assistance to underdeveloped countries. We needed a better-coordinated effort by international society to raise the

⁶ Ellipses in the source text.

living standards of countries with low standards. It might not be feasible for absolute amounts of U.S. aid to be reduced as other nations contribute more, even though relative U.S. aid falls.

Mr. Dulles returned once more to the chart on Soviet economic aid. He pointed out that the chart showed only Soviet Bloc aid to the Free World, not Soviet Bloc aid in other countries of the Soviet Bloc. The President said it was very difficult to get accurate comparisons of U.S. and Soviet aid.

Mr. Irwin then made a presentation on the military assistance aspects of the status of the mutual security program on June 30, 1959 and the mutual security program for FY 1961. A copy of Mr. Irwin's presentation is filed in the Minutes of the Meeting.

At the conclusion of Mr. Irwin's presentation, Mr. Gray said the Planning Board had been concerned about the statement in the Mutual Security Status Report (Page 2, Par. 3) that this year's drop in military aid appropriations must be almost entirely absorbed in force modernization, resulting in progressive deterioration in the effectiveness of vitally needed Free World forces. Did this mean that we are only able to provide maintenance and unable to carry out modernization? Were we wasting our investment on outmoded forces and equipment?

Mr. Irwin replied that the \$2 billion military assistance request would permit some modernization. About \$1.4 billion of the \$2 billion would be spent for maintenance of the status quo, as assistance for political reasons, and so on, leaving about \$600 million that might be spent for modernization and improvement of forces.

*The National Security Council:*⁷

1. Noted and discussed an oral presentation of the overall status of the Mutual Security Program as of June 30, 1959, by the Coordinator for Mutual Security, and an oral presentation on the status of the Military Assistance Program as of June 30, 1959, by the Assistant Secretary of Defense (ISA); based upon Part 2 of NSC 5912.

2. a. Noted and discussed the Mutual Security Program for FY 1961, as presented at the meeting by the Coordinator for Mutual Security.

b. Agreed that, subject to the normal budgetary process, the overall scope and character of the Mutual Security Program for FY 1961, as presented at this meeting by the Coordinator for Mutual Security, are generally consistent with national security policy objectives.

Note: The action in b above, as approved by the President, subsequently transmitted to the Secretaries of State and Defense and the Director, Bureau of the Budget, for appropriate action.

⁷ Paragraph 1 constitutes NSC Action No. 2156. Paragraph 2 and the note that follows constitute NSC Action No. 2157. (Department of State, S/S-NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

3. *Commitments for Grant Military Assistance to Certain Free World Nations With Well-Developed Economies* (NSC 5906/1; NSC Action No. 2121; Memo for NSC from Executive Secretary, subject: "Nations Financially Able to Purchase Military Equipment and Training", dated November 19, 1959; NSC 5916)⁸

Mr. Gray presented the subject to the Council. (A copy of Mr. Gray's Briefing Note is filed in the Minutes of the Meeting and another is attached to this Memorandum.)⁹ Mr. Gray then asked whether Secretary Anderson wished to elaborate on the Treasury analysis of nations financially able to purchase military equipment and training, as circulated by the reference memorandum of November 19.

Secretary Anderson said the Treasury Department had attempted to determine the financial ability of countries to purchase military equipment by examining their resources positions. Except for the U.K., most of the countries scrutinized had a resources position superior to that of the U.S. inasmuch as the U.S. resources position had recently declined while that of other countries had been strengthened. Secretary Anderson thought the question was whether, after the financial ability of a country is determined, we should say to ourselves, "This country is financially able to pay, but will it?" In other words, if the government of a country in a good resources position is unable to induce its parliament to adopt measures providing for the purchase of its military requirements, should we regard that country as unable to pay, even though it has the ability from the strictly financial point of view? In Secretary Anderson's view, we should not assure a nation that we will continue to provide it with military assistance because of its political difficulties, if it is financially able to pay for its military equipment. In purchasing their military requirements, other Free World countries would be safeguarding their own security. We must take the position that a country's political problems are its own internal affair; we must call upon countries able to pay for their military equipment to do so. The U.S. could not continue to absorb the political difficulties of other countries. Secretary Anderson then reported that, together with the Vice President, he had recently talked to Mr.

⁸ NSC 5906/1, "Basic National Security Policy," August 5, is scheduled for publication in volume III. NSC Action No. 2121, taken August 18, "noted the President's directive that the Secretary of the Treasury prepare an analysis indicating the Free World Nations which are financially able to purchase their requirements in military equipment and training" and instructed the NSC Planning Board to prepare a general policy on providing military equipment and training to such nations which reflected "the general provision that new commitments for grant assistance should not be offered to such nations." (Department of State, S/S-NSC (Miscellaneous) Files: Lot 66 D 95) Lay's November 19 memorandum transmitted the Treasury paper. (*Ibid.*, S/S-NSC Files: Lot 63 D 351) A draft of NSC 5916 is printed as Document 248.

⁹ Not printed.

Spaak,¹⁰ who had been asked by the Vice President whether European countries able to pay would do their full share in mutual defense. Mr. Spaak had replied that if the U.S. would explain the problem fully and frankly to its European allies before it reduced its own forces, such of these others as were financially able would do their full share.

The President said Mr. Spaak had told him the same thing.¹¹

Continuing, Secretary Anderson expressed the view that financial ability to pay and political willingness to pay should not be confused. He would be willing to continue grants for military training, which was a good human relation. But in the future the greater part of expenditures for military equipment in any country would be in the field of advanced weapons. The majority language in NSC 5916 would in practice make no change in existing policy with respect to grant assistance for advanced weapons, since it provides that the Secretary of State and Defense may, in the case of selected advance weapons, make exceptions to the general principle of no new commitments for grant assistance.

The President said he objected to making the provisions of NSC 5916 firm policy before the Secretary of State had been given an opportunity to prepare the way in conversations with the governments affected. He felt we must bring foreign governments to understand the nature of their responsibilities for defense. Explaining the situation to these governments fully and frankly would be the safety valve of the policy proposed in NSC 5916. The President also wondered about the inclusion of Italy in the list of countries which were not to receive grant military assistance. He felt we must help Italy keep its Communist Party down.

The President then said that, in principle, he believed in the Treasury–Budget version of the split in NSC 5916. The policy proposed by Treasury and Budget was our objective; that is, new commitments for the provision of military equipment on a grant basis should not be offered to nations which are financially able to pay for such equipment. At some stage we would have to state this policy frankly, but now was not the time for such a frank statement; the way must be prepared first. The President said that when he went to Europe as NATO Commander, he agreed to go only as an emergency measure. However, no political authority had ever publicly indicated the emergency nature of our military program in Europe.

¹⁰ No record of this conversation has been found.

¹¹ Regarding this conversation, see footnote 2, Document 249.

Secretary Anderson said he would be content with a statement of policy indicating that we should now inform appropriate countries diplomatically that we intended by mid-1960 to announce a policy of no new commitments for the provision of grant military equipment to nations financially able to pay for such equipment.

The President said such a policy would then be put into effect at some future time following its announcement.

Secretary Gates observed that this policy would involve a review of MC-70.

The President felt that compromise plans such as MC-70 had a tendency to become sacrosanct. General Ridgway had once told him that the Army must meet a commitment of deploying twelve divisions to Europe within six months of the outbreak of war. The President had told General Ridgway that this concept was as outmoded as the cross-bow. The President thought our policy should be based on up-to-date estimates of the situation; we should not allow past plans to become as sacrosanct as the laws of the Medes and the Persians.

Secretary Herter said he had no quarrel with the objective of refraining from making new commitments for grant assistance for military equipment to nations financially able to pay. He was, however, worried about the method by which such an objective was to be achieved. The language in NSC 5916 proposed by Treasury and Budget would put the Department of State in a strait-jacket. Forthcoming NATO meetings would probably prove a mechanism for reassessment of European military requirements, but it would be unwise for the U.S. to begin these meetings with a threat to reduce its military assistance.

The President said it was not necessary to give definitive approval to the policy of no new commitments at this time. Approval of such a policy could come later. However, we ought to agree that our ultimate objective is the one stated in the Treasury-Budget language: no new commitments for grant military equipment to nations able to pay. Of course it might be necessary to make some exceptions to this general principle.

Secretary Herter pointed out that different considerations might apply with respect to each country concerned.

Secretary Anderson then quoted from a recent statement by the Belgian Defense Minister¹² which indicated that Belgium expected assistance in larger amounts than the U.S. had programmed for Belgium.

The President remarked that our allies often forget that we pay the full cost of the deterrent forces for the Free World, the world's largest navy, and so forth. The U.S., as the "reserve position" of the

¹² Not further identified.

Free World, ought to have mobile forces able to move rapidly to any threatened area; but our allies must have the strength to hold on until our forces arrive. In addition to our mobile forces, we should have small forces stationed in various threatened areas as a means of showing the flag and giving evidence of our intention to defend our allies. However, we should not permit commitments to become frozen like a river of ice.

Mr. Dillon said he shared the view that countries financially able to pay for their military equipment should do so. France was certainly in the category of countries able to pay. However, with respect to some other countries the question of financial ability to pay became a difficult one. Ultimately the question was a question of subjective judgment. He did not agree that some of the countries on the Treasury list of nations financially able to pay were in fact able to pay. The important thing was to induce our allies to carry their full share of the defense burden as rapidly as possible. Not simply political willingness, but political capability was involved in this matter. Moreover, mutual defense involves our national security as well as the security of our allies. This principle is especially relevant in the case of a country like Japan. Assistance to Japan is helping Japan substitute its strength for major U.S. naval bases which would otherwise be required in the Far East. Mr. Dillon then referred to the U.S.-Japanese negotiations for a new security treaty and pointed out that if Japan failed to maintain its present security position, grave damage to U.S. security in the Far East would result. Mr. Dillon felt there were other ways of collecting money from Japan. That country had, for example, just agreed to settle GARIOA up to \$600 million at \$30 million a year. We could press hard in this area and in connection with trade; but if we say we are not interested in cost-sharing for military equipment we would be doing grave damage to our own security. With respect to the financial capabilities of any given country, Mr. Dillon wished to point out that while a country could carry a greater load if it would reduce its non-defense expenditures, some of these expenditures were as deeply embedded in that country's culture as our expenditures were embedded in ours.

Mr. Dillon said he wished to conclude his remarks by referring briefly to The Netherlands. This country had worked hard to be loyal to NATO. Its GNP was low, it had lost Indonesia, it had a refugee problem as a result of the loss of its colonies, its tax burden was the heaviest in the Free World and its financial resources were staying level, not increasing. The MC-70 goals accepted by The Netherlands were too high and must be revised. The Netherlands was not financially able to pay for its military equipment on the basis of the present goals.

The President felt it would be necessary to examine the situation in each country individually in an effort to determine exactly what the facts are with respect to that country. The policy embodied in NSC 5916 could not be adopted until more specific information on each country was available. However, he was weary of accepting our allies' dependence on us forever. He suggested the possibility of submitting to each of our allies an Aide-Mémoire stating our long-term objectives in the matter of grant assistance for military equipment.

Mr. Gray then read a proposed Record of Action paragraph substantially along the lines of sub-paragraph b below. The President concurred in this proposal, adding that the Departments of State and Defense should consult with all interested agencies in taking steps to achieve our objective.

*The National Security Council:*¹³

a. Discussed the draft statement of policy on the subject contained in NSC 5916, prepared by the NSC Planning Board in accordance with NSC Action No. 2121–b and in the light of the memorandum from the Acting Secretary of the Treasury, submitted pursuant to NSC Action No. 2121–a and transmitted by the reference memorandum of November 19, 1959; in the light of the views of the Joint Chiefs of Staff summarized at the meeting.

b. Noted the directive by the President that the Secretaries of State and Defense, in consultation with other departments and agencies as appropriate, take steps that would achieve, at the earliest feasible time, the ultimate objective that new commitments for the provision of military equipment on a grant basis should not be offered to nations which are financially able to pay for such equipment.* This effort should be conducted on the basis of a country-by-country analysis taking into account the differing problems and U.S. interests in each country, and that final decisions in each case should only be taken after full consultation with the country concerned and, where appropriate, in NATO. Periodic reports on the above-mentioned steps should be submitted to the National Security Council.

*“Financially able to pay” is determined on the basis of economic criteria, without regard to political ability or willingness.

Note: The action in b above, as approved by the President, subsequently transmitted to the Secretaries of State and Defense for appropriate implementation.

Marion W. Boggs

¹³ Paragraphs a and b and the note that follows constitute NSC Action No. 2158. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

251. Memorandum of Conference With President Eisenhower

February 3, 1960, 11:10 a.m.–12:10 p.m.¹

OTHERS PRESENT

Secretary Dillon, Mr. Bell, Mr. Staats, Mr. Brand, Mr. Riddleberger, Secretary Irwin, General Palmer, General Persons, Mr. Morgan, Mr. Merriam, General Goodpaster

Mr. Dillon said the group had come in to put before the President the broad lines proposed for the Mutual Security Program and message this year, and to bring up one or two specific points of issue. He proceeded to review a topical outline proposed for the message, copy attached.² During this review he commented that all of the NATO countries are doing more in terms of increased military programs. He said there is no grant assistance planned for Britain, France, and Germany except the clean-up of certain small previous commitments. The President suggested that the message bring out that the Mutual Security Program, in addition to improving the economic status of recipient countries, improves their strength and stability and thereby contributes to American security.

Mr. Dillon said that one matter reflected in the speech and in the program material prepared for submission to the Congress is the position of the Budget and the Treasury against releasing money in the FY-60 program proposed for Italy, Belgium and the Netherlands. He recalled that the President and Mr. Herter had made statements to our NATO allies that we are not going to make unilateral changes in programs affecting our allies.

The President commented strongly that we cannot run out on defense agreements and commitments we have made. We cannot be guilty of bad faith with our allies. Mr. Staats pointed out that the difference of view relates to the Netherlands and Italy, and does not include, as Mr. Dillon had suggested, programs related to IRBMs. Mr. Dillon said that the issue is over FY-60 funds. The President stated that he felt this is a matter that is already decided. Mr. Irwin recalled that we have made a broad commitment not to make abrupt or unilateral changes in the program.

The President asked whether the United States has, for example, with respect to the program for Belgium, undertaken with them to determine what the requirements are and then how much the Belgians can pay. Mr. Irwin said that this has been done and that the filling of

Source: Eisenhower Library, Whitman File, Eisenhower Diaries. Secret. Drafted by Goodpaster on February 4.

¹ The time of the meeting is taken from Eisenhower's Daily Appointment Books. (*Ibid.*)

² Not found.

these requirements necessitates continued sharing of costs. Mr. Dillon mentioned some of the specifics entering into these matching programs. The President said he thinks that a little more joint study on this matter is needed for fiscal year 1961. He is inclined to give a go-ahead on fiscal 1960. He asked that the Budget representatives talk to State Department officials. He did not want to put a halter around their neck, but thought that the question regarding fiscal 1960 is pretty much decided.

At Mr. Dillon's request, Mr. Brand next gave a summary of Development Loan Fund activity in Turkey, India and Pakistan related to the private sector, i.e., to generating private capital to join with indigenous private and public funds in those countries to build specific projects. The President was keenly interested in this development and asked Mr. Brand to convey a message from him to a group of private businessmen who will be meeting in Washington in the next few days on this matter, indicating that officials in Turkey, Pakistan and India had asked the President to assure American businessmen that these countries would protect investments that were made and would give assurances against seizure or undue risks.

Mr. Dillon next raised the question of U.S. aid and support to the Indus River project. He said there is need for Congressional approval and endorsement of this program, waiver of certain restrictive provisions of the MSP, and a statement that the compliance with World Bank criteria would be considered to satisfy requirements of the Mutual Security Act on economic soundness, cost benefit ratios, and completion of engineering studies. The President expressed strong support for the Indus River project. He commented that he hoped this would help toward a settlement in Kashmir, recalling some of his efforts in this respect during his recent visit to Pakistan and India.

Mr. Dillon next described to the President the remarkable progress now being made in Taiwan to strengthen its financial and economic affairs and to expand its economy, especially its industries. He is proposing that Taiwan serve as a "model" for other areas and is recommending an incentive fund for development of new industries, to be matched by funds from Taiwanese private enterprise. The President expressed warm endorsement of this type of activity. He said he thought the message as outlined was fine.

G.
Brigadier General, USA

252. Memorandum for the Record by the President's Deputy Assistant (Harlow)

February 29, 1960.

On February 15, at 5:30 pm the President met with the following people:

Lyndon Johnson	Everett Dirksen
Alexander Wiley	J.W. Fulbright
Carl Hayden	Styles Bridges
Richard Russell	Speaker Rayburn
Charles Halleck	John W. McCormack
Thomas Morgan	Clarence Cannon
John Taber	Secretary Dillon (State)
General Persons	Bryce Harlow

The President opened the meeting by stating that he would soon turn the discussion over to Secretary Dillon, it not being his desire to "bore everyone" by repeating his well-known convictions on Mutual Security. The President stated that he could not vouch for every particular figure in the following, but was recently advised by a man who had made a detailed analysis of the entire international situation that he was gravely concerned over the increasing costs of American production and what this is coming to mean to United States prosperity and American markets abroad.

This man advised that increasing costs are beginning seriously to affect our relations with the one and a quarter billion people who live in under-developed nations other than China. It was his understanding that in these nations productivity has been increasing about 1% a year, whereas their population has been increasing about 2%. If this be true, the President stated, we must move to increase productivity abroad by about an additional 1% if we possibly can, in the process of keeping the markets we now have and regaining those we have lost. The President stated that the people in these parts of the world will definitely better their conditions and that this must be made possible for them or the world will surely end up in chaos and disorder. He stated that he did not believe that the United States should do all of this itself, but certainly we must do better. The President said he had to repeat his conviction that our entire national security and prosperity are tied up in this program of Mutual Security and he reminded the group that in America's earliest days we too were dependent upon nations for investment and capital resources. He stated that this meeting would be the last one of this kind with this particular group but

that never has he been as sure as he is now that America's future is tied so tightly with this program despite the adverse publicity the program has received. At this point he turned the discussion over to Secretary Dillon.

Secretary Dillon explained that a Presidential message to Congress would be sent forward the following day and that hearings would shortly ensue in the Foreign Affairs Committee in the House of Representatives. First, as to economic programs, Secretary Dillon explained that in preparing these programs this year the Department had been guided in good measure by the so-called Mansfield Amendment which required that reports be prepared on all countries receiving grant assistance to determine whether or not and how soon such countries could have this kind of assistance reduced or eliminated. The Secretary stated that this report should be available by the end of this month.¹ He said that the philosophy of this report is already reflected in the program presented to the Congress, because the funds requested for grant assistance had been reduced by \$155 million under last year. He added that defense support alone had been reduced by \$111 million, a 13% reduction under last year.

The Secretary stated that the funds requested in the new program are only slightly above those appropriated last year for grant assistance. He pointed out that a reduction is being requested also for the contingency fund.

As for the Development Loan Fund, he explained that the same amount is being requested as was requested last year. He explained that these funds are needed in order to make it possible to use more of these loans in place of grant assistance.

The Secretary stated that the second major change in the program this year is military assistance—an increase being requested in this item of \$700 million above the amount appropriated last year in keeping with the recommendations of the Draper Committee and because the pipeline funds have been virtually exhausted. The Secretary stressed the necessity for modernizing the forces of our friends abroad and stated that an increase in military assistance is imperative to that end.

¹ Regarding the President's message to the Congress, see footnote 2, Document 253. The "Mansfield Amendment" is Section 503(c) of the Mutual Security Act of 1954, as amended. Dillon submitted his report to the Congress on February 29; for text of his transmittal letter, see Department of State *Bulletin*, March 21, 1960, pp. 459–460. The report, which was classified, has not been found. Dillon sent an unclassified, general summary report to the Congress on March 4. (*Ibid.*, pp. 460–465)

As far as the NATO nations are concerned, the Secretary stated that the policy is to have no new commitments to those NATO countries which are economically the strongest—England, Germany and France and that these nations are being urged to make cost-sharing agreements in assistance programs.

The Secretary stressed that the program has a better schedule of requirements than heretofore because unified commanders and our ambassadors have been brought into the program sooner.

The Secretary stated that \$940 million more than last year's appropriations are being asked this year, the great majority of the increase being for military assistance.

He cited the basic figures as being \$4.175 billion requested, as compared with \$3.930 billion requested last year, as compared with \$3.226 billion appropriated last year.

Speaker Rayburn then stated that in the House of Representatives there is a wide-spread feeling that there is a tremendous amount of incompetence and waste in this program. He said that there would be no difficulty on the military side of the program in the House, but there will be great difficulty on the economic side of the program. The Speaker emphasized that the people complaining to him have stressed waste and incompetence, not graft or corruption, and that they mention this in connection with economic aid. He identified the complaining Congressmen as members of the House Committee on Foreign Affairs.

Congressman Tom Morgan observed that military assistance is a continuing authorization, as is the Development Loan Fund, so that in the authorization bill this year there is only \$1.400 billion to be authorized. He stated that the so-called Pilcher subcommittee returned from a trip abroad with bad reports on large projects, but that the small projects seemed to be going well.

Secretary Dillon pointed out, respecting the larger projects, that these are being shifted from grants programs to Development Loan Fund projects. He stated that no money is included in this year's request for any projects of any size under grant aid except for a few now being completed in the Far East. He stated that because of this arrangement he did not anticipate difficulties on these projects in the future of the kind we have had in the past.

Congressman Taber asked the President if we could not get along without technical assistance and other smaller programs of this kind. The President responded that this is one of the best parts of the whole program. Taber said that he would agree if the program were honestly run, "but it isn't." At once the President responded, most vigorously, that it is very difficult to get good personnel in this program because the Congress insists upon a year by year program and has refused to put it on a career basis. He stated that "the United States is coming

damn close to making up its mind as to what we are going to do in the world, and if it is to withdraw then we will have to recompute our whole position on the face of the globe." He stated that both this Mutual Security Program and the USIA programs will be much better off if the personnel can be made career, and he feelingly commented on troubles he had experienced in prior years (including, specifically, with Taber) trying vainly to get enough Army funds, whereas today the Congress is lavish on defense but pinch-penny on the no less vital Mutual Security Program.

Secretary Dillon stated that a new study being made of the economic programs will be completed in about one year, pointing out that these programs have not been tightly resurveyed for the past decade. He said there is a possibility that some parts of the program are no longer needed.

Senator Wiley stated that he has had a letter asking why it is necessary to give additional assistance to NATO when they are in such excellent economic condition. Secretary Dillon explained that NATO countries are contributing far more now—about 11% more—than last year. The President pointed out that Holland, for instance, is contributing so much that there is some doubt whether or not it can carry the load. Senator Fulbright interjected to state that while we are approaching this in a highly critical and conservative fashion, Mr. Khrushchev is celebrating his new steel mill in India as well as a lot of additional economic efforts in other parts of the world on the part of the Soviet Union. He stated that the decision that America must make is whether or not to turn the rest of the world over to the Soviet Union; otherwise we must continue our own programs.

The Senator stated that he is much aware that in his own State this program is highly unpopular, and so much so that in every speech he makes he has to defend it. He says, however, that he does so unhesitatingly, because the Nation faces a critical situation in the world and must meet the test.

The President reiterated that almost his entire life had been spent in military service during a period in which every dollar invested in defense was characterized as waste. Now, he said, everybody insists on spending billions extra for defense, while scrimping on this particular program, an essential part of our own defenses.

Senator Fulbright repeated that it is unpleasant and unpopular to support this program but there is no alternative. He said it is most unfortunate that it has been made an annual program. He stressed that here we are watching the Soviet Union going around the world, in the Caribbean as well as in Asia, and we in this country are getting started on a battle royal in the Congress (referring to civil rights). He said that this battle in the Congress will make the situation even more difficult. He said that as far as he is concerned he will support this Mutual

Security program all that he can. America has, he pointed out, more than twice the gross national product of the Soviet Union. He said that we can afford this program, and we must support it.

Senator Dirksen suggested, whimsically, to Senator Fulbright that the latter should live in *Chicago-Tribune* area in order to get a real feeling of the local impact of this program.

The President stated that Mr. Khrushchev had told him that none of us can afford this business of destroying each other. However, the Soviets can place their emphasis in certain particular places to achieve their results. Meanwhile the United States must look after the concerns of all nations small or large. He stated that our job is tough indeed but that our allies are today a very large part of America's initial defense—in fact, our outposts, even though we cannot tell them so.

Senator Fulbright stated that the free world has at least three times the wealth of the Soviet Union so there is no doubt that we can afford a vigorous effort for mutual security. The President laughingly stated that he would come to Arkansas and put on a toupee and support Senator Fulbright in that state because of his views on mutual security.

The President then thanked everyone present for coming to this meeting. He stated that he doesn't care if he is characterized as "a stupid ox" but he believes profoundly in this program and will keep on saying so. He said that if he should survive for the next decade there will be, before it is over, a lot more converts to this program, because he is going to have something to do with getting them.

Speaker Rayburn then commented that the President's bourbon tasted very good to them; he hoped that this would not be, as the President had indicated, the last meeting of this group. The President laughingly answered that this was only to be the last meeting "of this kind."

Thereupon at 6:15 pm the meeting adjourned.

BNH

253. Notes of the Legislative Leadership MeetingFebruary 16, 1960, 8:30–11:15 a.m.¹

[Here follow a list of participants, a summary, and discussion of unrelated topics, including the International Development Association. For that part of the discussion, see Document 193.]

Mutual Security—(The President left the meeting for the period of Mr. Dillon's presentation.)

Mr. Dillon said the Administration was asking \$155 million less in grant programs than last year and only about \$150 million more than was authorized last year.

Mr. Dillon thought the big problem would come in the appropriations process where money would have to be provided for things already authorized, as the Development Loan Fund and military assistance. The big increase of the total program, he said, was entirely in military assistance where \$2 billion is being requested as compared with the \$1.3 billion appropriated last year.

Mr. Dillon emphasized that we had used up the possibility of living off the pipeline, which was once as high as \$8 billion. Now, it will be necessary to appropriate about \$2 billion every year to maintain an expenditure rate of \$2 billion. This year, deliveries will be at only \$1.8 billion, and even so that is \$0.5 billion over the appropriation.

Of the \$2 billion being requested, \$1.2 billion would be for maintaining forces in various countries in the Far East, Turkey, and Greece; \$800 million would be for modernization of forces, about equally divided between NATO and elsewhere.

Mr. Dillon said that no new commitments would be made for military assistance to Germany, the United Kingdom, or France. And in other countries, we are asking that they themselves make a larger contribution to their own defense. He stated that last year our allies had increased their efforts by about \$1 billion, and that there would be a further increase this year. Hence we look to the time when they will be on their own.

Mr. Dillon noted that the liaison with Congress would be handled by Mr. Ben Brown, the ICA director in Libya, who has been recalled to substitute for the ailing Mr. Claxton.

(The President returned to the meeting.)

Source: Eisenhower Library, Whitman File, Legislative Leadership Meetings. Confidential. Drafted by Minnich.

¹ The meeting was held at the White House.

Sen. Bridges ascertained that the United States would expend funds to help in the Thor combat training of the English, and he concluded that despite Mr. Dillon's earlier statement, we would be giving the British some military assistance. Mr. Irwin said that this would amount to \$3.8 million for 1961.

Mr. Halleck asked about overseas missile bases that form a part of our deterrent, and Mr. Dillon enumerated them. Messrs. Bridges and Saltonstall recalled last year's hassle over the status of the UK Thor bases. Mr. Dillon said that the RAF had announced, and appropriately demonstrated, that these bases are fully operational.

Mr. Halleck digressed for a moment to inform Mr. Dillon about the uneasiness that is developing over rumors that there would be a great many tariff reductions resulting from the next GATT negotiations. Mr. Dillon said this stemmed from confusion over the preliminary list, that each item was subject to study by the Tariff Commission which could set peril points, and that in many of these items the reduction could be at best only very small. Rep. Byrnes urged that a greater effort be made to eliminate from such lists, before announcement, any items that had very little potential for negotiation. Mr. Dillon noted the innovation this year of having Commerce Department work up for publication a list of items on which the U.S. would ask concessions from other countries.

Reverting to the mutual security program, Sen. Saltonstall thought that all of the mutual security items ought to be in a single bill instead of partially in the Defense appropriations bill, so as to give the Administration greater flexibility and increase its ability to get the best possible bill out of Congress.

Sen. Bridges foresaw some very serious votes when some of the demagogues would endeavor to take funds away from mutual security and apply them to our domestic security programs like the B-70 or airborne alert, etc., etc. Sen. Dirksen also thought so, then pointed to the probability that Sen. Russell would accept an increase of only \$150 or \$200 million.

The President commented that he had been breaking his heart over this for seven years and apparently must do so once more. The United States just did not seem to realize what was at stake here. It was essential to look at this program not as something deserving sympathy but rather with a hardheaded concern for our own best interests. Senators Bridges and Dirksen referred to the difficulty of getting Democratic Presidential candidates to support this, and Sen. Bridges opined that there were even more such candidates in the Senate than have yet been announced.

The President recalled how Lyndon Johnson had taken note of the \$800 million increase, making a total of \$4 billion in the program for next year, then had said that while he of course was not against it,

nevertheless every place he went in Texas he heard people complain about money being spent overseas when there was no money available for a particular dam they felt necessary. The President was insistent that this program must be considered on a much broader basis than just any single dam. There must be recognition of the fact that there were 1,250,000,000 people outside of Red China who would have to have some sort of help unless chaos is to result.

The President recounted his conversation with the King of Morocco² who urged that the United States must be solidly in support of independence movements, and must take the lead in finding ways to make it possible for these new countries to sustain themselves. The President said he had agreed that these two things must be done, but that they might better be done in reverse order; that is, that independent countries might best maintain helpful ties with their parent countries, as Algeria did in the past, until their economies gave promise of sustaining independence. The King would not agree to this, however, and went on to stress the great morale factor that is involved when a nation is able to take a seat in the United Nations. The President said that despite this mild debate he made it clear to the King that the United States does stand firmly for the right of self-determination.

The President continued his remarks, noting that these African countries *are* going to become independent and are going to look for help in one place or another. He thought that the one way he could see for accomplishing anything in this respect was to get a cooperative effort established where these countries could jointly put much into development and thus have a stake in maintaining the political stability and the growth of a whole area, something that would not result from simply a bilateral program between the United States and any individual country. For the moment, the President said, it was essential to get some of these people educated a little bit on the need for a little more political stability; but actually the task is a terrific amount bigger than just a business of putting \$200 million or even \$700 million additional into the mutual security program.

The President concluded by noting how long he had been talking about this problem over the years and by joking that there was no point citing to him the argument about high taxes—he was well experienced in that, particularly since there had been an effective cut in the

² A memorandum of this December 22, 1959, conversation is printed in vol. XIII, p. 795. Eisenhower visited Casablanca during his December 3–22, 1959, good will trip to Italy, Turkey, Pakistan, Afghanistan, India, Iran, Greece, Tunisia, Spain, and Morocco, during which he also attended a meeting of the Western Heads of State and Government in Paris.

Presidential salary just as he came into office by eliminating a tax exemption that had applied previously.³

[Here follows discussion of unrelated topics.]

LAM

³ The President sent his request for the fiscal year 1961 Mutual Security appropriations to the Congress on February 16. For text, see *American Foreign Policy: Current Documents, 1960*, pp. 830–836.

254. Memorandum of Discussion at the 435th Meeting of the National Security Council

February 18, 1960.

[Here follow a paragraph listing the participants at the meeting and agenda item 1.]

2. *Commitments for Grant Military Assistance to Certain Free World Nations With Well-Developed Economies* (NSC 5906/1; NSC Action No. 2121; Memo for NSC from Executive Secretary, subject: "Nations Financially Able to Purchase Military Equipment and Training", dated November 19, 1959; NSC 5916; NSC Actions Nos. 2158 and 2185; Memo for NSC from Executive Secretary, subject: "Commitments for Grant Military Assistance to Certain Free World Nations with Well-Developed Economies", dated February 17, 1960)¹

Mr. Gray presented this subject to the Council, referring to NSC Action No. 2158 and to the first periodic report by the Departments of State and Defense under that action circulated by the reference Memorandum of February 17. (A copy of Mr. Gray's Briefing Note is filed in the Minutes of the Meeting and another is attached to this Memorandum.) He added that Mr. Dillon had hoped to be present to comment

Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Boggs.

¹ Regarding NSC 5906/1, NSC Action No. 2121, Lay's November 19 memorandum, and NSC 5916, see footnote 8, Document 250. Regarding NSC Action No. 2158, see footnote 13, Document 250. NSC Action No. 2185, taken February 4, asked the Secretaries of State and Defense to prepare the first periodic report requested in NSC Action No. 2158-b. (Department of State, S/S-NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council) Lay's February 17 memorandum transmitted Herter's and Gates' report to NSC members. (*Ibid.*, S/S-NSC Files: Lot 63 D 351)

on the periodic report but had unfortunately been delayed on Capitol Hill.²

Secretary Herter thought that minimum comment from him was necessary on the report, which was self-explanatory. He noted, however, that there might be a difference of opinion on the second sentence of Paragraph 2 in the report, which indicated that steps have been taken to assure that except in specific instances where U.S. interests may otherwise require, no new commitments for provision of military equipment on a grant basis would be offered to the UK, Germany, France, Austria and Luxembourg. Mr. Herter thought some members of the Council might wish to delete the "except clause" in this sentence. Mr. Gray said that in all candor he was compelled to state that in his view he did not think the Monday meeting of various individuals on this subject³ had applied the "except clause" to the five countries named by Secretary Herter. Mr. Gray felt that the second sentence of Paragraph 2 had no meaning when the qualification represented by the "except clause" remained in the sentence. He suggested the Cyprus precedent might be followed; that is, the matter might be referred to the National Security Council for decision if the Department of State sometime in the future felt it was necessary in the national interest to give grant military assistance to one of the five countries named.

Secretary Herter said he wished to cite a particular case which illustrated the need for flexibility in this matter. Since 1957 there had been considerable discussion of second generation IRBMs in Europe. Recently there had been indications that a desirable missile might be determined upon, but a difference of opinion had developed among European countries. The UK maintained that a distribution of the manufacturing of the missile would require revision of the atomic agreements with Germany. Also there had been recent conversations concerning the development of a land-based Polaris. If Polaris developments were accelerated, perhaps some Polaris missiles could be established in Europe ahead of the original time-table. Such a development, he felt, would be very desirable, but the question was would the European countries agree to the establishment of second generation IRBMs on a shared-cost basis. He did not know the answer to this question, but he was convinced that if the "except clause" did not remain in the second sentence of Paragraph 2, we would not be able to discuss cost-sharing for second generation IRBMs with our European

² Gray's briefing note is not printed. For text of Dillon's testimony on the Mutual Security Program before the House Foreign Affairs Committee, see *Department of State Bulletin*, March 7, 1960, pp. 380–388.

³ Presumably the meeting recorded in Document 252.

allies; we would have to insist that they bear the entire cost of the new IRBMs. Flexibility in matters of this kind was all he had in mind by the reservation represented by the "except clause."

Mr. Scribner said the language of the report referred to new commitments. Accordingly, he wondered by [why?] the Department of State would be precluded from discussing IRBM problems with European countries if the "except clause" were eliminated. Secretary Herter said the establishment of new IRBMs in Europe would be a new commitment. Mr. Scribner said discussions alone need not involve a commitment; he thought the matter could be brought back to the NSC for decision after the Department of State had discussed the problem with the European countries. In Mr. Scribner's view, US officials in the field would feel that the language of the report, if it included the "except clause", meant continuation of our old policy. He believed the language of the report as it stood tended to negative [negate?] NSC Action No. 2158 because we should not be doing anything unless it was in the US interest. Sometimes our officials in the field made commitments unknown to Washington. He had no objection to changing the "except clause" to read "except where the NSC decides otherwise."

Mr. McCone thought the language suggested by Mr. Scribner would put the Department of State in a very awkward position. He felt State was entitled to some exception in the interest of flexibility. Mr. Stans thought there was not too much difference of opinion. As he understood it, State wanted flexibility to deal with unusual situations. Mr. Gates pointed out that the interpretation placed on policy language by officials in the field was not important since these officials could not make new commitments without approval from Washington. Mr. Stans thought there should be no difficulty in creating a flexibility which would allow State to deal with an unusual situation. He had an understanding with Mr. Dillon that further money would not be requested in the case of the five countries mentioned. However, he felt the language in the report as it stood was too broad and had been too broadly interpreted. Secretary Herter said any language was acceptable to him as long as it did not put the Department of State in a complete straitjacket so that it would be unable to hold conversations with our European allies without coming back to the NSC for approval. Secretary Gates suggested that the "except clause" might be revised to read "exceptions will be approved by the Secretaries of State and Defense." Mr. Stans believed the decision should be in the hands of the President or the NSC. Secretary Herter said it would be impossible to negotiate on a theoretical basis; that is, it would be impossible for the Department of State to discuss new commitments if the Department did not know whether or not it could make a new commitment. Mr. Stans said he would be satisfied with a Presidential

decision as to new commitments. Secretary Herter and Secretary Gates also said they would be satisfied with a Presidential decision, although Secretary Gates added he thought the situation was being made unduly awkward. Mr. Stans said he was not worried about what members of the Council might do but he was worried about what officials several echelons down might do. Mr. Gates said officials that far down could not do anything without the approval of higher authority. Mr. Scribner said officials in the lower echelons could hold discussions. Secretary Herter repeated that amendment of the second sentence of Paragraph 2 to indicate that the President would decide on exceptions would be satisfactory to him.

*The National Security Council.*⁴

a. Noted and discussed the report by the Departments of State and Defense on the subject, prepared pursuant to NSC Action No. 2158–b and transmitted by the reference memorandum of February 17, 1960.

b. Agreed that the second sentence of the second paragraph of the enclosure to the reference memorandum of February 17, 1960, should be revised to read as follows:

“As a result thereof steps have been taken to assure that, except in specific instances where the President may determine that U.S. interests otherwise require, no new commitments for the provision of military equipment on a grant basis will be offered to these countries.”

Note: The action in b above, as approved by the President, subsequently transmitted to the Secretaries of State and Defense for appropriate implementation.

[Here follow agenda items 3 and 4.]

Marion W. Boggs

⁴ Paragraphs a and b and the note that follows constitute NSC Action No. 2187. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

255. Memorandum from President Eisenhower to Secretary of State Herter

April 23, 1960.

I am interested in two subjects affecting our foreign operations that have come to my attention:

1. Ambassador Byroade told me of his conversations with Secretary Dillon¹ regarding the need for better technical people in the field who gather the information for contracts for the construction of dams, roads, buildings, and so forth and so forth, under the aegis of ICA. He thinks that this contracting is done from the central office on the basis of inadequate information. The result is that facilities constructed are often not those that are desired by the country and in the case of roads, badly located. Moreover, he believes that if we could have better supervision in the field, we could eliminate criticism of speculation and waste. He advocates the use of Army engineers—and I must say the idea has some appeal.

2. My second point concerns an article in the paper this morning,² in which Governor Rockefeller (supposedly a Republican supporter) is advocating a “bold new program” for the United States in its leadership of the free world. The article was not a detailed one, but by inference I gather he was talking about a new type of ICA operation.

I should like for you or Dillon to have a talk with him to see what he has in mind. It is easy to say the words “bold” and “new”—but this means nothing unless he has got a practical program that has escaped our attention. I assume he knows we have been trying to secure the cooperation of other industrial countries in the free world and that we have done everything possible to stir up greater cooperation and public interest in these necessary operations. However, it would be interesting to know just what he is insinuating.

D.E.

Source: Eisenhower Library, Herter Papers. Personal. The source text bears the handwritten notation, “CDD saw.”

¹ No further record of these conversations has been found.

² Presumably “Rockefeller Bids U.S. Stop Improvising on Leadership,” by William G. Weart, which reported on Rockefeller’s April 22 address before the Philadelphia World Affairs Council; for text of the article, see *The New York Times*, April 23, 1960.

256. Editorial Note

President Eisenhower briefly mentioned the Mutual Security Program in his May 2 address, terming it "one of the greatest programs through which the United States can lead toward world peace." That evening, the President gave a major speech on the program at a dinner sponsored by the Committee for International Growth and the Committee to Strengthen the Frontiers of Freedom. For the texts, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1960–61*, pages 374–378, and *American Foreign Policy: Current Documents, 1960*, pages 836–841, respectively. The President also transmitted a report on the Mutual Security Program to the Congress on May 2; for the text, see *Report to Congress on the Mutual Security Program for the First Half of Fiscal Year 1960* (Department of State Publication 6950).

The following day, Eisenhower sent the Congress a special message urging action on certain legislation, including the administration's fiscal year 1961 Mutual Security appropriations request; for the text, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1960–61*, pages 385–394. Authorizing legislation for the appropriation, H.R. 11510, was in conference.

On May 6, House and Senate conferees reported a compromise version of the bill which cut \$88.7 million from the President's request. (U.S. House of Representatives, Committee on Foreign Affairs, *Selected Executive Session Hearings of the Committee, 1957–60*, vol. XXI, *Mutual Security Program, Part 8* (Washington, 1987), pages 581–601) That day, Bryce Harlow, Eisenhower's Deputy Assistant for Congressional Affairs, reported he had spoken with Speaker of the House Rayburn about the Mutual Security bill, and suggested the President invite Rayburn to the White House to talk about it. Eisenhower agreed. Acting Secretary of State Dillon, who had been discussing other matters with the President, volunteered to provide a memorandum on the effects a \$1 billion or \$1.5 billion reduction would have on the program. (Memorandum of conference with the President, May 7; Eisenhower Library, Whitman File, Eisenhower Diaries. Dillon's paper is *ibid.*, Dulles–Herter Series, Herter—May 1960.)

Eisenhower met with Rayburn at 5:30 p.m., May 9:

"The President asked the Speaker's cooperation and advice in dealing with the implacable resistance of Congressman Otto Passman to the mutual security program. At the President's direction I briefly presented the consequences certain to ensue should there be a massive reduction in mutual security appropriations for Fiscal Year 1961.

“It was pointed out to the Speaker that the ‘pipeline’ is now so severely reduced that a cut of a billion dollars or more would unavoidably fall mainly on force modernization in the military assistance part of the program—and that this would mainly hit NATO and certain countries in Asia.

“The Speaker stressed the effectiveness of Passman’s criticisms of administrative errors in the program. The President quickly conceded that errors are bound to occur in a program of this character and magnitude but that these cannot be allowed to destroy the entire effort. It was pointed out to the Speaker that prior reductions have not crippled the program because funds still remaining in the pipeline have tided the program over the successive reductions—a process no longer feasible because of the consumption of the pipeline these past few years.

“The Speaker stated to the President that he would ‘do his best’ to get the highest possible figure for mutual security but gave no more specific assurance than this, and this assertion was coupled with the reiteration of the great difficulties in handling the program this year.” (Memorandum for the record by Harlow, May 10; *ibid.*, Eisenhower Diaries)

257. Notes of the Legislative Leadership Meeting

May 10, 1960, 8:30–10:25 a.m.¹

[Here follows a list of participants.]

The President opened the meeting with an expression of his desire to focus the discussion on the various items in his recent special message to the Congress.² He summarized the several groups of bills as to the characteristics and chances of enactment for each group. He then took up each individual item in turn, setting forth his understanding of its situation and requesting the comments of the Leaders. Discussion of significance was as follows.

Mutual Security—The President reported that he had talked with Speaker Rayburn,² who as usual promised support; but his tone was not very optimistic with regard to counteracting Rep. Passman. Sen. Bridges said the Senate opponents of mutual security will focus on the appropriation, letting the authorization go through relatively un-

Source: Eisenhower Library, Whitman File, Legislative Leadership Meetings. Confidential. Drafted by Minnich.

¹ The meeting was held at the White House.

² See Document 256.

scathed. Sen. Saltonstall added that 12 of the 27 members of the Appropriations Committee would vote in favor of every possible reduction in the program.

The President emphasized how the pipeline on the military side of the program had been reduced from \$8 billion in 1953 to \$2 billion presently. The Passman threat to reduce the program by \$1-1/2 billion now, when the pipeline has been so reduced, would be disastrous if accomplished. The President thought that the Appropriations people should pay more attention to the judgment of the authorizing Committees, and he suggested that some Republican supporters of the program should demand to be heard by the Passman Subcommittee. Sen. Dirksen thought Passman, being irresponsible, would exploit to his own advantage any attempt by Republican Senators to influence a House action. Senator Dirksen thought the important thing was to marshal the facts that would refute irresponsible charges of waste and mismanagement. Sen. Bridges thought it important to avoid on the Floor of the Senate any "psychology of cutting," for that would probably ruin any chances of subsequent restorations.

The President urged an intensive effort to make a factual showing of the good accomplished through the program. Mr. Harlow noted how members of the Armed Forces Committee testify before the Appropriations Committee in order to settle differences and avoid fights on the House Floor, and he thought the same might be done in the mutual security area. Sen. Bridges commented that much of the critical information is supplied by mutual security employees overseas. Then he added that the Senate Appropriations Committee would resent very much being told what to do by another Senate Committee, particularly if it meant having to listen to Sen. Fulbright's crusade for the scholarship program which happened to bear his name when really it should be known as "American Scholarships." Mr. Halleck also set forth reasons for independent judgment by Appropriations people, especially since the various legislative committees tend to become promoters of special interests.

Rep. Halleck and Sen. Bridges both endeavored to reassure the President that the program was in better shape than he expected. The President commented on how much the various candidates would dislike being called back to a special session this election year.³

[Here follows discussion of unrelated topics.]

LAM

³ On May 20, Dillon sent Harlow figures on fiscal year 1959 Mutual Security expenditures and programs, noting the President had requested this information at the legislative leadership meeting. (Eisenhower Library, Harlow Records)

258. Editorial Note

On May 12, the House of Representatives and the Senate approved a compromise version of legislation authorizing Mutual Security appropriations for fiscal year 1961. H.R. 11510 thus became Public Law 86-472, the Mutual Security Act of 1960. For text, see *American Foreign Policy: Current Documents, 1960*, pages 841-852. President Eisenhower signed the bill May 14, declaring it contained "essentially all of the requests I have put forward as necessary for the successful continuation of the Mutual Security Program." For the text of his statement, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1960-61*, page 421.

Vice President Nixon wrote to Republican members of the House Appropriations Committee on May 19, urging them to support the Mutual Security Program. (Press Release, May 23; Eisenhower Library, White House Office Files, OF 133-L, 1960 (2))

Eisenhower sent his own message to 15 key Republican and Democratic representatives on June 11, prior to his June 12 departure on a trip to the Philippines, China, Okinawa, and Korea:

"I understand that, in addition to other unfortunate reductions, the majority of the Foreign Operations Subcommittee of the House Appropriations Committee has acted to cut the military assistance appropriation request by four hundred million dollars and defense support by an additional seventy-five million dollars. This cannot but jeopardize our own security and the defense of the free world. Unavoidably the military assistance cut would have to fall heavily upon force modernization. This would compel America to withhold from her allies both in NATO and in the Far East the equipment required to maintain a respectable posture of defense." (*Ibid.*, 1960 (4))

The House Appropriations Committee reported the Mutual Security appropriations legislation, H.R. 12619, June 13, cutting \$790.5 million from the President's request. (H. Rept. 1798, Eighty-sixth Congress, Second Session) During a noon telephone conversation the following day, Acting Secretary of State Dillon informed Secretary of Defense Gates he "was getting ready to put out quite a blast on the Mutual Security thing on his behalf as Acting Secretary. Gates said he had one in preparation also. CDD said he just wanted to let him know we are really going to town on this and that Defense would not be alone." (Notes of telephone conversation; Department of State, Secretary's Memoranda of Conversation: Lot 64 D 199)

Dillon's June 15 statement described the committee's action as "a matter of grave concern" which would "severely impair the effectiveness" of the Mutual Security Program and would "require the assumption of risks to our national security which are both unnecessary and dangerous." It outlined the impact specific cuts would have and de-

scribed how several amendments would affect the program. "In short," he concluded, "the committee majority proposes insufficient funds and hamstrings these. The Department is profoundly convinced that correction of these defects is essential to the interests of the United States." For the text, see *American Foreign Policy: Current Documents, 1960*, pages 852–854. Two days later, the House passed H.R. 12169 with amendments.

259. Memorandum From Acting Secretary of State Dillon to President Eisenhower

July 8, 1960.

SUBJECT

Ambassador Byroade's Views Regarding Project Execution Improvement

ICA has given thorough and careful consideration to the views expressed by Ambassador Byroade regarding the need for improvement in project execution which were mentioned in your memorandum to Secretary Herter of April 23. A report has been provided me by ICA¹ which indicates ICA's recognition of the need for improvement in project execution and recites a number of efforts which have been made and which it is believed will achieve better performance in the near future.

With respect to the particular suggestion of Ambassador Byroade that the Army Engineers be used, ICA points out that it has on a number of occasions utilized the services of the Corps. It does believe that an interagency agreement covering the provision of services by the Corps and other agencies of the Department of Defense would clarify and facilitate opportunities for more extensive reliance on the Corps. Discussions looking to such an agreement will be initiated shortly by ICA with the Department of Defense. It is expected to result in an interagency agreement under which the facilities and expertise of the Corps, as well as the Bureau of Yards and Docks and other technical services of the Military Establishment, could be drawn upon more expeditiously and effectively in carrying out ICA's project activities.

Source: Eisenhower Library, Whitman File, Dulles–Herter Series. Secret. Initialed by Eisenhower.

¹ Eisenhower's memorandum is printed as Document 255. The ICA report has not been found.

In addition, ICA has already reached an agreement with the Corps of Engineers under which the Corps will take over responsibility for completing the major highway program in Afghanistan. This was the project which had given particular concern to Ambassador Byroade.

Douglas Dillon

260. Memorandum From President Eisenhower to Secretary of State Herter

Newport, Rhode Island, July 14, 1960.¹

It is of the utmost importance that the American public be kept fully and accurately informed regarding our military and economic assistance programs. The future success of these programs depends in large part upon the extent to which they are understood and supported by the American people.

At present, the great accomplishments of these programs and their vital role in the attainment of our foreign policy objectives are not sufficiently understood, while exaggerated or groundless criticisms are often widely circulated. Much of this public misunderstanding is undoubtedly traceable to the fact that adequate information about the programs is not available to our people.

I am aware of the legal inhibition against utilizing assistance funds for "general propaganda in support of the mutual security program." I am advised, however, that the legislative history of this enactment, supported especially by recent statements of influential Congressional Committees, makes it clear that the prohibition was intended to be narrowly construed. Further, such Committees during the last session of the Congress urged that fuller information about the programs be made available to the public.

Accordingly, you are requested to consult with the Secretary of Defense in the development of coordinated plans and to allocate at once sufficient funds and personnel to keep the American public fully and fairly informed on a continuing basis about the personnel, operations, accomplishments and problems of the assistance programs. This task should be accomplished by a balanced reporting of the facts,

Source: Eisenhower Library, White House Office Files, OF 133-L, 1960 (4). No classification marking.

¹ Eisenhower was in Newport on a working vacation.

utilizing all appropriate means or media of communications. Criticisms of the programs should be fully, promptly and frankly answered. If they are valid, this should be recognized. The purpose should be to place before the public all of the facts.

Other Governmental agencies are requested to assist as appropriate.

Dwight D. Eisenhower²

² Printed from a copy that bears this stamped signature.

261. Memorandum of Discussion at the 454th Meeting of the National Security Council

Newport, Rhode Island, August 1, 1960.

[Here follow a paragraph listing the participants at the meeting and agenda item 1.]

2. *Commitments for Grant Military Assistance to Certain Free World Nations With Well-Developed Economies* (NSC 5906/1 ; NSC Action No. 2121; Memo for NSC from Executive Secretary, subject: "Nations Financially Able to Purchase Military Equipment and Training", dated November 19, 1959; NSC 5916; NSC Actions Nos. 2158 and 2185; Memos for NSC from Executive Secretary, subject: "Commitments for Grant Military Assistance to Certain Free World Nations with Well-Developed Economies", dated February 17 and 20 and July 20, 1960; NSC Action No. 2187)¹

Mr. Gray presented this subject to the Council. (A copy of Mr. Gray's Briefing Note is filed in the Minutes of the Meeting and another copy is attached to this Memorandum.)² Mr. Gray then called on the

Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Boggs on August 4.

¹ Regarding NSC 5906/1, NSC Action No. 2121, Lay's November 19, 1959, memorandum, and NSC 5916, see footnote 8, Document 250. Regarding NSC Action No. 2158, see footnote 13, Document 250. Regarding Lay's February 17 memorandum, see footnote 1, Document 254. Regarding NSC Action No. 2187, see footnote 4, Document 254. Copies of Lay's February 20 and July 20 memoranda are in Department of State, S/S-NSC Files: Lot 63 D 351.

² Not printed.

Under Secretary of State to summarize the State-Defense report on the subject transmitted by the reference memorandum of July 20, 1960.

Secretary Dillon recalled a report to the Council on this subject dated February 17 which indicated that steps had been taken to assure that, except in specific instances where the President may determine that U.S. interests otherwise require, no new commitments for the provision of military equipment on a grant basis would be offered to the U.K., West Germany, France, Austria, and Luxembourg. The report before the Council today covered five countries not covered in the previous report, namely, the Netherlands, Italy, Portugal, Belgium, and Japan. These five countries had been certified by the Treasury Department as financially able to pay for military assistance. The situation in these five countries had been studied after an evaluation of the plans of the country teams. Secretary Dillon said he was not suggesting that decision be made at the present time as to the long-term prospects for military assistance for these countries. He proposed to report to the Council in September on the Mutual Security Program resulting from the planning exercise which had involved the country teams. At that time he expected a decision on the general order of magnitude of the extent to which these five countries would be included in future long-range military assistance programs. However, a decision was needed now on FY 1961 funds for these countries. All five countries had been included in the illustrative presentations to Congress but funds for them had not been released. It was now necessary to make a decision as to the use of the funds.

Turning to the financial capabilities of the five countries, Mr. Dillon said he had examined the present and prospective financial position of each country and had concluded that the foreign exchange and reserve position of each country was not an obstacle to its paying for its military equipment. In each case the reason for military assistance was the country's domestic budget in relation to its total national resources. All five countries were planning an increase in the proportion of resources devoted to defense and we were trying to induce them to make this proposed increase larger. Even though such increases take place, however, these countries would not be able to reach their force goals. The Joint Chiefs of Staff had established strategic force objectives identical with MC-70 requirements, except that the JCS objectives are higher in naval requirements, because of the greater anti-submarine need as seen by the JCS. None of the five countries would be able to achieve the JCS objectives even after annual defense increases, assumed to be 7 per cent for Belgium, 6 per cent for Italy, 5 per cent for the Netherlands, 4 per cent for Portugal, and 11 per cent for Japan. Secretary Dillon felt that these increases were within the range of possibility and that the countries concerned might even do

better, but in any case there would be defense deficits ranging from \$1.6 billion in the case of Italy on down. These five countries could not achieve the JCS force objectives from their own resources. Consequently, Mr. Dillon thought the U.S. would either have to provide military assistance or change the force objectives. The study on the Future of NATO may lead us to propose some changes in the force objectives but these objectives cannot be changed unilaterally at the present time.

Mr. Dillon asked how the U.S. could fill the defense gap of these five countries to the extent it was in our interest to do so. He believed the answer did not lie in cutting off grant military assistance. Such an action on our part would decrease rather than increase the defense efforts of these countries and would lead them to feel they are not regarded as important. Moreover, there was some conflict between our desire to redeploy our own forces from Europe and our desire to eliminate military assistance. It would be more feasible to redeploy U.S. forces from Europe if indigenous forces were first built up by military assistance. Secretary Dillon felt that five years from now these five countries would be able to carry the current rate of military build-up plus replacement costs. There would, however, still be deficits in meeting the strategic force objectives. Cost sharing was very important in getting these countries to increase their military expenditures.

Mr. Dillon said that this year about \$181 million worth of military equipment was involved in the case of these five countries. It was true that the military program for the five countries was larger but this program included F-104s and a multilateral program already approved as well as missiles in Belgium and Jupiter in Italy. In the case of Belgium, less than \$2 million in spare parts and electronic equipment is involved aside from the F-104s. In view of this small amount and the situation of Belgium, Secretary Dillon felt it would be most inopportune to refuse to continue military assistance to Belgium.

Secretary Dillon believed Portugal should not be considered capable of paying for the kind of new military equipment it needed. Portugal was really an underdeveloped country with a GNP of \$236 per capita. This was less than the per capita GNP for Greece and Japan and only Turkey had a lower GNP in NATO. Portugal was run by a dictatorship with which financial stability was axiomatic. Although Portugal was well off in reserves, it did not have the budgetary capacity to buy modern military equipment. We could not expect Portugal to do more than it was doing at the present time. A total of about \$17 million was involved in military assistance to Portugal. Such assistance is related to the Azores base which is important to the U.S.

In the case of Japan about \$25 million worth of equipment is involved, primarily excess F-86Ds, Nikes, other guided missiles and destroyers. The assistance we provide to Japan has a close relation to

our own forces since the build-up of Japanese forces will enable Japan to undertake missions now performed by U.S. forces. In view of the Japanese popular reaction to the ratification of the Mutual Security Treaty, the Japanese feeling with respect to bases, and the fact that the amount involved is not large, Mr. Dillon felt we should proceed with the \$25 million program for Japan.

In the case of Italy, Mr. Dillon continued, \$90 million worth of new matériel was involved, including improvements in Italian air forces, modernization of the army, and Terrier and Tartar missile systems on ships being built by the Italians. Italy was very well off so far as foreign exchange was concerned but the country's per capita income was only \$572 in 1959, the lowest of any country in NATO except for Portugal. With this low per capita income, Italy has defense expenditures amounting to 3.8 per cent of its GNP. Eventually Italy will be able to increase its defense expenditures even though it has the problem of depressed areas in southern Italy and has tax rates probably equivalent to those in the U.S. Italy has certainly cooperated with the U.S.; it welcomed the IRBM despite its large communist and socialist parties. Mr. Dillon felt it was necessary to continue helping the Italians with military assistance.

Mr. Dillon reported that the Netherlands had a GNP of \$900 per capita, the lowest figure of any country in NATO except Italy and Portugal. The Netherlands also had a heavy public debt amounting to 48 per cent of the GNP. The Netherlands tax rate was high, even higher than the tax rate in Italy, amounting to about 29 per cent against 25 per cent for the U.S. (Mr. Dillon pointed out that in speaking of tax rates, he had made adjustments to take account of social insurance charges in the European countries and agricultural surplus and local government expenditures in the U.S.) The Netherlands was devoting 4.5 per cent of its national income to defense and was planning to increase this figure to 5 per cent over the next few years, compared with a figure of 9 per cent for the U.S. The Netherlands had been exemplary in living up to its commitments. The military assistance program for the Netherlands this year included aircraft for anti-submarine warfare, other aircraft improvements, Nike, Terrier (cost-shared) and Sergeant missile systems.

Concluding his presentation, Secretary Dillon recommended that the Council note the State-Defense report, agree upon the desirability of maintaining pressure on these five countries to continue increasing their contribution to the defense effort in order that the objectives of NSC Action No. 2158 might be achieved, and approve proceeding in FY 1961 with the programs of military assistance to these countries substantially as presented to and endorsed by the Congress, subject to such reductions as may be required by Congressional reduction of the total military assistance appropriations. Any curtailment in military

assistance programs for Belgium, Italy, and the Netherlands after the funds for these programs were appropriated would have unfavorable political effects. Mr. Dillon said that in about six weeks he would be ready to present the Mutual Security Program for FY 1962. At that time he anticipated there would be a full discussion of military assistance for these countries.

Mr. Gray pointed out that the Secretary of the Treasury's determination that the five countries were financially able to pay for their military equipment had been based on strictly financial considerations. He asked Secretary Anderson whether he wished to comment.

Secretary Anderson first complimented the President on the speech to the Republican National Convention.³ He then said he was concerned about our future military assistance programs. We seemed to go through the cycle of formulating planning figures, then presenting such figures to other governments and to Congress, then formulating expenditure proposals. The first two steps, that is, planning figures and presentations, were said not to be very important but suddenly we reach the expenditure proposal stage of the cycle and this stage was presumably very important. Secretary Anderson pointed out that Western Europe had made great strides recently. Western European countries and Japan as well had increased their foreign exchange holdings while the U.S. was the one country whose foreign exchange holdings had declined. Secretary Anderson believed that each of these five countries devoted a smaller proportion of its GNP to defense than did the U.S. Similarly, he believed no country devoted as large a share of its national budget to defense as did the U.S. Taking into account all measures of aid to the five countries, one would have to conclude that our aid to them had gone up. Regional aid, in which these countries participated, was involved in this conclusion. The Joint Chiefs of Staff had devised strategic objectives for these countries which were higher than the MC-70 requirements. With respect to the capability of countries to meet budgetary requirements, Secretary Anderson wished to point to the position of the U.S. If we were to assure the stability of our currency, render assistance to underdeveloped countries (including \$600 million to Latin America) and then provide military assistance to Europe until the European standard of living equals ours, we would find that we had created a world quite different from that in which we live today. Secretary Anderson felt such a course of action is impossible for the U.S. Due to the failure of Congress to enact various revenue measures proposed by the Administration, government revenues are about to suffer a decrease. Large assistance programs to Latin America, to the Congo, and to other parts of Africa are just beginning. Secretary

³ For text of Eisenhower's July 26 address, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1960–61*, pp. 589–601.

Anderson felt the U.S. would soon be faced with the problem of a large budgetary deficit. He also felt that the taxes of the five countries included in the State-Defense report were less than the taxes collected in the U.S., if proper adjustments were made in the tax rates of the various countries. The U.S. would also have a tremendous agricultural surplus problem in the near future since the wheat crop was far above normal. Secretary Anderson had recently been talking to European bankers who had told him that they were concerned lest the U.S. should attempt actions beyond its financial capacity. He felt the time had come when we must begin to say, this year, that building Polaris, Atlas, and a strategic striking force, and providing assistance to underdeveloped countries, is more important than grant military assistance to Europe, even though we are committed to such assistance. Such a policy, Secretary Anderson concluded, was in his opinion simply good judgment; he knew it made good fiscal sense.

Secretary Herter asked to what extent the balance of payments was a factor in grant military assistance to the European countries. Secretary Anderson said it would be helpful if these countries purchased their military equipment. Secretary Herter said he had assumed that from the military point of view the items provided the European countries by our assistance were very important. He doubted that it would be possible either to put pressure on these countries to buy their own equipment or to let them go without the equipment. The immediate issue seemed to be whether or not to secure the release of funds approved by Congress. He asked whether he had been correct in understanding Secretary Anderson to say that other things were more important than military assistance to Europe. Secretary Anderson replied that in his view we could not continue to have the kind of economy we now have and continue on with activities we are now engaged in. We must face up to the necessity of making choices between various policies. In his opinion Latin American assistance was more important than military assistance to Europe.

Secretary Herter thought that the money for military assistance to the five European countries had already been requested and appropriated by the Congress. Secretary Anderson said that at a meeting of certain members of the Council last fall,⁴ it had been agreed that the Administration would request funds from Congress for military assistance to these countries but would not spend it. We seem now to be at the point of deciding to spend such money. Secretary Anderson believed we could not afford to continue our program of give-away assistance. He thought the lives of the Europeans were important to them as well as to us.

[1 paragraph (12½ lines of source text) not declassified]

⁴ Not further identified.

Mr. McCone noted that the increase in the gold reserves of the five countries included in the State-Defense report was almost equal to the decline in U.S. gold reserves. Secretary Anderson said that the increase in the gold reserves of these countries was equivalent to our loss of gold plus all the newly-mined gold during the period of such loss.

Mr. Gray asked whether Secretary Anderson was suggesting that the FY 1961 military assistance program to the five countries not be carried out. Secretary Anderson said this was his suggestion [*1 line of source text not declassified*]. He felt that each country should be told that we could not carry out this military assistance program. The President said the European countries should be making greater efforts to provide for their own defense. In part we are supporting their defenses through our retaliatory capabilities, through our navy, and through our air force. In addition to all that, we are providing military assistance. Secretary Anderson said that last fall there had been a feeling that MC-70 requirements should be reviewed because they might be too high. Now strategic objectives for these five countries were greater than the MC-70 requirements. If we had to assist the five countries to achieve their strategic force objectives, we would be unable to build a road system in this country and we might have to raise taxes. If a large budgetary deficit occurred in the U.S., what had already happened to our gold reserves would be insignificant compared to what would happen in the future. World financial stability would be destroyed. Secretary Anderson emphasized once more that governmental revenues would decrease as a result of the failure of Congress to pass certain proposed legislation. Mr. Reid said that a study by the Bureau of the Budget indicated that the actions of Congress had either decreased revenues or increased expenditures by \$1.6 billion and that pending legislation would add \$2.4 billion to this figure.

Secretary Dillon said that if the House appropriations were not increased by the Senate, a \$200 million reduction in force improvement would result. The cost of maintenance would be \$1.2 billion, leaving \$200 million for force improvement. These figures were subject to adjustment in light of actual appropriations and would probably be less. Last year's inadequate appropriations caused a curtailment of the program and resulted in our asking for increased appropriations this year. There is talk of a 25 per cent reduction for FY 1961.

At this point Mr. Gray pointed out that the President had to leave the meeting at 4:15 for another engagement. He suggested the item under discussion be disposed of as rapidly as possible in order that the Council might proceed to the discussion of U.S. policy toward the Congo. Ambassador Timberlake was awaiting the Congo discussion.

The President said grant military assistance was a difficult problem. His feelings were those of Secretary Anderson but he believed we had got ourselves committed to such an extent that we could not completely eliminate military assistance at this time. He had been struggling with this question for fourteen years. During all this time he had said that military assistance to Europe is an emergency measure designed to restore Europe militarily in the same way that the Marshall Plan restored Europe economically. However, all the Europeans are carefully watching the debates in Congress; they will know how much Congress authorizes to the nickel and will say we are running out on them if we propose to give them less. Mr. Dillon felt that a full debate on the future of military assistance should take place when the Council took up the Mutual Security Program for 1962.

The President believed we ought to inform the European governments that military assistance on the present scale will have to be discontinued after this year. Secretary Anderson said he would not worry too much about the FY 1961 military assistance program if the European governments could be told they would not receive any grant military assistance after FY 1961. Mr. Douglas⁵ said some parts of the FY 1961 program were subject to review. The President said that if Congress did not provide as much money as was requested, we would have to carry out absolutely essential activities and proportionately reduce other activities.

In response to a question from Secretary Anderson, Mr. Dillon said that if the total military assistance appropriations were reduced by Congress, it would probably be necessary to reduce the large Italian and Netherlands programs.

Mr. Gray suggested that the five governments should be told that they cannot continue to look forward in the future to the same level of military assistance they have received in the past. The President agreed, adding that we need not give all the reasons for this policy. He felt it was high time that such action was taken. Mr. Gray believed this action would meet one of the principal Treasury-Budget objections to the State-Defense report. Secretary Anderson felt the European governments should also be informed that if military assistance funds are reduced by Congress, military assistance programs will have to be cut. The President believed the European governments should be told that in the future our military assistance programs would be reduced, not increased. He added that we had made great efforts to bring Germany into European defense activities but no one had been slower than Germany in meeting commitments.

⁵ James H. Douglas, Deputy Secretary of Defense.

*The National Security Council:*⁶

a. Discussed commitments for grant military assistance to the Netherlands, Italy, Portugal, Belgium and Japan, in the light of the report on the subject prepared by the Departments of State and Defense (transmitted by the reference memorandum of July 20, 1960), and presented orally at the meeting by the Under Secretary of State.

b. Concurred in the recommendation of the above-mentioned report that steady political pressure should be maintained on the Governments of the Netherlands, Italy, Portugal, Belgium and Japan, both bilaterally and multilaterally, to induce them to increase the proportion of their resources devoted to defense in view of the ultimate objective that new commitments for the provision of military equipment on a grant basis should not be offered to nations which are financially able to pay for such equipment.

c. Noted the President's authorization to proceed with the programs of military assistance to the Netherlands, Italy, Portugal, Belgium and Japan for FY 1961 substantially as presented to and endorsed by the Congress, subject to such reductions as may be required by Congressional reduction of the total military assistance appropriations.

d. Noted the President's directive that the Governments of the Netherlands and Italy should be informed at an early date that they cannot in the future look forward to the level of grant military assistance they have received in the past; that the Governments of Belgium and Japan should be informed that they must anticipate an eventual decrease in the level of U.S. grant military assistance; and that decisions as to the future grant military assistance program for each country should be taken following notification to that country.

e. Noted that the Council at an early date will give further consideration to grant military assistance for the Netherlands, Italy, Portugal, Belgium and Japan in connection with the forthcoming report on long-term military assistance planning, including the levels projected therein for FY 1962.

Note: The actions in c, d and e above, as approved by the President, subsequently transmitted to the Secretaries of State and Defense for appropriate action.

[Here follow agenda items 3 and 4.]

Marion W. Boggs

⁶ Paragraphs a–e and the note that follows constitute NSC Action No. 2275. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

262. Memorandum of Conversation

August 1, 1960.

SUBJECT

5-Year Military Assistance Plans (FY 1962-1966)

PARTICIPANTS

State

The Under Secretary

U—Graham Martin

U/MSC—Messrs. John O. Bell, James M. Wilson, Martin M. Tank, Robert L. Burns

DOD

Messrs. John N. Irwin, Wm M. Leffingwell, Henry J. Kuss, Maj. Gen. W.H.S.

Wright

The meeting was called for the purpose of obtaining approval by the MSP Coordinator, Under Secretary Dillon, of the FY 1962-66 Military Assistance Plans,¹ which had been submitted by the Unified Commanders and reviewed by the Departments of State and Defense, and ICA.

The Under Secretary stated that he was prepared to approve the Plans for all countries except Greece, and to have them used by the field as the basis for preparation of the FY 1962 Military Assistance program and for MAP planning. He was deferring approval of the Greek Plan for a few weeks pending receipt of further information from the Athens Country Team relating to the large shortfall which the Plan projects in resources available to finance the Greek military effort. The Defense representatives agreed that the Greek Plan presented the most serious problem in this regard and merited further consideration. It was agreed that a State/Defense message should be dispatched to Athens on this matter.

Mr. Dillon noted that, with approval of the 5-year Plans, the annual MAP programs would continue to be reviewed and approved by the MSP Coordinator. He also noted that, as submitted to Washington, the FY 1962-66 Plans were in varying degree deficient in describing the shortfalls in the attainment of U.S. security objectives and that this should be corrected when the FY 1963-67 Plans are prepared.

Mr. Dillon said that, in approving the Iranian Plan, he wanted the Tehran Country Team to re-appraise and report on the complex political and economic requirements which must be weighed in projecting military assistance to Iran. Also, while approving the Plans for Vietnam and Laos, he wanted to establish a special group to review all

Source: Department of State, Central Files, 700.5-MSP/8-160. Secret. Drafted by Burns, cleared by Bell, and approved in U on August 17.

¹ Not found.

MSP programs in these countries against the totality of U.S. objectives in them; significant revisions in these plans might be required based upon the findings and recommendations of the group. Mr. Kuss expressed the hope that the group would not “go over the same old ground” and that the result of such an examination would apply to the FY 1963–67 Plans rather than to FY 1962–66; this was agreed.

It was pointed out, with respect to the “FINABIL” statistics shown in the 5-year Plans, that these figures were included as a matter of information and that approval of the Plans by the Department of State should not be interpreted as validating or approving this statistical analysis.

With regard to the special report to the NSC on the significant points revealed through the new planning procedure, Mr. Dillon asked for the assistance of the Defense Department in the preparation of the report, of which he would like a draft to review by mid-August. Mr. Bell said that he felt that such a presentation would be useful for two purposes: (a) to give the NSC, for the first time, a meaningful exposé of “what U.S. security policy costs and what the U.S. can afford, globally”, i.e., a confrontation of “security policy” vs. “budgetary policy”, and (b) if the presentation is done well, it will provide the best possible grounds upon which to base the budget request for the Military Assistance program for FY 1962 and subsequent years. Mr. Kuss said that the Defense Department agreed as to the desirability of such a presentation, but did not wish to be placed in a situation where the NSC expects to receive a report every year following approval of the Plans and would therefore prefer to retain flexibility as to the manner of reporting to the NSC and the nature of the problems or issues to be brought to the attention of the Council and the President. He felt that the essential need this year was to utilize the Plans as the grounds for the FY 1962 budgetary request. Mr. Bell agreed with this thesis. Mr. Dillon suggested the possibility of the report being submitted in September, when the FY 1962 budget request is being formulated. [The Under Secretary subsequently asked that the report be ready in draft form by August 15 for review and early presentation to the NSC.]²

Mr. Dillon then turned to a question on the Italian Plan, in the light of NSC 2158.³ He felt that the Plan’s projection of the Italian defense effort over the period was too low in view of the recorded State/Defense intention to exert pressure on the Italians to make an increased effort; the Rome Country Team should be asked whether it is not reasonable to project an Italian defense effort with increases approaching 8 per cent per year as an initial target in discussions with

² Brackets in the source text.

³ Regarding NSC Action No. 2158, see footnote 13, Document 250.

the Italians. He pointed out that the present 4 per cent constitutes merely an increase comparable to the projected increase in per capita GNP.

With respect to the Japanese Plan and NSC 2158, Mr. Dillon asked whether the military assistance being planned was not intended solely to create a Japanese ability to assume military tasks presently being performed by U.S. forces. Mr. Irwin said that generally speaking, yes. Mr. Kuss noted that Defense had so far not been successful in eliciting a JCS statement that the USAF would be able to withdraw from Japan when the Japanese air force reaches a specified capability, and that this probably is because the missions of the USAF in Japan encompass more than a defense of the Japanese islands.

Mr. Dillon asked the Defense representatives for the reason behind the significant increase in the JCS force goals for Portugal in the ASW field, again in light of NSC 2158; was this because of the withdrawal of the French fleet from NATO? Mr. Irwin said that Defense would provide a quick answer on this point. Those present surmised that the increase was the reflection of SACLANT's estimate of his current requirements in the eastern Atlantic.

The meeting concluded with an exchange of complimentary remarks concerning the degree of cooperation between State and Defense staffs in the course of the review and approval of the FY 1962-66 Military Assistance Plans.

263. Editorial Note

At noon August 8, President Eisenhower recorded a message for broadcast on national radio and television in which he commented on the reconvening of Congress and outlined tasks requiring legislative action before the end of the year. Among these were the Mutual Security appropriations:

"Our national security needs encompass more than excellence and strength in our own military establishment. They include measures to build free world strength everywhere. These require, and I therefore request, appropriations of the full amount authorized by the Congress for the Mutual Security Program. At this point in the legislative process, these appropriations have been cut by well over a half billion dollars. The Nation's security and our inescapable interest in a stable world require that these amounts be restored."

The President also announced that he was requesting an increase in the Mutual Security contingency fund in order to meet unexpected crises, such as unrest in the Congo. For text of his statement, see *Public Papers of the Presidents: Dwight D. Eisenhower, 1960–61*, pages 612–619.

Under Secretary of State Dillon testified in support of the President's request before the Senate Foreign Relations Committee on August 15 and the Senate Appropriations Committee on August 17. For texts of his statements, see *American Foreign Policy: Current Documents, 1960*, pages 854–857, and Department of State *Bulletin*, September 5, 1960, pages 372–373, respectively.

264. Notes of the Legislative Leadership Meeting

August 16, 1960, 8:35–10:45 a.m.¹

[Here follow a list of participants, brief opening remarks by the President, and discussion of unrelated topics.]

Mutual Security—Mr. Dirksen said he thought the Mutual Security Contingency Fund increase would be ready for Friday the 19th, but that there would probably be an added title containing a miscellaneous catch-all. Sen. Saltonstall was persuaded that the Senate would get to the mutual security program on Friday but said they did not have the authorization for the \$100 million contingency fund and asked if Mr. Harlow could provide this. Senator Bridges said he hoped the President would not be disturbed if there were an amendment proposed to the Mutual Security Bill giving aid to Communist countries—that this might be proposed, not with the intent of being passed, but to see how Senators Johnson and Kennedy vote.² The President suggested talking with Sec. Dillon about this. He would be quite willing to embarrass the Democrats but did not wish at the same time to run the risk of embarrassing ourselves.

Senator Bridges said he would like to see such an amendment, making some reference to the Monroe Doctrine. The President responded that the Monroe Doctrine does not apply in the case of Cuba;

Source: Eisenhower Library, Whitman File, Legislative Meetings. Confidential. Drafted by James M. Lambie, Special Assistant in the White House Office.

¹ The meeting was held at the White House.

² Kennedy and Johnson were, respectively, the Democratic Party's nominees for President and Vice President.

it does not apply until the state in question becomes a vassal of Moscow; as long as the country is still independent, the Doctrine does not apply. Sen. Dirksen proposed consideration of the idea of adding an amendment denying military aid to Cuba. Sen. Saltonstall's opinion was the Bridges amendment would go through if the State Department did not resist—that it was an Administration problem. The President said that we have been doing our best to break Poland away from Moscow and that we have witnessed in that country a somewhat greater freedom of expression. We do, he said, a little here and a little there, as we can—just as, if you possibly knew how, you would break up the Sino-Soviet axis. But at all events, he said, our policy is to break these various alliances apart. Sen. Bridges did not know what Senator Kennedy might do, but he seemed to be going soft on China, on Asia all the way around. Senator Bridges' thought was that while Senator Kennedy has to vote, to be on record, he should be made to go on record. Senator Bridges thought it would be difficult for Senator Kennedy. But the State Department, he felt, was very little politically inclined. The President again urged that the whole question be taken up with Secretary Dillon.

Sen. Saltonstall inquired why it might not be desirable to have a modern interpretation of the Monroe Doctrine to fit the present circumstances. In reply, the President pointed out the problem of solidarity of the hemisphere. Our neighbors, he said, resist the unilateral nature of the Monroe Doctrine. That is what we have been trying to get at in the Caracas Declaration, the Rio Conference, and other meetings—to create the willingness to resist Communist penetration in this hemisphere, if with *outside* help there is trouble in one of the Pan-American countries. He emphasized the imperative need of keeping our neighbors "thinking our way". And, the President continued, we are showing great promise. Mexico and others are coming around, seeing the danger. If we were to try to accomplish our aims by force, we would see all of these countries tending to fall away and some would be communist within two years. Many of them are afraid of the Castro influence in their own countries. They keep saying that the influence is waning, but they have got to wait and let it happen. The Vice President pointed out that not everything is bad in Cuba, that now for the first time we are seeing a significant change among the people: they don't like what's happening. This is beginning to become the sentiment of the professional people and the peasants. Castro is obviously in very great difficulty, and other countries are coming around to see the true situation. The problem is that Castro is in charge in Cuba, not the Communists, as it appears. Things might, however, get so bad that the Communists would have to make an overt move; then we would have them.

Mr. Hoeven reported the concern over Cuba that he had been made aware of in the mid-west. He said people are asking why don't we do something. A Republican candidate from the Senate is recommending a blockade, claiming that parts for missile bases are being smuggled into Cuba. The President reiterated his caution that if the United States does not conduct itself in precisely the right way vis-à-vis Cuba, we could lose all of South America. The Vice President's opinion was that the argument is really one over timing. The President has stated, he said, that we will not tolerate a Communist government in Cuba. But the question is what we do meanwhile and when we do it.

Sen. Bridges asked what the answer was to the Laos situation. We have provided hundreds of millions of dollars to Laos, and now what have we to show for it? The President replied that Laos has always been neutralist, that it has to be so. He invited attention to the fact, however, that the Laotians had not deposed their king. Sen. Bridges commented that it would be helpful if the Congress could have an answer on Laos from Sec. Dillon before Friday.³

In the Mutual Security effort, the President said, you lose some countries, you make some mistakes. But, he said, in the over-all look at the good we have done. He acknowledged that he was worried over Central Africa. He had concluded that the reason the Central Africans wanted independence was that they wanted a vote in the United Nations; otherwise, they wouldn't leave France. Our own people, he continued, are gradually getting the idea that what happens elsewhere in the world affects us. He cited Japan as an example, saying that he had received all kinds of apologies from Japanese and that a Japanese University wants to give him an honorary degree in absentia as a kind of recompense for the treatment he had received. The Vice President agreed, saying that we should note what is happening in Japan now: they are stoning the Communists. He thought perhaps Japan is even more strongly anti-Communist now than they would have been if the President had been able to make his trip there.

[Here follows discussion of other topics.]

JML

³ August 19.

265. Editorial Note

The Senate Appropriations Committee reported the Mutual Security appropriations bill, H.R. 12619, on August 19. Although the bill provided \$270 million less than President Eisenhower's total Mutual Security request, including his August 8 petition, the committee in effect restored nearly all funds cut by the House of Representatives, except \$200 million cut from the Military Assistance Program. It also removed most of the restrictions the House had placed on spending the appropriation. (S. Rept. 1849, Eighty-sixth Congress, Second Session)

After brief debate, the Senate passed H.R. 12619 on August 24. House and Senate conferees reported a compromise version of the bill the following day, cutting \$534 million from the President's request and restoring some of the earlier House restrictions. (H. Rept. 2164, Eighty-sixth Congress, Second Session) On August 26, President Eisenhower released a statement declaring he was "gravely concerned by the conference action." Failure to restore the funds would impede whoever succeeded him as President: "He, no less than I, must have adequate funds to do the job." (*American Foreign Policy: Current Documents, 1960*, pages 857-858) The President also sent letters pressing his point to Senate Majority Leader Johnson, Senate Minority Leader Dirksen, Speaker of the House Rayburn, and House Minority Leader Halleck. For texts, see Department of State *Bulletin*, September 12, 1960, pages 417-418.

Nevertheless, the House and the Senate approved the bill August 26. H.R. 12619 thus became P.L. 86-704, the Mutual Security and Related Agencies Appropriation Act, 1961, which appropriated \$3,716,350,000 for the Mutual Security Program. Eisenhower signed P.L. 86-704 on September 2. For text, see *American Foreign Policy: Current Documents, 1960*, pages 858-862. On August 26, the House Appropriations Committee also reported a catch-all spending bill for fiscal year 1961, H.R. 13161 (H. Rept. 2166, Eighty-sixth Congress, Second Session), which the House passed with amendments that day. The Senate Appropriations Committee reported H.R. 13161 on August 27, having added \$190 million for the Mutual Security Program and having recommended alteration of a section of P.L. 86-704 which restricted expenditure of certain Mutual Security funds. (S. Rept. 1925, Eighty-sixth Congress, Second Session)

The Senate passed H.R. 13161 with amendments August 29; House and Senate conferees reported a compromise version of the bill August 30. The conference report disagreed on the additional \$190 million for the Mutual Security Program. (H. Rept. 2211, Eighty-sixth Congress, Second Session) On August 31, the Senate and House

agreed to the conference report by voice votes. The House, however, accepted only the Senate amendment adding \$65 million for Defense support, and the Senate concurred. H.R. 13161 thus became P.L. 86–722, Second Supplemental Appropriation Act, 1961, which President Eisenhower signed September 8. For text of the provision adding \$65 million for Defense support, see *American Foreign Policy: Current Documents, 1960*, page 863. For complete text, see 74 Stat. 821. Together, P.L. 86–704 and P.L. 86–722 provided \$3,781,350,000 for the Mutual Security Program in fiscal year 1961.

On September 17, Secretary of State Herter reported to the President on the institution of a Mutual Security information program. In accordance with the President's instructions, the Department of State had established a position for a Deputy Assistant Secretary for Public Affairs who would create and implement "a program to build public understanding of the Mutual Security Program;" created positions for four Regional Information Specialists in the field who would provide Washington with factual material on accomplishments of the Mutual Security Program, which in turn would be passed on to the media; coordinated Department of Defense, U.S. Information Agency, International Cooperation Administration, and other agency participation in this public information program; and started providing information about the Mutual Security Program to the private sector. For text of Herter's report, see *American Foreign Policy: Current Documents, 1960*, page 866. Eisenhower's July 14 directive is printed as Document 260.

266. Memorandum of Discussion at the 465th Meeting of the National Security Council

October 31, 1960.

[Here follows a paragraph listing the participants at the meeting.]

1. *Long-Range Military Assistance Plans* (NSC Actions Nos. 2149–b, 2158 and 2275; Memo for NSC from Executive Secretary, subject: "Commitments for Grant Military Assistance to Certain Free World Nations with Well-Developed Economies", dated July 20, 1960; Memos for NSC from Acting Executive Secretary, subject:

“Long-Range Military Assistance Plans”, dated October 7 and 28, 1960)¹

Mr. Gray introduced the subject and called upon Secretary Gates. (A copy of Mr. Gray’s Briefing Note is filed in the Minutes of the Meeting and another is attached to this Memorandum.² Mr. Gray did not read that part of the Briefing Note dealing with NSC Action 2275.)

Secretary Gates stated that the Five Year Military Assistance Plan³ was being presented to indicate the improvements in military assistance planning which were being effected as a result of the recommendations of the Draper Committee; to provide the basis for understanding the proposed FY 1962 budget request; and to deal with the problem of NSC Action 2275. He noted that military assistance problems were co-mingled with problems of U.S. military programs, the U.S. Budget and the balance-of-payments, and strategic, economic and political considerations. Secretary Gates concluded his introduction by stating his judgment that the proposed FY 1962 program was about right. He then called on Secretary Dillon.

Secretary Dillon briefly reviewed the history of the establishment of the Draper Committee which was created, he said, as a result of a recommendation by the Secretaries of State and Defense to the President in the fall of 1958. The Committee was requested to re-examine the purposes of the military assistance program. One objective of this re-examination was to counter a tendency toward indiscriminate Congressional cuts in the program. Among the recommendations of the Draper Committee which were approved in principle by the President were the following: (a) that long-term plans for military assistance should be developed; (b) that order-of-magnitude dollar guidelines should be provided to the planners to assure feasibility of the plans which they developed; (c) that military assistance planning should be decentralized to the field; and (d) that guidance provided to the planners should be as specific as possible and should be based upon and implement national security policy objectives and guidance.

¹ Taken November 11, 1959, paragraph b of NSC Action No. 2149 asked the Secretaries of State and Defense to prepare a report on “the future roles and contributions of the United States and other NATO nations with respect to the collective defense posture, as a basis for consultation with other NATO governments.” It specified the report “should provide guidance as to the main factors that should be taken into account, and what aspects should be emphasized or deemphasized in the future.” (Department of State, S/S-NSC (Miscellaneous) Files: Lot 66 D 95) Regarding NSC Action No. 2158, see footnote 13, Document 250. Regarding NSC Action No. 2275, see footnote 6, Document 261. Regarding Lay’s July 20 memorandum, see footnote 1, Document 261. Copies of Boggs’ October 7 and 28 memoranda are in Department of State, S/S-NSC Files: Lot 63 D 351.

² Not printed.

³ Distributed as an attachment to Boggs’ October 7 memorandum. (Eisenhower Library, Special Assistant for National Security Affairs Records, NSC Series, Policy Papers Subseries, NSC 5916)

As a first step in the implementation of the Draper Committee recommendations, mutual security operations plans (MSOPs) had been developed for each country receiving assistance.⁴ The objectives for these plans were taken, Secretary Dillon indicated, from approved national security policies. In recognition of the close relationship of economic, political and military objectives, all such objectives which were susceptible of being achieved through the military assistance program were included in the MSOPs. The MSOPs provided more detailed guidance to the planners in the field than they had previously. The decentralization of decisions on military assistance planning put a premium on clear and precise instructions to the field and upon focussing responsibility in the MAAGs, the U.S. operations missions, and the unified commanders. To this end the Department of Defense had revised its instructions and manuals.

The field was also given order-of-magnitude dollar guidance for planning purposes. These guidelines were not regarded as binding but simply as trial financial yardsticks to be used in measuring the extent to which objectives set forth in the MSOPs could be met. These financial guidelines were realistic and tight enough to force decisions. The field was also requested to estimate each country's contribution to its own defense on the assumption that we would continue to press for increased defense expenditures where a country was falling behind. The field was also asked to identify significant short-falls. The field submitted its estimates to Washington for review early last summer. Finally, Secretary Dillon reminded the Council of the decisions at Newport last summer, including the agreement that the Council would make a further review of the programs for the Netherlands, Italy, Belgium, and Japan in connection with this presentation of the five-year military assistance plan. He stated that instructions had been given to U.S. Ambassadors pursuant to NSC Action 2275⁴ but that this advice was not to be given to the countries concerned until we presented our FY 1961 programs to them. Secretary Dillon then called on Mr. Irwin to present the five-year plan. (A copy of Mr. Irwin's presentation is filed in the Minutes of the Meeting.)⁵

At the conclusion of Mr. Irwin's presentation, General Lemnitzer amplified the views of the Joint Chiefs of Staff on the subject. He stated that the Joint Chiefs wholeheartedly supported long-range military assistance planning. The need for such planning had long existed and Congressional opponents had often criticized the military assistance program because it was not based on such long-term planning. He did not predict, however, that the same opposition would not be

⁴ Not found.

⁵ Not printed. (Eisenhower Library, Special Assistant for National Security Affairs Records, NSC Series, Administration Subseries)

critical of the planning itself if it were submitted to Congress. He noted that the Joint Chiefs had participated in and made a thorough review of the plans. He went on to point out that force goals for other countries were related to our own plans and force goals. Therefore, the development of a long-term plan for military assistance permitted the military services to better inter-relate military assistance with U.S. plans and procurement. Such inter-relationship was important because the items supplied under the military assistance program could no longer be obtained off the shelf; procurement lead time had become important.

Training for foreign military forces was, General Lemnitzer suggested, one of the most important things that we did. Such training had not only a military value but also an important value in getting across the principles of the American way of life. Orientation tours for high-level military officers were especially important and should be expanded and emphasized. General Lemnitzer went on to suggest that we should exploit the principle of cost-sharing. We should continue to seek ways to increase the contributions of those countries which were able to pay. Cost-sharing did not necessarily mean equal sharing by the U.S. and the country concerned. Our program in Japan was a good example of what could be done through the cost-sharing technique.

General Lemnitzer emphasized that our plans should be world-wide in character and that we should not let the needs of NATO detract from the needs of other areas of the world. Military assistance was already important in Asia and might become increasingly important in the Middle East. There were also emerging problems in Africa and Latin America. It was important, he said, to support an initial increase in funding. In order to continue deliveries at the rate of \$2.2 per year, we would need an appropriation of \$2.4 billion in FY 1962. This was less than half of the sum that would be required if we attempted to achieve the strategic force objectives. General Lemnitzer noted that the efforts of the Communist Bloc were growing. Mutual assistance was a vital component of our security policy and needed to be related to the magnitude of the Communist threat. General Lemnitzer concluded by stating that he believed the program proposed was a reasonable, although austere, one and justified strong support.

Secretary Dillon concluded the presentation of the five-year plan with some observations on foreign policy aspects. He noted that Mr. Irwin had indicated that if military assistance deliveries were maintained at present levels, we should be able to maintain a minimum acceptable defense posture, though a posture far short of meeting the objectives of NSC papers. In many cases, especially in the Far East and

the Near East, success of the military assistance program depends upon education and training. Problems in such areas could not be met through more assistance than was projected under the plan.

Mr. Dillon went on to observe that in stating that the proposed programs were adequate, State and Defense could not assure the Council that the aid contemplated would be all that would have to be asked for. In preparing these plans we were operating on the assumption of economic growth in the countries aided and on the assumption of a capability and willingness on their part to increase their share of defense expenditures. Accordingly, in the less-developed countries these estimates were quite tentative. Furthermore, with the renegotiation of base agreements during the next five years, there will be increased pressures for additional assistance. The Communists were attempting to create chaos and trouble wherever they could. Presently they were putting pressure on such places as Cambodia, Burma, Indonesia, and Africa. They are making every effort to change U.S. allies into neutrals and neutrals into Communists. We had to have the means to move material quickly to trouble spots. The plans reflected our expectations as to needs for meeting existing or anticipated Communist pressures. However, if the Communists in the future should concentrate their efforts at some place or some time, our efforts would have to be increased.

Mr. Dillon stated that he was aware of the importance of economic improvement in the less-developed countries. Since political and economic stability were recognized as objectives of our policy, we would need to find ways to increase the amounts provided for economic development while maintaining security in these countries. In this connection we were looking at the problem of Southeast Asia at the moment.

The NATO problem, Mr. Dillon indicated, was different but more disturbing. The danger in NATO arose from the fact that we were falling further and further behind in achieving our objectives. We could not meet our objectives even with a greatly increased effort. This problem was complicated by our efforts to get the NATO countries to increase their assistance to the less-developed nations. This gap was recognized by the NATO countries and was weakening their confidence in NATO military capabilities. This was creating a very dangerous situation. The NATO countries could do more than they are doing or plan to do and all are agreed on the necessity for increasing their efforts. The question was how best to induce the additional effort. The action that we took also had to be related to other U.S. actions in NATO, including the re-examination of NATO strategy for the next ten years. Our plans for OEEC and the Development Assistance Group were also clearly related to our military assistance plans for NATO. To cut off or greatly reduce our aid would not result in an increase in

country effort; in fact, it would have the opposite result. Such action would mean that there would be nothing to fill the military gap or to provide the U.S. support which was needed from a political point of view. The only solution was to continue assistance on a cost-sharing basis (except in the case of Greece and Turkey), making clear that we expect increased effort from these countries and that we will re-assess our aid if they do not make such an effort. Secretary Dillon noted that no grant assistance was contemplated for Germany, the U.K., Luxembourg, France or Austria.

Secretary Dillon observed that military assistance created no balance-of-payments problem. In fact, such assistance might help our balance-of-payments situation since, under the proposed programs, there would be increased cash purchases of U.S. supplies and spare parts as a result of increased European effort. We also had to bear in mind the relationship of this problem to U.S. forces abroad. If our balance-of-payments situation caused us to reduce these forces, we would have to increase military assistance. Simultaneous reduction of U.S. forces and military assistance would cause such a loss of confidence in NATO that it would have the gravest possible effects on the structure of NATO. It was, therefore, important to maintain adequate assistance to NATO in FY 1962. Secretary Dillon pointed out that the NATO portion of the new obligational authority contemplated for FY 1962 was \$1 billion. He noted that our plans contemplate continued assistance to Belgium, the Netherlands, Portugal and Italy and dealt briefly with each of these in turn. In the case of Belgium, there would be a special problem next year because of the difficulties Belgium was having in the Congo. The Netherlands planned a fifteen per cent increase in their defense effort for next year, following a twelve per cent increase in 1960. In connection with our military assistance plans for the Netherlands, we had to take account of the fact that the U.S. was continuing military assistance to Indonesia. Our planning contemplated a steady increase in Italian defense expenditures. We would work to enlarge this effort but the political situation in Italy was such that a reduced level of U.S. support could result in a Left-Wing government. Secretary Dillon noted that the funds contemplated for these four European countries represented a twenty-five per cent decrease over the funds provided in FY 1961. This decrease was, however, related to programming realities and did not represent a trend.

In Japan we planned a modest program of \$50 million per year. Japanese defense expenditures were at the lowest level in proportion to GNP of any country we assisted. This was due primarily to the post-war American policy which had resulted in constitutional prohibition of Japanese military forces. The principal objectives of the program for Japan were the following. We want a defense build-up and the Japanese feel that they can make steep increases in their defense budget;

such a build-up should make it possible for the Japanese to carry part of the load in the Far East. U.S. bases in Japan, especially naval bases, were important to us. The new Mutual Security Treaty allowed us continued use of the bases for ten years. If we were suddenly to start to reduce and eliminate our assistance after ratification of the Mutual Security Treaty, we would strengthen the forces favoring neutralism in Japan. A token military assistance program was absolutely essential for this reason. In the case of Japan there were a number of ways in which we could improve our own balance-of-payments and budgetary situation. One of these was the settlement of the GARIOA debt. We had had to postpone negotiations first because of the Mutual Security Treaty negotiations and then because of the new Japanese elections. Prime Minister Ikeda had given us assurances that after the elections, Japan would be prepared to conclude negotiations on the subject. Ikeda had been responsible for the earlier negotiations as Japanese Minister of Finance and fully recognized Japan's obligation. If we realized \$600 million over a period of thirty years from this settlement, we would receive \$20 million per year which would offset nearly one-half of the budgetary cost of the contemplated military assistance program.

Concluding his comments, Secretary Dillon stated that he believed that the world-wide program for FY 1962 should provide NOA about \$2.4 billion. This was a figure which was slightly higher than planned deliveries because of the need to build up the pipeline. The NOA level in following years would be about \$2.15 billion. Secretary Dillon then read a proposed Council Record of Action which would have had the Council:

"a. Consider the report on the results of the long-term military assistance planning prepared by the Departments of State and Defense.

"b. Concur in the development of FY 1962 military assistance program requests for the countries covered in the plan in the general magnitude indicated therein, subject to the normal processes of budget review.

"c. Agree that the underlying intent of NSC Action 2275 to increase the defense efforts of Belgium, Netherlands, Italy and Japan would be carried out by making clear to these countries that future U.S. military assistance will be directly related to appropriate increases in their defense efforts."

Following Secretary Dillon's comments, the President noted that Secretary Dillon had briefly mentioned the problem of the U.S. balance-of-payments. Secretary Dillon had indicated that in the case of the NATO countries, the provision of military assistance would even result in some improvement in our balance-of-payments. We all realized, the President stated, that the two big problems facing us were the budget and the balance-of-payments. He felt that studies of the mili-

tary assistance program should not be confined to amounts but should also seek to determine what kinds of assistance would have a real effect in diminishing the balance-of-payments problem. If the balance-of-payments got out of hand, there would be a disintegration of confidence in the world. We should see what we could do about this problem and should provide assistance in kind to the limit of our ability. The budget problem was serious but even that was not so important as the balance-of-payments problem.

In response Secretary Dillon noted that assistance to NATO (other than Greece and Turkey) was entirely in kind. Even under cost-sharing arrangements, we furnished American equipment. Assistance to Japan was also in kind. In the case of the countries we were discussing, military assistance had no balance-of-payments effect. In fact, as previously noted, increased European defense budgets could have a positive effect on the U.S. balance-of-payments.

The President referred to General Lemnitzer's statement that the biggest service we could provide to these countries was training. So far as we did such training in the U.S. it was all right, but big programs in countries like Laos and Cambodia involved spending dollars abroad. This was a very important problem which was not being recognized in the current political campaign. It was not merely a balance-of-payments problem but a problem of loss of confidence in the dollar. The President suggested that a Treasury representative should participate in planning of this kind.

Mr. Irwin said that State and Defense were very conscious of the need to keep down dollar expenditures. Eighty-five to ninety per cent of the military assistance funds were spent in the U.S. and did not enter into the balance-of-payments. We were trying to decrease the remainder. One way this had been done was by cutting off maintenance and support funds for countries able to pay. Such action helped reduce the outflow and increased the inflow of dollars. We would emphasize training in the U.S. or establishment by a country of completely independent training facilities within its own borders. Nonetheless, we would do some training in the field through the MAAGs and in the case of Laos and Vietnam, by means of special forces teams. However, relatively small amounts of dollars were spent abroad for training. Mr. Irwin pointed out that during most of the 1950's, military assistance had had a small deficit effect on the balance-of-payments, but during 1959-1960, it had been an overall gainer of foreign exchange.

Secretary Dillon said that he recognized that military assistance did involve a budgetary problem. State felt that the figure suggested was the best and fairest figure that could be worked out between State

and Defense as to the share of military assistance in the total defense budget. He noted that the total defense budget, including AEC expenditures, was \$45 billion or a little more.

The President referred to economic assistance and defense support, noting that we keep hoping for cooperation from the richer countries in this area. If military assistance was actually helpful to the U.S. balance-of-payments, why did we not get the richer countries to help us with our budgetary problem by picking up some of the defense support and economic assistance? In response, Secretary Dillon pointed out that he and Secretary Anderson were planning to go to Germany soon⁶ to attempt to get the Germans to increase their contribution to economic assistance. The President suggested that they ought to go to two or three other countries. The President said that he did not argue with the order-of-magnitude of the proposed program but he did not think that we were tough enough about insisting that our military assistance be provided in kind. Also, we ought to get other countries to pick up more of the economic aid burden. Secretary Dillon indicated that he would be making some suggestions on economic aid in the next two or three weeks.

Secretary Anderson said that he did not want to be unduly critical of those who had prepared these plans, but he had a feeling of frustration when he read statements like the following which appeared in the summary of the plan: "Any amounts in FY 1962 substantially less than \$2.4 billion will make it improbable that a strategic concept that includes reliance on allied military power and bases to meet the cold, limited, and general war threat can be maintained. The implementation of any other budget or financial policy to the extent that it requires a substantial downward change in the FY 1962–1966 plan will require a change in basic U.S. national policy and strategic objectives for the FY 1962–1966 period." Secretary Anderson observed that whenever a suggestion was made for a reduction of military expenditure in any respect, the answer was always put in terms of which divisions should be pulled out of NATO or in terms of proposing to pull the 7th Fleet out of the Formosa Straits. Nothing else, it seemed, could be done to reduce military expenditures.

Secretary Anderson said he was astounded by the comments that had been made on the balance-of-payments. If this proposed program were put into effect, he could not assume responsibility for the security of the dollar. The London gold market had opened at \$36 an ounce this morning. This reduction in the price of gold was not simply a matter of chance; it was the result of hard work. The loss of confidence

⁶ Dillon and Anderson visited Bonn November 19–23, Paris November 23–25, and London November 25–26. Documentation on their trip is in Washington National Records Center, RG 59, Conference Files: FRC 83–0068, CF 1781–1788.

in the dollar was being registered on the face of the world. We talk about what other countries will do but they have a good thing going and know it; they are not going to give it up as a result of persuasion by us. They are not that loyal to NATO nor do they feel that kind of obligation to us as a result of our Marshall aid. These countries were not going to support the dollar. The only way that we could get countries like Germany to take action was to get them to put these expenditures into their budgets. A long-term loan to the U.S. would be only a palliative. When we talk about military assistance, we should insist that countries like Germany and France buy their military equipment requirements.

Secretary Dillon interjected to say that Germany and France did purchase their military assistance needs; nothing was included in the five-year plan for these countries. Secretary Anderson stated that we should consider the other countries then. We could not afford such aid and if we continued it, we would face the worst collapse you ever saw. This year there had been a \$4.5 million increase in our trade balance on current account and yet the balance-of-payments deficit was running at an annual rate of \$5-6 billion in the third quarter. If we ran such a deficit for twelve months, we would destroy the international gold standard.

Secretary Anderson pointed out that we had received only \$1.4 billion for military assistance last year, yet now it was proposed that we go for \$2.5 billion. We were talking of a five-year plan but if we had made such a plan in 1955, it would have been out of date in 1956. The balance-of-payments problem did not face us until 1956. We were in trouble right now and had to take action now. Secretary Anderson then reviewed the various NSC actions on this subject, quoting several of them. He went on to point out that the financial side of the plan had not been approved by those who provided the money. Treasury was given a few days to look at such plans and then, when we got into an argument, was told that this was not a good time to reduce assistance. He again emphasized that continuing on this course would bring us the greatest holocaust we had ever seen.

The problem was how to get increased effort from these countries, Secretary Anderson observed. We would not get it, he felt, by doing what was proposed. The lines on the chart should go in opposite directions; that is, U.S. aid should be decreasing while the country efforts increase. Italy, Japan, Belgium, and the Netherlands were all able to pay. The trouble that Belgium was having in the Congo was peanuts compared with the troubles facing the U.S. We were facing a day of reckoning. We were going to have to continue economic assistance and much of the ICA aid could not be tied to dollar purchases. As for decentralization of the planning process, the field people just did not know the balance-of-payments problem. They had to be taught to

do their job differently. The Secretary noted there were 354,000 dependents of U.S. personnel in Europe. These were a hazard, a liability, and a cost. Getting \$20 million per year from a GARIOA settlement would not solve our problem. In the Secretary's lifetime we had not been faced by a problem as serious as the one facing us today. Moreover, this was a unique experience; it had never happened to the U.S. before. He referred to a conversation with the Prime Minister of Malaya who had suggested that the U.S. was over-committed.

It is said, the Secretary stated, that this was just a budgetary problem. If he had to make a choice between a budgetary problem and a balance-of-payments problem, he would prefer the budgetary problem. However, every time we spend dollars abroad, gold went out of Fort Knox. People abroad are sophisticated and know all about the U.S. budget. If we let them believe that we are going to have a severe budgetary problem, it will destroy confidence in the dollar.

The President said that one thing was not clear to him. Was it true that the military assistance program itself would result in a budgetary deficit? Secretary Anderson agreed that it would not produce a budgetary deficit if cuts were made elsewhere but he pointed out that \$1 billion more was proposed for military assistance. Secretary Dillon said that the figure was \$600 million rather than \$1 billion. However, he agreed with what Secretary Anderson had said about the dollar, about the balance-of-payments, and about the time factor. His only disagreement related to the programs for Japan, Belgium, Portugal and the Netherlands where ten per cent of the total projected assistance was scheduled to go. It was absolutely certain that if aid to these countries was eliminated, they would not buy the same amount in the U.S. In fact, they would not buy it at all. The result would be a weakened fabric of defense. He stated that if the choice was between purchase here and grant assistance, he would favor purchase. These countries had gold. The problem, however, was the size of their defense budget. He noted that the defense budgets of the Netherlands and Japan are increasing substantially. He concluded by saying that these programs involved no balance-of-payments effect, only a budget effect. He agreed that the budget effect should be considered in the overall budget review. Secretary Anderson said that we could not afford an increase of fifty per cent in military assistance. If you added up all security expenditures and the service on the debt, you got a figure that was seventy-five per cent of the budget. Where then could you cut? It was difficult to see how you could make cuts in the rest of the budget and do what the people on both sides in this election were calling for. If we took in taxes one hundred per cent of all personal income above \$16,000 our revenues would be increased by only four per cent.

Mr. Irwin pointed out that the increase to \$2.4 billion in NOA was intended not to increase but to maintain expenditures. We had been living off the pipeline of \$8 billion built up in the period 1953-1954. The President agreed that perhaps this was so, but while you were building up the pipeline, you created this budget problem. Mr. Irwin pointed out that military assistance constituted 17.2 per cent of the total defense effort in Belgium. If we adopted the proposed program with cost-sharing, the proportion would go down to 4.9 per cent in the period 1962-1966. The reduction for the Netherlands would be from 19.3 per cent to 10.3 per cent; for Portugal, from 27.7 per cent to 7 per cent; for Japan, from 19.8 per cent to 9 per cent; and overall, from 17.7 per cent to 8.2 per cent. The President asked Mr. Irwin how much military assistance would increase U.S. exports and improve the U.S. balance-of-payments. Mr. Irwin said that we did not know that it would increase our exports, but it should maintain them. It would result in a decrease in the U.S. proportion of the defense effort in these countries and should have a good effect on the balance-of-payments.

Secretary Anderson observed that last year we had had a \$3.8 billion balance-of-payments deficit. We had all agreed as to the necessity of improving the U.S. exports. This year exports had been increased by \$4.5 billion. This should have meant a surplus in our balance-of-payments. Instead, we would have the biggest deficit in the history of the U.S. In the first quarter the deficit had been running at an annual rate of \$1.8 billion. Now, however, it was anticipated that the deficit would be over \$3 billion for the year and it was running at an annual rate of \$5-\$6 billion in the third quarter. We were going to have a terrible time with the problem of balancing the budget. He did not understand how we could balance the budget and still increase military assistance. The President said that he assumed that when Secretary Anderson referred to balancing the budget, he was talking about the cash budget. The plan as he understood it, called for military assistance expenditures in the same amount as in the past. He therefore could not see how military assistance would create a new problem so far as the cash budget was concerned. Secretary Anderson replied that if NOA was raised, expenditures eventually had to increase.

Secretary Gates suggested that the Council look at this program from the defense standpoint for a moment. This program was inter-related with U.S. deployments. It was a better program, he felt, to support Free World strength than the alternatives to it. The President asked whether any dependents had been ordered back from overseas. He suggested that we had better stop sending them overseas. Secretary Gates observed that we were faced by a very serious choice. He understood the balance-of-payments and budget problem and had himself emphasized their importance. However, the proposed pro-

gram was a better program to base ourselves on than on some of the other things that we were doing. He noted that the program would be subject to annual review.

Secretary Anderson stated that the dollar was under pressure and that the world was watching us. The promises that had been made in this campaign had triggered a run on the bank; something else might have triggered it if the campaign had not done so. We were saying in the campaign that we were going to appropriate more without raising taxes. The only alternatives then were to borrow and inflate or to impose controls. Those abroad who held our money knew that these were the alternatives. They could pull out their deposits in this country and we would be off the gold standard.

Mr. Stans pointed out that there had been no discussion with Budget about resources in the development of this plan. He felt there were some facts that needed to be considered in this connection. The mid-FY 1961 budget review had indicated a surplus of \$1.1 billion. We know that the situation has since eroded. Although we could not say so publicly, it was possible that we might end the year in the red. Defense expenditures were moving up as a result of action by the Services and revenues were down because of reduced corporate profits. It would not be critical if there was a deficit this year but this year's budget provided the base for the next one. The FY 1962 budget had built-in increases for civil programs of \$1.75 billion. In addition, Congress had earmarked \$800 million of revenues for highway construction. Together these two items made a total of over \$2.5 billion of added charges and would eat up all of the expected revenue increase without a single new program.

Looking down through the years, we faced an even greater problem. A Library of Congress study indicated that the U.S. national debt was \$90 billion more than the debts of all other Free World countries put together. Our per capita debt was also larger. We owed tremendous amounts beyond this for past services in the form of military and civilian retirement. We had a \$300 billion obligation to veterans. These commitments totaled three-quarters of a trillion dollars. These chickens were coming home to roost in the form of \$1.5-\$2 billion increases each year in budget expenditures.

Our aggregate defense expenditures, Mr. Stans pointed out, were almost ten per cent of our GNP. In all the countries to which we were providing assistance, the percentage was substantially less. For example, the figure for NATO countries was less than five per cent.

The Council was not being asked to approve the five-year plan but it was being asked to approve a program of the general order-of-magnitude proposed for FY 1962, subject to budget review. Presumably, it was intended that such review should be as to details only. This planning concept was not being presented with the details which

were usually presented in connection with the budget. It started out with the so-called strategic objectives which frequently exceed MC-70 objectives. We did not take account of the willingness of the countries themselves to support these strategic objectives. The strategic objectives call for ten divisions for Italy as compared with five under MC-70. Since even the lesser MC-70 goals were not going to be achieved, it was unrealistic to plan for larger goals. The proposed program of \$11 billion for five years was sixty per cent more than Congress had been willing to appropriate in the last five years. There was no indication as to what the plan would require in defense support assistance which was a substantial part of the Mutual Security Program. Apart from their political unwillingness to meet the strategic objectives, some countries, for example, Korea, want to reduce those objectives. There was no indication that such desires were taken into account in the development of the plan. There was also no indication as to whether the plan took account of Soviet intentions to reduce Russian forces.

Mr. Stans went on to say that there were no indications that reductions had been made in other programs to take account of missiles to NATO; for example, to take account of the recent MRBM decision.⁷ Secretary Gates observed that he had previously noted the relationship between these decisions and the military program. Mr. Stans stated, however, that we had done nothing but note the relationship. He also pointed out that there were various studies on NATO presently underway which could affect our assistance programs and that NATO planned to review the MC-70 goals in the spring. It was difficult, he said, to judge the proposed program without reference to the military strategy. It was also difficult to see why we could induce other countries to do more only by increasing our own assistance. They might increase their efforts more if we reduced our aid. He agreed with sub-paragraph a of the proposed Record of Action but he could not agree with the proposal that the Council concur in the proposed FY 1962 program. Military assistance should compete with the rest of the defense budget; that had been the idea a year ago when we had put military assistance in the defense budget. Mr. Stans concluded by stating that for years now we had transfused our strength to European countries. Now they were strong. We could not continue these transfusions without reducing our own strength.

Mr. Irwin noted that the military assistance plans were aligned with strategic policies in NSC documents. The Joint Chiefs of Staff based their strategic objectives on the policies of the NSC. He went on to say that, as had been stated, MC-70 objectives were slightly smaller

⁷ Reference is presumably to a U.S. proposal to create a multilateral nuclear force in Europe.

than JCS strategic objectives. Of the ten divisions included in the strategic objectives for Italy, five represented the NATO first line requirement and the other five represented the NATO second line requirement. These latter five had never been at full strength and were not fully supported in the plan. The plan provided for support at a level which would mean minimum achievement of objectives. If these objectives were to be implemented fully, it would cost \$25 billion. The \$11 billion provided for in this plan was less than one-half of the cost of meeting the JCS strategic objectives. We do, Mr. Irwin stated, take account of Soviet actions in everything relating to our forces and to military assistance. However, the recent NIE on the Soviet force reductions indicated that the reduction in Soviet military manpower did not involve reduction in Soviet military strength. The Soviet action was designed to strengthen Russian military forces and to make manpower available to the economy. There was a question also as to whether they would in fact carry out their present plans. He noted that the Soviets were well into the second generation of modernization whereas, if the proposed five-year plan were carried out, European forces would still be heavily dependent on obsolete equipment. He agreed that the MRBM decision had to be considered in relation to this plan. He said that, of course, we could not be sure how the review of NATO strategy would come out but it was his guess that we would come out with basically the same strategy, which was based on agreed political strategy. If we continued to accept a forward strategy, there might be some changes in military assistance—for example, there might be increased modernization—but the plan would not be basically affected. All of this planning had been approached from the point of view of our own interests and had attempted to take account of the balance-of-payments and economic problems. The Mutual Security Program, in both its economic and military aspects, is essential to the maintenance of the Free World position and U.S. leadership. To reduce it substantially would have dangerous repercussions on the political, military, and psychological side that were similar in character to what Secretary Anderson was worried about on the financial side. This was only one of the programs included in the budget and was de minimus so far as balance-of payments effects were concerned. All programs, he felt, should be looked at with the same care.

The President observed that if the possibility of balancing the budget next year is being endangered, he would not send the budget forward without definite recommendations on taxes. Another problem was, of course, how much you could tax without slowing up the economy. You could increase taxes for a short time or in a wartime situation but we were talking here about the next forty years. There was not, however, much hope for getting favorable action on taxes. Attempts to eliminate the postal deficit and to get interest rates on a

realistic basis had not succeeded. It just did not seem possible to impress Congress with the necessity for action. In connection with the President's last remark, Secretary Anderson noted that it had not been possible even to get hearings on changing the exceptions in the tax laws relating to Building and Loan Associations and to cooperatives.

Mr. McCone asked why we could not get other countries to carry more of the load themselves and referred in this connection to the increases that had occurred in the gold reserves of several NATO countries. The President noted that he knew from his experience that people abroad did not look at the problem in terms of GNP. Instead, they compared standards of living and asked us in what ways we are making a sacrifice. They do not think of the problem in dollar terms as we were doing in this discussion. Mr. Stans referred to the chart included in Mr. Irwin's presentation, which indicated that \$9.4 billion in military assistance expenditures would induce \$93 billion in country effort. This kind of analysis overlooks the fact that U.S. defense expenditures are \$45 billion per year, or \$225 billion for the next five years. Mr. Stans wondered why we could not convince other Free World countries that, if we were going to be spending this much on their defense, they should not put more into their defense.

Secretary Herter reminded the Council that the five-year plan called for \$1 billion per year for NATO countries of which only \$200 million went to the five countries with which we were most immediately concerned. This was a relatively small percentage of the overall budgetary problem. Someone would have to exercise judgment as to its importance in relationship to other programs but State and Defense had done the best they could to develop a program of manageable size. If you asked the Italians to increase their defense budget, they might throw the government out. It was very difficult to get increased defense expenditures approved by the Italian Parliament when the income in the south of Italy was ten per cent of ours. Secretary Anderson suggested that, if we had to, we should say that all military training will be done in the U.S. It was being said that if we did not furnish military assistance, these countries would not meet their military needs through purchases. If this was the situation, we had better find it out. It was important that we find out whether these countries were interested in defending themselves. Secretary Anderson referred to the fact that when the U.S. had run a budgetary deficit in 1958, the Central Bank of Italy, under the instructions of the Italian Parliament, had withdrawn \$2.5 billion in gold from the U.S. He said that the President had provided real leadership on these fiscal problems but the question was how we were going to raise the money required to support such programs. He noted that half our deficit since 1945 was accounted for by the Post Office and yet we could not get Congress to raise postal rates.

The President observed that you could not take this problem in a vacuum. If the problem was to be solved and stay solved and if you were going to avoid disaster, you would have to look at the whole budget. However, as long as we were facing a Soviet threat, we would have to make defense the prime factor. We should cut other programs and also require the Defense Department to make some hard decisions. Finally, additional revenues might possibly be needed. Secretary Anderson felt we should tell other countries that if they want a tank, they should buy it. He pointed out that cost-sharing programs had resulted, in the case of the F-104, in the construction of a competitive aircraft factory in Europe at a time when two of the existing six aircraft factories in the U.S. could meet all U.S. defense needs. In the long run you could not live with this kind of situation.

Mr. Stans suggested that the difficulty was that we always assumed that we should do more; we started with a \$2.5 billion program and then discounted it. We need first to determine what you could buy for \$2.4 billion and submit the results to the usual budgetary review. We should also take a look at the effects of a lower figure—say, \$1.5 billion—on our defense position. Sacrifices had to be made; to start with the presumption that we had to do more was fatal.

Secretary Dillon pointed out that in the preparation of the plan the planners had taken account of defense support. They had assumed, in developing their plans, that defense support would not increase, but would instead be phased out in accordance with the requirement of the Mansfield Amendment. The possible reduction in Korean forces would not, he said, result in a decrease in military assistance, although it might possibly mean a reduction in defense support. Such a manpower reduction in Korea would be based upon provision of better equipment to the Korean forces. He did not ask now for a determination of the level of one part of the budget, but he wanted to be able to submit a program of this magnitude to the Bureau of the Budget which could then look it over in detail. The military assistance program did not stand out in Mr. Dillon's judgment as the program which should be cut before any other.

Mr. Gray, attempting to sum up the discussion, stated that he understood that it had been agreed that a decision on the FY 1962 military assistance program would not be taken in a vacuum; that is, in isolation from the rest of the budget. He pointed out that it had been suggested that there be a change in the determination contained in NSC Action 2275. This action provided that two countries were to be notified that military assistance will immediately be at a lower level and two others were to be advised of an eventual decrease in assistance. In response, the President stated that, as Secretary Anderson had pointed out, the problem was facing us right now and could not be dealt with on a gradual basis. The budget and balance-of-payments

problem could destroy the defenses of the U.S. To say that we would tell other countries that we will reduce assistance to them next year or in two years would not solve the problem. Mr. Gray observed that these countries were to be told of our intentions at the time they are provided the figures for the FY 1961 program. The President stated that the world wants to know if we are going to meet our obligations. More and more he was beginning to think that this was a problem of revenue.

Mr. Gray turned to General Lemnitzer and asked whether, in developing the strategic objectives, the Joint Chiefs applied the same sort of hard judgments as when they developed U.S. force objectives. For example, were the strategic objectives for Pakistan really designed to deal with the Soviet threat? What part of these objectives reflected the desire of the Pakistanis to have forces of comparable size to those of India? The President observed that Pakistan was more afraid of Afghanistan than it was of India. Mr. Gray said that if that was so, the Afghan threat could be identified as a Soviet threat and his question was answered. However, if the U.S. defense budget was simply a compilation of unilateral Service requests, we would have a much higher budget than we did have. He wondered whether in arriving at strategic objectives we applied some judgment as to the ability of the country to finance such a military establishment. General Lemnitzer said that overall the Joint Chiefs did apply the same criteria as they applied in determining U.S. objectives. In Pakistan we had a variety of military objectives and we realize that these compete with economic needs. It was obvious you could not build Pakistani forces up to the point where they could withstand the Soviet Union if the USSR concentrated its forces against Pakistan. The program for Pakistan is pretty austere and of the kind that Ayub thinks he needs.

Mr. Stans stated that the FY 1962 program should be presented to the Budget in detail and that the Budget presentation should also include information on the sacrifices that would be involved in a lower program of, say, \$1.5 billion. Mr. Irwin said that Defense was ready to submit details to the Bureau of the Budget. He pointed out that we did not plan to reinforce the conventional capabilities of NATO countries and that if the program were cut to \$1.5 billion, you would be cutting NATO's nuclear deterrent. The net effect, therefore, would be that NATO would have neither a defensive nor a nuclear offensive capability. The President suggested that Mr. McCone's question was a good one—why were not these countries concerned about their own defense? Mr. Irwin pointed out that several of the countries receiving military assistance had increased their defense expenditures greatly and that we should be able to get further increases in their expenditures. The question here was whether the U.S. should continue doing what we were now doing. The President expressed the view that State

and Defense should submit the proposed FY 1962 military assistance program through the budgetary process and that from that point it would be handled along with the rest of the budget.

Mr. Gray attempted to sum up the discussion, suggesting that the Council Record should show that the Council had considered the results of State–Defense planning and should reflect the fact that it was important to have long-range plans. In this connection Secretary Herter observed that such plans did not involve commitments. Mr. Gray went on to say that the Record would show that program levels for FY 1962 would be decided through the budgetary process. He asked whether the Record should show that no action had been taken on the Newport directive (i.e. NSC Action 2275). Secretary Dillon closed the discussion by stating that he would like to discuss the Newport directive with the President in the light of the Council discussion.

*The National Security Council:*⁸

a. Considered the report on long-term military assistance planning prepared by the Departments of State and Defense, as presented orally at the meeting by the Under Secretary of State and the Assistant Secretary of Defense (ISA); in the light of (1) the views of the Joint Chiefs of Staff (transmitted by the reference memorandum of October 28, 1960), as amplified orally at the meeting by the Chairman, Joint Chiefs of Staff, and (2) the views of the Secretary of the Treasury and the Director, Bureau of the Budget, on the U.S. balance of payments position and the situation with respect to the budget for FY 1962 and future years.

b. Agreed that decisions on military assistance program requests for FY 1962 should be made through the normal budgetary process.

c. Noted endorsement by the President of the principle of continued long-term military assistance planning. Noted, however, that this endorsement does not imply approval by the President of the specific plan presented at the meeting.

d. Noted that the Secretaries of State, Defense and the Treasury, the Director, Bureau of the Budget, and the Special Assistant to the President for National Security Affairs would discuss the subject further with the President.

e. Agreed to defer consideration of NSC 6014, "U.S. Policy Toward Italy",⁹ pending further work on the FY 1962 budget.

[Here follows agenda item 2.]

Robert H. Johnson

⁸ Paragraphs a–e constitute NSC Action No. 2326. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

⁹ Dated August 16, it is scheduled for publication in volume VII, Part 2.

267. Memorandum From Secretary of State Herter to President EisenhowerNovember 13, 1960.¹

SUBJECT

Future Military Assistance for the Netherlands, Italy, Belgium and Japan

You will recall that the question of how to treat military assistance programs for the Netherlands, Italy, Belgium and Japan in FY 1962 and beyond was fully discussed at the National Security Council meeting of October 31.² This now requires a decision, since we must proceed very shortly to notify these countries regarding their previously approved fiscal year 1961 military assistance programs.

As indicated in the Council meeting, the Treasury Department and the Budget Bureau feel that military assistance for these countries should be sharply reduced in fiscal year 1962 and totally eliminated over the next two to three years. As you are aware we believe that the balance of payments problem is not affected by a decision on this question. The difference in budgetary terms between the cost of the military assistance we propose for fiscal year 1962 and that which might be provided under the Treasury-Budget Bureau theory would be less than 5% of the total fiscal year 1962 Military Assistance Program proposed.

For the reasons stated more fully in the NSC meeting, Secretary Gates and I feel strongly that the increased defense contributions from these countries which are so necessary to our security posture, can only be obtained if we continue an adequate measure of U. S. military assistance, making such assistance contingent upon appropriate increases in their defense budgets.

It is perfectly clear that reducing or eliminating the relatively low levels of military assistance in these four countries would lead them to infer that U.S. interest in NATO and the defense of the Far East was diminishing and that a "Fortress America" concept was being seriously considered. It would therefore lead to reductions in the defense expenditures of these countries, meaning in turn a substantial weakening of our entire defense posture. This would be particularly the case should the U. S. raise the possibility of reducing the level of its own forces in Europe during next year's NATO review.

Source: Eisenhower Library, Whitman File, Miscellaneous Material. Secret.

¹ The source text is undated. A memorandum from Anderson to the President (Document 268), however, indicates it was dated November 13.

² See Document 266.

With this in mind, and since we feel convinced that despite their satisfactory gold reserves none of these countries is budgetarily able to accommodate the very substantial increases which would be necessary if military assistance programs were eliminated over the next two or three years, I feel that we should handle the problem of notifying them regarding our future intentions along the lines set forth in the attached draft telegrams.³ Secretary Gates concurs fully in this view.

Your approval for the despatch of these messages is recommended and requested.

Christian A. Herter⁴

³ None printed. The operative portions of the draft telegrams to Rome, The Hague, and Brussels stated future U.S. grant military assistance was contingent on increases in the Italian, Dutch, and Belgian defense budgets, respectively. The draft telegram to Tokyo noted future U.S. contributions would depend not only on U.S. appropriations, but on Japan's ability to finance its share of contemplated force improvement projects.

⁴ Printed from a copy that bears this typed signature.

268. Memorandum From Secretary of the Treasury Anderson to President Eisenhower

Undated.

SUBJECT

Future Military Assistance for the Netherlands, Italy, Belgium and Japan

General Persons has given me for comment Secretary Herter's memorandum to you dated November 13¹ raising the issue of the future military assistance programs for the Netherlands, Italy, Belgium and Japan.

As you will recall, this subject was discussed extensively at the National Security Council meeting August 1 and again at the Council meeting on October 31.² The NSC Record of Action for the August 1 meeting as approved by you contained the following:

"2275. d. Noted the President's directive that the Governments of the Netherlands and Italy should be informed at an early date that they cannot in the future look forward to the level of grant military assistance they have received in the past; that the Governments of

Source: Eisenhower Library, Whitman File, Administration Series, Anderson, Robert B., 1960–1961. Secret.

¹ Document 267.

² See Documents 261 and 266.

Belgium and Japan should be informed that they must anticipate an eventual decrease in the level of U.S. grant military assistance; and that decisions as to the future grant military assistance program for each country should be taken following notification to that country.”³

The communications which Secretary Herter now proposes to send these four countries would not carry out my understanding of the language or the spirit of the August 1 decision.

Given the now very substantial financial capabilities of these four countries and the balance of payments and budgetary problems which now face the United States, I cannot concur in the recommendations made to you in the November 13 memorandum.

Secretary Herter’s memorandum and the attached draft cables would call for continued and possibly increased levels of military assistance for the purpose of inducing these countries to increase their defense budgets—something they are fully capable of doing financially without such assistance from us.

The memorandum appears to proceed on two basic assumptions:

1. The United States should continue to press NATO countries to meet MC-70 goals in full using U.S. aid as a necessary inducement.
2. Our NATO partners (even those with very substantial financial capabilities) and Japan would construe any future reduction in the level of United States military assistance as a lack of U.S. interest in NATO and the defense of the Far East and a start down the road towards a “fortress America” concept.

Without attempting to pass judgment on the military and foreign policy validity of the present NATO and Far East strategic force goals, I can say that our NATO and other military alliances are very weak reeds for the defense of the Free World if our financially able allies are not willing to increase their defense expenditures as their financial abilities increase and the financial problems of the United States become critical—in large part owing to the tremendous amount of assistance we have given these countries in reaching their present healthy situation. If our alliances are that weak, the time has now come to reappraise them. In the past few years we have discontinued new commitments for grant military assistance to the United Kingdom, Germany, and France without any damage to the NATO structure. We should be able to expect similar responsible reaction from the Netherlands, Italy, Belgium and Japan.

The level of grant military assistance to these four countries which is now running about \$250 million a year is a substantial budgetary item for us. However, even more important at the present time is the balance of payments effect of continuing military aid. If the military

³ See footnote 6, Document 261.

equipment which we are now giving these countries is of real importance to their military position, they should be buying it (thereby increasing our exports and assisting our balance of payments position) instead of our providing it to them free. Apparently the only way they can be forced to purchase the military equipment they need is through an orderly reduction and elimination of grant military assistance to them on our part. When we assume a heavy military burden, as we are doing, and let these four financially able countries off with a light burden, we weaken the whole competitive position of the United States in world markets which is so important in our fight to surmount our balance of payments problems.

At the time the August 1 decision was made our balance of payments deficit had been running at an annual rate of \$2.7 billion. Today it appears that this deficit is running at a seasonally adjusted annual rate of \$4.4 billion. Therefore, there is even greater reason today than there was in August to carry forward immediately your directive above-mentioned in NSC Action 2275 (d).

269. Editorial Note

On November 17, the White House in Augusta, Georgia, released the text of a November 16 statement by President Eisenhower outlining steps to improve the U.S. balance of payments. Among other items it instructed Secretary of State Herter to direct the International Cooperation Administration to emphasize financing U.S. goods and services in all of its activities, to place a ceiling on operations not financing direct procurement of U.S. goods and services, and to reduce the purchase of commodities abroad as far as possible. Eisenhower issued similar orders to the Development Loan Fund Board of Directors. For text, see Department of State *Bulletin*, December 5, 1960, pages 860–863. In a December 5 memorandum, Herter instructed ICA Director Riddleberger to phase out commodity procurement in several industrialized countries, to develop proposals for minimizing procurement expenditures in these countries, and to eliminate other expenditures in these countries. The text is *ibid.*, December 26, 1960, pages 972–973.

270. Memorandum of Conference With President Eisenhower

November 30, 1960, 9 a.m.¹

OTHERS PRESENT

Secretary Anderson
Under Secretary Dillon
Director Stans
General Persons
Colonel Eisenhower

Mr. Stans opened by requesting the President to examine our mutual security program for the 1962 budget. He thought it would be pointless at this stage to try to address the budget on an item-by-item basis. As of now, guidance can be reduced to two questions regarding (1) the level of mutual security program budget requests for 1962, and (2) whether there should be a supplemental request of \$150 million for the Development Loan Fund in 1961. At this point the President read the paper appended hereto² which analyzes these two questions.

The President then recalled the statement by Mr. Anderson in NSC meeting to the effect that the foreign aid program does not affect the balance of payments problem as much as does the procurement of military items overseas.³ Mr. Anderson agreed with this statement since much of the military assistance program funds are spent in the U.S. However, he fears that the type of economic help which will be necessary in Africa will not be susceptible to U.S. procurement.

Turning to the first question, Mr. Dillon said the State Department had originally thought \$5.5 billion desirable, but in view of the tight budget, they had reduced this figure. They now feel that \$4.75 billion MAP is the lowest adequate figure. The greatest difference comes in the DLF which has loaned out over half a billion dollars this year. As examples, in India and Pakistan their total DLF loans come to some \$500 million. Mr. Dillon said that the next Administration⁴ has made considerable noise over the DLF. This fact may justify our going to the usual level in our own budget with the expectation that the new Administration will raise it. If this Administration had responsibility all through next year, we could not live with this figure. Mr. Dillon pointed out that the large figure for new obligational authority of the DLF will not translate much into expenditures.

Source: Eisenhower Library, Whitman File, Eisenhower Diaries. Privileged. Drafted by Colonel Eisenhower.

¹ The meeting was held at the White House.

² Not printed.

³ See Document 266.

⁴ John F. Kennedy was elected President in national elections held November 8.

The President asked whether other countries are doing their share to pick up the load. Mr. Dillon said that other countries are merely working in the direction of picking up their fair share. The demands in India, for example, are so large as to absorb any differential and to preclude the possibility of reduction of U.S. funds. Britain, for example, doubled her foreign aid last year and Germany has now begun with a program of \$1.7 billion. The French and the British have a program of \$0.5 billion apiece per year. The Dutch and Swiss are contributing.

Mr. Anderson expressed concern over the posture that this program puts the President in. We have now reached the end of an era and we can no longer live as we did in the past. Other nations have financed their deficits and this has resulted in withdrawal from our gold supplies. We have supported the World Bank, the International Monetary Fund, the Inter-American Development Board, and we have now embarked on a \$600 million program for development in Latin America.⁵ All in all, our contributions to these will come to \$10 billion capital investment total. If we attempt to afford the same levels as in the past, our expenditures are likely to exceed our revenues.

Mr. Dillon pointed out that the military assistance program does not affect balance of payments very much. Mr. Anderson said that it does affect balance of payments some and that it is not sufficient to avoid exacerbating the balance of payments situation.

Mr. Stans said he thought we should cut our mutual security program country by country. He feels a figure of \$3.46 billion is best. At all odds, it should not exceed the figure of \$4.25 billion, but would be preferable not to exceed a round figure of \$4 billion. This figure will give us good support in Congress.

The President expressed some doubt about the support in Congress and said that we are now approaching the hardest choice possible to make. The world situation is worse rather than better, and, therefore, demands more help. On the other hand, he himself is concerned with balance of payments as much as anyone; and he realizes that we can defeat ourselves by violating fiscal soundness. The only way out is to find a means of forcing other countries to do their full share in carrying world responsibilities. He pointed up the privileged status of Germany, which, while she is willing to contribute \$1.7 billion dollars this year, has the background of contributing nothing. She has been living in the best of two worlds. On our own part, one move we can make is to redeploy troops.

⁵ Authorized by P.L. 86-735, September 8. For text, see *American Foreign Policy: Current Documents, 1960*, pp. 290-292.

Mr. Anderson said he realizes this is a poor time to do such a thing. We should not redeploy many troops, but we should begin the process. If forced to the choice, we should deploy major forces rather than place ourselves in a position where we must starve other nations by cutting mutual security. The President pointed out that he has been taking a position for eight years that we should reduce the size of our forces in Europe.

Mr. Anderson said that if we make a move to redeploy troops he will be able to withdraw many objections to maintaining sizeable mutual security. The President said he had checked with General Lemnitzer on withdrawing troops from Japan and found that all that is left there are two important air bases. Mr. Anderson said the hard money area in Europe is the key to the problem.

Mr. Dillon said maybe we can take half our forces out of Germany within the next few years. To Mr. Anderson's question, he said he personally would be willing to begin this movement in calendar year 1962, but could not speak for Secretary Herter.

Mr. Stans said we have to hit the problem again in a couple of days. Secretary Gates has bad news from Defense and estimates that Defense budget will go up \$2 billion for a total of \$43.3 billion. All he can see is substantial redeployment and a reduction of forces. The Air Force is willing to redeploy units from Europe, but the Army, however, is not. Mr. Dillon commented that the Army can see this as a move toward reduction in their total force.

Mr. Anderson reviewed recent withdrawals, to include \$490 million in gold in the month of November. Britain withdrew \$50 million yesterday and the Treasury will have to announce an additional \$75 million on Thursday. This is beginning to resemble a run on gold. The President said we must tell the British that while they have certain traditions, we have some also; one of these is the soundness of the dollar, and we will take all means necessary to preserve it. Mr. Anderson said that if we continue the current rate of withdrawals, we will reach an annual rate of \$6 billion which will constitute a real run on gold. It is impossible, of course, to predict circumstances which will exist in a year. Yesterday the dollar was stronger than it had been in weeks. By contrast, pound sterling was weaker. It is possible, though not certain, that the dollar was strengthened by the fact that we have placed Europe on notice. He further admitted that short term capital may be coming back to the U.S. He does not visualize the rate of interest as affecting this problem too much. With whatever optimistic signs one may find, however, the fundamental fact is that people abroad are concerned over the dollar.

Mr. Stans said that he hopes that State can agree that the redeployment of forces in Europe might be taken up in December NATO meeting. Mr. Dillon agreed that the matter should be brought up, but

had not figured on the exact amount. Mr. Anderson admitted that the psychological problem is difficult because the people abroad do not know the facts, such as this figure of \$490 million withdrawal in November. Only sophisticates know this. He has made an exhaustive study of the purchase of gold bonds in Toronto. There has been a large amount of this purchasing from the U.S., particularly from the west and south. Texas is the worst offender. Oddly enough, it is not the rich. This matter in itself does not concern [him] too much since he feels this action is the result of gold speculators.

Recently Senator Murray had asked Secretary Anderson to come to the Senate and testify on the balance of payments. He himself had called Senator Fulbright and had said that he does not want anyone in the government to testify at this time. Senator Fulbright agreed to back us up on this matter.

The President said that our budget message should start out with an explanation of our objectives in the monetary field. It should set out the facts of life baldly. It should admit, however, that we cannot keep the peace if we turn our back on the world. He expressed doubt regarding Mr. Dillon's position concerning the disastrous consequences of cutting mutual security below \$4 billion. Our budget must reflect our basic philosophy and our budget must be balanced. We cannot afford to neglect measures which will be useful in cutting down a balance of payments deficit. In general terms, he prefers to submit mutual security requests in round terms such as \$4 billion rather than \$4.175 billion. Further, we should go to NATO and tell them that we plan to withdraw two divisions. We should reduce the overstuffed NATO infrastructure, bring home Americans, and hire French and Germans.

Mr. Dillon said if mutual security must be cut drastically, he would hope that \$2 billion would be taken off MAP and \$50 million off economic assistance. The President referred to the new Latin American assistance program and said that unless this shows some promise of success, we are in real trouble. Castro is showing success in exporting Communism. Latin American governments must be willing to make social reforms if we are going to continue a level of aid to them. Mr. Anderson said he felt that Latin America is the area where we should concentrate our efforts on aid. We should say to the European countries that they are the ones who have had vested interests in Asia and Africa. The President expressed agreement and said he had been talking to heads of some of the Latin American countries for a couple of years on this matter.

Mr. Stans then brought up the second question of the DLF. He expressed the hope that we would not add an extra \$150 million to the fund this year. Mr. Dillon said this is necessary, since we had a battle over this matter last year and promised to come back to reopen the

battle this year. Mr. Stans argued that Congress has exercised its will in refusing an extra \$150 million for the DLF twice. Mr. Stans accused the DLF staff of getting rid of money by the end of the year to prove requirements for the next year, and Mr. Dillon admitted there was some of that going on. The President said that he himself had put personal pressure for this \$150 million for the DLF and he felt he must follow through with this request.

As the meeting ended the President mentioned again that he had always been in favor of troop redeployment. He reiterated his request that Mr. Dillon discuss with the Secretary of Defense the proposal to inform the North Atlantic Council, during the forthcoming December meetings, that unless relief is obtained in the coming year in meeting the costs of maintaining American units in Europe, and other methods are found to relieve the adverse effect of our balance of payments position, it will be necessary for the United States to withdraw a portion of its European contingent by the end of calendar year 1962.

John S. D. Eisenhower

271. Memorandum for President Eisenhower's File by the President's Associate Special Counsel (McPhee)

December 12, 1960.

From 4:10 to 4:50 this afternoon I met with the President to discuss with him a possible course of action in view of the Comptroller General's decision cutting off funds for the Office of the Inspector General and Comptroller, Mutual Security, Department of State.¹ The President read the attached proposed statement which sets forth the circumstances in detail.²

Source: Eisenhower Library, White House Central Files, Confidential File. No classification marking.

¹ Joseph Campbell, Comptroller General of the United States, informed Herter in a December 8 letter that unless the Department of State complied with a congressional request for certain documents by Friday, December 9, funds would no longer be available for the Office of the Inspector General and Comptroller. (Attachment, Campbell letter to Eisenhower, December 8; *ibid.*)

² Not attached to the source text. Several undated draft and revised draft statements are *ibid.*, however. Each begins with the statement that Eisenhower had ordered the Secretary of State to continue payments and disbursements for the Office of the Inspector General and Comptroller, as the Attorney General believed Campbell's decision was based on an erroneous interpretation of the law which would have unconstitutional results.

The President expressed concern about the possible ramifications of such actions and said that in any event if he did take them he would think their effectiveness should be limited to January 20, the end of his term of office.

I said to the President that we had tried to think of every possible eventuality; that so far we had not found any practical vulnerability in the concept; but that we could not in all honesty guarantee absolutely that events would ensue as we envisioned them.

The President was most emphatic in his determination to uphold the Constitutional principle; he was concerned about the people involved and their loss of jobs. He, nevertheless, was conscious of the many other people (certifying officers, disbursing officers, and others) who would be acting with some degree of risk in proceeding contrary to the decision of the Comptroller General.

The President had talked with the Comptroller General Friday and called him again this afternoon while I was still in the office.³ The President outlined the course of action he was considering and said that he was calling just to say that if it were at all possible he would not like to see a head-on clash between himself and the Comptroller General. The upshot of the conversation was that the Comptroller General said that he would call Congressman Porter Hardy, the Subcommittee Chairman who made the request for documents occasioning this situation. The Comptroller General advised that he would report the results of his conversation with Congressman Hardy.⁴

Henry Roemer McPhee⁵

³ No further record of these conversations has been found.

⁴ On December 23, the White House released a statement by the President certifying he had forbidden disclosure of the requested documents and outlining the reasons for this decision. For text, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1960–61*, pp. 881–883.

⁵ Printed from a copy that bears this typed signature.

U.S. POLICY REGARDING STRATEGIC RESOURCES AND INTERNATIONAL COMMODITIES

272. Report by the Special Stockpile Advisory Committee to the Director of the Office of Defense Mobilization (Gray)

January 28, 1958.

SECTION I

Summary of Major Findings and Recommendations

The supply expansion programs initiated during the Korean War and the stockpiles accumulated by the Government virtually eliminate the threat of raw material shortages of the type that impeded past defense mobilization efforts.

The \$7,350,000,000 worth of strategic and critical materials in Government inventories, plus production in the United States and readily accessible foreign areas, with a few relatively minor exceptions could easily support an expanded defense industry for several war years.

In previous wars, time and distance helped keep hostile attack from American shores. This may no longer be true. The protection afforded previously by ocean barriers may have vanished with the advent of new weapons and the means of delivering them.

Source: Department of State, E/CFEP Files: Lot 61 D 282A, Supplemental Stockpile Criteria and Administration—CFEP 567. No classification marking. On October 1, 1957, the Director of the Office of Defense Mobilization appointed a 12-person Special Advisory Committee to review the U.S. Government's current stockpiling policies and programs. Holman D. Pettibone, Chairman of the Board of the Chicago Title and Trust Company, was the chairman of the committee which included Earl L. Butz, Dean of the School of Agriculture, Purdue University; Donald F. Carpenter, General Manager of the Film Department of E.I. duPont de Nemours Co.; Frederick C. Crawford, Chairman of Thompson Products Inc.; Edwin L. Crosby, M.D., Director of American Hospital Association; Henry H. Fowler, Washington lawyer; John D. Morgan, Jr., Washington minerals consultant; Admiral Arthur W. Radford, USN (ret.); General Walter Bedell Smith, USA (ret.); James E. Webb, President and General Manager of Republic Supply Co.; Walter G. Whitman, Head of the Department of Chemical Engineering, Massachusetts Institute of Technology; and Clyde Williams, President of Clyde Williams & Co. All members of the committee concurred in this report.

Raw material consuming facilities are generally more vulnerable bombing targets than are raw material producing facilities and inventories. This lessens the probability of serious material shortage problems in nuclear war.

Therefore, the need for strategic and critical materials would be greater in a limited war, or in an economic or political conflict, than in a nuclear war.

Survival, Relief and Rehabilitation

As nuclear attack is today a distinct possibility and threatens the very survival of the American people, this nation must attain and maintain a position of preparedness that is flexible, balanced and within its capabilities.

Annual military expenditures now total about \$40,000,000,000. In addition, the Government maintains materials stockpiles and industrial facilities valued at many billions of dollars to support the defense effort. Yet for human survival and relief the Government has stockpiled items, principally medical, amounting to only about \$200,000,000.

The Committee recommends that in stockpiling, emphasis be shifted from raw materials to finished items and vital supplies for survival, relief and rehabilitation. Energetic steps should be taken to make coordinated studies in this area and to initiate appropriate programs. (See supplementary statement by Henry H. Fowler in the Appendix.)¹

Strategic and Critical Materials

The stockpiling of materials is still a major element of any preparedness program. Accordingly the Committee makes the following recommendations:

1. All stockpile planning should be revised to conform to the present policy which limits new procurement to meeting shortages for a 3-year emergency period.
2. A new method should be adopted for estimating emergency requirements based generally on industrial consumption patterns, adjusted for emergency conditions. Additional provision should be made for major military and atomic energy programs, as well as for new and increasing uses of high-temperature and other special-property materials.

¹ Not printed. In this Appendix, Fowler urged early action by the Executive and Legislative branches of the Federal government to get a program underway and enact appropriations. While coordinated studies would be useful in the long run, Fowler wanted to stress the need for decisive action to initiate the program.

3. The present methods of estimating reliable supplies for an emergency should be continued.

4. Two stockpile goals should be established for each material, and reviewed annually: (a) Minimum Goals which would assume reasonable reliance on all accessible overseas sources; (b) Greater Security Goals which would assume reliance only on sources in the general North American area. Attainment of the Minimum Goals should be given priority. It should be noted that application of the Greater Security Goals concept to perishable materials would be an enlargement of present practices.

5. When additional amounts of a material are no longer needed for national security, outstanding contracts for future delivery should, if possible, be terminated by reasonable negotiated settlements.

6. The Director of the Office of Defense Mobilization should seek more flexible authority to dispose of surplus materials. This would involve a request for amendment of pertinent legislation. Also the current executive disposal policy should be rescinded.

7. Perishable materials in excess of the Greater Security Goals should be disposed of, when this can be done without unduly interfering with usual markets.

8. In view of current conditions, all commercially usable metals and minerals in excess of the Greater Security Goals should be retained, except when utilization of any portion of the excess of these materials would be in the interest of national security.

9. Materials not meeting stockpile procurement specifications should be upgraded when feasible, otherwise these materials should be disposed of, when this can be done without undue interference with usual markets. Subspecification-grade metals and minerals should be disposed of preferably in a manner designed to encourage development of processes for treating low-grade domestic ores.

10. Quantities of any metals and minerals in excess of defense needs, to be obtained in exchange for agricultural surpluses, should be judged on a transaction-by-transaction basis, rather than under a rigid formula. Consideration should also be given to acquiring survival and relief items in exchange for agricultural surpluses.

General

The Committee recommends that the public be informed to the greatest extent consistent with national security, of details of the stockpile programs including periodic reports of goals and of quantities on hand and on order.

Agencies of the Federal Government, as listed in Section III, provided information for the Committee. In addition, the Committee reviewed a number of other relevant studies.

Representatives of non-Governmental organizations were not invited to submit their views. The Committee believes that these views can be obtained more effectively by the Government, especially if there has been disclosure of stockpile contents and an explanation of the stockpile programs as recommended in this report.

[Here follow Section II, which sets forth in detail important elements of the Committee's studies and reasons for its conclusions and recommendations, and Section III, which outlines pertinent information concerning the members of the committee and staff and the committee's operations.]

273. Memorandum for the Files by the President's Deputy Assistant (Morgan)

March 3, 1958.

SUBJECT

Meeting between the President, Governor Shivers, Mr. Moncrief,¹ Secretary Weeks, Secretary Anderson and others

I came into the meeting about fifteen minutes after it had started. There seemed to be general agreement that the voluntary plan for limiting the importing of oil was about to break down. This was due to two factors—(1) the unwillingness of Tidewater Oil to cooperate in the voluntary plan, and (2) the increasing number of new people coming into the field who wish to import oil.

The President indicated that it was probable that some system of mandatory import controls would have to be worked out and put into effect. He suggested two or three ways of doing this, and asked Secretary Weeks and Secretary Anderson, as members of the Cabinet Committee, to consider these suggestion along with others.

Secretary Weeks said that the Cabinet Committee had had this problem under constant review, and would hold another meeting on March fourth.²

GDM

Source: Eisenhower Library, Whitman File, Eisenhower Diaries. No classification marking. Drafted by Gerald D. Morgan.

¹ Alan Shivers, ex-Governor of Texas and Director of Texas Gulf Sulfur Company, and William A. Moncrief, an independent oil producer and member of the National Petroleum Council.

² See Document 274.

274. Memorandum of Conversation

March 4, 1958.

SUBJECT

Meeting of the Inter-Cabinet Committee on Crude Oil Imports¹

PARTICIPANTS

Secretary of Commerce Weeks, Chairman
Secretary of State Dulles
Secretary of the Treasury Anderson
Assistant Secretary of Labor
Deputy Secretary of Defense Quarles
Deputy Attorney General Walsh
Under Secretary of Interior Chilson
Assistant Attorney General Hansen
Assistant Secretary of Commerce Mueller
Major General Cotulla, Department of Defense
Captain Carson, Administrator of the Voluntary Program
Gordon Gray, Director, Office of Defense Mobilization
Ralph Fowler, Office of Defense Mobilization
Herbert Hoover, Jr., Consultant
Loftus Becker, Department of State

Chairman Weeks opened the meeting by generally reviewing the situation. He was followed by Captain Carson who gave a summary of his hearings.² A number of new importers were requesting quotas, but by reason of the fact that demand had not increased as anticipated, there was no room for them. While on the whole most of the companies were going along with the program, there were three importers that were very definitely out of line and this was having its effect on the willingness of other importers to continue to conform to the program. The situation in the domestic industry was very difficult. Oklahoma had dropped its production about 10% and Texas had dropped its production about 16% (9 days allowables). Louisiana had

Source: Department of State, Secretary's Memoranda of Conversation: Lot 64 D 199. Confidential. Drafted by Becker.

¹ On February 20, Weeks telephoned Dulles to inform him about the meeting and urged that he attend. According to a transcript made in Dulles' office, the conversation went as follows:

"W said on March 4 (2:45 p.m.) there will be a meeting of the Oil Comm and they may take some fateful decisions and the Sec may want to consider being there. The decisions may involve whether or not we have mandatory controls." (Eisenhower Library, Dulles Papers, General Telephone Conversations)

² At the recommendation of two reports of the Special Committee To Investigate Crude Oil Imports, July 29 and December 12, 1957, the Voluntary Oil Import Program went into effect with respect to purchases in states east of the Rocky Mountains on July 29, 1957, and was extended to the remaining states on December 24, 1957. The program was carried out under provisions of the Trade Agreements Extension Act of 1955 (69 Stat. 162) and was administered by the Department of the Interior. Carson's hearings were apparently on the program.

also restricted production. No restrictions had been imposed by California. Captain Carson thought that he could adjust the program if he had an additional 40,000 to 50,000 barrels a day to allocate. Chairman Weeks then posed the question as to whether any member of the Committee thought the voluntary plan would work. Secretary Dulles commented that the plan had been working reasonably well and that there were serious security problems involved in any alternative procedure. The thing that we should really do is to compare the voluntary plan with the alternatives. He recalled that the Department of Justice had indicated that there might be some method short of mandatory controls of bringing the recalcitrants into line, and he asked the representatives of Justice to discuss this point. Mr. Hansen noted that any mandatory controls would be extremely cumbersome. It would be necessary to afford objectors some type of a hearing procedure and this would involve a large administrative staff for which we had no funds available. Moreover, the objectors would probably file suits in court and in the meantime the benefits of the voluntary program would be lost. Mr. Quarles noted that the success of a program should be measured by how well it is doing as compared with alternatives. The voluntary program might be much better than any alternative. Secretary Dulles again commented that it is necessary to consider the degree to which the program is successful and the real question was how could it be made to work better. It is possible that some reasonable additional reductions would be consented to by Venezuela and Canada. At any rate, we were currently holding consultations with them on that point. The Committee should very seriously consider the difficulties of approaches other than a voluntary program, since it would lead to a degree of socialization of the industry. We have here domestic security interests and foreign security interests. Mandatory controls might well lead to controls over price. It is possible that some of the companies having existing allocations can move over for newcomers and this after all may be temporary, for there may be an upturn in demand and it may be possible to get along with the voluntary program. Chairman Weeks noted that there was an existing imbalance of imports and production by reason of the failure of any increase in demand to develop. The small importers may be squeezed out. Unless some action is taken, the extension of the Trade Agreements Act may well be defeated in Congress and we had been advised to that effect by the leaders. Mr. Gray again noted that there was an imbalance of imports and production because of a decrease in domestic demand. He suggested that the ratio be adjusted and that asphaltic crudes be exempted from the program so as to give Carson in the neighborhood of 80,000 barrels a day as distinguished from the 200,000 barrels a day that was being requested by the applicants. He commented that we cannot allow one company to destroy the entire

system. The answer was some reasonable cutback. Mr. Hoover noted that there had not in fact been a large drop in domestic demand according to the latest Bureau of Mines figures, although there had been some drop over a period of time. Actually, the excess of production was not really due to excessive imports. Factors that would have to be considered were the great increase in use of natural gas; the fact that states other than Texas had not cut back production substantially. The fact that we have at present 110,000,000 barrels above working stocks was due in his opinion to many factors other than imports.

Secretary Anderson commented that the basic authority given to the President by Congress under Section 7³ related to the national security. He had to determine whether the domestic industry was reasonably healthy in the sense that there was sufficient discovery and production so that our reserves did not decline in terms of the number of years that they would be available. He recognized that there were security interests involved also in our relations with Canada and Venezuela and the Middle East. It was necessary to recognize that the number of producing companies would increase and the number of importers would increase. In the light of this the major concern of the big companies was that there was a certain point at which they could not cut their profits in the national interest unless they were forced to do so by some type of mandatory control. On the other hand, the companies well recognized that a voluntary plan was flexible and they had no desire for statutory controls. A number of the smaller refiners in the United States were closing down. If we were to have a form of mandatory control, the industry would prefer an executive order to a statute. Secretary Dulles reverted to the point of what could be done to add teeth to the voluntary program. Mr. Walsh, commenting first on Secretary Anderson's statement, said that mandatory control through executive order was even more difficult than legislation. Money would be needed to administer such a program. In reply to Secretary Dulles, Mr. Walsh suggested application of the Buy American Act⁴ to those companies which failed to comply with the voluntary program. In effect, they would not be eligible to sell oil to the government. It was noted that such a sanction might be avoided if the companies were able to segregate imported from domestic oil, but it was felt that it would be rather difficult for them to do so. Secretary Anderson inquired whether it would be possible to forbid such companies from shipping their oil in interstate commerce, but it was pointed out that this could only be done through legislation. Judge Hansen said that

³ Section 7 of the Trade Extension Act of 1955. (69 Stat. 162)

⁴ The Buy American Act, enacted March 3, 1933, stipulated that in all but limited cases only unmanufactured articles, materials, and supplies mined or produced in the United States and only manufactured articles, materials, and supplies made in the United States could be acquired by the government for public use. (47 Stat. 1520)

the Department of Justice had a memorandum⁵ indicating how the Buy American Act could be applied in this instance. The memorandum was premised upon the theory that it would be most inconvenient for the companies to segregate imported from domestic oil. There was then a general discussion of this suggestion on the part of Justice, and it was agreed that Justice's memorandum would be distributed to those Departments which made large purchases of petroleum products such as Defense, Post Office and GSA. At Secretary Quarles' suggestion, those Departments would study the feasibility of applying this sanction so as to put some teeth into the voluntary program.

The meeting then turned to the question of whether the voluntary program would be adjusted to conform to the ratios between imports and production or demand recommended initially by the Committee, or whether any change in those ratios was required. It appeared to be the consensus of opinion that these ratios had been very carefully worked out and that there was no reason to change them at this time. Mr. Gray raised the question of products such as unfinished gasoline and residual oil or topped crude. After some discussion, Mr. Gray undertook to have the situation with respect to these items considered by his Committee after he had received figures on categories of imports from Treasury. Some consideration was given to the problem of new importers who trade their allocations with large importers in exchange for crude located in the interior of the country and split with the large importer the resulting price advantage. It was pointed out that this was basically a refining problem. Some consideration was given to the suggestion that allocations should be based on refinery capacity but it was noted that this would greatly advantage the large refiners.

At the conclusion of the meeting it was agreed that further study would be given to reducing the total allocation under the voluntary programs so as (a) to make the ratio between imports and production conform to the 12% previously determined by the Committee to be necessary in the interests of national security, and (b) to give some reasonable allocation to new importers. In order to do these things it would be necessary to cut back existing allocations by some reasonable percentage. Study would be given to the feasibility of using the Buy American Act to bring recalcitrants under the voluntary program into line.

⁵ Not found.

275. Letter From the Director of the Office of Defense Mobilization (Gray) to the President's Special Assistant (Randall)

March 6, 1958.

DEAR MR. RANDALL: Enclosed is a report by the Special Stockpile Advisory Committee dated January 28, 1958.¹ One of the basic recommendations of the Committee is that strategic stockpile planning in general should be geared to the current concept of not acquiring materials beyond the requirements for a three-year national emergency. However, the Committee also concurred in the existing practice of acquiring metals and minerals for the Supplemental Stockpile beyond the quantities considered essential for defense purposes when they can be obtained in exchange for U.S. stocks of agricultural surpluses. In this conclusion it recognized the fact that such acquisitions bear no direct relationship to the usual concept of stockpiling for a national emergency.

In light of the foregoing, the Committee recommended a change in the present rules for determining the quantities of materials suitable for inclusion in the Supplemental Stockpile. These rules, as you know, presently stipulate that the amount of any strategic or critical material in the Supplemental Stockpile may not exceed the lesser of (1) fifty percent of the five-year long-term stockpile objective, or (2) the total five-year mobilization requirement after deducting all other government-owned inventories plus quantities on order. Instead of the foregoing, the Committee recommended a case-by-case consideration of barter offers.² For example, a proposed barter transaction recently submitted to the Department of Agriculture involves the disposal of 50,000 bales of cotton to Spain in return for a comparable value of industrial diamonds. Under the present rules the amount of industrial diamonds on hand precludes such a transaction.

It should be noted that the present rules are derived from security considerations, viz., long-term objectives and five-year mobilization requirements. At the same time, the materials themselves are not considered as necessary for defense purposes.

Thus, the Committee recommends, and I concur, that instead of adhering to the somewhat irrelevant quasi-defense criteria which are used presently as limitations on acquisitions, each proposed transaction should be evaluated on its merits, i.e., what objectives, tangible or intangible, might be achieved as a result thereof. I think it would be

Source: Department of State, E/CFEP Files: Lot 61 D 282A, Supplemental Stockpile Criteria and Administration—CFEP 567. Confidential.

¹ Document 272.

² This recommendation was in section II, which is not printed.

appropriate also at this time for the Executive Branch to develop some concepts as to the ultimate purpose for which the Supplemental Stockpile inventories might be used.

It is generally recognized that the relationship between the Supplemental Stockpile and the national security is at best remote. Inventories in the Strategic and Critical Materials Stockpile in most cases provide for our full mobilization requirements. In many cases they exceed full mobilization requirements. Acquisitions for the Supplemental Stockpile have generally involved materials of which amounts needed for defense were already on hand. They are in the Supplemental Stockpile essentially because the Congress considered they were preferable to perishable agricultural surpluses.

It might be appropriate to weigh further Supplemental Stockpile acquisitions in the light of what the needs of this country for metals and minerals might be in a period twenty-five to fifty years hence. For example, it has been pointed out frequently that the amount of metals consumed during the past fifty years exceeds the amount consumed during the entire preceding history of the world. It has been further pointed out that demand is constantly increasing and will further increase as under-developed areas of the world industrialize. It is axiomatic that the quantities of metals and minerals in the earth's crust are fixed. The Supplemental Stockpile of metals and minerals might be given the role of providing some insurance against the depletion of the natural resources of this country and of the world.

Under this concept of the ultimate purpose which this present or future stockpile of metals and minerals might serve, its administration and direction would appear to be compatible with the responsibilities of the Department of the Interior. That Department could set up an interdepartmental committee, possibly with representatives of the Departments of Defense, State, Treasury, Agriculture, Commerce, the Bureau of the Budget, and the Office of Defense Mobilization, to advise it as to the types of objectives that might be achieved by the use of barter, e.g., preclusive buying, strengthening international relations, assisting the domestic economy, etc. This committee might also provide advice as to the types of materials and quantities that should be acquired on the basis, for example, of the known or estimated reserves of this country.

In light of the foregoing, I would like to commend to you the recommendations of the Special Stockpile Advisory Committee and my own recommendation that further study and consideration be given to a new concept as to the role which the Supplemental Stock-

pile should play in the future.³ If a formula is developed, I would also urge complete public disclosure as to the quantities of materials that may be acquired.

Pending the Council's consideration of these suggestions, consideration should be given to the propriety of waiving the present limitation with respect to industrial diamonds so as to clear the way for disposing of 50,000 bales of surplus cotton to Spain.⁴

Sincerely yours,

Gordon Gray⁵

³ On March 15, Randall established a CFEP Supplemental Stockpile Committee to study the questions raised in Gray's letter and in Document 272. Don Paarlberg, Assistant Secretary of Agriculture, was appointed chairman of the committee which included as other members, Thomas C. Mann, Assistant Secretary of State; Henry C. Kearns, Assistant Secretary of Commerce; Royce A. Hardy, Assistant Secretary of the Interior; John T. Patterson, Deputy Director, Office of Defense Mobilization; and Joseph Rand, Council on Foreign Economic Policy. Randall asked for a report from this committee in two months. (Memorandum from Randall to CFEP, March 15; Department of State, E/CFEP Files: Lot 61 D 282A, Supplemental Stockpile Criteria and Administration—CFEP 567)

⁴ In a letter to Gray, March 10, Randall stated that the Department of Agriculture and he agreed that it would be advisable to await consideration of the industrial diamond barter proposal until the CFEP committee that he had just established completed its study and established possible new criteria for this procedure. (Letter from Randall to Gray, March 10; *ibid.*)

⁵ Printed from a copy that bears this typed signature.

276. Minutes of the Cabinet Meeting

March 7, 1958, 9:05–10:30 a.m.

[Here follow a list of participants and discussion of unrelated subjects.]

Oil Imports—Sec. Weeks recalled the steps taken last July,¹ then stated that the situation had become more complicated because of noncompliance principally by a single company, decreased demand, and the advent of new importers. He pointed out that production in Texas had recently been cut to a nine-day per month basis.

Source: Eisenhower Library, Whitman File, Cabinet Series. Confidential. Drafted by L. Arthur Minnich, Jr.

¹ See footnote 2, Document 274.

Sec. Weeks enumerated the various possibilities: (1) voluntary controls; (2) mandatory controls; (3) tariff; (4) no Government action. He believed that foreign policy considerations ruled out the practicality of action through tariffs.

Sec. Weeks stated that the Subcommittee had studied hardest how to make voluntary controls more effective, which might be done by invoking the Buy American Act against importers who refused to comply with the voluntary control program. He stated that the largest Government buyers—Post Office, Defense, and GSA—are studying further the actions they might take. The President asked if Government contractors might also operate under a policy like the Government's Buy American policy and thus extend the range. The Attorney General stated this would require study but he felt it might result in a lengthy law suit before final decision. The President emphasized the need for having some sanction over any ruthless company.

Sec. Weeks made clear that the Committee has yet to make a determination between mandatory controls and voluntary controls. The President noted how certain producers seemed to have anticipated his decision, and he asked Sec. Anderson or Sec. Weeks to set them straight as to the status of the matter.

Sec. Weeks stated that an increase in demand was not in sight, then went on to express his belief that any action taken by the Administration should be by Executive Order rather than legislation.

Gen. Persons called attention to the potential impact of the oil situation on the Trade Agreements legislation.

Mr. Rogers pointed out that the nearly complete compliance thus far in the voluntary agreements of last July would seem to preclude any justification for changing now to mandatory controls. The President again emphasized that one organization should not be allowed to get away with breaking the agreements when all others complied. He added that the four-day schedule for some pipelines seemed to substantiate the bad position of the oil industry.

Mr. Quarles called attention to the increasing interest among Members of Congress for getting the Defense Department to decrease its offshore program, a change that would be contrary to statements made at the NATO meeting.² The President could see no merit in such a change since a very great defense factor was involved through the wartime supply potential, particularly in spare parts, established overseas through offshore procurement.

[Here follows discussion of unrelated subjects.]

LAM

² The NATO Heads of Government Meeting, held at Paris, December 16–19, 1957.

277. Minutes of the Cabinet Meeting

March 21, 1958, 8:30–10:05 a.m.

[Here follows a list of participants.]

Crude Oil Imports—The President opened the meeting by inquiring of Sec. Weeks the status of the Oil Import Committee study. Mr. Weeks replied that the Committee would be ready to see the President early next week. The President then asked as to the character of the conclusions being reached. Sec. Weeks said that apparently the Committee would recommend a combination of the voluntary program with an addition of some leverage through resort to the Buy American Act. An Executive Order by the President would be recommended.¹ Import volume would be reduced to 713 million barrels daily for Districts I–IV in order to maintain the 12% ratio in the face of reduced consumption. Also the quotas would be reapportioned to allow entry of additional importers into the program.

In reply to another query from the President, Sec. Weeks stated he did not expect domestic production to increase in the near future.

The President then asserted that if a program like this failed to work, it would be necessary to at least try compulsory quotas. He again cited the very low level of activity in the oil industry and reaffirmed his dislike of a situation where a recalcitrant company could deviate without punishment from a generally agreed program.

Sec. Dulles opined that the voluntary restriction of imports had worked about as well as could be expected, that the decrease in consumption was the new factor making necessary adjustment of quotas, and that many industries were experiencing difficulties. The President recalled the great length of time the problem had existed and expressed some reservations as to the potential effectiveness of voluntary agreements for solving the problem.

Sec. McElroy stated that the Department did not object to the new policy but he wished to make clear that the Buy American feature might cost Defense between \$10 and \$20 million additional per year.

[Here follows discussion of unrelated subjects.]

LAM

Source: Eisenhower Library, Whitman File, Cabinet Series. Confidential. Drafted by Minnich.

¹ On March 27, the President issued Executive Order 10761 which instructed the Federal government to buy only American domestic crude petroleum or products made from any product refined in the United States from such crude petroleum. For text of the executive order, see *American Foreign Policy: Current Documents, 1958*, pp. 1490–1491.

**278. Memorandum of Telephone Conversation Between
Secretary of State Dulles and the Legal Adviser (Becker)**

March 21, 1958, 11:41 a.m.

TELEPHONE CALL TO MR. BECKER

The Sec said there was some discussion at Cabinet on the oil business¹ and Weeks called re the postponing action until after the Canadian elections the 31st.² B said they asked us to do it. The Sec said there is strong pressure to do something and the Pres was emphatic about it this morning. B is familiar with it and said after talking at the meeting there was so little sympathy he mentioned it to the geographic people and now that Texas is down to 8 days he does not think we can afford to do it. B will talk to the geographic boys and say the conclusion will be as indicated. The Sec said no final action taken this a.m. Weeks is seeing the Pres Monday.³ B will assume he will have 48 hours after that to talk with the Canadians and Venezuelans and the Sec said we would try to get it.⁴

Source: Eisenhower Library, Dulles Papers, General Telephone Conversations. No classification marking. Transcribed by Phyllis D. Bernau. Initialed by Herter.

¹ See Document 277.

² The transcript of Weeks' call to Dulles, March 21, 11:16 a.m., reads as follows:

"The Sec returned the call and W referred to the fact that at some point he guesses Becker raised the question of our holding the oil thing until after the Canadian elections, which he thinks is March 31. Time is of the essence and W hopes to see the Pres tomorrow or Monday. The Sec said if there is any appreciable period of time he does not think we should hold it up. The Sec can call Weeks back." (Eisenhower Library, Dulles Papers, General Telephone Conversations)

³ March 24.

⁴ According to an attached note to Dulles from Bernau, which Dulles saw, Becker called the Secretary to say that he had talked with Anderson, Miller of Commerce, and Assistant Secretary of State C. Burke Elbrick, all of whom agreed that the President should announce within 48 hours his decision to make the changes in the voluntary oil importation program as recommended by the Special Committee To Investigate Crude Oil Imports. For Eisenhower's announcement on March 25, see *Public Papers of the President of the United States: Dwight D. Eisenhower, 1958*, p. 230.

279. Editorial Note

On May 1, at the 364th Meeting of the National Security Council, the President and the Council discussed, as item 2, "Basic National Security Policy." Included in the discussion was consideration of an interagency disagreement over the wording of a paragraph in draft NSC 5810, "Basic National Security Policy," April 14, 1958, dealing with U.S. policy toward international commodities. The memorandum of discussion of the meeting by S. Everett Gleason, May 2, reads as follows:

"General Cutler next directed the Council's attention to the first of five splits of view to be resolved by the Council. All these splits dealt with foreign economic matters. The first occurred on page 12, in paragraph 27-d, reading as follows:

" 'd. Because many less developed nations depend for economic growth on exports of a few basic commodities, their development programs are adversely affected by large fluctuations in prices of such commodities. If necessary for political reasons, the United States should, on occasion, join in a multilateral examination of price, production, and demand trends which might help to promote readjustments between supply and demand and reduce price fluctuations. [But the United States should not discuss the making of, or participate in, any international commodity agreement without the specific approval of the President.]*

" '* Treasury-Commerce proposal.'

"General Cutler pointed out that Mr. Randall had called attention to the fact that the CFEP, on October 11, 1955, generally disapproved of international commodity agreements, and that CFEP policy requires interagency policy-level approval before such an agreement may be discussed with a foreign nation. Neither of these points was reflected in paragraph 27-d, and Mr. Randall believed that the whole subparagraph should be deleted until present policy in this regard is first modified by the CFEP. Accordingly, General Cutler suggested that the subparagraph be deleted and its substance referred to the CFEP for action.

"Secretary Dulles said that there was a statement made, he believed, at the 1957 conference at Buenos Aires which was based on the President's approved policy with respect to the problem of international commodity agreements and related matters. He therefore suggested that since this statement had been approved by the President, it should be inserted in NSC 5810 in place of the present subparagraph 27-d.

"General Cutler asked Secretary Dulles if it were not possible to send the substance of this subparagraph to the CFEP for consideration by that body as having jurisdiction in this field. Secretary Dulles said he could not understand why this was necessary, inasmuch as the policy statement he was referring to had already been made by the President. Secretary Anderson suggested that decision should be delayed so that we could determine whether what was said at Buenos

Aires on this matter in 1957 continued to be what we still believed to be wise policy. Secretary Dulles said he had no intention of going beyond what we had said at Buenos Aires, and handed the President a copy of the Buenos Aires statement. The President then suggested that the substance of subparagraph 27-d be transmitted to the CFEP together with Secretary Dulles' statement made at Buenos Aires. Secretary Dulles said he merely wanted to state that any severe inhibition such as proposed by Treasury and Commerce in the bracketed portion of subparagraph 27-d, against even considering or discussing international commodity agreements with our Latin American friends, would have catastrophic repercussions throughout Latin America. The President agreed that this was true, but also warned against the danger of price-fixing as an actual U.S. course of action. Secretary Anderson also expressed great concern about the problem, but likewise agreed that we could not certainly state that we would not even discuss it with our Latin American neighbors. The President added that extreme care must be taken with regard to the wording of the policy guidance on this problem." (Eisenhower Library, Whitman File, NSC Records; brackets in the source text)

The statement to which Secretary Dulles referred was made by President Eisenhower in connection with the Economic Conference of American States, which met at Buenos Aires, August 15–September 4, 1957. President Eisenhower's statement, released at Newport, Rhode Island, September 4, endorsed "cooperation on the problems of basic commodities," language which was included in the Economic Declaration of Buenos Aires, September 2. Eisenhower's statement and the full text of the Economic Declaration of Buenos Aires are in Department of State *Bulletin*, September 30, 1957, pages 539–541.

The Council adopted NSC 5810 with the deletion of paragraph 27-d and referred it and the alternative language proposed by Secretary Dulles to the Council on Foreign Economic Policy for a review of existing policy on international commodity agreements. For the portion of the discussion on trade with Communist China, see Document 327.

At its meeting on May 20, the Council on Foreign Economic Policy took up consideration of U.S. participation in commodity agreements. The specific issue was whether the Department of State should participate in an international study group to examine coffee problems, to encourage coffee-producing countries to develop sound national production and marketing policies, and to recommend measures to be taken by those countries to that end. While the Council on Foreign Economic Policy worried that such a group might recommend an international commodity agreement as a possible solution to the coffee problem, the Council approved U.S. participation in the study group and possible discussion of an international commodity agreement, but only as an exception to established policy. The Council also urged the Department of State representatives to take every precaution

not to imply, either directly or indirectly, that the United States would participate in or police such an agreement. (Minutes of CFEP meeting, May 20; *ibid.*, CFEP Chairman Records, CFEP Minutes, 1958)

Writing in his journal for May 21, Randall noted that this decision was made because of the drastic effects on Latin American economies of the severe fall in the price of coffee. While Randall himself "would fight to the death" U.S. participation in an international commodities agreement, he realized that the Department of State would have to participate in coffee discussions without committing itself to "the cartel concept." (*Ibid.*, Randall Journals, CFEP, 1958, vol. VIII)

280. White House Staff Notes No. 377

June 4, 1958.

[Here follow items 1-4.]

5. *Supplemental Stockpile Criteria*.—New criteria for acquiring Supplemental Stockpile materials through barter of agricultural surpluses have been adopted by the CFEP.¹ Former criteria limited acquisitions to 50% of the long-term objectives of the National Stockpile. Now, almost any materials may be acquired provided that: (a) US foreign policy objectives are furthered; (b) injury to domestic producers is avoided; (c) the barter transactions are not in lieu of dollar sales and the sales of friendly foreign countries; and (d) the materials received are less likely to deteriorate and cheaper to store than the bartered surpluses. (Admin. Conf.)²

[Here follow the remaining items.]

Source: Eisenhower Library, Whitman File, Eisenhower Diaries. Secret.

¹ As reported in a memorandum from the Secretary of the CFEP, Paul Cullen, to the CFEP, May 28. (Department of State, E/CFEP Files: Lot 61 D 282A, Supplemental Stockpile Criteria and Administration—CFEP 567) In his private journal of April 28, Randall wrote about the difficulties of establishing criteria for the supplemental stockpile since decisions were supposed to be made on a case-by-case basis. Randall wrote that there was not the "slightest chance" that any of the supplemental stockpile would be disposed of since government sales would weaken the respective domestic industry. In effect, Randall was convinced that the supplemental stockpile would remain locked up until "that remote day" when the world was short of the various commodities. (Eisenhower Library, Randall Journals, CFEP, 1957-58, vol. VII)

² These new criteria were announced on June 30 in Defense Mobilization Order V-7. (*Ibid.*, Whitman File, Eisenhower Diaries)

281. Memorandum From the Director of the Bureau of Foreign Commerce Files, Department of Commerce (Macy) to the Assistant Secretary of Commerce for International Affairs (Kearns)

June 14, 1958.

SUBJECT

UN Commission on International Commodity Trade

In 1954, the Economic and Social Council of the UN established a Commission on International Commodity Trade over U.S. objections. After long consideration, this Government declined to participate in the Commission's work. Despite its election to the Commission, the U.S. did not send a representative and in fact did not even send a formal observer. When the U.S. term of office expired in 1956, the Council, on U.S. urging, failed to reelect the U.S. Even with this urging, a small scattering of votes was registered for the U.S.

The United Kingdom at first participated in the work of the Commission. In 1956, the U.K. also withdrew. The ground for the U.K.'s withdrawal was somewhat different from the reasons for our non-participation. The U.K. has always been more tolerant of international commodity arrangements than we, at least theoretically. Clarence Blau, who was present at the time of the U.K. withdrawal, reported that this was a move dictated by the British Board of Trade over Foreign Office opposition.

The failure of the U.S. to participate was stated to be the inclusion in its term of reference of the task of developing "measures aiming at the maintenance of a just and acceptable relationship between the prices of primary commodities and the prices of manufactured goods in international trade". We took the position that this international parity provision was of doubtful economic validity and practicality.

The net effect of the U.S. and U.K. non-participation has been that the deliberations of the Commission have been dominated by the Soviet bloc and the underdeveloped countries. Such countries as France and the Netherlands have been members, but in commodity matters, they tend to take the viewpoint of the underdeveloped areas. Canada is currently a member, but finds itself quite isolated.

The State Department has increasingly felt that our non-participation has very serious political disadvantages. In effect, this Commission provides a forum for the Soviet bloc, the uncommitted countries and the Latin American countries to discuss commodity problems in

Source: Department of Commerce, Bureau of Foreign Commerce Files 321, Economic and Social Council. Administratively Restricted. Drafted by C.I. Blau, International Resources Staff, Bureau of Foreign Commerce, on June 3.

the absence of real Western participation. The Soviet bloc thus has the opportunity to score cheap propaganda victories over the Western countries with the underdeveloped countries by showing sympathy for the commodity problems of those countries and at the same time pointing out the absence of the major Western consumers of commodities. Our absence therefore can be used as an indication that despite our statements of willingness to discuss commodity problems, we are not in fact prepared to do so.

With the worsening of the markets for basic commodities, the State Department has felt that our position of non-participation has been getting more and more difficult. At the same time, the underdeveloped countries have shown an increasing desire for us to participate. This has gone to the extent that both Argentina and Uruguay have proposed changes in the terms of reference of the CICT which would remove the objectionable reference to the parity principle.

Under these circumstances, the U.S. will be faced with the question at the forthcoming meeting of the Economic and Social Council whether it is willing to participate in the CICT if appropriate changes are made in the terms of reference of that Commission. It is the State Department position, at the Dillon-Wilcox level, that it is politically desirable that we participate if the U.S. Delegation to the 26th Session of the Economic and Social Council can negotiate satisfactory changes in the terms of reference. The State Department would propose that the delegation make it clear that this represents no basic change in our policy with respect to commodities but merely an implementation of our often repeated statement that we are willing to discuss commodity questions with other countries.

While we ordinarily do not look behind State Department political views, I should say that Clarence Blau, who has attended ECOSOC meetings for a number of years, has been reporting to us for two years that he feels that our position vis-à-vis the CICT is becoming increasingly untenable politically. He has also reported to me that the U.S. Chamber of Commerce representative to the UN has made remarks to the same effect to him as late as this April.

Under the circumstances, I would like authority to approve the State Department position. You may wish to call this matter to the attention of the Secretary, inasmuch as he participated in the 1954 decision of non-participation.

It may not be amiss to recall that one of the resolutions adopted at the Buenos Aires meeting which you attended provided for the setting up of a similar group in Latin America.¹ The U.S. joined in that

¹ See Document 279.

resolution and has participated in the commodity discussions in that group. We would interpret the participation in CICT as doing on a UN basis what we have already agreed to do on a Latin American basis.

Since this matter must be finally decided within the next week or two, I should appreciate your early attention to this question.²

² At the 26th Session of the U.N. Economic and Social Council, held at Geneva, July 1–31, the U.N. Commission on International Commodity Trade was reconstituted with new terms of reference and new membership, including the United States and the United Kingdom. The new terms of reference emphasized primarily study and analysis of international commodity trade rather than its former main responsibility of attempting to avoid excessive price fluctuation in commodities and maintaining a “just and equitable relationship” between primary commodities and manufactured goods. The U.S. representative to the Council emphasized that U.S. membership was under the new, broader terms of reference and in no way altered U.S. opposition to international commodity agreements. (*U.S. Participation in the UN: Report by the President to the Congress for the Year 1958*, p. 125)

282. Memorandum of Discussion at the 368th Meeting of the National Security Council

June 19, 1958.

[Here follows a paragraph listing the participants at the meeting.]

1. *Basic National Security Policy* (NSC Action No. 1903;¹ NSC 5810/1;² Memo for NSC from Executive Secretary, same subject, dated May 26, 1958³)

Source: Eisenhower Library, Whitman File, NSC Records. Top Secret; Eyes Only. Drafted by Gleason on June 20.

¹ This NSC action, approved by the President on May 5, outlined the NSC action on NSC 5810 including the referral of the question of U.S. policy on international commodity agreements to the Council on Foreign Economic Policy. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95) See Document 279.

² See Document 279.

³ In this memorandum, Executive Secretary of the NSC James S. Lay, Jr., transmitted a May 22 report by Randall, Chairman of the Council on Foreign Economic Policy, on U.S. policy toward international commodities agreements. Randall’s report is summarized in a briefing note by Robert Cutler for use at the NSC meeting, which reads as follows:

“5. Mr. Randall reported to the Council on May 22 (circulated May 26) the consensus of the CFEP that the existing CFEP policy on international commodity agreements should be continued. Acceptance of this report would obviate the inclusion of any paragraph in the basic policy statement on this subject.

“6. It may interest the Council to know that the CFEP, under the exceptions procedure in its existing policy, recently authorized the Department of State to participate in an international coffee study group and to discuss an international coffee agreement if such an agreement is proposed by one of the members of the study group.

Continued

General Cutler explained that the President would be delayed for a few minutes and he would accordingly change the order of items on the agenda, dealing first with the question of U.S. policy with respect to international commodity agreements which had been unresolved when the Council last discussed it in connection with Paragraph 27-d of our new Basic National Security Policy (NSC 5810/1), at the Council meeting on May 1, 1958. He pointed out that on this occasion the issue had been referred to the Council on Foreign Economic Policy. On May 22, 1958 the Chairman of the CFEP, Mr. Randall, had filed a report with the Council giving the text of existing CFEP policy on international commodity agreements and also the consensus of the CFEP that this policy remained valid and should be continued in effect. (A copy of General Cutler's briefing note is filed in the Minutes of the Meeting and another copy is attached to this memorandum.)⁴

At the conclusion of General Cutler's briefing, Secretary Dulles stated that he had an observation to make with respect to the text of our policy in the matter of commodity agreements. He pointed out that the text of our policy as formulated by the CFEP revealed two different emphases. The first paragraph which reads as follows:

"The United States shares the concern of other nations about the problems arising from commodity price and market instability and is prepared to discuss and explore with other governments possible approaches to these problems"

according to Secretary Dulles emphasized the willingness of the United States at least to discuss and explore approaches to these problems. On the other hand, the last paragraph of our policy reading as follows:

"Representatives of the United States will not participate in any discussion or meeting with respect to an international commodity agreement and will make no commitment as to U.S. participation in such an agreement until approved at the interagency policy level within the Executive Branch."

appeared to have a somewhat conflicting emphasis. It seemed quite possible to Secretary Dulles that the discussions authorized by the first paragraph could lead to a commodity agreement in which other nations than the U.S. would participate. A current example is that of coffee. Under existing world economic conditions, Secretary Dulles felt that we would want to be sure that the first paragraph of this policy

However, the CFEP urged State to take every precaution not to imply directly or indirectly, that the U.S. would participate in or police such an agreement." (Eisenhower Library, White House Office Files, Records of the Office of the Special Assistant for National Security Affairs)

⁴ Not printed. The minutes of all National Security Council meetings held during the Eisenhower administration are in the National Archives and Records Administration, RG 273, Records of the National Security Council, Official Meeting Minutes File.

was liberally interpreted when it was implemented although of course we would not agree to actual U.S. participation in any commodity agreement.

Mr. Randall said he not only understood Secretary Dulles's point but agreed with him. Indeed this specific matter had been discussed at great length by the CFEP. The general view in the CFEP was that the U.S. should go ahead and discuss commodity problems with other nations as much as they desired but not to the point of sticking our necks out too far and being committed to participation in an international commodity agreement. Mr. Randall thought it was extremely difficult to express in words the sensitive emphases that both he and Secretary Dulles were agreed upon. It was hard to draw so fine a line.

Secretary Dulles said he believed that Mr. Randall was on the right track. Under current conditions the U.S. simply could not hold itself aloof from these problems of commodity price and market instability as we had been in a position to do when our policy on this subject had first been adopted and when commodity prices were relatively high.

*The National Security Council:*⁵

a. Concurred in the recommendation by the Council on Foreign Economic Policy, prepared pursuant to NSC Action No. 1903-b-(5) and transmitted by the reference memorandum of May 26, 1958, that existing policy on international commodity agreements is satisfactory and should be continued.

b. Noted a statement by the Secretary of State that, in the implementation of U.S. policy on international commodity agreements, a liberal interpretation should be given to that portion of the policy which states that the United States is prepared to discuss and explore with other governments possible approaches to problems arising from commodity price and market instability; while adhering to that portion of the policy which states that the United States will not participate in any discussion or meeting with respect to an international commodity agreement and will make no commitment as to U.S. participation in such an agreement until approved at the interagency policy level within the Executive Branch.

Note: The above actions, as approved by the President, subsequently transmitted to the Chairman, CFEP.

[Here follow agenda items 2–7.]

S. Everett Gleason

⁵ Paragraphs a–b and the note constitute NSC Action No. 1926, approved by the President on June 23. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

283. Editorial Note

On June 30, Deputy Under Secretary of State for Economic Affairs C. Douglas Dillon submitted to Acting Secretary Christian A. Herter a joint U.S.-U.K. report on the transportation of oil from the Middle East to Europe. The report was cleared within the Department and with the following other departments and agencies: Defense Mobilization, Commerce, Interior, International Cooperation Administration, and Defense. The report made the following recommendations:

"17. It is recommended that the two Governments undertake the following measures to reduce the impact on the free world of reduced availability of petroleum caused by a possible future stoppage of Middle East oil transit facilities:

"a. Encourage Western European Governments (through the medium of O.E.E.C.) to ensure the provision from internal financial resources of one month's additional oil stock above the average level in terms of days' supply normally available for commercial purposes prior to the Suez Crisis. This additional stock may be stored in conventional or unconventional land storage or in floating storage, for example, surplus tankers. The present tanker surplus reduces the urgency of this provision to meet a transit crisis, but plans should be made forthwith and implemented with reasonable speed because (a) the tanker surplus cannot be expected to persist indefinitely and (b) the additional stock would be especially valuable in a production crisis.

"b. Maintain stand-by plans covering the organisational measures required on a Government to Government and Government to industry basis to assure speedy and effective re-adjustment of oil supplies in a Middle East emergency. The Government to Government measures should be implemented primarily through the O.E.E.C., and the Government to industry measures in part through O.E.E.C. and in part by each country in association with its national oil industry.

"c. Encourage Western European Governments to maintain stand-by plans for the introduction of rationing or other forms of restricting oil consumption in an emergency.

"d. Continue to encourage the exploration and development of alternative sources of supply in the free world, particularly West of Suez, by seeking to obtain in promising areas a favorable investment climate and the maintenance or adoption of reasonable legal, financial and concessionary conditions.

"e. Middle East pipeline projects should be considered individually on their merits bearing in mind the advantages of tankers in a transit emergency and the need to diversify transit routes. The construction of additional trunkline pipeline capacity from the Persian Gulf to the Eastern Mediterranean should be discouraged unless, in a particular case, political considerations are deemed to justify it.

“f. Encourage the crude oil-producing companies, through individual approaches, to construct and maintain, consistent with their commercial resources, reserve production and loading facilities in the various producing areas (Middle East and elsewhere) to aid in the rapid expansion of exports in an emergency.

“g. Encourage the oil industry to maintain as large tanker fleets in being as possible and to make maximum use of the Cape route. To this end practical studies should be undertaken in consultation with industry representatives, of the means, cost and implications (including the adequacy of port facilities) of maintaining a reserve of tanker capacity.

“18. It is also recommended that in the light of recent political developments in the Middle East the two Governments make a joint study of the special problems that would be caused by an interference with Middle East production at the source.”

Herter approved the report. (Department of State, Central Files, 880.2553/6–3058) The full text of the report and the memorandum from Dillon to Herter summarizing the report is scheduled for publication in volume XII.

284. Memorandum From the President’s Special Assistant for Economic Affairs (Hauge) to the President’s Staff Secretary (Goodpaster)

September 30, 1958.

The purpose of this memorandum is to record the discussion I had with the President Saturday morning¹ concerning Clarence Randall’s proposal for the President to delegate to the Secretary of Agriculture the responsibility for determining the materials for which surplus agricultural commodities are to be bartered.²

The President said that he was aware that the Congress intended that a reasonable amount of barter be conducted and that he thought Mr. Randall’s proposal was the best means for doing this. However, before approving Mr. Randall’s proposal, he wanted to be sure: (1) that the Congress had no objection to the delegation of this authority to the Secretary of Agriculture; (2) that the Secretary of Agriculture

Source: Eisenhower Library, White House Central Files, Confidential File, Agricultural Surpluses. No classification marking.

¹ September 27.

² Randall made this proposal in a memorandum to Adams, September 19. (Eisenhower Library, White House Central Files, Confidential File, Agricultural Surpluses)

had no objection to the proposal; and (3) that the interested agencies would have an opportunity to appeal to the White House if they disagreed with the Secretary of Agriculture in administering this responsibility.

On the first point, I informed the President that the Congress would have no objection to this responsibility being delegated to the Secretary of Agriculture. I told the President that Mr. Harker Stanton, Counsel of the Senate Agricultural Committee, had advised the White House on September 26 that he did not see any reason why under the language of the law the Secretary of Agriculture could not be delegated this responsibility. In this connection, see the attached memorandum from Paul Cullen to me, dated September 26, 1958 (Incl. 4).³

On the second point, I informed the President that I had been assured by Assistant Secretary Marvin McLain, who is Secretary Benson's assistant for barter operations, that the Secretary of Agriculture will go along with the delegation of this responsibility to him if that is what the President wanted (Incl. 3).⁴ I also told the President that the Director of the Bureau and the Director of OCDM had approved Mr. Randall's proposal.

On the third point, I informed the President that pursuant to a recommendation of the Council on Foreign Economic Policy last May,⁵ the Secretary of Agriculture established an interdepartmental committee to advise him concerning barter operations. The arrangements provide for the referral to the White House of disagreements on matters considered by the committee.

In view of the above, the President said that an Executive Order should be prepared immediately, delegating to the Secretary of Agriculture the responsibility for determining the materials to be acquired through barter. He further said he thought the Executive Order should provide for interested agency coordination and referral of any disagreements to the White House (CFEP) for decision.

Pursuant to your instructions, Paul Cullen is following up on this matter with the Bureau of the Budget.

The Bureau of the Budget is preparing a proposed answer to Secretary Benson's letter to the President (Incl. 1).⁶

Gabe

³ Not printed. (*Ibid.*)

⁴ Memorandum from Hauge to Adams, September 22, not printed. (*Ibid.*)

⁵ See footnote 1, Document 280.

⁶ Not printed. In the letter, November 11, Eisenhower provided Benson with authority to acquire certain materials through barter of surplus agricultural commodities and provided Benson authority to procure other strategic and critical materials from time to time by the order of the Director of the Office of Civilian and Defense Mobilization. Benson was instructed to "continue to consult the appropriate agencies in order to assure a broad and flexible consideration of the problems inherent in the program." The President stated that unless there was a net gain from the exchange, the national interest

285. Telegram From Secretary of State Dulles to the Department of State

Seattle, November 10, 1958, 9 p.m.¹

Dulte 2. Re oil imports. Following is an excerpt from memorandum of Secretary's conversation with the President this morning: "I said I thought that it would not be possible to propose a final decision on new controls on oil imports in the next few days. The President recalled that several representatives of the oil industry had come to see him last week with Secretary Anderson to explain that since the inception of the voluntary restrictions on the imports of crude oil, imports of semi-finished products had increased sharply from about 80,000 barrels a day to 380,000. The President had thought that this problem could be taken care of by increases on the duties on semi-finished products, he also thought that this increase could be handled quite separately from the question of voluntary program on crude, which he thought could continue.

I said that as the problem had been presented to me, this differentiation had not been proposed. I said that I believed that any mandatory program which would restrict imports of oil would involve serious questions of our obligations under GATT and our trade agreements with Venezuela, Canada and possibly others. Nonetheless I thought that perhaps a separate handling of the imports of semi-finished products might be possible.

At this point the President telephoned Secretary Anderson in Washington. After his conversation he told me that Secretary Anderson had said we would probably be in trouble as regards GATT either way, but that another possibility was that importers might voluntarily limit imports of semi-finished products to 5 percent of their total imports. This would hold semi-finished imports down to about 35,000 barrels. The President left it with Secretary Anderson that the latter could call me here if need be to seek an acceptable program; meanwhile Mr. Becker, who had attended today's meeting of the Oil Im-

did not require accumulation of commodities for which there was no current or projected need. Therefore, Benson should continue to approve for barter only those transactions which would expand total exports of surplus agricultural commodities without disrupting world markets. (Eisenhower Library, White House Central Files, Confidential File, Agricultural Surpluses)

Source: Department of State, Central Files, 811.2553/11-1058. Secret; Priority.

¹ Dulles was in Seattle for the Ministerial Meeting of the Consultative Committee of the Colombo Plan, November 10–13. Eisenhower was there to address the meeting on November 10. For text of his speech, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1958*, pp. 312–313.

ports Committee² would continue to study the possibilities we had discussed.

The President emphasized that unless the Executive takes some action, Congress will, and there is some doubt that if he were to veto new legislation, the veto would be upheld. I expressed my agreement as to the urgency of doing something effective."

Dulles

² According to a memorandum of a telephone conversation between Weeks and Dulles, November 7, 9:15 a.m., the meeting of the Oil Imports Committee on November 10 would be exploratory and nothing would be done without Dulles knowing about it. (Eisenhower Library, Dulles Papers, General Telephone Conversations)

286. Memorandum From the Director of the Office of Civil and Defense Mobilization (Hoegh) to President Eisenhower

November 20, 1958.

On November 18, 1958, the Honorable Frederick H. Mueller, Under Secretary of Commerce, wrote me requesting that I make an immediate investigation under Section 8 of the Trade Agreements Extension Act of 1958¹ for the purpose of determining the effect upon the national security of current imports of petroleum and petroleum products.

As you know, on April 23, 1957, Mr. Gordon Gray, then Director of the Office of Defense Mobilization, certified to you that he had reason to believe crude oil was being imported into the United States in such quantities as to threaten to impair the national security.² Mr. Gray took this action under Section 7 of the Trade Agreements Extension Act of 1955,³ since superseded by Section 8 of the 1958 Extension Act.

Source: Eisenhower Library, Rand Records, Nationalization-Rand. No classification marking.

¹ Under Section 8 of the Trade Agreements Extension Act of 1958, approved August 20, 1958, a head of any Department or Agency could request the Director, Office of Civil and Defense Mobilization, to make an investigation to determine the effects on national security of importation of articles into the United States. If the Director considered that the imports impaired or threatened the national security, he was to inform the President, who was empowered to take such action as he deemed necessary to adjust imports to a level that would not threaten the national security. (72 Stat. 678)

² See *Foreign Relations, 1955-1957*, vol. x, pp. 673-674.

³ Approved June 21, 1955. (69 Stat. 166.)

Thereupon, you appointed the Special Committee to investigate Crude Oil Imports and directed it to undertake an investigation to determine the facts. On July 29, 1957, the Committee confirmed Mr. Gray's certification in a special report and recommended the development of a voluntary program to limit crude oil imports.⁴ You accepted the report and recommendations and authorized the crude oil import program which has been in effect since that time.

On May 28, 1958, Mr. Gray wrote you to say that he concurred in the judgment of the Special Committee that it was necessary for the Committee to have cognizance of all aspects of the matter of the importation of petroleum and its products, in order that the Committee might guard against circumvention of the voluntary program through the importation of products.⁵ Accordingly, Mr. Gray advised you that his original certification of April 23, 1958, required cognizance of the whole field of petroleum and its products and recommended that you instruct the Special Committee to govern itself accordingly.

You instructed the Committee to proceed along those lines and, since then, the revised national security clause (Section 8 of the 1958 Extension Act), through use of the phrase ". . . imports of such article and its derivatives . . ." ⁶ has supported the view that the Special Committee should have cognizance of all aspects of the importation of petroleum and petroleum products.

In view of Under Secretary Mueller's request, I have felt it proper to review the factors which influenced Mr. Gray's original conclusions and your responses to them. In the light of this background, and as provided for in Section 8 of the 1958 Extension Act, I have also conducted an investigation which I deem appropriate in order to determine the current oil import situation as it is related to the national security.

In the course of this investigation, I have sought information and advice from other appropriate Departments and Agencies. Likewise, I have given consideration to the relevant factors set forth in Section 8. Finally, I have examined the trend of past imports, the current situation and such projections as are available. As to such projections, I have also weighed the potential consequences of a termination of the voluntary program which has been in effect since Mr. Gray's original certification.

On the basis of the foregoing, in response to Under Secretary Mueller's request, I do hereby advise you, pursuant to Section 8 of the Trade Agreements Extension Act of 1958, that in my opinion crude oil

⁴ See *Foreign Relations, 1955–1957*, vol. x, pp. 722–731.

⁵ Not found.

⁶ Ellipses in the source text.

would be imported into the United States in such quantities or under such circumstances as to threaten to impair the national security, if it were not for action to limit crude oil imports. I believe also, as did Mr. Gray, that the certification with respect to crude oil requires cognizance of all aspects of the importation of petroleum and petroleum products.

Leo A. Hoegh⁷

⁷ Printed from a copy that bears this typed signature.

287. Memorandum From the Assistant Secretary of Commerce for International Affairs (Kearns) to the Chairman of the Council on Foreign Economic Policy (Randall)

November 20, 1958.

SUBJECT

International Commodity Problems

I. The Problem

Commodity matters, particularly as they relate to efforts to solve chronic problems of price fluctuations and market instability, have come increasingly to the fore as major international economic issues.

There is considerable pressure on the U.S. for participation in various types of international commodity arrangements. The question is whether in its implementation present U.S. policy against participation in commodity agreements is defined clearly enough to withstand such pressures while avoiding the adverse effects on our international position and objectives.

II. Facts Bearing on the Problem

U.S. policy with respect to international commodity agreements was established by the CFEP on October 25, 1955.¹ During the three

Source: Department of Commerce, Bureau of Foreign Commerce Files, 496, wk. copy. No classification marking. Drafted by H.N. Blackman, International Resources Staff, Bureau of Foreign Commerce. According to a memorandum from Loring K. Macy, Director of the Bureau of Foreign Commerce, to Kearns, November 20, this submission to the CFEP was based in good part on a draft prepared in the Department of the Treasury. (*Ibid.*)

¹ See *Foreign Relations, 1955-1957*, vol. x, pp. 545-546.

years since the adoption of the policy statement, the U.S. has avoided involvement in any new international commodity agreements. However, U.S. representatives have participated in international discussions of commodity problems covering coffee, cocoa, sugar, wheat, rubber, copper, lead and zinc. The U.S. at the UN Economic and Social Council meeting held in the summer of 1958 also agreed to participate in the UN Committee on International Commodity Trade on the basis of revised terms of reference.

Nevertheless, the impression has been widely held abroad that the U.S. is disinterested in commodity problems of the less developed countries. Our attempts to remove this erroneous impression have unfortunately led to the equally erroneous impression that we are willing seriously to entertain commodity agreement proposals.

III. Conclusions

The basic statement of U.S. policy set forth in October 1955 continues to be a sound approach for the U.S. to maintain in relation to international commodity problems. Under that policy it should be possible for the U.S. to participate in international commodity discussions without compromising the basic U.S. position. In the course of such participation, we should emphasize in more positive terms the validity of the U.S. position.

The following guidelines are proposed for implementing the U.S. policy with respect to U.S. participation in international commodity discussion:

(1) Stress a willingness to exchange information about developments in production, international trade, prices and productivity.

(2) Encourage studies of means of expanding consumption of the commodity and improving marketing methods.

(3) Encourage examination of, and attention to, the more fundamental causes of commodity instability including undue economic reliance by some producer nations on single commodities, unsound monetary policies, etc.

(4) Point out the historic lack of success of other attempts to achieve price and market stability through "management" of commodities on either an international or a national scale. In this connection, reference should be made to the fact that the U.S. has not been successful in eliminating agricultural surplus despite massive attempts at crop "management" through price supports and production and acreage controls.

(5) Make clear in the context of the above approach, that for sound economic and other policy reasons U.S. participation in any international commodity discussions while indicative of U.S. cooperativeness in meeting international economic problems, should not in any way be construed as implying a commitment on the part of the U.S. to participate in an international commodity agreement.

(6) U.S. representatives in international commodity discussions should reaffirm, when it appears necessary to avoid misunderstanding, that it is U.S. policy to refrain from adhering to international commodity agreements except in the most unusual circumstances and only then with prior clearance at the highest levels of the U.S. Government.

(7) More specifically, U.S. representatives should guard against giving the impression that this country may be prepared to participate in any international arrangement:

(i) Where the importing countries will seek to control the imports of a commodity or commodities to an extent beyond their existing international commitments.

(ii) Where participation in an arrangement will involve an understanding or agreement concerning control of the pricing of commodities.

(iii) Where the arrangement will involve the establishment of buffer or control stocks.

(iv) Where the arrangement would imply a commitment that the United States Government will assume responsibility for the purchase, stockpiling, import regulations, shipping restrictions, or similar controls.

(8) U.S. representatives should not, [in] the absence of specific clearance by CFEP, participate in or assist with the preparation of commodity arrangements which seek to embrace the subjects referred to in item (7).

288. Memorandum From the Under Secretary of State for Economic Affairs (Dillon) to Secretary of State Dulles

December 12, 1958.

SUBJECT

Oil Imports

Mr. Mann had a relatively successful talk with the Venezuelan and Canadian representatives here in Washington regarding the imposition of mandatory country import quotas. Both the Venezuelan and Canadian representatives said they would recommend our proposal to their governments, but both of them said no final decision could be had for internal political reasons until some time in the New Year. Therefore, it was decided to go ahead and make a modified version of

the present system mandatory on a temporary basis as of the first of the year, and allow State a reasonable period of time to reach agreement with the Canadian and Venezuelan governments on the permanent solution involving country import quotas.

Late yesterday Secretary Strauss informed Governor Herter that he had had second thoughts about this and felt that there should be no more conversations with Venezuela and Canada, and that after issuing a temporary mandatory order as of the first of January the whole matter should be thrown into the laps of the Congress for their decision. Secretary Strauss indicated he still favored the solution of a cost compensating import excise tax which would equalize the cost of foreign oil at American ports with a heavier tax on the cheaper oils from the Middle East. If he has not already done so I assume that he will be talking to the President along these lines some time in the near future.

It would be most helpful if you could say a word to the President about the extreme difficulties which would be posed by the adoption of this principle, i.e., the drive to extend the same principle to Japanese imports.¹

¹ According to a memorandum from Dillon to Mann, also December 12, Dulles and Dillon spoke to the President about the oil import problem as follows:

"The President indicated that while taking no decision at this time, he was in full accord with the Secretary's thinking about the inadvisability of turning this subject over to the Congress for decision." (Department of State, Central Files, 811.2553/12-1258)

289. Memorandum From the Secretary of the Council on Foreign Economic Policy (Cullen) to the Council

December 15, 1958.

SUBJECT

CFEP 577—U.S. Restrictions on Imports of Oil Which Affect Canada

1. Attached is a draft statement of policy on the above subject, prepared by the NSC Planning Board. The draft statement has been referred by the NSC Planning Board to the Council on Foreign Economic Policy for comment prior to its consideration by the NSC on December 23.¹

Source: Department of State, E/CFEP Files: Lot 61 D 282A, CFEP 577, U.S. Restrictions on Imports of Oil Which Affect Canada. Secret.

¹ See Document 291.

2. The Planning Board has recommended that, if the NSC approves the draft statement of policy, it be submitted to the President with a recommendation that the President approve it as guidance from the standpoint of national security and direct that it be taken into account by the President's Special Committee to Investigate Crude Oil Imports.

3. The foreign economic policy aspects of the draft statement will be considered by the CFEP on December 18, 1958.²

Paul H. Cullen
Lt. Col., USA

Attachment³

SECTION A. U.S. RESTRICTIONS ON IMPORTS OF OIL WHICH AFFECT CANADA

Discussion

Present System of Controls

1. The present system of voluntary control of imports was instituted in July 1957 with respect to crude oil and was extended in March 1958 to certain petroleum products. The controls were framed in terms, not of Canada or any other supplying country, but of importing companies and U.S. areas. The quota of each importing company was fixed on a historical basis, i.e., in relation to its past imports during a stated period.

2. The rationale for the imposition of controls was that the level of oil imports was such as to threaten to impair the national security. Section 7 of the Trade Agreements Extension Act of 1955⁴ authorized the President to adjust the level of imports in the event of such a finding.

Effect of Present Controls on Canadian Production

3. So far as concerns Canadian oil, these import restrictions have not yet become a limiting factor on imports, due in part to the effect of the recession on expected demand. Nevertheless, under the present program because of price considerations the trend of imports has been in favor of Middle East and Far East oil sources to the detriment of

² See Document 290.

³ Secret. This attachment was Section A of NSC 5822, "Certain Aspects of U.S. Relations with Canada," December 12. The full text of NSC 5822/1, December 30, is printed in volume VII, Part 1.

⁴ See footnote 3, Document 286.

Western Hemisphere sources. Thus, while quotas under the voluntary system of firms which normally import from Canada are currently 138,000 b/d (a figure substantially below the high point of 209,000 b/d reached in April 1957 during the Suez crisis), actual imports from Canada in CY 1958 are expected to average 80-90,000 b/d.⁵

4. However, these restrictions can be expected to limit the import of Canadian oil when and if demand increases above the allowables and, in any case, may well have an important effect on the future development of Canadian oil. The present permissible import levels would not be high enough to stimulate exploration and development of Canadian resources.

5. Canadians consider that the most economic and effective development of their oil resources depends on assured access to their natural market in the Northwestern and North Central United States. Canadians believe their oil deserves, and should have, on security grounds, a preferential position in the United States relative to other imported oil. They regard the application of the U.S. import control system to importers from Canada as a sign that Canada will not have such a position in the U. S. market.

6. The prospect that the continuing need for U.S. quotas may affect normal growth of the U.S. market for Canadian oil is one of the factors in Canada's current consideration of whether to provide an additional outlet for Western Canadian crude through construction of pipelines to the Montreal market. Such action by Canada would have the collateral effect of curtailing the present substantial market for Venezuelan crude in Eastern Canada, with detrimental effect on the development of additional reserves in the Western Hemisphere outside of North America.

Proposed Revision of Controls

7. The President's Special Committee to Investigate Crude Oil Imports is currently considering a revision of the present import control system. What effects this revision will have on imports from Canada and the rest of the Western Hemisphere will depend on the weight given to Canadian and other Western Hemisphere resources in the interest of national security.

Controls a Departure from Past NSC Policy

8. So far as applicable to Canada, the oil import restrictions represent a departure from the policy adopted by the NSC in November 1953 (NSC 97/6, "A National Petroleum Program")⁶ which provided

⁵ The tables on page 8 show U.S. oil imports, 1954-58. [Footnote in the source text.]

⁶ The text of NSC 97/6, "A National Petroleum Program," November 16, 1953, is printed in *Foreign Relations, 1952-1954*, vol. 1, pp. 1054-1060.

that the United States should resist further restrictions on imports of Western Hemisphere oil in order to insure maximum development and wartime availability of Western Hemisphere resources, with the understanding that continued scrutiny would be given to the volume of oil imports with particular relation to any significant adverse effect on the development of domestic resources.⁷ It should be noted that the President's Special Committee, in developing the import control program, did not approach the problem from a Western Hemisphere or Canadian viewpoint but equated national security with domestic production.

Considerations Largely Same for Canada and Venezuela

9. While this discussion is directed primarily to Canada, in terms of the national security Canada, Venezuela and other Western Hemisphere sources should be given due consideration. Two factors peculiarly applicable to Canada are:

a. Pipelines may be used for the transmission of Canadian oil to the United States.

b. The Midwestern area of the United States bordering on Canada (the so-called "northern tier" area) is a natural Canadian market which cannot economically be supplied from other sources.

Arguments for Eliminating or Reducing Import Restrictions on Canadian Oil

10. a. Restrictions on the importation of Canadian oil are contradictory to the long-standing plan of the United States and Canada to share their resources in time of war on a continental rather than on a national basis.

b. Increased Canadian and other Western Hemisphere oil resources, the development of which U.S. import restrictions tend to inhibit, would be essential in certain emergency situations as a supplement to U.S. resources. For example, because petroleum and petroleum products are expected to be limiting factors in the survival and recovery of the United States in the event of an attack on the continental United States, the immediate and continuing availability in neighboring countries of maximum supplies would be in the interest of national security.

c. Such increased resources would lessen the political leverage and economic impact on Free World security of the denial or interruption of Middle East oil. While preferences for the development of Western Hemisphere (dollar) oil would adversely affect the import of non-dollar oil from areas outside the Middle East (e.g., the Far East), in

⁷ NSC 97/6 was referred to the Director, ODM, by NSC Action No. 1554, May 1956. [Footnote in the source text.]

comparison with the adverse impact which the import control program has on foreign oil development, the effect of a preference for Canada and Venezuela would be small.

d. Although U.S. import quotas will not force Canada to provide access to Montreal market for Western Canadian crude, such access would tend to deny that market to Venezuela oil and thus adversely affect the development of oil sources in Venezuela. The economic effect on Venezuela of the loss of the Canadian market would be most serious and it is likely that the United States would be blamed.

Arguments Against Eliminating or Reducing Import Restrictions on Canadian Oil

11. a. A preference for Canadian oil imports would conflict with our general policy of non-discrimination among country sources and might create serious foreign relations difficulties, both in connection with our trade policy and in the broad economic and political field. However, special treatment of the imports of countries of a given area appears not to violate our obligations under GATT when the exception is "necessary for the protection of its (the United States') essential security interests in time of war or other emergency in international relations". It must be admitted that, were the exception applied to Canadian imports only, it is probable that under GATT or under our bilateral trade agreement with Venezuela such preferential treatment would be challenged.

b. In view of the state-imposed controls on oil production in the United States, the removal of all restrictions on oil imports from Canada would tend to give to Canadian producers a preferred position, as against U.S. producers, in the U.S. market.

Policy Guidance

Alternative A

12. The interests of national security require that petroleum resources readily available to our geographic areas be encouraged to continue their development consistent with a healthy and dynamic domestic industry.

Alternative B

12. It is in the interest of national security to give preference to imports of petroleum from Canada and other Western Hemisphere countries in any system of import restrictions.

[Here follows a Department of the Interior table of "U.S. Crude Oil Imports" for the years 1954–1958.]

290. Memorandum From the Secretary of the Council on Foreign Economic Policy (Cullen) to the Chairman of the Council (Randall)

December 18, 1958.

SUBJECT

CFEP 577—U.S. Restrictions on Imports of Oil Which Affect Canada¹

1. The question before the CFEP is whether any foreign economic policy reasons override the national security reasons outlined in the Planning Board paper with respect to giving preferential treatment to oil imports from Canada and Western Hemisphere countries. The Planning Board does not contest and assumes that oil imports must be restricted for national security reasons, this finding having been duly made and recently reaffirmed by the Director of OCDM pursuant to his authority under the Trade Agreements Extension Act.² The President's Special Committee to Investigate Crude Oil Imports is now actively considering a revision of the present voluntary control system and has now decided, at least as a temporary measure, to impose mandatory quotas.

2. The burden of the Planning Board paper is that Canadian and Western Hemisphere oil should be given preferential treatment. Among the reasons for the conclusion are: (1) Canadian oil can be delivered to the United States by pipeline, unlike oil from other sources which would employ vulnerable sea transportation; (2) restrictions on Canadian oil would be contrary to the U.S.-Canadian plan to share resources in time of war; (3) Canada's oil exports to the United States should be large enough to stimulate Canadian oil exploration and development; (4) failure to give preferential treatment may force Canada to build an east-west pipeline which would result in reducing its Venezuelan imports; and (5) the greater availability of Canadian and Western Hemisphere oil would reduce Free World reliance on Middle East oil.

3. The Planning Board recognizes that any discriminatory import treatment accorded Canadian and Western Hemisphere oil would be contrary to U.S. trade policy, but notes that special import action for national security reasons is authorized both by the GATT and by the Venezuelan bilateral trade agreement.

4. If the question before the CFEP were whether any oil import restrictions at all should be imposed for national security reasons, the problem would be much simpler. We could then take the position that

Source: Eisenhower Library, CFEP Chairman Records, Staff Series, CFEP. Secret.

¹ Attachment to Document 289.

² Of 1955; see footnote 3, Document 286.

the United States would be seriously affected from a foreign economic policy standpoint because this would be breaking ground for a new way to restrict trade. We could also urge that the cumulative effect of the imposition of oil quotas and the recent U.S. action in lead and zinc³ could result in the United States losing its world leadership in trade liberalization and the beginning of a backward movement towards more restrictive world trade practices. It could also be urged that the Middle East and Far East oil producing countries would be hurt economically, thus affecting their economic growth and stability and serving to undermine other U.S. economic actions to achieve this purpose. But the U.S. has already imposed voluntary quotas and is expected to impose mandatory quotas in the near future.

5. The question, therefore, is the effect on the United States from a foreign economic policy standpoint of preferential treatment for Canada and other Western Hemisphere countries.

6. Joe Rand and I are of the opinion that the granting of such preference is not by itself a factor of sufficient importance to disturb the conclusion reached by the Planning Board that preferential treatment is necessary for national security.

7. Our greatest concern, from a foreign economic policy standpoint, is that other countries will seek to justify their own special preferential treatment on national security or other grounds. If, however, the basis for Canadian and Western Hemisphere preference is explained, it will help to make it more palatable to GATT and the countries affected.

8. *Recommendations:* The CFEP should be encouraged to arrive at the following consensus:

[a.] Assuming that U.S. oil import quotas are necessary for our national security, the foreign economic policy implications of preferential treatment for Canadian and Western Hemisphere oil are not such as to override the national security reasons given by the Planning Board for such treatment.

b. Preferential treatment for Canadian and Western Hemisphere oil is of such importance to the foreign economic policy of the United States that it should be justified personally to representatives of affected countries and to the GATT by the President, and appropriate compensation offered (Mutual Security aid, etc.) and negotiated forthwith.

Paul H. Cullen⁴

³ The United States participated in the international lead and zinc commodity meeting at Geneva, beginning November 6, 1958.

⁴ Printed from a copy that bears this typed signature.

291. **Memorandum of Discussion at the 392d Meeting of the National Security Council**

December 23, 1958.

[Here follows a paragraph listing the participants at the meeting.]

1. *Certain Aspects of U.S. Relations With Canada* (NSC 5822;¹ NSC Action No. 1964;² Memo for NSC from Executive Secretary, subject: "U.S. Relations with Canada", dated July 16, 1958;³ Memo for NSC from Executive Secretary, subject, "A National Petroleum Program," dated December 17, 1958⁴)

Mr. Gray presented NSC 5822 to the Council. (A copy of Mr. Gray's Briefing Note is filed in the Minutes of the Meeting and another is attached to this Memorandum.)⁵ After explaining the background of the paper on Canada, Mr. Gray turned to Section A thereof, "U.S. Restrictions on Imports of Oil Which Affect Canada."⁶

In the course of analyzing Section A, Mr. Gray referred to the alternative versions of paragraph 12 and to the JCS proposal offered as a third possibility.⁷ Secretary Herter said the JCS proposal might serve as a basis for paragraph 12, provided it could be amended. He then read his suggested amendments, which were endorsed by Mr. Strauss and Mr. Seaton; and the paragraph was adopted in the form shown in the Action below.

Mr. Strauss said the President's Committee on Oil Imports had yesterday recommended an extension for two months of the present voluntary arrangements in the field. This action was fortunate in the light of events in Venezuela. Some members of the Committee ques-

Source: Eisenhower Library, Whitman File, NSC Records. Top Secret; Eyes Only. Drafted by Boggs.

¹ NSC 5822, "Certain Aspects of Relations With Canada," December 12, 1958, is in Department of State, S/S-NSC Files: Lot 63 D 351, NSC 5822 Series. The paper as approved, NSC 5822/1, December 30, is printed in volume VII, Part 1.

² This NSC action, approved by the President on August 18, directed the NSC Planning Board to prepare for the Council's consideration a statement on certain aspects of U.S.-Canadian relations including the issue of U.S. restrictions on Canadian oil imports. The President's Special Committee To Investigate Crude Oil Imports was to assist the Planning Board in preparing the statement on possible restrictions on Canadian oil. (Department of State, S/S-NSC (Miscellaneous) Files: Lot 66 D 95)

³ This memorandum transmitted the result of the Planning Board's work, "List of Problems With Respect to Canada," which included as its second item a discussion of U.S. import restrictions which affect Canada. (*Ibid.*, S/S-NSC Files: Lot 63 D 351, NSC 5822 Series)

⁴ This memorandum transmitted to the NSC a draft Record of Action which was approved without discussion as item 3 below.

⁵ Not printed.

⁶ Attachment to Document 289.

⁷ The JCS proposal, as amended, is in the Action section below.

tioned the basic national security finding on which future action is to be based. After Christmas, the Committee will consider this finding and the action which should be taken after expiration of the two months' extension of voluntary arrangements.

The President felt that if we tried to give preference in oil imports to Canada and Venezuela, we would find ourselves in trouble in the Middle East, and in addition we would be violating a fundamental principle of U.S. foreign relations. Secretary Herter observed that national defense considerations provided the only excuse for such preferences. The President noted that the law conferred on the President an arbitrary power in this field; but when the President attempts to use this power, great obstacles are revealed.

Mr. Dillon said that there was some possibility of giving preference to Venezuela without violating our principles, provided a five or six year average was used in computing oil imports. Venezuela had always had a large share in our oil imports, while the Middle East share had only recently increased. The President wondered whether preferential arrangements had not always been on a voluntary basis. Mr. Dillon said the lead and zinc arrangements were not voluntary. In response to a query from the President, Mr. Dillon added that Canada would have to be a special exception with respect to oil imports.

Mr. Quarles pointed out that the Department of Defense had a special interest in Canada and was engaged in frank discussion with Canadian defense officials on U.S.-Canadian relations. From the defense viewpoint, it was important to handle the problem of Canadian oil properly. The Canadian oil problem was even more important than the Venezuelan problem, because Canadian oil is more important to the U.S. than Venezuelan oil and because Canada is more important than Venezuela in the defense of the U.S.

Mr. Seaton wondered whether "preference" had been defined. The President said such definition was the task of the Committee.

The President then remarked that some day the Attorney General might find the constitutionality of preference arrangements being tested. In case such a question were raised, the fact that a national security finding like the one under discussion had been adopted by the President on the advice of the JCS might help make the preference arrangements constitutional.

[Here follows discussion of NSC 5822 unrelated to restrictions on Canadian oil.]

*The National Security Council:*⁸

a. Discussed the draft statement of policy on the subject contained in NSC 5822; in the light of the views of the Joint Chiefs of Staff and of the Council on Foreign Economic Policy⁹ (transmitted by the reference memoranda of December 22), and an oral statement at the meeting by the Secretary of Commerce regarding the work of the President's Special Committee to Investigate Crude Oil Imports.

b. Adopted the statement of policy in NSC 5822; subject to the following amendment:

Page 7, paragraph 12: Delete alternatives A and B, and substitute therefor the following:

"12. In the interest of national security and consistent with a healthy and dynamic domestic industry, the continued development of petroleum resources readily available to the Western Hemisphere must be encouraged. In order to promote this development, the objective of the United States should be to give preference, in any system of import restrictions, to imports of petroleum from Canada and other Western Hemisphere countries.

Note: The President took the following actions with respect to the statement of policy in NSC 5822, as amended and adopted by b above:

(a) The President approved Section A as guidance from the standpoint of national security and directed that it be taken into account by the President's Special Committee to Investigate Crude Oil Imports and by other appropriate Executive Departments and Agencies of the U.S. Government;

(b) The President approved Sections B–D and directed their implementation by all appropriate Executive Departments and Agencies of the U.S. Government under the coordination of (1) the Secretary of Defense for Sections B and C, and (2) the Director, Office of Civil and Defense Mobilization for Section D.

NSC 5822, as amended and approved by the President, subsequently circulated as NSC 5822/1.

[Here follows agenda item 2.]

⁸ Paragraphs a and b and the note constitute NSC Action No. 2025, approved by the President on December 30. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

⁹ Document 290.

3. *A National Petroleum Program* (NSC 97/6;¹⁰ NSC 5810/1;¹¹ NSC Action No. 1554-a;¹² NSC 5822; Memo for NSC from Executive Secretary, same subject, dated December 17, 1958)

Mr. Gray requested the Council to consider a draft NSC Action on the subject which had been distributed to Council members. After Mr. Gray's explanation of the reason for bringing this matter up (see last paragraph of Mr. Gray's Briefing Note on "Certain Aspects of U.S. Relations with Canada"),¹³ the Council adopted the draft Action as follows, without discussion.

*The National Security Council:*¹⁴

a. Because the programs established in NSC 97/6 are based in large part on information and considerations that are no longer current, agreed to recommend to the President that NSC 97/6 be rescinded.

b. Noted that the Director, OCDM, is responsible, in collaboration with other interested departments and agencies, for the development, review, and coordination of mobilization programs for petroleum and petroleum products, in accordance with approved national security policies.

Note: The above action, as approved by the President, subsequently circulated to all holders of NSC 97/6, and referred to the Director, OCDM, for appropriate implementation of b above.

[Here follow agenda items 4–7.]

Marion W. Boggs

¹⁰ See footnote 6, Document 289.

¹¹ See Document 279.

¹² This NSC action, May 16, referred NSC 97/6 to the Director, Office of Civil and Defense Mobilization, for the development of mobilization programs and for possible future reports to the NSC. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

¹³ The last paragraph of Gray's briefing note reads as follows:

"Before we leave this paper to take up the annex on nuclear weapons, I'd like to ask the Council to look at the Action we have drafted to clarify the status of the last policy paper on petroleum, NSC 97/6, which was approved in November 1953. You may recall that that paper was extremely programmatic, and the Council took an action in May 1956 that referred it to the Director, ODM, but left its status somewhat ambiguous. The draft action would formally rescind the policy so that OCDM, in collaboration with other agencies, will be completely free to bring programs in the field up to date. The Joint Chiefs of Staff concur in the draft action."

¹⁴ Paragraphs a and b and the note constitute NSC Action No. 2027, approved by the President on December 30. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

292. Minutes of the Cabinet Meeting

March 6, 1959, 9–10:20 a.m.

[Here follow a list of participants and discussion of unrelated subjects.]

*Oil Import Program (CP 59–93)*¹—Adm. Strauss reviewed the long history of this question, then stated that noncompliance by a few companies had tended to demoralize those that did comply to the extent that some of the latter now intended to withdraw from the voluntary program. He also stated that the Executive Order restricting Government purchases from noncompliers had not fulfilled its purpose.² Further complicating the program were increased imports of finished petroleum products and the advent of many new importers desiring to share in the program. Finally, there had been some advice from the Justice Department that there needed to be reference to the Anti-Trust Act should coordination of the companies' activities be extended further. Mr. Rogers immediately stated that Justice had intended only to make clear that it could give no assurance against serious litigation developing.

Adm. Strauss then noted the OCDM finding that increased imports could constitute a threat to national security,³ followed by Cabinet Committee recommendation of its new program which he described in detail.

He concluded with the recommendation that the Cabinet Committee be discharged of its responsibilities and that the Secretary of the Interior take over the operation of the new mandatory program.

With regard to residual fuel oil, included for the first time in the program, Adm. Strauss made clear that no reduction in volume was contemplated and that there would be frequent opportunities for review to prevent any shortage from developing in those areas dependent upon residual fuel oil. Mr. Herter set forth State Department's serious reservation as to including residual because of its heavy impact on Venezuela. He noted that imports for the past few months were unusually high, above the 1957 level, that Mexico was coming into this picture, and that there could be serious question as to whether the

Source: Eisenhower Library, White House Office Files, Cabinet Secretariat. Confidential. Drafted by Minnich.

¹ On March 10, President Eisenhower issued Proclamation No. 3279 adjusting and regulating imports of crude oil and its principal products into the United States and creating a mandatory system of controls on oil imports. For the proclamation, see *American Foreign Policy: Current Documents, 1959*, pp. 1455–1461. For a statement by the President upon signing the proclamation, see *ibid.*, pp. 1461–1462.

² See footnote 1, Document 277.

³ See footnote 1, Document 286.

defense essentiality concept could be applied to residual. He also hoped that in the administration of this program a very sharp eye would be kept on the price factor.

Sec. Seaton assured him that this would be done because of its bearing on the national economy as a whole. Mr. Seaton thought that the impact of the program would be to prevent prices from falling further, thus firming them up, rather than raising them—although some small increases might occur in particular products. Much of this would depend on the actions of the State regulatory bodies as to limitations of production.

The Attorney General expected that the new program would be attacked in the courts and that there would be serious problems in the defense of the Government's position. Accordingly, to facilitate this defense, he hoped that the basic papers from Defense to OCDM, and OCDM to the President, would be drawn up with a view to making the strongest possible case. This could best include, he thought, any specific estimates that the Defense Department could make as to requirements, resources, etc.

The President recalled the traditional Defense Department position as to the essentiality of having a strong domestic oil industry, also the fact that the law specified "threatened" to injure rather than actual injury. On the other hand, the President noted, there was a school of thought which held that our oil resources should be conserved in peacetime by freely admitting foreign oil, thus preserving necessarily limited resources for wartime. However, he thought, this school must recognize in the new techniques for making war that an existing healthy industry was more necessary than one which could only be developed over a period of years. He felt there had to be incentive for continuing exploration for new reserves.

In response to Mr. Rogers' suggestion, Gov. Hoegh said he would consult further with him, particularly as to the full report that is being prepared.

Amb. Lodge foresaw possible repercussions in the UN where questions already exist as to the full solidarity of South American support for some of our positions.

Mr. Herter noted State Department efforts to explain to the Venezuelans that failure to act on the part of the Administration might result in the imposition of more stringent regulations by the Congress.

The President inquired as to the possibilities of some accommodation of Venezuela's needs through the way in which specific quotas are handled. Adm. Strauss did not see much possibility of telling the oil companies what kind of oil they could import or from where, since only seventeen companies are engaged in importing residual oil. Mr. Mueller asserted again that Venezuela will not be cut back except in relation to the unusually high past two months.

The President stated his interest in the unity of the American continent, and wished it were possible to act in unity with Canada on this particular item.

Mr. Anderson noted again the provisions for frequent review so as to avoid hardship, then stated the great expectation there is that the coal industry would force protective legislation if the Administration did not include residual in the program. This expectation was concurred in by the Vice President. Mr. Benson again mentioned the impact on Canada. Adm. Strauss assured there would be no damage to Canada since the 1957 levels were being retained. He pointed out also that Canadian oil actually profits from American oil policy since it could not compete in the American market if all foreign oil were admitted freely.

The President expressed his concern over the tendencies of special interests in the United States to press almost irresistibly for special programs like this and wool and cotton, etc., in conflict with the basic requirement on the United States to promote increased trade in the world. While he did not wish to be pessimistic about the nature of free government, he did want to caution about the troubles that might develop from too many cases of this sort.

LAM

293. Memorandum of Telephone Conversation Between Acting Secretary of State Herter and the Deputy Under Secretary of State for Political Affairs (Murphy)

March 12, 1959, 4:30 p.m.

CAH telephoned Mr. Murphy to discuss previous conversation with Goodpaster¹ about study by State and Defense on ways of easing oil import question for the Canadians.² Mr. Murphy will talk to Mr. Mann, and look into best way of approaching the Canadians.

Source: Eisenhower Library, Herter Papers, Telephone Conversations. No classification marking. Transcribed in Dillon's office.

¹ Not found.

² On March 2, the Canadian Minister in Washington, A.E. Ritchie, discussed with Assistant Secretary Mann the forthcoming oil import program. Mann informed Ritchie confidentially that the United States would "do its best to obtain a Western hemisphere exemption." (Department of State, Central Files, 400.116/3-2959)

Mr. Murphy said he had just seen Eugene Holman of Standard Oil who thought there should be some NSC or other review to take a hard look at the Middle East as to where we are going and what we should be doing and expressed the anxieties of the oil companies operating in the area. CAH said he entirely agreed; that Allen Dulles had a very interesting map this morning indicating the concentration of oil reserves in Kuwait, Iraq and Iran. CAH said this question of the Persian Gulf and what we do if the Russians get control is vitally important and may very likely be a subject of discussion with Macmillan. It was agreed Mr. Murphy would get in touch with the JCS and start taking a good look at this in anticipation of the Macmillan visit.³

³ British Prime Minister Macmillan met with Eisenhower at Camp David, Maryland, on March 22.

294. Editorial Note

On March 19, the following report of a discussion with the Saudi Arabian Director of Petroleum Affairs was included in the White House Staff Notes for the President:

"Oil Price Stabilization.—State reports that the Saudi Arabian Director of Petroleum Affairs considers the Arab Petroleum Conference, to be held in Cairo in April, crucially important because it will provide oil producing states with an opportunity to agree to stabilize world crude oil prices. The Director is elated that the Cairo conference Venezuelan representative agrees that a uniform producing-country price policy is necessary, and he also believes that Iran will join in a united front on price stabilization." (White House Staff Notes No. 516, March 16; Eisenhower Library, Whitman File, Eisenhower Diaries)

On April 17, the following account of a discussion with the Venezuelan Minister of Mines and Hydrocarbons was included in the White House Staff Notes:

"Venezuela Oil.—On learning that we might exempt Canada from oil import controls because of US-Canadian defense integration, Venezuela's Minister of Mines Perez protested the potential discrimination and reminded us of the resentment already in his country against us for pressuring the location of the Inter-American Development Bank in Washington instead of Caracas. He obviously hopes for no US action on Canada before he returns from the Arab Oil Congress in Cairo around April 25 via Canada and Washington. The Venezuelans may urge the Arabs to follow their 60–40 profit-splitting lead, but private experts expect the Arabs to stay competitively below the Venezuelan formula." (White House Staff Notes No. 530, April 17; *ibid.*)

295. Study Prepared by an Interagency Group Chaired by the Office of Civil and Defense Mobilization

Undated.

FREE EUROPE'S DEPENDENCE ON MIDDLE EAST PETROLEUM

Nature of the Problem

1. The objective of this study is to suggest actions which will decrease Europe's dependence on Middle East oil. It has been prepared by an inter-agency group composed of representatives of the Departments of State, Defense, Interior and Commerce, with a representative of the Office of Civil and Defense Mobilization as Chairman, in response to the assignment made to the Director OCDM, pursuant to National Security Council Action No. 1999.¹

2. This study is directed primarily to the operational and economic aspects of the problem but also considers broad financial implications.

3. Discussion and conclusions are based on the major premise of a continuation of the cold war. The terms of the assignment are interpreted to exclude consideration of increases in military requirements by reason of local wars or mobilization build-ups. Similarly, political factors are generally excluded.

4. Extensive studies, including two US/UK papers of May 12² and December 11, 1958,³ on various phases of this problem have recently been completed. This paper makes use of material covered in these studies but includes new material and takes into consideration currently available data.

Free Europe's Energy Position

5. The following table presents a breakdown of the relative importance of demand for primary energy in 1955, 1960, and 1965, based on the most recent data available.

Source: Department of State, S/P Files: Lot 67 D 548, Near and Middle East, 1959-1961. Secret. The source text is undated but the study was transmitted to the National Security Council under a March 26 memorandum by Lay; see footnote 2, Document 309.

¹ NSC Action No. 1999, approved by the President on October 20, requested preparation of this study. (*Ibid.*, S/S-NSC (Miscellaneous) Files: Lot 66 D 95)

² See Document 283.

³ Not printed. (Department of State, S/P Files: Lot 67 D 548, Near and Middle East, 1959-1961)

TABLE I
TOTAL CONSUMPTION OF PRIMARY ENERGY IN FREE EUROPE

	1955 <u>Percent</u>	1960 ⁴ <u>Percent</u>	1964 ⁴ <u>Percent</u>
Coal and Lignite	70.5	62.3	56.0
Hydro	7.4	8.1	8.6
Natural Gas	0.7	1.1	1.3
Oil	21.4	28.5	32.3
Atomic Energy	—	—	1.8
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

6. Coal is expected to continue to be the most important energy source supplying as much as 56 percent of Europe's requirements in 1965. The relative importance of coal, however, will decline by more than fourteen percentage points from its 1955 position. Although this relative decrease will be made up in part by water power and by atomic energy, the bulk will be supplied by petroleum which since World War II has been responsible for a major part of the growth in energy use in Free Europe.

Sources of Oil Supplies for Free Europe

7. Table II shows the primary sources of Europe's oil supplies under normal conditions and points up the significance of the Middle East as a source of supply. For purposes of perspective, Appendix 1⁵ shows the regional supply and demand position of the Free World in 1955, and estimates on a normal basis for 1960 and 1965.

TABLE II
FREE EUROPE
(Thousands of b/d)

	1955 ⁶ <u>(Actual)</u>	1960 ⁷ <u>(Est.)</u>	1965 ⁷ <u>(Est.)</u>
Total normal demand	2,368	3,750	4,800
Indigenous production	178	300	350

⁴ These percentages are based on estimates from the OEEC and from other authoritative sources. [Footnote in the source text.]

⁵ Appendix 1, "Normal Supply and Demand for Petroleum Liquids in the Free World;" Appendix 2, (Case I), "Free Europe Emergency Oil Deliveries," Appendix 3, (Case II), "Free Europe Emergency Oil Deliveries," and Appendix 4, (Case III), "Free Europe Emergency Oil Deliveries," are not printed.

⁶ 1955 was used as the base year because figures for 1956 and 1957 were distorted by the Suez crisis. [Footnote in the source text.]

⁷ Office of Oil and Gas estimates are based on the most recent information available. [Footnote in the source text.]

Imports—Middle East	1,730	2,675	3,150
North Africa (prin. Algeria)	—	100	400
West Africa	—	50	100
United States	50	50	50
Other W. Hemisphere	350	450	450
Communist Bloc	60	200	300

Western Hemisphere Availability

8. The Western Hemisphere is expected to have logistic capability to export emergency supplies to the Eastern Hemisphere in the following quantities in addition to normal shipments and in addition to supplying its own total needs:

Immediately after a crisis

1960—1.5 million b/d

1965—1.0 million b/d

After emergency efforts become effective

2.0 million b/d

1.5 million b/d

The decrease in surplus available in 1965 contrasted with 1960 is due primarily to estimated increases in United States domestic demand which would reduce excess productive capacity above anticipated production from United States wells to approximately 15% from the present 30%.

9. Productive capacities of the Western Hemisphere are treated as a single unit consisting primarily of the United States, Canada, and the Caribbean area, including Venezuela. Surplus export capability is considered to be nil from other South American countries and from the Central American area. It is estimated that roughly half of emergency exports would come from the United States after making allowance for some increase of United States imports from Canada, and that the remainder would be supplied from the Caribbean, mainly from Venezuela. The indicated volume of shipments given above could be sustained for at least one year in an emergency. Although rationing and other measures to restrict consumption in the Western Hemisphere countries are not contemplated in this paper, substantial increases in the above quantities would be possible in an extreme crisis if such measures were taken—especially by the United States.

Costs to the Western Hemisphere of Full-out Support for Free Europe

10. If the Western Hemisphere were suddenly called upon to furnish the quantities mentioned in paragraph 8 and to sustain exports indefinitely at that level, it would constitute a severe drain on Western

Hemisphere resources involving (a) a reduction of reserves including those in the United States, (b) an uneconomic expansion of producing facilities, and (c) increased product prices to the United States consumer.

Tanker Availability

11. Under normal conditions it is estimated that a tanker surplus of over 700 T-2 equivalents will be available in 1960 in excess of Free World requirements. By 1965 it is assumed that this surplus will have disappeared and that tankers will not be available beyond those required to meet normal requirements. The position in 1965 assumes that by that date there will have been scrapped those tankers which by normal commercial standards have ceased to be operationally profitable, including substantially all of the United States built World War II tanker fleet.

12. Under emergency conditions, and depending upon the extent that Middle East oil is denied, shipments to Europe would be reduced from the Middle East and increased from the Western Hemisphere. The shorter haul involved would result in the utilization of fewer tankers than under normal conditions. Under these conditions the limiting factor would be the availability of oil and not a shortage of tankers.

Availabilities in the Absence of Additional Measures

13. Recommendations for additional measures to decrease reliance on Middle East oil can be developed in the light of the situation which would exist in the absence of such measures. In examining each of the three cases which follow, it is assumed (a) that Western Hemisphere oil will be available in the quantities stated in paragraph 8, and (b) that tanker availability will be that given in paragraph 11. The three cases are:

Case I—Middle East Transit Stoppage. A transportation crisis involving both a closure of the Suez Canal and a shutdown of the pipelines to the Eastern Mediterranean could be fully met both in 1960 and in 1965 by reorganizing the pattern of supply sources to Free Europe. This reorganization in 1960 would involve routing the bulk of Europe's requirements around the Cape of Good Hope as only limited supplies would be required from the Western Hemisphere; in 1965 however, because of tanker limitations Europe will draw on the Western Hemisphere for maximum availabilities, routing only about one quarter of its requirements around the Cape of Good Hope. (See Appendix 2) North Africa and Communist Bloc oil are assumed to be available in this case.

Case II—Denial of all Middle East Sources. If in addition to the loss of transit facilities as in Case I, all Middle East, North Africa, and Communist Bloc sources were unavailable, Free Europe's supply level after drawing on available Western Hemisphere sources and after taking the required emergency measures discussed in paragraph 15 would be 69% and 59% of normal respectively, in 1960 and 1965. Of the above sources assumed to be denied, if North African production only were available, these percentages would be 71% and 67% respectively. If in addition Communist Bloc exports were available, Europe would receive 75% of demand in 1960 and 74% in 1965. (See Appendix 3) These estimates are exclusive of rationing which is discussed in paragraph 19 below.

Case III—Denial of Middle East Sources except Iran. Again assuming the loss of transit facilities as in Case I, if all Middle East sources are denied except Iran, and in addition oil from both North Africa and the Communist Bloc were unavailable, Free Europe's supply level after drawing on available Western Hemisphere sources and after taking the required emergency measures discussed in paragraph 15 would be 88% and 84% of normal respectively in 1960 and 1965. In this case if North African production also remained available, Europe would receive 90% of normal requirements in 1960 and 91% in 1965. Additionally, if Communist Bloc shipments remained available, these percentages would become 94% and 98% respectively. (See Appendix 4) These estimates are exclusive of rationing discussed in paragraph 19 below.

Emergency Export Capabilities of Middle East Countries

14. While Case III assumes availability of Iranian sources, the possibility exists that at least equal quantities of oil might instead be available from one or more other Middle East countries. Results would then be comparable to or better than those discussed under Case III. Estimated emergency export capabilities from the various Middle East countries through the Persian Gulf are as follows:

TABLE III

	1960		1965	
	000 b/d	Percent	000 b/d	Percent
Iran	1,000	21.3	1,700	25.8
Iraq	300	6.4	500	7.6
Kuwait	1,800	28.3	2,300	34.8

Saudi Arabia	1,300	27.6	1,500	22.7
Other	<u>300</u>	<u>6.4</u>	<u>600</u>	<u>9.1</u>
Total	4,700 ⁸	100.0	6,600 ⁸	100.0

Time Element in Emergency Programs

15. The percentages cited in Cases II and III assume a lapse of sufficient time to realize the full effect of emergency actions, in particular the making available of Western Hemisphere oil. During the first months, not more than five, there might be a brief period when Europe's shortfall would be greater than indicated above. During the first two weeks of an emergency, loaded tankers already at sea West of Suez would continue to arrive at European destinations from the Middle East at normal rates. It is expected that European countries would then begin to draw down on stocks which now in total average about 60 days normal commercial requirements of which at least half would be available in an emergency. Past experience indicates that the oil industry would act at once to reschedule tankers without waiting for direction from Government-Industry Committees. Accordingly, the arrival of emergency shipments from the Western Hemisphere would start during the second month and would increase from then on until maximum efficiencies are attained. This analysis of phasing represents a conservative estimate from the logistics standpoint of the expected flow of oil to Europe.

Non-logistic Considerations

16. The discussion thus far does not consider non-operational and non-logistical problems which might affect adversely deliveries in the first months of an emergency. In this paper it is assumed that cutbacks will be shared ratably between Europe and other areas of the Eastern Hemisphere. But whereas the OEEC could allocate oil in Europe, no inter-governmental machinery exists elsewhere in the Eastern Hemisphere. Negotiations to persuade these non-European governments to cooperate with the West could be time-consuming and might fall far short of success. While they were in progress (or even thereafter, in the event of their failure) it might prove necessary or expedient to divert to areas outside Western Europe part of the oil being made available on an emergency basis from the Western Hemisphere.

17. Other difficult problems of a non-logistic nature exist. Important among these is the difficulty of securing agreement among the affected Western Governments that a crisis exists and that emergency action is necessary. Inability to reach such an agreement would delay

⁸ For comparison, normal exports through the Persian Gulf are estimated to be 2,855,000 b/d in 1960 and 3,100,000 b/d in 1965. [Footnote in the source text.]

increases in production both here and abroad and the imposition of rationing measures in consuming countries. Also companies might have difficulty in altering contracts for deliveries East of Suez.

18. The cumulative impact of these factors suggests the wisdom of allowing three months to meet initial rates given in paragraph 8 and six months to meet the maximum rates. On this basis, the levels of supply for Western Europe during the first six months would be substantially below those shown under Cases II and III in paragraph 13.

Effect of Reduced Availability

19. The importance of oil to the energy requirements of Free Europe is growing, particularly in relation to basic industry and essential services. However, in the event of an emergency, it is considered that European requirements could be cut back by at least 10 percent without any appreciable effect on industrial production or employment and that if the cut back were increased to 15 percent the probable consequences would not be severe. Since oil will represent about 30% of Europe's total energy supplies during the early sixties, a 10 percent cut back in oil could reduce over-all energy availabilities by about 3 percent.

20. Of the three cases the most serious from the viewpoint of internal economic effects of energy shortages is Case II both in 1960 and 1965. The deficit in Case II under complete denial of North African and Soviet oil, in addition to all the Middle East, would be about 30 and 40% of normal requirements in 1960 and 1965 respectively. The overall energy deficit could be in the range of 8 to 13%, a deficiency that would contribute significantly to a decline of industrial production in a number of countries.

21. Case I and Case III would pose less serious problems. The oil shortfall in Case I amounting to nil in 1960 and in 1965, and in Case III ranging in the absence of North African and Soviet oil from about 12 to 16% in 1960 and 1965 respectively, cannot be expected to cause an appreciable reduction in economic activity. However, even a small reduction in economic activity should be measured against the rate of growth that otherwise might be maintained. Moreover, during the early months of a crisis the level of oil supply will be lower until emergency measures have been completed. Oil from North Africa, if available, would materially improve the supply picture as would oil from the Communist Bloc.

Financial Implications

22. The disruption of oil production and transit facilities in the Middle East and the import of emergency supplies from the Western Hemisphere would require very large additional dollar outlays by Free

Europe. These added outlays are roughly estimated, after emergency measures are taken, to be in the range of \$1.2 to \$1.9 billion on an annual basis in 1960 and \$1.1 to \$1.4 billion in 1965. During the early months of the crisis when emergency shipments from the Western Hemisphere have not yet reached their peak levels, the annual rate of extra dollar outlays would be smaller by several hundred million dollars. These estimates are based on current oil prices and tanker rates. In a major crisis, both prices and rates would undoubtedly rise.

23. The major part of the extra dollar outlays would fall upon the UK and to a lesser extent on France. The financial problems of these countries would be aggravated if the crisis were accompanied by a loss of confidence in their currencies and pressure on their foreign exchange reserves. The method by which Free Europe might meet these outlays is not considered in this paper. It can be determined only when the exact nature and scope of the emergency is known. The extra dollar expenditures would occur primarily because of the switch from cheaper Middle East oil with a low dollar element to more expensive Western Hemisphere oil with a high dollar content. To pay for the emergency oil, Europe would either have to expand its exports of goods and services to the Western Hemisphere or be faced with an outflow of dollars or gold. But the extent to which Europe's trade can be redirected in this manner is questionable. The limited convertibility measures recently taken by the European governments do not materially affect the basic nature of the dollar drain that would ensue as the result of an emergency.

Actions to Reduce Free Europe's Dependence on Middle East Oil

24. *Development of Alternative Petroleum Sources.* The surest most permanent means of reducing Europe's dependence on Middle East oil is the development of alternative sources in Europe and in other areas of the Free World, which are reasonably accessible to Europe. North and West Africa sources would be particularly valuable because of their proximity to European markets. In addition, increased capacity in other Western Hemisphere countries and to a lesser degree in the Far East would be of great assistance.

Recommendation. To increase availability of oil from other areas in the event of transit stoppages or denial of Middle East oil, the United States (a) should encourage free foreign governments to foster new investment in oil development, (b) should continue to encourage new investment in oil development abroad by fostering reasonable financial arrangements and legal conditions in promising areas outside the Middle East, (c) should, in order not to discourage this effort, permit imports into the United States on as liberal a basis as feasible, and (d) should in any United States system of imports restriction have as an

objective a preference for imports of petroleum and petroleum products from Canada and other Western Hemisphere countries. (See NSC 5822/1, approved Dec. 30, 1958)⁹

25. *Organizational Planning.* The need is recognized for organizational measures on a Government to Government, and a Government to Industry basis, to assure speedy and effective readjustment of oil supplies in a Middle East emergency. The Government to Government organization in Europe is necessary to provide plans for an equitable sharing of available emergency supplies among OEEC countries during such a crisis. This sharing was a troublesome matter during the Suez crisis but it was vital to the success of supplying Europe's essential needs. The Government to Industry organization is necessary in the United States to maintain current and accurate data with respect to foreign petroleum operations and to have statistics on foreign petroleum requirements and supplies immediately available for the operational phase of an emergency.

Recommendation. The United States should encourage early completion of plans currently under study by the OEEC to establish agreement on sharing of supplies in OEEC countries in times of emergency through a Government to Government organization. The United States should also resolve the legal difficulties which restrict the functioning of the Foreign Petroleum Supply Committee and which cast doubt upon the prompt reactivation of a Middle East Emergency Committee.

26. *Standby Plans for Rationing and Conservation of Supplies in Europe.* Prompt and effective rationing of oil in an emergency is an inexpensive substitute for oil stockpiling. It has been stated by Europeans that without advance planning as long as three months might be required to make consumer rationing fully effective in Europe.

Recommendation. The United States should urge Western European Governments, where appropriate, through the OEEC, to take whatever advance actions may be necessary to assure in an emergency prompt initiation and enforcement of consumer rationing and other practicable oil conservation measures.

27. *Stockpiling.* The provision of stocks in excess of normal commercial requirements would cushion the effects of an oil shortage and would provide time to implement emergency actions. OEEC countries

⁹ It should be noted in connection with the above recommendations that NSC 5820/1, approved Nov. 4, 1958, states that the critical importance of Near East oil to our NATO allies requires that we make every effort to ensure its continued availability to us and to our allies. [Footnote in the source text. NSC 5820/1 is scheduled for publication in volume VII. Regarding NSC 5822/1, see footnote 1, Document 291.]

have agreed on the need to provide one month's emergency tankage and stocks beyond the normal holdings of about 60 days. Several countries have already taken steps to put into effect the OEEC recommendation. The United Kingdom has unilaterally decided to provide two months' emergency stocks.

Recommendation. The United States should encourage Western European Governments to support the OEEC 30-day emergency stockpiling program.

28. *Storage.* Alternatives to the provision of additional conventional tankage in the form of (a) floating storage or (b) salt dome cavities or underground structures do not seem to have been given adequate consideration in Europe. Costs involved appear under favorable conditions to be considerably less than for conventional tankage.

Recommendation. The United States should, through normal channels, provide more complete information on technology and costs of these methods, and encourage European Governments to utilize the development of unconventional forms of storage.

29. *Transportation Facilities—Tankers.* The maintenance of a surplus tanker fleet through 1965 would act as a deterrent to a cut-off of Middle East supplies. If the amount of available Middle East oil production were greater than is assumed in Cases II or III, a tanker surplus in 1965 could have the effect of (a) reducing the dollar cost to Europe by providing a choice between oil sources in the light of all existing conditions at the time, (b) minimizing the drain on Western Hemisphere reserves, and (c) moderating the impact upon tanker rates and upon the Western Hemisphere price structure.

Recommendation. The United States should indicate to European Governments the advantages resulting from (a) utilization in a reserve fleet in Europe of serviceable but obsolescent tankers not only to provide additional (floating) storage as mentioned in paragraph 28, above, but also to slow down the high rate of tanker scrapping that is expected during the early and middle nineteen sixties, thus keeping in being a potential fleet in excess of normal requirements, (b) maintenance of surplus operational tankers by such measures as operating at reduced speeds or on uneconomical routes, or for the transportation of unconventional cargoes, and (c) moth-balling of surplus tankers.

The United States should also continue its present policy regarding maintenance of a moth-balled tanker fleet.

30. *Transportation Facilities—Pipelines.* Two 24-inch pipelines each with a potential carrying capacity of 300,000 b/d or more are presently being constructed or definitely planned from the Sahara to

the Mediterranean Coast. The secure operation of these North Africa pipelines would add a considerable insurance factor to Europe's supply position.

Recommendation. The United States should continue to encourage the affected foreign governments to provide favorable conditions which would assure the uninterrupted transportation of oil through these pipelines.

31. *Oil Shale and Tar Sands Development.* Although it now appears doubtful that output from United States oil shale and Canadian tar sands will become a significant alternative source before 1965, recent developments include plans for testing the practicability of the use of nuclear bombs to improve mining techniques, and thus produce economical substitutes for crude oil. Capability to produce oil in significant amounts from United States oil shale would add significantly to available reserves.

Recommendation. The United States should (a) continue its active research program to solve shale oil refining and extraction problems, (b) encourage private enterprise to solve such problems, and (c) if requested, cooperate with Canada in solving similar problems relating to tar sands.

32. *Natural Gas Development.* Experiments have been nearly completed with the present trial run of the S.S. *Methane Power* to test the technical and economic feasibility of shipping liquefied natural gas by tanker. This revolutionary development appears to hold great promise of making possible for the first time, shipment of natural gas by sea. Great reserves of natural gas are now available in Venezuela and in North Africa that may be utilized as a new source of energy for Europe and that may provide a significant further easing of Europe's supply position. Authorities in the UK are participating in and are alive to the economic potentialities of this project that has excited active interest also in France and Europe generally.

Recommendation. The United States should follow closely this development and provide technical assistance as required.

33. *Development of Nuclear Energy.* Energy from nuclear reaction gives great promise of becoming an important source of power and may tend, perhaps by 1970, to stabilize Europe's imports of oil by offsetting Europe's growing energy requirements. By 1965, as shown in Table I, nuclear energy will grow in importance although at a rate less than the increase of total requirements.

Recommendation. The United States should maintain close and continuing contact with Euratom and with the International Atomic [Energy] Agency to develop nuclear power reactors in Europe, and should offer technical and other appropriate assistance to obtain that objective.

296. Minutes of the Cabinet Meeting

April 24, 1959, 9–11:10 a.m.

[Here follow a list of participants and discussion of unrelated subjects.]

Copper Stockpile—Gov. Hoegh reviewed the situation of the Strategic and Critical Stockpile and also the Defense Production Stockpile as regards copper. He posed the question of whether it were desirable at the present time to dispose of 129,000 tons of copper surplus to the Defense Production Stockpile. The governing policy exists, he said, that there should be no action taken adverse to the national economy. He noted that it had been necessary for him to make a statement the preceding week that the Administration policy was to act with great care and that if any copper were sold from the stockpile, the action would be gradual and careful. Gov. Hoegh stated that his Agency thought the disposal should be carried through during this period of a healthy market.

There was an inconclusive discussion as to the significance of recent fluctuations in the copper market.

The President asked if Defense Department still provided materials to producers for certain activities. Mr. McElroy said the possibility of utilizing some copper in this way was being studied but that it would undoubtedly raise similar strong objections.

Mr. Stans pointed to the fact that some \$3 or \$4 billion worth of materials in the stockpile are classified as excesses, hence the review of this subject as a possible means of helping out in the present tight budget situation. He stated that Mr. Floete believes disposal of the 129,000 tons now would be in the interest of the economy by removing the threat of this overhang.

Mr. Stans spoke of the desirability of getting shortened the current requirement that any proposal for disposing of material for the Strategic Stockpile must lie in front of Congress for six months prior to action. A shorter waiting period would help avoid "missing the market."

Mr. Stans also suggested in connection with "put" contracts that it might be cheaper merely to pay the difference of \$45 million between the present market price and the contract price, rather than to take the materials at the full contract price.

Mr. Stans also noted that certain government actions are being brought into line with stockpile excesses rather than making purchases on the market, as for instance Treasury purchases of copper for pennies.

Mr. Stans thought that all of these problems and the additional ones of barter—which merely serves to increase surpluses in the stockpile—and the 3-year stockpile concept should be reviewed and brought together in a Cabinet paper.

Sec. Anderson spoke at some length of various aspects of the problem and concluded that he would hesitate to sell copper now, preferring to await any undue increase in the price of copper or a real shortage of it. Mr. Herter concurred in Mr. Anderson's view because of the problems a present sale would occasion in our foreign relations as regards Chile, Mexico and Peru. Sec. Seaton stated that Interior opposes sale at this time, though he recognized that it was merely a matter of timing and that the day must come when the government disposes of these stockpile surpluses.

The President was not certain that the government should ever dispose of these materials until a real need for them existed somewhere. He thought things like copper were much more desirable to hold on to even than the gold that is buried at Fort Knox. The reason for this, he repeated, was that the supplies of these things were necessarily limited and eventually the day would come when they would be very much needed. The President allowed that they also might be used to defeat market speculation, such as that which occurred in coffee.

The President reaffirmed his favor for bartering perishable materials for nonperishable. The latter could be considered as money in the bank. Sec. Seaton agreed that he would be happy to see them retained if it were possible to remove the threat of overhang.

Dr. Saulnier recalled the government's interest in directing its actions against inflation and he favored a limited program to dispose of this copper over a 2-year period in order to moderate the inevitable rise in the price of copper. As for the industry being worried about the overhang, the only way to guarantee that the stockpiles would be permanently locked up would be by dumping them in the ocean,

hence he favored a very close appraisal of the stockpiles to see if the government could get out from under by a very gradual and orderly disposal.

It was agreed that there should be further study of the matter looking to a full scale presentation at a later date.

Gov. Hoegh believed some announcement ought to be made as to the present status of things. The President opposed any formal announcement but was agreeable to further informal statements by Gov. Hoegh such as he was already involved in.

Mr. McElroy urged that there be discussions with the industry, if that had not already been accomplished, on how to dispose of the excesses since it was possible they could be very cooperative. Adm. Strauss noted that even copper producers are not of one view. Sec. Mitchell was anxious that there be no uncertainty as to the Administration's position, since labor contract negotiations are coming up in the industry and there could be great pressures upon the government to sell or not to sell should a strike occur.

The President commented that if sale of this copper were to be accomplished as an anti-inflationary measure then it should be done at a time when the situation was much more difficult than it is now and when a major government sale could have an impact instead of passing unnoticed.

[Here follows a briefing on the domestic economic situation.]

LAM

**297. Memorandum From the President's Special Assistant
(Paarlberg) to the President's Personal Secretary (Whitman)**

April 27, 1959.

Oil Imports. On Monday, April twenty-seventh at 9:30 a.m., the following group held a half-hour conference with the President regarding modification of existing oil import restrictions:

Secretary of the Treasury Robert B. Anderson
Secretary of the Interior Fred A. Seaton
Under Secretary of State Douglas Dillon
Director, OCDM, Leo Hoegh
Gerald D. Morgan
Don Paarlberg

Mr. Dillon presented a proposal,¹ agreed on by the agencies involved (with some reservations from Treasury) for the liberalization of oil import restrictions presently in effect with respect to Canada. We have been pressed by the Canadians for this liberalization; failure to liberalize might be an added inducement for the Canadians to build an uneconomic pipeline from their western oil fields to the Montreal market. This would cut into Venezuelan oil shipments to Montreal and upset the market generally.

The proposed liberalization, it is judged, would increase the flow of Canadian oil into the United States market, chiefly into the Northwest, by about 30,000 barrels a day, a modest amount.

Secretary Anderson agreed with the proposed action but pointed out that there might be objection from Alaska, from our own Colorado-New Mexico suppliers and from Far Eastern suppliers.

The President agreed with the proposed liberalization. He indicated the desirability of an understanding with Canada to the effect that if imports should loom excessively large, or if the Venezuelans should be blocked out of Montreal, this would be dealt with as a new situation.

Mr. Dillon discussed the proposed proclamation and read a proposed press release,² tentatively scheduled for release on Thursday, April thirtieth.

The relationship of the proposed action to the situation in Venezuela was discussed. Modification of the regulations with respect to Venezuela are in prospect and are being discussed with the Venezuelans. But it will be a matter of months before action can be taken.

A draft of a letter from the President to President Betancourt of Venezuela was discussed. This draft was intended to allay Venezuelan disappointment arising from the desire of the Venezuelans for modification of restrictions against them at the time we announce modification of the Canadian curbs. The President felt the draft seemed to promise more to the Venezuelans than might be forthcoming. It was agreed that the letter would be redrafted. Dillon, Morgan and Paarlberg will work on the redraft.³

Don Paarlberg

¹ The proposal became Proclamation No. 3290, April 30. For text, see *American Foreign Policy: Current Documents, 1959*, pp. 1465-1467.

² The press release has not been found.

³ The draft letter, April 25, is in Department of State, ARA Files: Lot 61 D 319, Petroleum Policy. The letter as sent, April 28, was transmitted in telegram 724 to Caracas, April 29, and stated that the forthcoming amendment to the mandatory program would improve the operation of the program and serve the interests of the Western Hemisphere. The Presidential letter reminded Betancourt that while the relatively small amount of Canadian oil sold in the north central and northeastern United States did not compete with Venezuelan oil, the amendment would reduce, the United

298. Memorandum of Discussion at the 406th Meeting of the National Security Council

May 13, 1959.

[Here follows a paragraph listing the participants at the meeting.]

1. *Western European Dependence on Middle East Petroleum* (NSC 5820/1;¹ NSC Action No. 1999;² Memos for NSC from Executive Secretary, same subject, dated March 26³ and May 4, 1959⁴)

Mr. Gray said that last October, in connection with its consideration of the Near East policy (NSC 5820/1), the Council requested the Director, OCDM to undertake in coordination with other interested agencies (including State, Defense, Commerce, and Interior) “a study of the feasibility of using other sources of petroleum and additional transit facilities (taking into account available information as to other sources of energy) as a means of reducing the dependence of Western Europe on Middle East petroleum and on existing transit facilities . . . ”⁵ The report was to include any policy recommendations found appropriate or necessary (NSC Action No. 1999-c).

Mr. Gray then called on Governor Hoegh to summarize the report, which had been sent to the Council on March 26.⁶ The Director, OCDM said the decision to ask for a study had been made because the Middle East was in a position to exert too much economic and political leverage against Western Europe; and it was considered desirable to develop means to reduce this leverage. The report prepared by the Interdepartmental Group suggested various means of reducing this leverage. Of course, the surest means of reducing Western European dependence on Middle East petroleum would be the development of alternative petroleum sources in Europe and in other areas of the Free World reasonably accessible to Europe. Governor Hoegh then summarized Paragraphs 5, 6, 7, 8 and 12 of the report; read the description of

States hoped, the serious risk of a permanent loss to Venezuela of its Montreal market. (*Ibid.*, Central Files, 831.2553/4-2959)

Source: Eisenhower Library, Whitman File, NSC Records. Top Secret; Eyes Only. Drafted by Boggs.

¹ Scheduled for publication in volume XII.

² See footnote 1, Document 295.

³ This memorandum transmitted Document 295 to the NSC.

⁴ In this memorandum, Lay transmitted a draft NSC action for the consideration of the NSC at its May 13 meeting. The draft contained the alternate language proposed by OCDM–Defense–Interior–Commerce and State–Treasury–Budget as explained below. In addition, the transmitting memorandum contained the comments of the Departments of State, the Treasury, and Justice on Document 295. (Department of State, NE/E Files: Lot 66 D 45, ME General, Oil and Petroleum)

⁵ Ellipsis in the source text.

⁶ Document 295.

Cases I, II, and III in Paragraph 13 of the report; and indicated that the recommendations of the report were to be found in Paragraphs 24–33. Governor Hoegh said he had concurred in the report and in addition had recommended that the last sentence of Paragraph 22 of the Near East policy (NSC 5820/1) should be deleted and a new paragraph inserted reading as follows:

“In order to reduce Western Europe’s dependence on Middle East oil, the U.S. should take action to encourage the orderly development of alternative sources of oil and other forms of energy outside the Middle East and the broad diversification of means of transporting fuel in the Free World. The U.S. should also urge Western European countries to have in readiness emergency plans for conservation, sharing, stockpiling, and transportation of oil.”

Some differences of opinion had developed among the interested agencies as to the action which the Council should take. Some agencies thought that the objective should be “to reduce Western Europe’s dependence on Middle East oil” while others urged that we merely “retard Western Europe’s increasing dependence on Middle East oil.”⁷ Governor Hoegh thought the mission should be to reduce dependence and recommended acceptance of this language. He then referred to the words “Economically and politically feasible” in the right-hand version of the draft NSC Action and said that economic and political feasibility was inherent in any policy. Accordingly, he was willing to accept the words “economically and politically feasible” if the draft Action began with the words “in order to reduce Western Europe’s dependence on Middle East oil.” He said one of our objectives was to induce countries of the Middle East to refrain from denying oil to Western Europe; in his view the danger of such a denial would be minimized by a reduced dependence of Western Europe on Middle Eastern oil. Finally, Governor Hoegh referred to the provision (in the “Note” at the end of the draft NSC Action) that the same agencies which had prepared the report would be charged with the task of continuing work on the implementation of the policy adopted and would make yearly progress reports to the Council.

Mr. Gray said that Governor Hoegh had presented a good summary of the report and of the differences of opinion on the draft NSC Action. The Planning Board, he continued, had studied the report and had received written comments on it from State, Treasury, and Justice.⁸ He wished to quote two comments, one by State and one by Treasury:

⁷ The draft NSC action is in Department of State, NE/E Files: Lot 66 D 45, ME General, Oil and Petroleum.

⁸ See footnote 4 above.

State: "The Department of State supports measures designed to retard Western Europe's increasing dependence on Middle East oil by encouraging diversification in sources of supply without, however, implying any reduction of U.S. interest in the Middle East, reducing from present levels the oil-derived revenues of Middle Eastern countries, or depriving Europe arbitrarily of relatively low-priced crude oil meeting the requirements of its refineries."

Treasury: "The Treasury would not endorse actions to encourage the development of petroleum by government monopolies, nor would it wish to see any modification of the present policy of not providing U.S. public capital to finance petroleum developments overseas, public or private. Furthermore, the Treasury would consider it unnecessary and inappropriate for the U.S. to participate financially in actions by European Governments to reduce dependence on Middle East oil."

Mr. Gray said that in view of Governor Hoegh's acceptance of the words "Economically and politically feasible" two issues remained to be settled: (1) The left-hand (OCDM, Defense, Interior, Commerce) version of the draft Action reads "in order to reduce Western Europe's dependence on Middle East oil" while the right-hand (State, Treasury, Budget) proposal reads "in order to retard Western Europe's increasing dependence on Middle East oil." (2) The left-hand version indicates that "the U.S. should take action" while the right-hand version provides "the U.S. should continue to encourage action." Mr. Gray then called on Secretary Dillon.

Secretary Dillon said the views of the State Department were governed by practical considerations. Middle Eastern oil was not dollar oil and was therefore more attractive to European buyers than oil from other parts of the world. He thought it was not practicable to seek to reduce the present degree of Western European dependence on Middle East oil, but it was advisable to try to retard Western Europe's increasing dependence on Middle East oil. He wondered where the "new" oil, that is the oil which would replace Middle Eastern oil, would come from. If it came from the Western Hemisphere, a serious dollar problem would be created. He favored the development of oil resources in such areas as North Africa but did not think that the goal of reduction of Western Europe's dependence on the Middle East was possible of achievement. Therefore, he favored the word "retard" in the right-hand version of the draft Action. With respect to "taking action" vs "continuing to encourage action", he felt that a great deal was being done already. For example, to prevent Western Europe becoming increasingly dependent on the Middle East, we were working with the oil-producing countries, with EURATOM, with the oil companies in connection with the development of new sources of supply, and with the OEEC in connection with stockpiles. Without the word "continue" the draft Action would indicate that we are about to embark upon some new course of action and he was not aware what

that new course of action would be. The U.S. was already taking action of the type listed in the recommendations of the report by the Interdepartmental Group and would continue to do so.

Secretary Dillon then said he would like to turn to a specific problem for a moment. It seemed probable that substantial reserves of petroleum were ready for development in Libya, but the oil companies were loath to push this development too rapidly and thereby jeopardize their position in the Middle East. If the left-hand version of the draft NSC Action were adopted and literally interpreted, the U.S. would be compelled to put pressure on the oil companies to develop the Libyan fields immediately. A rapid development of the Libyan fields would have severe repercussions in the Middle East; it would for example, preclude the purchase of more oil from Iran to compensate Iran for a decline in the price of oil. Secretary Dillon thought that the specific problems he had just mentioned illustrated the enormous complexity of the subject.

The President said another factor should be taken into consideration, namely, that under a system of free enterprise Western Europe would follow economic rather than political impulses and would obtain oil from the Middle East as long as such oil was cheaper than other oil. He thought the reduction of Western European dependence on Middle East oil was an unrealistic objective. We should make certain there are no obstacles to the development by private companies of petroleum sources world-wide without, however, urging private crash programs or adopting governmental programs for oil development. A development by private companies of alternative sources of oil would automatically reduce the degree of Western Europe's dependence on the Middle East. We sometimes talked about policies which would keep the U.S. petroleum industry ready for expansion in case of an emergency, but we discovered at the time of the Suez crisis that the Texas fields were operating only nine or ten days a month and that it was difficult to step up this production schedule. As long as Middle Eastern oil continues to be as cheap as it is, there is probably little we can do to reduce the dependence of Western Europe on the Middle East. The Libyan oil fields appeared promising, but the oil industry apparently did not want a crash program for development of the Libyan fields. He was not aware of any practicable thing we could do that we were not already doing in connection with Western European dependence on Middle East oil.

Governor Hoegh said our objective should be to reduce Western European dependence; our course of action might be to continue to encourage such action as is economically and politically feasible to facilitate the development of alternative petroleum sources. The President agreed, but doubted that practical results would flow from stating

that our objective is to reduce Western European dependence, because Middle East oil will continue to be consumed by Western Europe as long as it is the cheapest oil.

Secretary Dillon thought that to reduce Western European dependence was not a practical objective, but inasmuch as the key language in the NSC Action would be the course of action language, he would not object to "reduce" as an objective as long as the course of action indicated that we should continue to encourage such action as is economically and politically feasible to retard increasing Western European dependence on Middle East oil.

The President failed to see that there was any great difference between "reduce" and "retard". Certainly in an emergency we would like to have Western Europe less dependent on the Middle East than it was in 1956. Perhaps our objective should be to reduce dependence and our course of action should be to retard increasing dependence.

Mr. Dillon pointed out that petroleum developments in Algeria were also encouraging. Mr. Mueller said that two large pipelines had recently been constructed through Algeria to the Mediterranean and he had been told that by the end of this year 600,000 barrels a day would be flowing through these pipelines. The President wondered what we could do to reduce dependence that would be better than these pipelines. He added that he noted from the report prepared by the Interdepartmental Group that the relative importance of coal as a source of energy for Western Europe was declining and the relative importance of oil was increasing.

The Vice President asked whether the Libyan oil fields were being developed exclusively by U.S. companies. Secretary Dillon said Shell was interested in Libya, but that the big strikes were under the control of U.S. companies. The Vice President said he understood that it was our policy not to push development of the Libyan oil fields. Secretary Dillon said this policy was an oil company policy, not a U.S. Government policy. On the other hand, if we urged the companies to develop the Libyan fields rapidly at this time, the result would be a serious disturbance in the Near East. The Vice President thought the nub of the matter, the immediate problem, was what to do about Libya. We had a great many political problems in Libya. Secretary Dillon said that if the Libyan people were fully cognizant of Libyan oil resources, they would demand their immediate development. Mr. McCone said it would not be long before they were fully informed of these oil resources. The Vice President pointed out that any suggestion that the U.S. oil companies are deliberately retarding the development of the Libyan oil fields would be very unfortunate. The President said the oil companies were not retarding the development of the Libyan oil fields unduly, inasmuch as they were putting 100 million dollars into these fields at a time when petroleum supplies were adequate.

The Acting Secretary of the Interior said that he would like a clear statement that reducing Western European dependence on Middle Eastern oil is U.S. policy. As one who had suffered through the Emergency Committee during the Suez crisis, he felt strongly on this matter. The report prepared by the Interdepartmental Group showed that most of the things that could be done are already being done, but a reiteration of a policy of reducing dependence would be desirable.

Secretary McElroy said the new language proposed by Governor Hoegh would be acceptable to Defense if it were acceptable to State. General White concurred in Secretary McElroy's position. Mr. Gray suggested that he be permitted, in the light of the discussion, to work out a draft NSC Action. The President concurred in this suggestion and added that he would accept whatever language the agencies could agree on.

Mr. McCone felt he should inform the Council that EURATOM, which had been mentioned in the report, was now operating under a lessened sense of urgency because of the existing excess coal supplies and the decline in the cost of transporting oil and coal.

The President believed that the development of nuclear power should proceed on a cautious, experimental basis. He feared that if we invested huge sums of money in present processes, a breakthrough sometime in the future would wipe out this investment. Mr. McCone indicated that U.S. programs for the development of nuclear power were on a prototype and experimental basis. He agreed there might be a break-through in the future in the development of nuclear power, and added that in any event there would be a gradual evolutionary development.

*The National Security Council:*⁹

a. Noted and discussed the study on the subject transmitted by the reference memorandum of March 26, 1959, and the accompanying letter from the Director, Office of Civil and Defense Mobilization.

b. Agreed that, in order to retard Western Europe's increasing dependence on Middle East oil and to reduce the effects on Western Europe of an emergency created by any complete or partial denial of Middle East oil resources, the United States should continue to encourage such action as is economically and politically feasible to facilitate the orderly development of alternative Free World sources of oil and other forms of energy outside the Middle East, and the broad diversification of means of transporting fuel in the Free World. The United States should also urge Western European countries to increase their petroleum stockpiles and to have in readiness emergency plans for conservation, sharing and transportation of oil.

⁹ Paragraphs a and b and the note that follows constitute NSC Action No. 2080. (Department of State, S/S-NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

Note: The action in b above, as approved by the President, subsequently referred to the Director, OCDM, for appropriate implementation in the light of the study referred to in a above and in collaboration with the Departments of State, Defense, Treasury, Interior and Commerce, progress reports on such implementation to be submitted to the Council annually.

[Here follow agenda items 2–5.]

Marion W. Boggs

299. Memorandum From the Deputy Assistant Secretary of State for Economic Affairs (Beale) to the Under Secretary of State for Economic Affairs (Dillon)

June 4, 1959.

SUBJECT

CFEP Discussion of Sugar Legislation for June 5

Problem:

The CFEP has been asked to recommend whether the Executive Branch should press for extension of the Sugar Act,¹ which expires December 31, 1960, at this session of Congress or whether consideration should be delayed until early 1960. The State Department's position must be expressed at the CFEP meeting June 5.²

Discussion:

The domestic beet and cane, Puerto Rican, and Hawaiian sugar growers agreed in December that they would join in support of an indefinite extension, without amendment, of the present Sugar Act.

Source: Department of State, E/CFEP Files: Lot 61 D 282A, Extension of the Sugar Act. Confidential. Drafted by Jack B. Button of the of Commodities Division, Office of International Resources, Bureau of Economic Affairs. Cleared in draft with Robert M. Carr, Director of the Office of International Resources; Robert A. Stevenson, Officer-in-Charge of Cuba Affairs; Florence Kirlin of the Bureau of Congressional Relations; Francis G. Jarvis, Officer-in-Charge of Economic Affairs, Office of Southwest Pacific Affairs, and cleared in substance with Jean H. Mulliken, Officer-in-Charge of Commodities and Commercial Policy, Office of Inter-American Regional Economic Affairs.

¹ The 1948 Sugar Act, approved August 8, 1947, as amended. (61 Stat. 922)

² The Department of State's suggestion to postpone requesting Congress to renew the Sugar Act was approved by the CFEP at its June 5 meeting. (Minutes of CFEP Meeting, June 5; Eisenhower Library, CFEP Records, Office Series, Council Minutes)

The Department of Agriculture also supported such an extension and the President's farm message to Congress recommended that sugar legislation be considered this year.³

The Department did not formulate a final view as to whether or not it would support the unamended extension of the Act. The Philippines, in particular, have pressed for an opportunity to participate in expanded United States consumption, and have cited an undertaking by the President when he signed the 1956 legislation committing the Executive Branch to give consideration to the Philippine request when new amendments are being prepared. Several Latin American countries have also requested increases in their quotas in the United States market. Domestic refiners favor an amendment which would increase foreign participation (principally Cuban) in the reallocation of deficits.

Certain actions of the Castro administration after its coming into power made it seem advisable in the Department's opinion not to press ahead with attempts to assure Cuba's share of the United States market until the implications of various revolutionary measures could be studied. Subsequently, on May 17 a proposed Agrarian Reform law was announced in Cuba and large scale expropriation of American-owned properties in Cuba appears imminent. United States owners of Cuban sugar properties have urged the Department to adopt a stern public posture toward the confiscatory provisions of the Agrarian Reform law, suggesting that Cuba be warned that the Sugar Act might be amended to Cuba's detriment.

There have been reports in recent days that the Cuban Government plans to delay for one or two years the implementation of the Agrarian Reform law as it applies to sugar. These reports have not been confirmed officially by the Cuban Government. The Department of Agriculture does not dispute the validity of our contentions as they relate to foreign affairs. Agriculture argues however

a) that sugar growers need to know well in advance the provisions of the legislation in order to make planning decisions;

b) that sugar legislation should not be considered in an election year because

(i) domestic interests might press for increased shares at the expense of foreign countries,

(ii) the Administration's difficulties in obtaining approval of other farm legislation will be increased.

³ The President called for an extension of the Sugar Act in his Annual Budget Message to Congress, January 19, 1959, and the President attached a memorandum from the Secretary of Agriculture, January 19, calling for Congress to examine the Sugar Act to his Special Message to Congress on Agriculture, January 29, 1959. (*Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1959*, pp. 91 and 146)

Agriculture at one time favored extension of the Sugar Act this year with an amendment which would empower the Secretary of Agriculture to revise foreign quotas upon a finding that U.S. supplies were likely to be endangered. State argued that Executive Branch sponsorship of such a provision might be interpreted in Cuba and other countries in Latin America as an obvious attempt to intervene in Cuban internal affairs. Agriculture has apparently dropped this proposal and now suggests inclusion in the legislative history of an undertaking on the part of both houses of Congress to take speedy action to revise quotas if Cuban supplies decline. This approach would seem also to open up possibilities of misinterpretation by Latin American countries.

It should also be noted that the fears of the Department of Agriculture cited in CFEP 584/1⁴ appeared to be based on the assumption that enactment of sugar legislation might not take place prior to January 1, 1961. Such an eventuality seems extremely unlikely in a year when Congress will be adjourning early for elections. Comments on other points in CFEP 584/1 are attached.⁵

The following considerations seem to argue for the delay until next year of our consideration of the Act.

a) It is still too early to evaluate accurately the impact of all the measures the Castro regime may undertake.

(i) We should seek to avoid any action which could be interpreted in Cuba and throughout Latin America as indicating United States approval of the steps taken in Cuba.

(ii) We should also seek to avoid the situation in which domestic sugar groups or foreign countries might exploit the present uncertain situation as regards Cuba to push through legislation which would worsen Cuba's present position, or which would contain provisions which Castro would interpret as a threat of U.S. intervention.

b) It can be anticipated that there would be a sharp domestic reaction to any action which appeared not to take cognizance of the actions of a Government which had just threatened to expropriate American property in several fields without adequate compensation. The effect on U.S. investors who might be contemplating investment abroad should also be considered.

In advancing these considerations the Department representative to the CFEP may wish to assure the Department of Agriculture that the State Department would be prepared to participate in the preparation

⁴ CFEP 584/1, "Extension of the Sugar Act," June 2, is attached to a memorandum from Cullen to the CFEP, June 3. (Department of State, E/CFEP Files: Lot 61 D 282A, CFEP 584, Extension of the Sugar Act)

⁵ Attached but not printed.

of the Administration position on sugar legislation with a view to introduction of a bill early in 1960. By that time a much fuller appraisal of political and economic developments in Cuba will be possible.

Since Agriculture's main preoccupation appears to be with future planning for domestic growers, the Department might agree not to press for any change in the section of the Act under which domestic areas receive 55 percent of increases in consumption over 8,350,000 tons. Such an assurance should help Agriculture and the domestic growers make more definite plans for the future. (The Department should not at this time undertake to seek an amendment to the deficit reallocation provisions.)

300. Memorandum From the Assistant Secretary of State for Economic Affairs (Mann) to Acting Secretary of State Herter

September 10, 1959.

SUBJECT

Briefing Paper—Proposed Policy on Strategic Materials

The attached Cabinet Paper 59-78/2, "Proposed Policy on Strategic Materials" (Tab B),¹ is scheduled for consideration by the Cabinet on September 11, 1959. The paper, prepared in response to a Cabinet request of last April, contains a comprehensive review of the Government's stockpile policies and related matters, and presents six recommendations.

In the attached group of papers, the Cabinet Paper is preceded by a cover sheet and a two-page summary or "brief" (Tab A).² Additional background information is presented in a third document which is an OCDM staff report (Tab C). Also attached for information are Defense Mobilization Order V-7, entitled "General Policies for the Stockpile of

Source: Eisenhower Library, Herter Papers, Cabinet, 1959. Secret. Drafted by Donald S. Spigler of the Commodities Division of the Office of International Resources. Cleared in draft with Robert M. Carr, Chief of the Office; Clarence W. Nichols, Acting Special Assistant in the Bureau of Economic Affairs; Sydney L. W. Mellen, Chief of the Commodities Division; and Wingfield N. Chamberlain of that Division.

¹ None of the tabs was attached. The text of Cabinet Paper 59-78/2, August 20, 1959 (Tab B), and the paper as approved, CP-59-78/3, September 30, are *ibid.*, White House Office Files, Cabinet Secretariat, Stockpiling. For the discussion at the Cabinet meeting, see Document 301.

² The briefing paper is attached to Tab B.

Strategic and Critical Materials'' (Tab D), and Cabinet Paper 58–78/1 (Tab E), which contains the general stockpiling policies approved by the Cabinet on April 18, 1958.³

The Cabinet Paper and its summary present no problems for the Department. They have been carefully reviewed by the Department's representatives at a series of interagency meetings, and all of the important suggestions offered by us have been accepted.

The need for disposing of excess stockpile materials is more affirmatively stated than in the paper approved by the Cabinet in April, 1958. However, it is clearly provided that such disposals must not seriously disrupt usual markets or adversely affect the international interests of the United States, and that there must be prior approval of the interested agencies, including the Department of State.

With regard to the proposed new legislation to achieve better coordination and management of all stockpile programs, the Department has forwarded to the Budget Bureau certain comments and recommended changes,⁴ aimed primarily at emphasizing the foreign relations aspects of stockpile disposals. There is no prospect of action by Congress at this session.

The paper, in addition to containing no provisions which are objectionable from the Department's viewpoint, is more explicit than were earlier policy statements in ensuring that due regard be given to the foreign relations of the United States, and approval by the Cabinet would therefore seem desirable.

³ The OCDM staff report (Tab C) was also attached to CP–59–78/3; see footnote 1 above. Regarding Defense Mobilization Order V–7 (Tab D), see footnote 2, Document 280. Cabinet Paper 58–78/1 (Tab E), is in Eisenhower Library, White House Office Files, Cabinet Secretariat. An account of the Cabinet meeting, April 18, is *ibid.*, Whitman File, Eisenhower Diaries.

⁴ Not found.

301. Minutes of the Cabinet Meeting

September 11, 1959, 9–10:40 a.m.

[Here follow a list of participants and discussion of unrelated subjects.]

Source: Eisenhower Library, White House Office Files, Cabinet Secretariat. Confidential. Drafted by Minnich.

Stockpiling—Gov. Hoegh went over the Cabinet paper,¹ pointing out the history of stockpiling and outlining the current situation as regards excesses. He explained that the excess resulted from the reduced goals as a result of the three-year concept, the change in strategic concepts, the expansion of some sources of supply, and obsolescence of some materials; of a slightly different nature were the excesses resulting from operations under P.L. 480. He presented several charts giving the quantitative status of selected materials. He pointed out that at present there are over \$7 billion worth of materials in the stockpile, of which \$3.76 billion were for filling established objectives; the remainder is excess. Under the proposed plan, \$4.22 billion worth would constitute objectives, leaving an excess of \$2.95 billion.

Gov. Hoegh repeatedly emphasized that disposal of excesses would be undertaken only if the market conditions for the item were satisfactory and if disposal would not adversely affect our foreign relations. He made clear that it is proposed at this time to sell only natural rubber. There will be further interagency discussions prior to any disposal of aluminum. As regards other minerals, the market is not in satisfactory condition at this time.

Gov. Hoegh also stressed the importance of pressing again next year the general legislation which would eliminate the requirement for a six-month waiting period prior to any disposal.

Gov. Hoegh then went over the specific recommendations in the Cabinet Paper. Following this, Sec. Benson inquired whether the three-year requirement was based on estimates of need in an all out war. Gov. Hoegh said the basis was that of a three-year period of emergency, not necessarily related to the duration of any potential war. The President added a word about his own concern with having resources at hand for accomplishing recovery in the event of nuclear attack.

Mr. Stans highly recommended approval since the paper contained all the needed safeguards.

Mr. McElroy suggested that the paper be amended to eliminate the requirement that all the agencies approve each disposal action—something that would be pretty cumbersome. The President said that concurrence rather than approval would be satisfactory but that specific agreement seemed to be needed. Mr. Flemming concurred with the President's view.

Dr. Flemming inquired whether Sec. Mitchell should be consulted because of the relationship of any strike. Sec. Mitchell indicated that satisfactory arrangements for this were already established.

The paper was approved.

¹ See footnote 1, Document 300.

[Here follows discussion of unrelated subjects.]

LAM

302. Editorial Note

At the 422d meeting of the National Security Council, October 29, Kenneth G. Harr, Director of the Operations Coordinating Board, briefed the Council on implications of recent oil discoveries in Libya. Harr estimated that by 1965 approximately 25,000 barrels a day would be going to Western Europe from a pipeline and port being constructed in Libya by ESSO. By 1964, Libya would be producing 100,000 barrels per day; by 1965, total production would be 300,000 barrels per day. Obviously, Harr continued, Libyan oil would be strongly competitive in the Western European market. (Memorandum of discussion by Johnson, October 29; Eisenhower Library, Whitman File, NSC Records) The full text of the briefing and discussion is in volume XIII, pages 733–734.

Also on October 29, the NSC Executive Secretary sent the members of the Council a memorandum from the Director of the Office of Civil and Defense Mobilization, Leo A. Hoegh, which recommended revised language for paragraph 60 of NSC 5906/1, "Basic National Security Policy," August 5, 1959, to bring that paragraph into line with the decision on stockpiling made by President Eisenhower and his Cabinet on September 11; see Document 301. The revised paragraph 60 of NSC 5906/1 was subsequently approved by the members of the National Security Council by memorandum rather than at a meeting. The President approved it on December 3, 1959. The approved revisions to paragraph 60 read as follows:

"A stockpile of strategic and critical materials as authorized under P.L. 520, 79th Congress, should be maintained. Objectives for the strategic stockpile should be determined on the basis of the time required for supplies of materials in a national emergency to match essential needs of the emergency. Pending a determination of the essential needs of the nation after a nuclear attack (including reconstruction), the planning period should be limited to a maximum of three years, provided that until such determination is made the 'maximum objective' should not be less than six months' usage by the U. S. industry in periods of active demand." (NSC Action No. 2155; Department of State, S/S-NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

For P.L. 520, July 23, 1946, see 60 Stat. 596. The memorandum of October 29 to the National Security Council is *ibid.*, S/P-NSC Files: Lot 62 D 1, Basic National Security Policy, NSC 5906. NSC 5906/1 is scheduled for publication in volume III.

303. Memorandum of Conversation

October 29, 1959.

SUBJECT

Domestic Sugar Industry Position on Sugar Legislation

PARTICIPANTS

Richard W. Blake, Executive Secretary, National Beet Growers Federation
Josiah Ferris, V.P., American Sugar Cane League
Frank A. Kemp, President, Great Western Sugar Company
Gordon Lyons, Executive Manager, California Beet Growers Association
James Marshall, V.P., California & Hawaiian Sugar Refining Company
Slator Miller, V.P., Hawaiian Sugar Planters' Association
Robert H. Shields, President & General Counsel, U.S. Beet Sugar Assoc.
H. Malcolm Baldrige, General Counsel, U.S. Cane Sugar Refiners
Dudley Smith, V.P., Association of Sugar Producers of Puerto Rico
Everett B. Wilson, Director, Puerto Rican Trade Council
ARA—R.R. Rubottom, Jr., Assistant Secretary
REA—H.R. Turkel, Director
CMA—E.E. Vallon, Deputy Director
CMA—R. B. Owen, Cuban Affairs

Mr. Frank A. Kemp, acting as spokesman for the group, stated that it consisted of representatives of the entire domestic sugar industry with the exception of the Virgin Islands. He pointed out that the domestic industry representatives have given considerable thought to the problem of renewal of the Sugar Act and are meeting now in Washington to decide on a position. They feel that, as Congress convenes in two months' time and the session will undoubtedly be a short one, we have to arrive at a position soon in anticipation of action by the Congress early in the next session.

Mr. Kemp said that the industry sees only two alternatives: (1) a simple extension for a short period of time—six months, a year or possibly two years or (2) a longer extension—possibly 4 or 5 years—

with some modification in the present terms of the law. The domestic industry has worked closely with the Department in previous years on sugar legislation and it hopes that we will be able to cooperate again in the same effective fashion to formulate a position that will satisfy the interests of the industry and the Department.

Mr. Rubottom replied that, as many of the persons present are aware, both he and Mr. Mann have maintained an "open door" policy and have discussed this question with many of them. The Department while, of course, primarily concerned with the overall interests of the U.S. welcomes the views of the industry. Mr. Rubottom then pointed out that it has always been his firm belief that U.S. businessmen and U.S. business firms abroad are one very important facet of the image which foreigners have of the United States. He mentioned that he has made this point on many occasions publicly, most recently in speeches at Montgomery, Alabama and Dallas, Texas. He then reviewed the history of our relations with Cuba since January 1 stressing that we have tried to deal with Castro so that in the event of an economic or political collapse in Cuba the blame can only fall on the Cubans themselves and Castro's deficiencies, and not on the United States. He emphasized that it is his firm belief that foreign relations cannot be conducted on the basis of expediency and must be guided by a set of principles which will give continuity to our actions and policies. He mentioned that he and Mr. Mann are in essential agreement that we should not take any action on sugar legislation which could be interpreted as punitive toward Cuba.

Mr. Kemp agreed that we must be guided by principle but that "times have changed" and in today's world some flexibility must be provided, although in the case of sugar legislation he felt that it should eschew politics and concern itself solely with the needs of sugar producers and consumers. In this connection he stressed the need to assure an adequate supply of sugar to the U.S. consumer and the desirability of some action in the next session of Congress to provide such a guarantee. He then asked if the Executive Branch would decline authority to adjust foreign quotas.

Mr. Rubottom replied that the idea of giving the Executive Branch the power of adjusting quotas had been advocated by a number of people and it certainly merits consideration. He pointed out, however, that he was not prepared to give any indication of what the Department's position on sugar legislation will be as any such position will be the product of considerable consultation by the many interested people in the Department. He stated that we realize the urgency of the

matter and have set November as a target date for arriving at a position although we may not be able to do it that soon.¹

Representatives of the sugar industries of California, Hawaii and Louisiana then mentioned some of the problems peculiar to their areas and stressed their need to have a reasonable amount of security in the law as it takes about two years to bring a crop in from the time of planting.

Mr. Shields thanked Mr. Rubottom for seeing the group and said that the meeting of the industry representatives is continuing and they hope to come up with a specific proposal within a short time which they then would like to present to the Department.

¹ In White House Staff Notes, No. 690, December 12, the following U.S. Government position on sugar legislation was reported to the President. (Eisenhower Library, Whitman File, Eisenhower Diaries)

304. Memorandum From the Deputy Assistant Secretary of State for Economic Affairs (Beale) to Secretary of State Herter

January 15, 1960.

SUBJECT

Status of Sugar Legislation

The Sugar Act of 1948,¹ as amended, expires December 31, 1960. As Cuba is our predominant foreign supplier, consideration of recommendations to the Congress has been more difficult than usual. Preliminary exchanges of views have occurred during the past month with the domestic sugar industry and with the Department of Agriculture. Following these meetings E and ARA made certain recommendations to the Under Secretary as to a State Department position.² The key point is a recommendation that the President be given discretionary authority to adjust the quotas of foreign countries should he determine this is in the national interest. This would permit a reduction in

Source: Department of State, Central Files, 811.235/1-1560. Confidential. Drafted by Paul E. Callanan of the Commodities Division of the Office of International Resources, and concurred in by Edwin E. Vallon, Deputy Director of the Office of Caribbean and Mexican Affairs.

¹ 61 Stat. 922.

² See attachment below.

the Cuban quota whenever the Executive believed such action was warranted. The recommendations approved by Mr. Dillon are attached.

In our inter-departmental discussions, the major difference that developed between State and Agriculture concerned the method to be used in obtaining sugar in an amount equivalent to any reduction in the Cuban quota. Agriculture wanted to purchase the sugar on the world market, and take the profit which would result. Mr. Dillon was opposed to government purchase of sugar, preferring that some other method be used. At a meeting today with Mr. Paarlberg on this subject it was decided:

1. To ask the Congress for Presidential authority to adjust the quotas of foreign countries when in the national interest or to secure dependable sources of sugar for the United States. The authority should be flexible enough to permit the Executive to obtain sugar in any manner deemed most feasible at the time.

2. To draft a sugar bill covering this request and other desirable amendments immediately.

3. To discuss this bill with Congressional leaders and with the domestic industry early next week.

Attachment³

It is recommended that this Department take the following positions with respect to the extension and amendment of the Sugar Act:⁴

1. That the legislation be extended for four years.

2. That the legislation be amended to give the President discretionary authority to adjust the quotas of foreign countries, effective upon enactment.

3. That this authority permit the President to obtain an amount of sugar equivalent to any reduction in a quota by assigning the reduction to other foreign sources or by other means, such as through auction of import licenses.

4. In presenting its position to Congress the Administration should make clear its intention to recommend that the President use his discretionary authority for economic reasons to assure the sugar supply of the United States. In executive session the Administration should indicate that the decision will be taken in connection with the Administration's over-all plans for dealing with the situation in Cuba.

5. That the timing, form and content of a Presidential announcement to this effect should be determined immediately after agreement has been reached on the Administration's position on sugar legislation.

³ Confidential.

⁴ A note on the source text indicates that Dillon approved these recommendations on January 1, 1960.

6. That in lieu of their right to participate in future Puerto Rican deficits, the quotas of the mainland cane and beet areas may be increased by not more than a total of 200,000 tons, although an effort should be made to restrict the quantity to 170,000 tons.

7. That no change be made in the present refined sugar quotas.

8. That an amendment be included which would allow the Secretary of Agriculture to reduce the quota of a foreign country for the remainder of the quota year by any quantity he determined the country was unlikely to export to meet its quota.

305. Memorandum of the Legislative Leadership Meeting

March 15, 1960, 8:30–10:50 a.m.

[Here follows a list of participants.]

SUMMARY

Sugar Act—Mr. Morse set forth the Administration proposal for extending the Sugar Act with new provisions, particularly providing some discretionary authority to the President. It was the consensus that the matter of quotas or any general reapportionment of them should not be opened. There were differences of opinion as to whether action should be taken early or later in the session, but it was agreed that the Administration should proceed promptly to submit its recommendations.

[Here follow summaries of other unrelated issues discussed at this meeting.]

Sugar Act—Mr. True Morse described the interest of sugar producers, refiners, and consumers in accomplishing this legislation. Half of the usage, he said, was commercial. He noted that action on this would normally have occurred last session but had been postponed on the recommendation of State Department to await developments in Cuba.

Mr. Morse then outlined the provisions being recommended (see attached Fact Sheet¹), emphasizing two things: (1) the new provision which would foreclose later fulfillment of a quota after it had been declared a deficit and reallocated by the Secretary; (2) a new provision whereby the President could reduce the quota, for no more than one year, of any foreign country except the Philippines should he deter-

Source: Eisenhower Library, Whitman File, Eisenhower Diaries. Confidential. Drafted by Minnich.

¹ Not found.

mine that a shortage exists or that there is need to assure the supply. Mr. Morse said that Rep. Cooley objects to the latter as a giving up of a power of the Congress; however, since the power was limited to one year, the Congress could act to change quotas whenever it saw fit, and the need did exist for the President to be able to act at such times as Congress was not in session or might find it embarrassing to deal with the issue.

The President inquired about the provisions by which 96% of any Puerto Rican or Virgin Island deficit would be allocated to Cuba. Mr. Morse said this was merely to continue existing practice, and that there is a great desire not to open up the matter of quotas among foreign countries in the light of the extreme lobbying of 1955. Also, to open up foreign quotas would reopen the domestic situation, whereas the industry is now agreeable to the proposal as it stands. He noted the complication that new areas of production would add to the quota question if opened up.

Mr. Halleck asked about timing. Mr. Morse said there were differences of opinion, but the matter had to be handled this session and probably should not be left to the last minute. Mr. Halleck thought it might be more easily handled at the end of the session. Mr. Morse said it would take quite a while to get to the Floor in any event. Sen. Williams had doubts about awaiting the end of the session. The President said this was something for the Leaders to discuss and settle. It was agreed that the Administration submission should be made promptly in any event.

Sen. Dirksen said the bill would give rise to great discussion of the Cuban situation when it gets to the Senate. Sen. Bennett recalled that this had been handled on a bipartisan basis in the past, but that Senator Ellender objects to the authorization for the President, hence it should be submitted as an Administration bill this time. Sen. Bennett suggested that some sort of a compromise might be possible by stipulating that Congress would have power to review such a Presidential determination if it were in session. Mr. Herter thought this would make the situation much more difficult for the President if he ever found it necessary to use the authority. Sen. Bennett continued to be interested in the possibility of trying to develop some mutually agreeable language. The President thought that the most important thing was to get agreement on a decent length of time for which this bill would be extended, especially since there had been so many comments about drastic limitation of the time.

Mr. Herter called attention to Articles 15 and 16 in the 1949 Treaty, ratified by the Senate, creating the Organization of American States. These Articles denied any right of a nation to intervene or threaten to intervene in the affairs of another member, and also prohibited coercive economic measures. The President felt that should

any problem arise as to Cuban sugar being cut off, it could be argued that Cuba is interfering with the United States economy. Mr. Herter hoped, in view of Article 16, that there would be no clamor in the Congress for punitive measures against Castro.

Sen. Wiley noted that there were many complex questions involved, concerning domestic matters as well as foreign, and inquired if these had been studied. Mr. Morse replied affirmatively, and stated that all concerned felt that the quota question should not be opened up. Mr. Hoeven noted the disinclination in the House Agriculture Committee to do anything more than a short-term extension in view of Castro's hostility toward the United States. He thought it might be best to get a closed Rule for whatever limited bill might be reported in the House, and let the Senate undertake any necessary modification. Mr. Halleck agreed that the situation would be difficult but that the Leadership would do its best.

Sen. Saltonstall asked if this constituted generally a great foreign affairs problem. Mr. Herter said no, that it was much more a domestic problem. He commented also that a straight one-year extension, without the additional authorization to the President, would be in effect helpful to Castro without accomplishing anything on domestic problems.

Mr. Byrnes thought it so desirable to avoid any great controversy over this, that every effort should be made to try to work in agreement with the Democrats. The President responded that a one year extension merely served to keep the pot boiling and that it would keep the sugar growers in doubt as to where they stood. If it were to be a one year extension, there would be all the greater necessity for the special authorization to the President. He hoped that Mr. Hoeven could be very persuasive with his colleagues.

It was agreed that the Leadership might announce after the meeting that the Administration would submit a bill designed to meet requirements of the industry and protect United States consumers. It was also agreed that Administration bills should be filed simultaneously in the House and the Senate even though the House must act first.

Sen. Dirksen asked about the consumption estimate set by Agriculture for the year. Mr. Morse said that it had been estimated—as a form of insurance—at as high a level as could be justified.

The Vice President thought it might be best to secure action on this as quickly as possible since the emotional trend was likely to increase. He asked the Secretary of State if there was any basis for assuming that the situation would improve in the near future. Mr. Herter said there was no evidence of such.

[Here follows discussion of unrelated subjects.]

LAM

306. Memorandum From the Legal Adviser (Hager) to the Assistant Secretary of State for Near Eastern and South Asian Affairs (Jones)

April 11, 1960.

SUBJECT

Request for views on foreign relations implications of divestiture or substantial alteration of interests in joint companies owned by defendants in international oil cartel antitrust case

The Department of Justice has requested the advice of the National Security Council concerning the national security implications of possible relief directed at joint production, refining, transportation, and storage companies participated in by the defendants in the international oil cartel antitrust case presently being litigated by that Department. Specifically, Justice has asked the Council whether national security considerations suggest that Justice not seek to secure, either by negotiation or by trial upon failure of negotiation, the divestiture or substantial alteration of defendants' interests in such joint companies, as well as prohibition against defendants entering into similar joint companies in the future.

The complaint in the oil cartel case, instituted in 1953, charges five defendant American oil companies, Standard Oil Company (N.J.) (Jersey), Socony Mobil Oil Company (Socony), Texaco Incorporated (Texaco), Standard Oil Company of California (Socal), and Gulf Oil Corporation (Gulf), and two foreign oil companies, British Petroleum Company Ltd. (BP) and Royal Dutch-Shell (Shell), named as co-conspirators, but not defendants, with a continuing agreement and concert of action since 1928, in violation of the U. S. antitrust laws, to secure and exercise control over foreign production and supplies of crude oil and petroleum products, to regulate U.S. imports of crude oil in order

Source: Department of State, Central Files, 800.2553/4-1160. Secret. Drafted by Hager, Ely Maurer, and Richard B. Bilder (both of L/E). Also sent to Assistant Secretaries of State Kohler, Rubottom, Parsons, Satterthwaite, and Mann. A note attached to the source text indicated that the Department of Justice had requested that the distribution of the information in this memorandum be limited as far as possible and the recipients be particularly cautioned with respect to the classified nature of the matter.

to maintain an agreed-upon level of world prices, to divide world producing and marketing territories, and to exclude and eliminate independent companies from foreign production and marketing. Pre-trial proceedings have been in progress in the case and trial may be expected to begin shortly after defendants produce documents from their foreign files on or before September, 1960 as ordered by the Court in December, 1959.

Defendants, together with BP and Shell, have varying interests in a great number of intertwined joint production, refining, transportation, storage and marketing companies abroad. The oil cartel complaint charges that these joint companies were used to further and carry out the alleged conspiracy to restrain and monopolize U. S. foreign commerce. The principal joint producing ventures are Arabian American Oil Company (Aramco) in Saudi Arabia owned by Jersey, Socony, Texaco and Socal; Kuwait Oil Company (Kuwait) in Kuwait, owned by Gulf and BP; and Iraq Petroleum Company (IPC), owned by Jersey, Socony, BP, Shell and the French Company, Compagnie Francaise Petroles. The defendants, together with BP and Shell, principally through joint companies, control approximately 85% of all foreign oil production. The defendants alone control about 58%.

Jersey has indicated a present willingness to settle the case against it on the basis of an injunction against and splitting up of joint marketing abroad with any of the other defendants or BP or Shell. There is a possibility that the other defendants might also offer to settle on a similar basis. The Department of Justice is now faced with the decision as to the scope of relief it should seek, i.e., whether to seek only the split-up of joint marketing activities, or whether to seek also the split-up of the joint production, refining, transportation, and storage activities. Justice has not requested the advice of the Council on the question of the splitting up of the joint marketing activities abroad, since it considers this relief does not raise national security questions.

In this connection, the Department of State has been asked to consider the possible impact of a court order requiring divestiture or substantial alteration of the joint production, refining, transportation and storage companies, on our foreign relations both with the countries in which the joint companies have concessions and with countries whose companies (such as BP and Shell) may be concerned as partners in such joint companies.

In making this request, the Department of Justice realizes that it may not be possible for the Department of State to make one overall judgment as to the possible foreign relations impact of a court order requiring divestiture or substantial alteration of the joint companies. It is aware that the possible foreign relations impact will vary depending both on the particular joint companies involved and on the country or area in which they operate.

Moreover, Justice is not able at this time to provide detailed information as to the exact forms which the remedies of divestiture or substantial alteration might take in the various cases involved. Thus, in any given case the relief sought might require either the sale to a single defendant of the shares in the joint company owned by the other defendants, or the distribution of the assets of the joint company to separate new companies, each of which would be owned by a single one of the former joint owners.

Thus, in the case of a company such as Aramco, all of whose shares are owned by defendants subject to the jurisdiction of the U. S. Court, the Court might order three of the owners to sell all of their Aramco shares to the fourth owner, or order the assets and operations of Aramco to be split up between four new companies, each owned by one of the former joint owners of Aramco. In the case, however, of companies such as Kuwait and IPC, in which shares are owned by foreign companies over whom the U. S. Court does not have jurisdiction, the only available remedy would appear to be either for one of the defendants to buy out all the other shares or for all the defendants to sell their shares to the foreign owner or owners, since the Court could not order the foreign companies involved to divest themselves of their interests.

In considering the possible impact on foreign relations of the various types of relief which might be involved, you may wish to consider such factors as: (1) the possibility that the split-up of the interests of the joint companies might involve a renegotiation of concession agreements with foreign countries, and terms which might be obtained in such cases; and (2) the possible effect of the various types of relief on movements for nationalization in the foreign countries in which the joint companies operate.

There is attached a list of joint companies¹ operating in the production, refining, storage and transportation fields which might be affected by the relief sought in this case, as well as the joint marketing companies regarding which Justice has not requested any advice. These companies are listed by country of operation, so that those operating within your geographical area may be readily ascertained. While it is recognized that your Bureau may not in the time available be able to give a full assessment of all possible foreign relations considerations which might be involved if varying types of relief were sought in the case of each of these joint companies, we would appreciate receiving by 5 P.M. Friday, April 15 at the latest, your best judgment as to the possible foreign relations impact of the above possible forms of relief as applied to what you consider the most important of the joint companies in your area.

¹ Not printed.

With respect to any legal questions relating to this matter, you may wish to consult with Mr. Maurer, L/E (x4714 or 5906). With respect to any questions relating to the operations of the joint companies involved, you may wish to consult with Mr. Nichols of E (x4763).

307. Memorandum of Discussion at the 444th Meeting of the National Security Council

May 9, 1960.

[Here follow a paragraph listing the participants at the meeting and agenda items 1 and 2.]

3. National Security Implications Involved in the International Oil Cartel Case (NSC 138/1;¹ NSC Actions Nos. 692, 697, 766-a, 868, 875, 891-d, 947, 1015 and 1021-e;² Memos for NSC from Executive Secretary, same subject, dated March 18³ and May 2⁴ and 6,⁵ 1960)

Mr. Gray presented this subject to the Council. (A copy of Mr. Gray's Briefing Note is filed in the Minutes of the Meeting and another copy is attached to this Memorandum.)⁶ After explaining the background of the Attorney General's request for advice from the Council and reading point by point the draft Record of Action submitted for Council consideration by the NSC Planning Board, Mr. Gray said he believed the draft Action was responsive to the Attorney General's request.

Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Boggs on May 13.

¹ NSC 138/1, "National Security Problems Concerning Free World Petroleum Demands and Potential Supplies," January 6, 1953, is printed in *Foreign Relations, 1952-1954*, vol. ix, pp. 637-655.

² All these NSC Actions are in Department of State, S/S-NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council.

³ In this memorandum, the Attorney General requested that the NSC provide advice on the national security ramifications of the oil cartel case. (*Ibid.*, S/P Files: Lot 62 D 1, International Oil Cartel Case, National Security Implications in)

⁴ In this memorandum, Lay transmitted to the NSC the report of the Department of State on the over-all ramifications of the oil cartel case. (*Ibid.*)

⁵ In this memorandum, Lay transmitted to the NSC the comments of the Joint Chiefs of Staff, May 5. (*Ibid.*)

⁶ Not printed.

Attorney General Rogers said that a criminal, anti-trust action against certain oil companies had been undertaken in 1952. The last act of the Truman Administration had been to substitute a civil suit for a criminal prosecution in this case. President Eisenhower's Administration had approved President Truman's decision and consequently the Department of Justice had started the civil suit. The purpose of the Department of Justice inquiry now was to determine whether a decree against the defendant companies limited to marketing only would be in accordance with the wishes of the Council. Mr. Rogers thought that the views expressed by the Department of State (Reference Memorandum of May 2) and the Joint Chiefs of Staff (Reference Memorandum of May 5) were valid. He wished to express his concurrence with the State and JCS views and to indicate that the draft Record of Action prepared by the NSC Planning Board was satisfactory to him.

The President recalled that in 1953 the U.S. had become involved in the Mossedegh affair and the Iranian consortium. He thought the Attorney General had been directed at that time to avoid prosecuting the oil companies. The Attorney General said the President's recollection was correct but that the present case was different from the Iranian consortium case. At present the Department of Justice was endeavoring to settle a law suit against certain companies. He believed all the petroleum companies concerned would accept a settlement along the lines agreed upon by the first company with which a settlement was reached.

Mr. Merchant, while concurring in general in the draft Action prepared by the Planning Board, suggested that sub-paragraph d of that draft be amended by deleting the words "U.S. foreign relations and" so that the Attorney General would be requested to conduct proceedings in the oil cartel case with due regard to the effect on national security interests. He also believed that the provision in sub-paragraph d for consultation by the Attorney General with the Department of State should be extended to include the Attorney General's consultation with the Department of Defense. The Attorney General agreed with Mr. Merchant's proposed amendments.

Mr. Merchant noted that the Attorney General in his request for the advice of the Council had referred to joint production refining, transportation and storage companies, with no mention of joint marketing arrangements. The State comments on the oil cartel case had similarly been addressed to joint production refining, transportation and storage companies, not to marketing. Sub-paragraph e of the draft Record of Action asserts that it is not inconsistent with sub-paragraph d to proceed with the negotiation of consent judgments respecting joint marketing. Mr. Merchant felt sub-paragraph e would be im-

proved if it began "Further agreed to recommend to the President that the Attorney General be advised that it would not be inconsistent with d above" etc.

The Attorney General said adoption of the draft Record of Action would enable the Department to move ahead. The Department would, of course, consult with the Department of State and would return to the Council for further advice in case of need. He felt it might perhaps be advisable to insert in the draft Record of Action a reference to seeking additional advice from the Council if necessary. Mr. Merchant agreed that language providing for further consultation might well be added to the draft Record of Action.

*The National Security Council:*⁷

a. Noted and discussed the Attorney General's request for the advice of the National Security Council concerning the national security implications of possible relief directed at joint production, refining, transportation and storage companies participated in by the defendants in the international oil cartel anti-trust case presently being litigated and whether national security considerations suggest that the Department of Justice not secure, either by negotiation, the divestiture or substantial alteration of defendants' interest in such joint companies as well as prohibition against defendants entering into similar joint companies in the future.

b. Noted that the Department of State considers that U.S. interests from the standpoint of national security would be adversely affected in the following respects:

(1) There might result a reduction in the U.S. control over the supply of oil for U.S. and Free World needs.

(2) There might be withdrawal of U.S. companies from some particularly important and sensitive country.

(3) Soviet penetration into oil areas not heretofore occupied by them might take place in certain situations.

(4) The movement to nationalization might be encouraged in several ways.

(5) It is very probable that concessions would have to be renegotiated and that certain countries would attempt to secure better terms.

(6) The relative position of oil exporting countries in the total pattern of world trade might be strained or indeed altered.

(7) The proposed relief would provide propaganda ammunition to leftists, nationalists and the Soviet Union for undermining and discrediting the prestige of the United States Government as well as its companies.

c. Noted the views of the Joint Chiefs of Staff that:

⁷ Paragraphs a-f and the note that follows constitute NSC Action No. 2233, approved by the President on May 13. (Department of State, S/S-NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

(1) Any action which could tend to reduce, and thus weaken, the U.S. position vis-à-vis the USSR or reduce the capability of the United States to continue its progress in developing oil resources, in conjunction with its allies, which will provide an adequate supply of petroleum products to meet their combined requirements in a future war, is contrary to the interests of national security.

(2) The conclusion and implications listed in the Department of State memorandum are valid, and are consistent with the view expressed above.

d. Agreed, with the concurrence of the Attorney General, to recommend to the President that in the interests of national security, the Attorney General be requested to conduct proceedings in the international oil cartel case with due regard to their effect on U.S. national security interests, as noted in b and c above, consulting as appropriate, with the Departments of State and Defense.

e. Further agreed to recommend to the President that the Attorney General be advised that it would not be inconsistent with d above if the Attorney General should, as he deems appropriate in accordance with law, consulting as appropriate with the Departments of State and Defense, proceed with the negotiation of consent judgments with the defendants on the basis of an injunction against cartel activities abroad substantially affecting U.S. commerce, an injunction against joint marketing abroad with any of the other defendants or co-conspirators, and an agreement providing for separation between various defendant partners of the marketing assets which they presently control.

f. Agreed that, after the Attorney General consults with the Departments of State and Defense as provided in d and e above, either of the latter departments may refer back to the National Security Council any questions regarding the conduct of the proceedings or the proposed consent judgments which appear to involve possible adverse effects on U.S. national security interests.

Note: The above actions, as approved by the President, specifically including the approval of the recommendations in d and e above, subsequently transmitted to the Attorney General and the Secretaries of State and Defense.

[Here follows agenda item 4.]

Marion W. Boggs

308. Editorial Note

In the early morning hours of July 6, the last day before the Congress recessed for the Democratic and Republican Presidential conventions, it passed legislation amending the Sugar Act of 1948, as amended, and extending the Act for 3 months beyond its expiration date of December 31, 1960. Had Congress recessed without action on this legislation, Cuba could have sold the remaining 25 percent of its annual 1960 quota at the U.S. domestic price of about 2 cents per pound above the world market rate. The legislation as passed specifically provided that the President should determine the new quota for Cuba for the balance of 1960 and for the first 3 months of 1961, and provided a formula for reallocation of the old Cuban quota. The Eisenhower administration had requested from Congress broad discretion in allocating the reductions in the Cuban quota, but because of the need to demonstrate disapproval of the Castro government, the President signed the legislation with its rigid formulas for reallocation.

Under the terms of the new legislation, the President was authorized to import sugar to meet the needs of U.S. consumers in amounts not exceeding the amount by which the Cuban quota was reduced. Under Congress' formula, the first reallocation was to be made to countries with quotas between 3,000 and 10,000 tons—Haiti, the Netherlands, China, Panama, and Costa Rica—to bring their total imports to 10,000 tons each during the calendar year. Next, the Act provided that 15 percent of the remainder of imports was to be purchased from the Philippines. The balance of the allocations were to be purchased from countries other than the six above which had quotas in the U.S. market. These purchases were to be prorated according to their established quotas. Countries in this category were Mexico, Peru, Nicaragua, and the Dominican Republic. If additional sugar was required, the President could under the terms of the new legislation authorize purchase from any foreign producer without regard to allocation.

President Eisenhower announced on July 6 that he was reducing the Cuban sugar quota from 739,752 to 39,752 short tons. In addition, Cuba was denied a quota of an additional 156,000 tons—its share of the Puerto Rican and Hawaiian deficit, and any share occasioned by increased U.S. domestic consumption, approximately 150,000 tons. In all, the Cuban sugar quota was reduced by 1 million tons. (Department of State, *Current Economic Developments*, No. 602, July 19, 1960)

The act to amend the Sugar Act of 1948, as amended, P.L. 86-592, approved July 6, 74 Stat. 330, is in *American Foreign Policy: Current Documents, 1960*, pages 797-798. Eisenhower's proclamation reducing the Cuban quota is *ibid.*, pages 205-206.

309. Memorandum of Discussion at the 460th Meeting of the National Security Council

September 21, 1960.

[Here follows a paragraph listing the participants at the meeting.]

1. *Western European Dependence on Middle East Petroleum* (NSC Action No. 2080; ¹ Memos for NSC from Executive Secretary, same subject, dated March 26, 1959, ² and June 28, 1960; ³ NSC 6011; ⁴ Memos for NSC, same subject, dated August 9 and 29, and September 19, 1960 ⁵)

Mr. Gray introduced the subject to the Council. (A copy of Mr. Gray's Briefing Note is filed in the Minutes of the Meeting and another copy is attached to this Memorandum.)⁶

At the conclusion of Mr. Gray's presentation, the President said he had received the most glowing reports on the prospects for petroleum production in Libya. He had been told that the Libyan reserves exceeded even the Sahara reserves. He asked whether Mr. Gray had available an estimate of possible oil production in Libya. Mr. Dulles remarked that the latest estimates on Libyan oil production were not quite as optimistic as the estimates which were current a year ago. The President said reports he had received indicated that Libya had a great oil field and would receive huge amounts of money from oil production.

Mr. Gray said the Libyan oil field was expected to produce 250,000 barrels per day in 1965 compared to a production of 375,000 barrels per day in Mexico, 250,000 in Brazil, 450,000 in Tunisia, and 3,350,000 in Venezuela. The President asked whether figures for Algeria were available. Mr. Gray said Algeria was expected to produce 560,000 barrels per day in 1965.

Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Boggs on September 21.

¹ See footnote 9, Document 298.

² In this memorandum, Lay transmitted Document 295.

³ In this memorandum, Lay transmitted the first annual progress report by the OCDM on developments in Free World energy resources outside the Near and Middle East. Gray summarized this report in his briefing note for use at this NSC meeting; see Attachment 1 below.

⁴ NSC 6011, "U.S. Policy Towards the Near East," July 19, 1960. (Department of State, S/P–NSC Files: Lot 63 D 351, NSC 6011) It is scheduled for publication in volume XII.

⁵ These memoranda transmitted the draft NSC action as approved at this meeting (No. 2303) and the views of the Joint Chiefs of Staff and the Treasury on it. (Department of State, S/P–NSC Files: Lot 62 D 1, Middle East Petroleum, Western European Dependence on, Act. 2080)

⁶ See Attachment 1 below.

Secretary Mueller said he had recently been in Libya and had talked with oil experts in that country. In his view, the Libyan oil field had reserves in excess of present estimates. Mr. Randall said he leaned toward Mr. Dulles' estimate rather than toward the estimate just mentioned by the Secretary of Commerce. He had recently talked with oil experts at our Embassy in Libya and had concluded that the Libyan oil field had substantial but not tremendous reserves. He remarked that the oil companies operating in Libya were being required to make a selection of the acreage they would exploit and to release the remaining acreage for redevelopment by other companies. Secretary Mueller thought this last requirement was responsible for pessimistic reports on Libyan oil reserves. Secretary Dillon agreed, adding that the oil companies were pushing ahead with production in Algeria but were holding back in Libya.

Mr. Gray then reported on the formation last week of the new Organization of Petroleum Exporting Countries, with Saudi Arabia, Iraq, Iran, Kuwait, and Venezuela as members. The purpose of the Organization was to control production and prices. What impact it will have on the world oil picture remains to be seen. The President said that as far as the Middle Eastern countries in the new Organization were concerned, anyone could break up the Organization by offering five cents more per barrel for the oil of one of the countries. Mr. Dulles said that the five countries represented 80 per cent of the oil reserves in the world and half of the oil in world trade. Egypt had not been invited to be a member of this Organization because it was thought Egypt would not collaborate with Iran due to Iranian-Egyptian tension over Israel. The President said he thought Egypt had no oil in any case. Mr. Dulles agreed that Egypt had very little oil; however, the country was interested in oil questions because of the Syrian pipelines. He said that Venezuela intended to seek Soviet cooperation with the OPEC, taking the line that Soviet price cuts will hurt the underdeveloped countries. Secretary Dillon thought this Venezuelan initiative would be helpful. It had been demonstrated in the past that the USSR was responsive to protests from underdeveloped countries.

*The National Security Council:*⁷

a. Noted and discussed the progress report on the subject transmitted by the reference memorandum of June 28, 1960, together with the accompanying letter from the Director, Office of Civil and Defense Mobilization, and the views of the Treasury Department on the prog-

⁷ Paragraphs a-d and the note that follows constitute NSC Action No. 2302, approved by the President on October 5. (Department of State, S/S-NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

ress report, transmitted by the reference memorandum of August 9, 1960; in the light of the views of the Joint Chiefs of Staff, transmitted by the reference memorandum of September 19, 1960.

b. Reaffirmed NSC Action No. 2080–b.

c. Agreed that where appropriate the United States should continue and, if necessary, increase efforts with foreign governments to encourage investment of private capital for petroleum development which would assist in achieving the objectives of NSC Action No. 2080–b.

d. Agreed, in the light of progress already achieved toward the objectives of NSC Action No. 2080–b, to rescind the *Note* to NSC Action No. 2080, with the understanding that any Council member may request a progress report should circumstances change.

Note: The actions in b, c and d above, as approved by the President, subsequently referred to the Director, OCDM, to coordinate the implementation thereof in collaboration with the Departments of State, Defense, the Treasury, the Interior, and Commerce.

The action in d above, as approved by the President, subsequently transmitted to all holders of NSC Action No. 2080.

2. *Petroleum Development in Free World Countries* (NSC 5906/1, paragraphs 42, 43 and 45;⁸ Memos for NSC, same subject, dated August 29⁹ and September 19, 1960¹⁰)

Mr. Gray presented this subject to the Council. (A copy of Mr. Gray's Briefing Note is filed in the Minutes of the Meeting and another is attached to this Memorandum.)¹¹

Secretary Anderson said the real concern in recent years was not the amount of oil Europe imports from the Middle East as compared with the amount it imports from the U.S. The question was whether relations between the Middle East and Europe were of such a nature that it would be reasonable to permit Europe to depend on Middle Eastern oil. One element in the situation in recent years had been

⁸ NSC 5906/1, "Basic National Security Policy," August 5. (*Ibid.*, S/S–NSC Files: Lot 63 D 351, NSC 5906) It is scheduled for publication in volume III.

⁹ In the memorandum of August 29, Boggs transmitted a draft NSC action, prepared by the Planning Board, which reads as follows:

"Agreed that the United States should continue to rely primarily upon private capital (foreign and domestic) to develop the petroleum resources of the Free World; but agreed that in the national security interest, the United States may provide, on a case-by-case basis, direct government financial and other assistance but only when private capital is inadequate, unavailable or unacceptable."

A note on this memorandum indicated that Treasury and the Bureau of the Budget proposed deletion of the entire action. (Department of State, S/P–NSC Files: Lot 62 D 1, NSC 5810 & 5906)

¹⁰ In this memorandum, Lay transmitted the views of the Joint Chiefs of Staff on the draft NSC action. In a memorandum of September 14, the JCS recommended that the Secretary of Defense support it. (*Ibid.*)

¹¹ See Attachment 2 below.

Middle Eastern antipathy toward the U.K., a condition which was improving. At one time the Middle East was in a strategic bargaining position vis-à-vis Europe but this position had been lost because of the glut in the world oil market, as evidenced by formation of the Organization just mentioned by Mr. Gray. In Mr. Anderson's view the North African oil reserves were tremendous. The U.S. companies quite properly were not encouraging Libya to assume that Libya's enormous resources ought to be developed immediately because such development would only add to the excess supply of oil in the world market. The oil companies were not exercising any deception but were simply not advising Libya to proceed with oil development. The oil reserves in North Africa, however, are larger than the oil companies have given the North African governments to understand. Moreover, the greatest natural gas reservoir in the world lies under the Sahara. Secretary Anderson thought that a policy providing for the supply of U.S. taxpayers' dollars to other governments to enable them to develop their oil resources made little sense. He said there was no written policy precluding provision of U.S. assistance for petroleum development abroad. However, the National Advisory Council had had this matter under consideration for many years. If the practice of this government in refusing to provide assistance for petroleum development abroad is changed, Mexico will be the first applicant for assistance. Secretary Anderson noted that the Mexican Government would not run the risk of financial assistance for oil exploration. At present, the Mexican oil industry secures capital by selling oil below the world market price and uses the capital, not for oil exploration, but for governmental purposes. In the case of Bolivia, which received U.S. assistance for petroleum development as an exception to the general practice, four or five months had been required by this government to devise a system under which we would make no direct loan to the Bolivian oil agencies but would instead provide the loan to other agencies of the Bolivian government.

Continuing, Secretary Anderson noted that our lending policy involved a number of unwritten rules; for example, money is not loaned by the Export-Import Bank for the operation of newspapers because of the propaganda possibilities of newspapers. A change in this policy had been considered and rejected. Similarly, money cannot be loaned for the construction of TV facilities; until recently money could not be loaned for the construction of hotels. Secretary Anderson thought that plenty of private capital was available for petroleum development in any country which would favorably receive such private capital. Accordingly, he did not believe U.S. Government money should be used for petroleum development, especially when such use would assist in building socialism. A somewhat different problem was presented by pipelines and refineries. He thought it would be a mis-

take to encourage pipeline and refinery development in areas which already had plenty of these facilities but pipelines and refineries might be encouraged in areas or countries which did not yet have them. Secretary Anderson believed that U.S. lending policy was very important and that such policy should be debated and determined in the National Advisory Council.

Mr. Gray said he seemed to remember a recent case in which the Soviets had been able to move into a country and take over the transportation and distribution of oil. Secretary Dillon said Mr. Gray was probably thinking of Ethiopia. Mr. Gray said there were those who thought that government financial or other assistance for petroleum development, as provided for in the draft action, constituted the only means of countering Soviet activities which threaten to take over the oil facilities of a country.

The President said we could talk about general policy of letting a country help itself economically but in a cold war skirmish different considerations, that is, national security considerations, might govern. Our decisions might have to be determined in some cases by the political situation. Secretary Anderson felt that any such decision should be made on a case-by-case basis.

Secretary Dillon expressed concern that no action should be taken to strengthen the idea that there is a policy against any assistance of any sort for petroleum development in the Free World, no matter what the situation is in a particular case. He pointed out that we did give assistance to Bolivia for petroleum development. In Bolivia both a Bolivian nationalized oil company and various private U.S. oil companies were operating. The Bolivian national company was about to go bankrupt, in which case the Bolivian Government would have taken action against the U.S. oil companies. Mr. Dillon thought freedom of action should be maintained for this government to act on a case-by-case basis, especially with respect to pipelines and refineries, although not with respect to exploration, which he characterized as a bottomless pit. In Ethiopia the U.S. lost out to the Soviet Union in the competition for the right to construct a refinery because of the unwritten policy of not providing financial assistance for petroleum development. As a result the USSR will now supply Ethiopia with oil. The Ethiopian case involved only \$2-\$3 million. We could not provide assistance to U.S. interests in Ethiopia in time to forestall the Soviet activities because no agreement could be reached in this government. Secretary Dillon thought this government should have freedom of action in cases of this kind.

The President felt that problems of this nature should be settled on a case-by-case basis. He believed the National Advisory Council should re-examine the problem. Whenever the international political situation demands that we provide financial assistance, then we

should do so whether the commodity involved is oil, diamonds, or what have you. Mr. Patterson said the purpose of the draft action on this subject was to permit financial assistance for petroleum development to be provided on a case-by-case basis. He noted that nine countries were receiving some Soviet assistance.

The President said that assistance should not be provided for oil exploration; if the countries involved would not finance their own exploration, he saw no reason why we should do so.

Secretary Anderson believed the problems connected with financial assistance for petroleum development should be decided in the National Advisory Council, which would take into account political considerations. The President said that political considerations may be overriding in any particular case. Secretary Anderson believed it would be a mistake to write out all the rules associated with lending policy. Overriding political considerations could be brought up by any agency in the National Advisory Council and taken into account by that body.

Mr. Patterson inquired about taking into account overriding national security interests. He said the National Security Council had an interest in this problem. Secretary Mueller said he was inclined to agree with the comments made by the Secretary of the Treasury, despite the fact that the Commerce representative on the Planning Board had agreed to the draft action. Mr. Patterson asked whether the Bolivian deal had opened the door for financial assistance for petroleum development. Secretary Anderson said the Bolivian deal had opened the door a crack.

Secretary Dillon pointed out that the Export-Import Bank refuses to finance a U.S. driller who wishes to drill for oil in Argentina. The big oil companies are able to finance themselves but this driller requires outside assistance. The President thought it might be satisfactory to finance drilling equipment but not drilling operations.

Secretary Dillon wondered whether those who had suggested settling this problem on a case-by-case basis meant that every single case must come before the National Security Council. He could not endorse such a procedure because he felt many of the cases were not of sufficient importance to engage the time of the Council. He believed the matter ought to be settled on the basis of a broad policy laid down by the Council. Secretary Anderson said he was reluctant to see the National Security Council adopt rules for financing. Secretary Mueller feared that a policy of the kind reflected in the draft action might make it possible for a loan to be made where circumstances might make a loan undesirable. Secretary Dillon pointed out that financing could not be provided unless it was in the national interest to do so. Secretary Anderson said that if he were a businessman, he would work hard to get his own interest defined as part of the national interest. Secretary

Gates was inclined to agree with Secretary Anderson's comments, although his Planning Board representative had also agreed to the draft action.

The President suggested that Secretary Dillon and Secretary Anderson should collaborate in preparing a policy on this subject in general language so that individual cases could be decided by the proper authority on the basis of the general policy. This general policy should effect a reconciliation of the view that national security considerations should be taken into account and the view of those who emphasize financial considerations. The President added that each individual case should be submitted to him for decision, even though the amounts of money involved may be small.

*The National Security Council:*¹²

a. Discussed the draft NSC Action on the subject prepared by the NSC Planning Board and transmitted by the reference memorandum of August 29, 1960; in the light of the views of the Joint Chiefs of Staff, transmitted by the reference memorandum of September 19, 1960.

b. Noted the statement of the Secretary of the Treasury that the National Advisory Council on International Financial and Monetary Problems, in its coordination of U.S. lending policy, considers the financing of projects in the petroleum industry under the same basic principles as it considers the financing of projects in other industries and that in accord with its general lending policies the U.S. Government has not provided significant financing for petroleum development projects because: (1) the United States has not generally financed any development enterprises abroad where private capital is ready, willing and able to do the job; (2) the United States would not participate in financing of projects in any industry with a degree of risk such as is generally involved in petroleum development except in the most unusual circumstances; and (3) the cost of financing major petroleum development would absorb an unjustifiable proportion of the funds available for lending. In considering petroleum projects, a difference should be noted between exploration and development on the one hand, and refining and transportation on the other. The problem involved in financing the latter category is not as great as the former.

c. Noted also the statement by the Acting Secretary of State that, notwithstanding the above considerations, it might become advisable in specific instances involving serious national security and overriding foreign policy considerations to provide direct U.S. Government financing of petroleum projects (other than exploration and development) and that such financing should not be precluded by U.S. policies.

d. Noted the view of the President that the National Advisory Council should continue to consider any specific proposals for U.S. Government financing of petroleum projects overseas (other than ex-

¹² Paragraphs a–d and the Note that follows constitute NSC Action No. 2303, approved by the President on October 5. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

ploration and development) in accordance with its general lending policy and its normal procedures which take into account national security considerations, subject to determination by the President in any case where the Department of State believes that overriding national security and foreign policy considerations are involved, and the NAC is unable to reach agreement.

Note: The above action, as approved by the President, subsequently transmitted to the Secretaries of State and the Treasury for appropriate implementation.

[Here follow agenda items 3–6. For discussion of item 3, see Document 350.]

Marion W. Boggs

Attachment 1¹³

**Briefing Note Prepared for the President's Special Assistant
for National Security Affairs (Gray)**

WESTERN EUROPEAN DEPENDENCE ON MIDDLE EAST OIL

In May of 1959 the Council discussed an interagency study on the feasibility of using other sources of petroleum and additional transit facilities (taking into account available information as to other sources of energy) as a means of reducing the dependence of Western Europe on Middle East petroleum and on existing transit facilities. At that time NSC Action No. 2080–b was approved, which reads as follows:

“Agreed that, in order to retard Western Europe’s increasing dependence on Middle East oil and to reduce the effects on Western Europe of an emergency created by any complete or partial denial of Middle East oil resources, the United States should continue to encourage such action as is economically and politically feasible to facilitate the orderly development of alternative Free World sources of oil and other forms of energy outside the Middle East, and the broad diversification of means of transporting fuel in the Free World. The United States should also urge Western European countries to increase their petroleum stockpiles and to have in readiness emergency plans for conservation, sharing and transportation of oil.”

This action was referred to the Director, OCDM, for appropriate implementation in the light of the interagency study and in collaboration with the Departments of State, Defense, Treasury, Interior and Commerce, progress reports on such implementation to be submitted to the Council annually.

¹³ Secret. Drafted on September 13 by George Weber of the NSC Staff.

Today we have the first such annual progress report. The Planning Board has discussed it and has prepared a draft Council action.

But before discussing the draft action, I would like to summarize for you what the report says. It first analyzes the changes during the last fifteen months in the outlook for Western Europe's 1965 normal oil situation. Estimated Western European demand for oil is up; estimated supply from Libya and Algeria is up; estimated supply from the Soviet Bloc is up; supply from the Western Hemisphere is down; and a tanker surplus instead of a tanker balance is projected. These changes result in approximately the same 1965 barrels-per-day Western European reliance on Middle Eastern oil as was estimated in the 1959 study, but, because of the greater demand, *relatively* less reliance under normal conditions. In Middle East emergencies, however, Western Europe's position would be worse in two out of three cases than previously estimated,¹⁴ primarily because of the substantial upward revision in the estimated 1965 demand of Western Europe and the rest of the Eastern Hemisphere. The foregoing is a statistical analysis which admittedly does not take certain factors into account. The Planning Board concluded that on balance this situation has improved in the last year and a half.

The report also deals with U.S. Government actions which have affected the picture. As a means of determining certain possible alternative new or additional sources of oil outside the Middle East, the situation was reviewed in eleven countries. Action was taken to provide U.S. financial help to the Bolivian Government oil agency and to conduct a U.S.-financed study of that organization. Investigations are being made with chemical explosives to obtain data on which to base the design of a possible nuclear experiment looking toward recovering oil from oil shales. Finally, the U.S. has, in the OEEC supported emergency organization planning, encouraged standby planning for rationing and conservation of supplies, and pointed out that unconventional facilities, such as salt cavities and obsolete tankers, may provide a relatively inexpensive form of emergency oil storage.

Turning now to the draft Council action recommended unanimously by the Planning Board, paragraphs b and c follow the recommendations of the interagency report.

READ b and c.

¹⁴ Reference is to the three hypothetical cases discussed in Document 295. The first was a Middle East transit stoppage in which the Suez Canal and the pipelines to the Eastern Mediterranean were closed down, the second was the transit stoppage in case one plus denial of all Middle East oil sources, the third case envisioned the transit stoppage and denial of all Middle East sources except Iran.

Paragraph d would rescind the reporting requirement established by the Note to Action 2080, with the understanding that any Council member may request a progress report should circumstances change.

Is there any objection to this draft action? Because OCDM chaired the committee which wrote the progress report, I'd like to call on Governor Hoegh first.

CALL ON

Governor Hoegh

Others

Attachment 2¹⁵

Briefing Note Prepared for the President's Special Assistant for National Security Affairs (Gray)

PETROLEUM DEVELOPMENT IN FREE WORLD COUNTRIES

In the course of preparing the progress report on Western European Dependence on Middle East Petroleum which we have just discussed, the interagency committee formulated a split recommendation on U.S. government aid for petroleum development. Inasmuch as the question was broader than the Western European Dependence problem, the Planning Board decided that recommendation on it should be developed as a separate draft Council action.

The discussion in the interagency committee arose out of the belief on the part of some agencies that there is an unwritten policy which precludes provision of U.S. assistance for petroleum development abroad. The question of whether there is or is not such a policy was the subject of long and inconclusive debates in the Planning Board and the Board Assistants. The real situation seems to be that while there is no written policy on the matter which any one can point to, as a matter of practice the U.S. Government has almost never provided assistance for this purpose (Bolivia being the only exception), not on the grounds that some written policy proscribes it, but on the basis of such practical considerations as (a) the fact that such investment is very risky and a questionable use, on purely economic grounds, of limited foreign assistance funds; (b) the probable U.S. domestic political reaction to such aid; and (c) the fact that private investment has generally done an adequate job in this field.

The draft action before you is recommended by a majority of the Planning Board, including representatives of Interior and Commerce, who believe that the U.S. should, if required for national security in a particular case, be prepared to provide governmental assistance for

¹⁵ Secret. Drafted on September 20 by George Weber.

petroleum development. One kind of situation which the majority has in mind is where U.S. government assistance seems to be the only alternative to Soviet aid. Treasury and Budget dissent, proposing deletion of the entire action.

CALL ON

Secretary Herter
Secretary Anderson
Secretary Gates
Mr. Stans
Secretary Seaton
Secretary Mueller
Governor Hoegh

310. Memorandum of Conversation

October 19, 1960.

SUBJECT

Standard Oil Company (New Jersey) views on the Organization of Petroleum Oil Exporting Countries

PARTICIPANTS

Standard Oil Company (New Jersey):	Department of State:
Mr. Leo Welch, Chairman of the Board	Under Secretary Dillon
Mr. E.G. Collado, Board Member	FSD—Mr. Beckner
Mr. M.A. Wright, Board Member	

The Jersey company representatives called at their own request to discuss problems resulting from the formation of the Organization of Petroleum Exporting Countries (OPEC).¹

Mr. Welch stated that the Jersey company is greatly concerned about the implications for the oil industry and the security position of the West resulting from the formation of OPEC. He fears that the companies will be caught between producer country controls and the demands of consuming countries. They will no longer be able to manage their business in a normal way since the governments would take over the determination of oil prices, the amounts of oil to be produced, and the destination of oil shipments.

Source: Department of State, Secretary's Memoranda of Conversation: Lot 64 D 199. Confidential. Drafted by Beckner and approved in Dillon's office by Special Assistant Theodore Eliot on October 27.

¹ See Document 314.

The Jersey representatives believe a sharp distinction should be drawn between prorationing in Texas and the international prorationing scheme proposed by OPEC. They also believe that experience with other commodities is not pertinent in determining whether an international oil agreement is feasible or desirable.

Although OPEC has been set up in a preliminary form, Jersey thinks it has basic weaknesses which will prevent the development and administration of a restriction program. Iran and Iraq would not be reliable members since they badly need increased output. The Iranian minister in charge of oil matters has indicated that he did not know that Rouhani, Iranian delegate to the Baghdad conference, had been authorized to sign the OPEC agreement. This may result in dissension within the Iranian Government on relations with OPEC. The Kuwaiti representative is reported to have stated that Kuwait would be willing to reduce its crude production in the general interest; but Jersey believes that the Ruler of Kuwait, for prestige reasons, may not be able to do this if the other OPEC members' production increases. Moreover, Kuwait is requesting bids on its potentially rich offshore area. Venezuela, although very optimistic about OPEC, may find itself in a weak competitive position and be unable to protect itself vis-à-vis Arab countries or to influence Soviet oil export policies. Jersey thinks the Soviets cannot be trusted to cooperate on oil although they are cooperating on tin and diamonds. Mattei, head of the Italian Government oil company, is currently buying oil from the Soviets at 90 cents per barrel below posted price and Soviet price cutting would continue. Mr. Rathbone, President of Jersey, is now in Libya attempting to convince Libyan officials that they would have much to lose by joining OPEC. Libya will have low cost oil favorably situated for the European market. By 1962 the Jersey company may be producing 200,000 b/d in Libya and in four years as much as 500,000 b/d. Oasis may also be able to reach this amount by 1964. With such prospects Libya would have little advantage from joining a production cartel. Output from the French Sahara will also be large. France is not expected to join OPEC.

The Jersey officials expect that there will be a large surplus crude oil producing capacity for quite a number of years. They are uncertain, however, how long crude oil without a "home" will remain a serious problem. The major producers, who can increase their output to an almost unlimited degree, may cut prices, if necessary, in order to protect their marketing position. How long the present unsatisfactory situation will exist will depend largely on Soviet Bloc price pressures and the sales efforts of newcomers. Cutting below posted price is still prevalent. Mr. Welch pointed to recent quotations to Ancap, the Uru-

guayan oil agency. Creole and Shell did not bid since Venezuela objects to big discounts off posted price, but bids at 90 cents below postings were received from other companies.

Jersey thinks that progress can be made with the Arabs by talking oil economics. They would argue the Arabs not to go too fast in OPEC without knowing what the consequences may be. The companies can show the Arabs that they have not been hurt by the present concession system or by the recent price cuts; there has been no reduction in national revenues from oil, and increases in world demand should protect governments against future loss of revenues. OPEC on the other hand might hold production back, for example in Iran, Iraq, and Kuwait, without offering certainty of higher prices to compensate for it. Moreover, the companies can point out that if a bloc of powerful consuming countries is formed and new oil and energy sources are tapped, the OPEC countries would be hurt.

Mr. Welch stated that he thought the companies could work out arrangements with individual countries to meet their most pressing problems. He stated also that he hoped it would be possible to convince the Arabs that if any future discounts below posted prices are required that they should share the reduction in income with the companies. No further reduction of postings is contemplated.

Mr. Welch stated that he hoped the U.S. Government would use its influence in urging the OPEC countries to go slowly in completing the OPEC organization and implementing its program. He said that the United States obviously cannot say that it opposes OPEC, but he did think that the U.S. Government could express the hope that the OPEC countries would consider fully the economic factors involved in their program and would not reach hasty decisions.

Mr. Welch said that he understood that the U.K. Government was opposed to the formation of OPEC and believed to be approaching Iran regarding it.

Mr. Dillon expressed appreciation on behalf of the Department for Jersey's views on the OPEC.²

In closing, Mr. Welch stated that the Jersey company was deeply concerned about the situation in Peru, where the Government, as a result of communistic and nationalistic pressures, was not using its strength in the Parliament to push through the bill which is designed to settle the International Petroleum Company's concession problem. Mr. Dillon suggested that the Jersey representatives discuss this problem with Assistant Secretary Mann. This they agreed to do.

² This paragraph originally read: "Mr. Dillon indicated interest in the suggestion that the United States might discreetly attempt to discourage certain countries, particularly Iran, from going ahead with its membership in OPEC, but did not indicate whether or not the U.S. Government would take any action." It was crossed through and the paragraph as printed was substituted.

311. Memorandum of Conversation

October 27, 1960.

SUBJECT

Possible methods of dealing with Soviet oil export policies

PARTICIPANTS

Compagnie Francaise des Petroles:
Mr. de Metz, Chairman and Director-General
Mr. de Laboulaye, CFP adviser from French Foreign Ministry
Mr. van den Perre, CFP representative in North America

French Embassy:
Mr. Claude Lebel, Minister Counselor

Department of State:
Under Secretary Dillon
Mr. Turpin—U/CFA
Mr. Beckner—FSD

Mr. de Metz outlined the problems the producing companies have been having with the Middle East governments who need increased crude oil output and larger oil revenues. The companies have been doing all they can to increase output, but the general oversupply situation, combined with disruptive Soviet oil marketing policies, have made the problem of providing increased revenues almost insuperable by present methods. Mr. de Metz suggested two methods of approaching this problem. He thinks that European governments might fix quotas on the amount of Soviet oil they would import. The other device might be combined action by the large oil companies, including the U.S. companies, against Soviet oil exports. To be effective such action would necessitate a waiver of U.S. anti-trust laws so that the U.S. companies could cooperate with the European companies.

Mr. de Metz also expressed opposition to the international prorationing proposals of Tariki (Saudi Arabian Director General for Petroleum) and Perez Alfonso (Venezuelan Minister of Mines and Hydrocarbons).

Mr. Dillon said that the Department has been carefully studying Soviet oil export policies. He thought that the West could in time expect to have to deal with similar export methods in other commodities as the Soviet economy develops. So far as dealing with Soviet oil exports in an effective manner is concerned Mr. Dillon thought perhaps the only way would be by coordinated action of the governments affected. He pointed out that the types of joint action the oil compa-

nies would have to take in order to deal with the problem themselves would appear to involve marketing and price agreements which go far beyond any action they were permitted by U.S. administrative exemptions to take in the Iranian Consortium case and during the Suez emergency. Combined action in this broad field would no doubt require special congressional legislation. There is no possibility of such action for at least several months, but it is not beyond the realm of possibility that congressional action would be taken later if the matter were presented carefully by the next Administration within the context of the cold war.

Mr. Dillon stated also that although we do not favor an international prorationing scheme as proposed by the Organization of Petroleum Exporting Countries (OPEC), we have thought that there is a real likelihood that OPEC might be able to put through some such scheme. On the other hand, the U.S. companies with whom we have talked think that no such scheme can be worked out or administered.

312. Memorandum of Conversation

November 3, 1960.

SUBJECT

Shell Views on Various Matters

PARTICIPANTS

Mr. H. Wilkinson, Managing Director, Shell Petroleum Company, Ltd.

Mr. J.H. Loudon, President and Managing Director, Royal Dutch Petroleum Company

Under Secretary Douglas Dillon

Mr. Wilkinson spoke for Shell and said that he and Mr. Loudon wished to mention their general concern with the problem posed by the development of OPEC in the Middle East. Since I was undoubtedly familiar with the problem, Mr. Wilkinson said he would move immediately to what might be done about it. In essence, his view was that it would be useful for the U.S. Government to convey to the appropriate governments concerned the thought that it would not be in their interest to unilaterally force private companies to act against their will. He said it could be pointed out that this would affect the

whole climate of private investment. He felt that such an approach could be particularly effective in Venezuela and should also be effective in Iran. He said the Shell Company had today delivered a letter to Venezuela couched in very polite terms indicating that they were reserving all their legal rights. Speaking for Shell, both Mr. Wilkinson and Mr. Loudon said they felt the oil companies must continue to be flexible and find ways to meet legitimate fears of the Arab countries. They thought this could be done if the Arab states did not push on too rapidly with unilateral action.

It was clear that Shell's greatest concern in this matter at the moment is with Venezuela. They pointed out that the Venezuelan action to force an increase in prices could well lead to the construction of the trans-Canada pipeline and the loss of the Canadian markets for Venezuelan oil.

I asked Mr. Wilkinson and Mr. Loudon their opinion regarding the Soviet oil offensive and observed that I understood that the Shell Company had been in contact with the Soviets. Both Mr. Wilkinson and Mr. Loudon seemed surprised at my observation but made no attempt to deny or hide this fact. They said the Soviets had indirectly approached them in London some six or nine months ago and there had been one meeting between their people and the Soviet oil authorities at a relatively high level. At this time the Soviets had suggested an arrangement whereby Shell would market Soviet oil in Europe and would supply the Soviets in the Far East. Mr. Wilkinson and Mr. Loudon said they had made no reply to this Soviet overture and intended to make none. They did not think this was appropriate business for the Shell company and would not undertake it unless requested by their government, and only then after full consultation with the American oil companies. In short, they did not think anything could come of this.

Regarding the incursions of Soviet oil into Europe, while they felt the recent increase had caused some problems they thought they could live with it. However, they were concerned about a report they had recently received regarding Mr. Mattei's talks in Moscow. They understood that at these talks, in addition to the arrangement for the importation of 12 million tons of Soviet oil over the next four years, there also had been some informal discussion of the purchase by ENI of an additional 40 million tons of Soviet oil over an indefinite period to be paid for by Italian industrial production. Any such amount would be far beyond Italian needs and would in effect mean that ENI would become the marketing agent for Soviet oil throughout Europe. They did not think that this proposal would be accepted but saw some danger in it because of its appeal to Italian export interests in view of the large amount of Italian industrial exports that would be involved in paying for this oil. They felt that the French would certainly object

very strenuously to any such arrangement and could stop it. They also said they understood there was strong objection to this within the Italian Government even in circles which had previously supported Mattei. Mr. Wilkinson then handed me a brief memorandum on this subject which is attached.¹

In closing, I asked Mr. Wilkinson and Mr. Loudon when they thought the oil supply and demand picture might be righted. In their estimation this should take place sometime between 1965 and 1970, which is similar to the view currently expressed by the large American oil companies. In this connection, they informed me they had recently found substantial quantities of oil in Nigeria. Nine out of their last ten wildcats in this region had been producers. While the Nigerian oil discovery was not in anything like Middle Eastern quantities they felt that they had upwards of 1 billion barrels of oil, which after usual development efforts should produce 300 or 400 thousand barrels a day.

¹ Attached but not printed.

313. Letter From the Chief of Naval Operations (Burke) to the President's Special Assistant for National Security Affairs (Gray)

November 19, 1960.

DEAR GORDON: For some time now I have been noting with concern the increase in Soviet commerce with the free and uncommitted nations of the world. Recent actions of Soviets to sell crude oil to India at 25% below the posted Persian Gulf price and to barter 100,000 barrels of crude oil per day to Italy in exchange for steel pipe and rubber are examples of the many economic moves which are being used by the Soviets in the Cold War which we are now waging. Unless the United States and the other western powers can thwart such moves, the semblance of Soviet ability under communism to produce and sell more cheaply than we can under the capitalistic system may have very serious consequences in our struggle to convince the peoples of the world that democratic principles and free enterprise are better and more efficient than dictatorship and communism.

Source: Eisenhower Library, White House Office Files, Project Clean Up, Oil. Confidential.

I have therefore had the enclosed brief study prepared to show the extent to which the Soviets have progressed in their efforts to disrupt and capture an increasing share of the international petroleum market. It appears that the progress made by the Soviets in this field is sufficient to justify my initial concern. I suggest that we are faced with a problem of sufficient magnitude to warrant a thorough study by the interested agencies of our government working in conjunction with leaders in the petroleum industry to see if we cannot find a means of combatting this form of economic warfare.

I am addressing similar letters and sending copies of the study to the Secretaries of State, Defense, Commerce and Treasury; the Joint Chiefs; Allen Dulles and Jack Irwin.

Sincerely,

Arleigh

Enclosure¹

November 19, 1960.

GROWING CRISIS IN THE DISTRIBUTION AND MARKETING OF PETROLEUM BY WESTERN NATIONS

The past year has seen the first clear cut signs of a deterioration of Western control of world oil supplies. As a result of the Cold War, growing nationalism, the discovery of new oil fields and mounting Soviet competition—competition which cost considerations and Arab politics make very difficult to meet—Western oil companies are faced with increasing problems in maintaining the flow of their products around the world.

During the last two years the USSR has more than doubled its oil exports, increasing them from 207,000 barrels per day in 1958 to about 450,000 barrels per day in 1960. Current trends in Soviet production and consumption indicate that this figure will again be doubled by 1965 when exports to non-Communist countries may reach 1 million barrels per day—if markets can be found. On this basis it is probable that Soviet Bloc oil will comprise about 5% of the oil moving in international commerce. This will be done on the solid foundation of an approximate doubling of Soviet production between 1960 and 1965, rising from its present level of about 2.7 million barrels per day to between 5 and 5.5 million barrels per day in 1965. As significant as these figures are, however, they cloud the most dangerous aspect of the picture—the concentration of these exports in a few countries.

¹ Confidential.

Iceland, one of our NATO Allies, imports all of its POL requirements from the USSR. Finland imports two-thirds of its requirements from the Soviet Union; West Germany, 13 percent; Italy, 20 percent. Japan is moving toward increasing its reliance on Bloc oil and trend in this direction may be developing in Brazil. India has recently signed agreements which will make it a large consumer of Bloc petroleum products. Last but not least is Cuba's complete dependence on Soviet sources of supply.

Virtually all of these inroads have been made by the use of inducements and agreements which Western oil companies cannot match. Barter is the most important of these. Soviet state trading monopolies and government planning make it possible for Moscow to agree to accept fish from Iceland in exchange for oil, thus guaranteeing that country a market for its fish and a stable price for the purchase of its oil requirements. No hard currency is required and many of the uncertainties of world markets and prices are eliminated. The UAR and Cuba have made the same type of arrangements with cotton and sugar respectively as their means of payment. Italy, West Germany, and France obtain markets for some of their machinery and steel exports. A new element has been added in India where the USSR has agreed to accept non-convertible Indian currency in payment. All of these agreements are calculated on a price basis lower than that offered by Western companies. The recent \$200 million Italian contract with Moscow provides for the exchange of 240,000 tons of 40 inch steel pipe and 50,000 tons of synthetic rubber for approximately 84 million barrels of Soviet crude oil—indicating a price of about \$1.00 per barrel which is below the actual cost of production of Middle East operators. Cost considerations are clearly a secondary factor to political motivations when the USSR is trying to penetrate Western oil markets.

The problem, from the point of view of US national security interests, is not simply that the Western companies lose markets or that the US balance of payments suffers. The impact of Soviet activity in the next five years will still not be severe enough to provide an insurmountable threat to the operations of these companies, particularly in the areas of producing and refining. However, Soviet activity will present at least two grave problems. One stems from the leverage which the Soviets can exert to influence the price of oil in international markets by their "dumping" or price-cutting operations. Their offerings of up to 450,000 barrels per day of oil at ridiculously low prices can seriously depress the world price of 20,000,000 barrels per day of free world oil. A second problem is created by the picture of the leading Communist state bettering Western private enterprise in competitive markets. Nations which find their energy supplies closely tied to Soviet oilfields are almost certain to turn a more attentive ear

toward Communist overtures lest their vital oil supply line be tampered with by the Kremlin. At the same time, the "unfair" practices used by the USSR to gain its foothold in Western markets will be quickly forgotten while the fact that Western private enterprise has suffered a setback at the hands of Soviet communism will stand in the eyes of much of the world as an example of the Soviet system winning out over the American system. Halting the development of such situations is clearly a matter of great importance to US national security.

In addition to the "unfair" competition which Western oil interests face from Moscow, there is growing momentum among various Arab leaders to implement plans which will give them a more active role in the marketing operations of the oil companies. With the aim of guaranteeing their countries a stable level of high income, proposals of nationalist leaders of Arab countries would, in effect, reduce the competitiveness of Western oil even further compared with Soviet products and take away much of the initiative in marketing now exercised by the companies by putting it into the hands of the government of the producing country. We are, therefore, likely to see a situation developing which will act as a restraint on the normal private-competitive structure of American and European petroleum enterprises at precisely the time when these concerns are about to face their greatest challenge from the Communist system.

The problem, although not unique in the oil industry is, however, here most acute. We may expect to see similar challenges made to the security of the Western alliances and the free world in other economic fields. Our experience gained in meeting the broad economic threat of Sino-Soviet aid to underdeveloped countries in the form of investment credits, may be helpful. The danger has been clearly seen here. In this case, it was apparent that private business could not operate on its own against the odds of the entire Soviet political and economic system. The attack on this Soviet offensive has already been shaped and, essentially, involves direct government assistance in overseas development projects combined with government encouragement of increasing private economic activity. At present, efforts are underway to make this a more concerted offensive by all the developed countries of the West. Greater concern and more positive action by the United States will be required to meet the growing threat in the petroleum field.

314. Memorandum From the Director of the Office of Near Eastern Affairs (Meyer) to the Assistant Secretary of State for Near Eastern and South Asian Affairs (Jones)

November 21, 1960.

SUBJECT

Organization of Petroleum Exporting Countries

A. Background:

At a conference attended by six major oil producing nations held in Baghdad, September 10–14, 1960, a permanent body called the Organization of Petroleum Exporting Countries (OPEC) was established. Five of the nations represented—Iraq, Iran, Kuwait, Saudi Arabia and Venezuela—became charter members and Qatar has been given observer status.

At the conclusion of the conference, it was announced that the purpose of the OPEC would be to provide a forum for the unification of oil policies of member countries and to determine ways to safeguard the interests of the members, both individually and collectively. It was further agreed that: (1) the members could no longer remain indifferent to the attitude of oil companies in modifying prices; (2) the members would demand that oil companies keep prices stable and that they restore present prices to those prevailing prior to the August, 1960, reduction; (3) the members would study and formulate a system to insure price stability by, among other means, the regulation of production giving proper consideration to the interests of producer and consumer countries; and (4) in the event the application of any unanimous decision by member countries should result in sanctions by an oil company against one member country, no other member would take advantage of the situation by accepting any offer from an oil company whether in the form of increased exports or an improvement in prices.

A sub-committee of OPEC is to meet in November in Baghdad to organize an agenda for the second meeting which is to be held in Caracas in January, 1961. In the meantime, a permanent Secretariat is being established but its location has not yet been determined.

The creation of OPEC was triggered by the major oil companies reducing Middle East posted prices for crude oil in August, 1960. A prior Soviet offer of cheap oil to India forced the three Western firms operating there to reduce their prices 12¼% below the Persian Gulf price. This in turn made price cuts for Middle East crude inevitable

because of the interlocking system of oil company ownership and their pressure from other consumer countries for lower prices. Furthermore, a considerable amount of crude was being sold at discounts because of the intense competition for markets. Meanwhile, Abdulla Tariki, Director of Saudi Petroleum and Mineral Affairs and Juan Perez Alfonso, Venezuelan Minister of Mines and Hydrocarbons, had been advocating a system to pro-ration oil output through the establishment of an organization with the power to determine each member's share in the world market and, thus, maintain favorable oil prices. Following the price cut, the Middle East countries and Venezuela called an emergency meeting in Baghdad to create an organization to study pro-rationing, which they felt might help protect their interests.

Membership in the OPEC is restricted to countries with net substantial exports of oil unless the country is accepted unanimously by the five charter members. By restricting membership in this way, it keeps out the UAR and Bahrain and, thus, makes it possible for both Iraq and Iran to participate. Although the United States is a major oil producer, it cannot qualify for membership since it is a net importer of oil. This leaves membership open to such countries as the Soviet Union, Libya, Indonesia, Canada, and perhaps Argentina and Colombia, which are net exporters.

B. OPEC's Future:

At the present time, it is too early to judge the effectiveness and the future growth of OPEC. However, the following observations are believed to be pertinent:

1. Since the creation of OPEC, member countries have informed the oil companies that they do not recognize the new posted prices for crude as the basis for royalty or income tax purposes.

2. Although it would appear from the resolutions at the OPEC meeting that the member countries will not work for a change in the present 50/50 formula, the formula will be subject to severe strains if the OPEC countries insist on being compensated at the posted price level existing prior to August, 1960.

3. Russian participation in OPEC is a possibility, but it does not seem likely at the present time. During the Second Arab League Petroleum Congress held in Beirut October 17-22, 1960, Perez Alfonso (attending as an observer) stated that OPEC countries should study the possibility of Russian participation. If necessary, he was prepared to go to Moscow although his country had no diplomatic relations with the Soviet Union. The Russian observers also attending the conference did not take the hint. On the contrary, their condescending attitude and their statement to the Congress that the Soviet Union was determined to reestablish its historic share in the West European oil market appears, at least to some extent, to have frightened and angered the Arab countries attending the Congress.

4. While the motivation behind the creation of OPEC is to establish some form of joint pro-rationing among the member countries, this goal seems almost impossible to realize. On the one hand, OPEC suffers from the major weakness that neither Libya nor Algeria are represented. These countries are not likely to become members since they are preoccupied in becoming major oil producers. On the other hand, there are many obstacles in the way of parceling out each country's share of the world's oil market unless all producer and consumer countries are members of the same organization. During the Arab League Petroleum Congress in Beirut, M. J. Sladic of the Saudi Directorate for Petroleum Affairs, presented a paper on pro-rationing. The paper appears to have made the delegates aware of the problems involved in administering such a system and they failed to consider any resolution favoring pro-rationing. Several criteria can be used to determine each country's share (proven oil reserves, historical markets, present production, population, etc.) but each one favors one or two producers to the disadvantage of the others. There is no indication that Middle East oil producers are willing at the present time to forego production increases if it points to a loss in revenue. In this connection, it is worth noting that Iraq, one of the founders of OPEC, is even now seeking to obtain IPC relinquishment of vast areas in Iraq—to award new concessions and thus step up Iraqi production well above present levels.

C. U.S. Attitude Toward OPEC:

The policy of the United States is to encourage the free movement of petroleum by private enterprise in world trade. Although pro-rationing originated in the United States in 1931 in east Texas and continues to exist in seven major oil producing states in the US, it bears no relationship to pro-rationing by Middle East countries. The former is primarily a conservation measure. However, by having pro-rationing at home and by participating in international commodity agreements (coffee, wheat), where production controls are exercised, it is difficult for the United States to take a public position against pro-rationing of oil by oil exporting countries.

Before the US adopts a policy with regard to the OPEC, it will have to wait to determine what sort of an organization it is dealing with. Although the member countries have agreed to study pro-rationing as a measure to insure price stability, there is no indication at this time that they will be successful. So far, OPEC countries seem to be unanimous in only one respect—their unwillingness to allow the oil companies to make any further reductions in the price of crude oil without prior approval of the member countries.

When the OPEC becomes a permanent functioning organization, the US will have three choices:

(1) Support the organization. In the event the US should support OPEC, it would probably be necessary for us to revise existing anti-trust laws to enable American oil companies to consult jointly when

discussing prices with oil producing countries. It would also seem to violate our present policy that international commodity arrangements should allow for equal representation between consumer and producer countries.

(2) Oppose OPEC. Should the US oppose the OPEC by pointing out its shortcomings (as suggested by several oil company representatives), it would undoubtedly antagonize the oil producing countries that have joined the organization. They would view this as unwarranted interference and as evidence that the US is working hand in glove with oil monopolies. It would probably strengthen OPEC and encourage member countries to take further measures to control the operations of the oil companies working in their respective countries. There is also the danger that the Soviet Union could exploit this antagonism.

(3) Remain neutral. By not taking sides with regard to the OPEC, the US would be carrying out its existing policy of remaining in the background in matters affecting relations between oil companies and oil exporting nations and thus avoid intervening on behalf of American oil companies except in extreme cases involving questions of security of international law. This policy gives us the greatest flexibility and allows us to deal with petroleum matters on a case by case basis.

315. Memorandum of Conversation

US/MC/21

London, November 25, 1960, 3 p.m.¹

PARTICIPANTS

United States

Under Secretary Douglas Dillon
 John N. Irwin II, Assistant Secretary of
 Defense for International Security
 Affairs
 W.T. M. Beale, Minister for Economic
 Affairs, Embassy London
 William C. Trueheart, First Secretary,
 Embassy London
 Charles A. Sullivan, Special Assistant
 to the Under Secretary

United Kingdom

Lord Home, Foreign Secretary
 Edward Heath, Lord Privy Seal
 Sir Evelyn Shuckburgh, Deputy Under-
 Secretary of State, Foreign Office
 Peter Ramsbotham, Foreign Office

Source: Department of State, Conference Files: Lot 64 D 559, CF 1781. Drafted by Beale and approved by Dillon's office December 22.

¹ The meeting took place in the British Foreign Office. Dillon and Secretary of the Treasury Anderson were visiting Europe, November 19-29.

SUBJECT

Oil, the OPEC and Venezuela

Lord Home raised the subject of oil, the OPEC, and Venezuela. Mr. Dillon said that several U.S. oil companies had got the same idea at the same time, and it was apparent that thinking among the oil companies was much the same, except for the French oil companies. He said that in his opinion the situation is bad from the viewpoint of over-all security. He pointed out that the OPEC put control of prices in the hands of Middle East companies and Venezuela. He said that the basic concept of controlling prices had been accepted in agreements relating to coffee and tin, but that he did not like [*less than 1 line of source text not declassified*] exercising the control in the case of oil. He expressed the view that the trouble stems from the Soviets, and asked whether the British side had any ideas about what could be done substantively to slow things up. Lord Home, in response, inquired whether Mr. Dillon felt that the Soviets are likely to upset the situation. Mr. Dillon replied that he thought they could cause trouble, but nothing insuperable. Lord Home asked whether there was any influence that could be brought to bear on Venezuela. Mr. Dillon replied that he did not know what could be done since power rested with one man. He expressed the opinion that the oil companies had done as much as they can to influence the Venezuelan situation.

316. Memorandum From George Weber of the National Security Council Staff to the President's Special Assistant for National Security Affairs (Gray)

November 30, 1960.

SUBJECT

Admiral Burke's letter to you of November 19 on Soviet Oil Sales¹

Admiral Burke is concerned about increasing Soviet oil sales to the Free World, especially to certain countries such as India, Italy, Iceland, Finland and Cuba. He believes that various untoward results will ensue: (1) price cutting in the international oil market; (2) the appearance of Soviet economic superiority over the private enterprise

Source: Eisenhower Library, White House Office Files, Project Clean Up, Oil. Secret.

¹ Document 313.

system in this critical field; (3) undue dependence on the Soviet Union by selected Free World countries. He suggests "a thorough study by the interested agencies of our Government working in connection with leaders in the petroleum industry to see if we cannot find a means of combatting this form of economic warfare". He sent his letter also to the Secretaries of State, Defense, Commerce and Treasury; the Joint Chiefs; Allen Dulles and Jack Irwin.

To my knowledge, the facts cited by Admiral Burke in his letter and enclosed study seem to be correct. With respect to India, a United Press International story from New Delhi on November 23 said that Indian government officials believe that the USSR will be India's major supplier of petroleum products by 1966.

I believe, however, that the possible consequences of Soviet oil sales are exaggerated. This is not to deny that Soviet oil sales will have some disruptive influence on the international oil market or that some Free World countries may become more dependent on their trade with the Soviet Bloc. But taking Admiral Burke's three feared results in turn: the effects of price cutting will be limited by the relatively small quantities of oil which the USSR can offer and the Soviet desire to get a good price; most nations have enough knowledge of the Soviet economic system not to automatically equate better prices and terms with superior efficiency; and the dependence of most of the Free World countries involved is not on the supply of oil (which is abundantly available from the Free World) but on the markets for the Free World products (fish, cotton, sugar, etc.).

Turning to the policy problem, it is difficult to see what we can do within the existing general policy framework. Par. 31-d of Basic Policy (NSC 5906/1)² says that the U.S. should act to prevent the Bloc "from subverting or gaining political control of independent nations or undermining Free World economic institutions". But Par. 45 (d and e) recognizes that Free World countries will engage in trade with the Bloc and rules out attempting to counter each and every move in the Bloc economic offensive. Par. 45-e does provide for taking steps in particular circumstances to discourage *less developed nations* from accepting Bloc aid in sensitive fields or becoming unduly dependent on Bloc trade. Maybe attempts to thwart some of these oil deals would fall within this policy, but I believe that these statements were directed primarily at Bloc aid which results in swarms of Bloc technicians (e.g., the Czech telephone bid in Uruguay and the Aswan dam proposition in Egypt) and at over-all trade dependence, such as the cases of Finland, Iceland and Cuba. These latter three situations have been the subject of intensive government attention in the past, and continue to be so. In the cases of Finland and Iceland, the problem centers around

² NSC 5906/1 is scheduled for publication in volume III.

the dearth of Free World markets for the exports being sent to the Bloc. In the case of Cuba, the political hostility of the Castro regime toward the U.S. and the consequent need for sugar markets are governing. I believe that the realities of the situation suggest that the U.S., in order to do something about Soviet oil sales to the Free World, would probably have to furnish oil to India for nonconvertible rupees, to Iceland for fish, to Finland for wood products, etc. I cannot conceive of our being willing to do this.

One should bear in mind that the U.S. Government doesn't possess surpluses of oil, that the oil business is conducted in our economy by private business. In other words, oil is not in the same situation as are wheat, cotton, rice, and many other agricultural commodities, where the Government owns vast surpluses which are made available to various foreign nations under several programs. Even those commodities are not disposed of in barter, except for a limited number of metals and minerals.

The foregoing analysis takes into account the intelligence material on the Soviet challenge given in paragraphs C, 11–18, and 34 of the attached draft intelligence estimate, NIE 30–60, "Middle East Oil". The draft estimate has been approved by the Board of National Estimates and the agency representatives. It will receive final consideration from the USIB on December 6 (next Tuesday).³

Despite my negative view of action by the U.S., I do not recommend that you take a substantive position in your reply to Admiral Burke because the State Department is about finished with a thorough study of the problem. I do not know what is in the study at this stage. It was initiated by Messrs. Dillon, Merchant and Mann. When it is finished, in a week or ten days, State will be able to decide whether it wants to put a paper into the Planning Board on the subject. Bob Packard has promised to keep me informed on the progress of the study and State's conclusions. In the interim, I believe that a reply to Admiral Burke along the lines of the attached draft would be appropriate.⁴

G.W.

³ For the NIE as approved, see Document 317.

⁴ On December 1, Gray sent Burke a letter stating that he had read the enclosed study "with interest" and informing Burke that the intelligence community was preparing NIE 30–60, "Middle East Oil," which contained paragraphs on the Soviet oil offensive, and that the Department of State was also currently studying the problem. When these two studies were completed, Gray told Burke, "we will be in a much better position to consider what further work or action may be desirable" (Eisenhower Library, White House Office Files, Project Clean Up, Oil)

317. National Intelligence Estimate

NIE 30-60

December 13, 1960.

MIDDLE EAST OIL

The Problem

To estimate probable trends affecting Middle East oil and their political and economic implications over the next five years or so.¹

Scope Note

This estimate does not attempt to give detailed information on the production and consumption of Middle East oil; such information is already available in various forms. This estimate is a nontechnical summary of major trends affecting Middle East oil and an assessment of their broad political and economic implications, including the problems likely to be raised for US interests. We avoid specific discussion of the strategic importance of oil and of wartime contingencies. We believe that, for at least the period of this estimate, the picture will not be significantly affected by the development of nuclear power or other new sources of energy.

Conclusions

1. A major factor in the world oil picture for the next several years will be the continuing surplus of producing capacity. This condition reflects the development of new sources in North Africa and expansion of Soviet export capabilities, as well as increasing capacity in the Middle East. As a result, Western Europe will draw a somewhat smaller percentage of its petroleum requirements from the Middle East. Individual sources of oil may be shut down and transit facilities may be blocked temporarily, but we believe that a lasting area-wide breakdown is unlikely during the period of this estimate. Western

Source: Department of State, OCB Files: Lot 61 D 385, Middle East Documents. Secret. A note on the cover sheet states that this estimate, submitted by the CIA, was prepared by the CIA, INR, and the intelligence organizations of the Army, the Navy, the Air Force, and The Joint Staff. All members of the USIB concurred with this estimate on December 13, with the exception of the representatives of the AEC and FBI who abstained on the grounds that the subject was outside their jurisdiction.

Appendix I, a list of "Free World Crude Oil Production by Areas and Countries, 1959;" Appendix II, "Estimated Soviet Bloc Exports to the Free World, 1959;" Appendix III, "International Petroleum Companies with Share Holding in the Middle East;" and Appendix IV, "Ownership of Principal Middle East Producing Companies;" plus a map of the Middle East and North Africa showing oil fields and pipelines, are not printed.

¹ The term Middle East is here used to include Egypt, the Arab states east of Suez, Iran, and Israel. Developments in Libya and other North African areas are considered only as they affect the Middle East. [Footnote in the source text.]

Europe, in particular, will remain heavily dependent on Middle Eastern oil, and the oil producing Middle Eastern countries will almost certainly continue to receive oil revenues sufficient to support substantial programs of general economic development. (Paras. 10, 34–35, 40)

2. The terms and conditions of Middle East oil concessions are likely to be considerably changed. The position of the Western oil companies will be further weakened by erosion of the 50/50 profit-sharing formula and by the joint efforts of the producing countries to control prices. Greater participation by local governments in the management of the oil companies is likely. We do not believe, however, that large-scale nationalization of industry facilities is probable or that the companies will feel compelled to liquidate their interests in the area during the period of this estimate. (Paras. 24–30, 36–38)

3. By 1965 Soviet oil exports will probably account for as much as seven percent of the oil moving in international trade outside the Bloc. This will enable the Soviet Union to upset markets in various individual countries and even to displace Western companies in some smaller markets. Soviet oil is likely also to spur further price cuts in the world market, and will be used in an effort to promote Soviet influence, particularly in underdeveloped areas; such tactics, however, will probably be limited to some degree by the Soviet's desire to enjoy the economic benefits their exports bring, especially from Western Europe. Growing Soviet exports, together with an expanded program of economic and technical assistance for the development of new oil facilities in Asia and Africa, will make the USSR a force to be reckoned with in the international petroleum field. We do not believe, however, that the USSR will be able to upset the preponderant position of the Western companies or destroy the present overall pattern of the Middle East oil industry. Even a Communist takeover in one of the producing countries would not necessarily result in a refusal to sell the country's oil to the West. (Paras. 15–23, 39)

4. On balance, we think the odds are against developments in regard to Middle East oil that would be critically detrimental to US national interests during the period of this estimate. Nevertheless, the US will be faced with a number of broad problems. Among these will be determination of the balance of interest between the desirability of developing alternate sources of oil to meet Western Europe's needs and the importance of assuring Middle Eastern countries of sufficient oil revenue to avoid instability; resolution of possible conflicts of interest between the US and its Western allies, especially the UK and France; policy differences between Western governments and those of the oil producing countries; and the difficulty of determining in particular circumstances whether and how US strategic and commercial interests coincide or conflict. (Paras. 39–45)

Discussion

*I. The Importance of Middle East Oil**To the Free World*

5. Two geographical areas, the Middle East and the Western Hemisphere, provide between them 94 percent of all oil produced outside the Soviet Bloc.² The Western Hemisphere consumes most of its own production. All but a small part of Middle East oil is exported. In 1959, Middle East oil constituted 51 percent of all Free World oil moving in international trade. Sixty-one percent of Middle East exports went to Western Europe to supply 73 percent of that area's total needs. Most of the rest went to Asia and the Far East where it filled 67 percent of that area's requirements. The 540,000 barrels a day (b/d) which flowed to the Western Hemisphere represented only 5 percent of total Western Hemisphere consumption.³

6. The Middle East's key role in world oil stems partly from the richness of its petroleum resources, partly from the long-established pattern of efficient exploitation of these resources, and partly from its central geographical location. Middle East reserves are tremendous, almost 70 percent of the Free World's proved total. Productivity is high and hence costs are low. In 1959, oil production in the Middle East averaged 4,700 b/d per well, compared with 295 b/d in Venezuela, and 12 b/d in the US. Heavy investment in pipelines and tankers has produced a surplus of low cost carrying capacity. Concession areas have generally been large; the terms of the concession have been similar; and most of the concessions have been in the hands of companies owned by several large American, British, and French firms.⁴ The resulting efficiencies and economies, plus the steadily increasing demand for oil, have provided both the companies and the host countries with substantial profits.

To the Middle East

7. In an area whose other natural resources are slight, the discovery and exploitation of petroleum has had an enormous economic, social, and political impact. To the oil-producing countries, the revenues from the production of oil are the key economic reality. Oil is the one indigenous source which can pay for the development programs, buy the arms, and acquire the myriad technical wonders and luxuries

² See Appendix I: "Free World Oil Production and Reserves by Areas and Countries, 1959." [Footnote in the source text.]

³ Tonnage per year may be calculated roughly by multiplying b/d by 50. [Footnote in the source text.]

⁴ Principal companies and their holdings are outlined in Appendices III and IV. [Footnote in the source text.]

of the twentieth century. Oil revenues comprise 95 percent of total government receipts in Kuwait, 80 percent in Saudi Arabia, 66 percent in Iraq, and about 50 percent in Iran. Middle Eastern states derive additional revenues from customs receipts on goods imported with oil-originated funds and additional foreign exchange from local expenditures by the oil companies. Of the countries whose oil revenues come chiefly from transit fees, the UAR derives the most substantial benefits from tanker tolls in the Suez Canal and from pipelines crossing Syria. Lebanon and Jordan get relatively small transit revenues.

8. The Middle Eastern countries could, to a varying degree, absorb a relatively small reduction in oil revenues. If they were to lose most or all of these revenues, all would be seriously affected; the impact would depend largely on the availability of alternate sources of revenue.

9. Deprived of oil revenues, Saudi Arabia would face economic ruin and probably political chaos; the country has built up no money reserves and it would be extremely difficult and probably impossible for the government to remain effective for more than a few months. Kuwait, possessor of the world's largest proved oil reserves, equal to those of the entire Western Hemisphere, is totally a creation of the oil boom. The Ruler has invested large sums in the UK, and Kuwait could exist for a considerable time on these investments if present revenues ceased. However, these investments would probably be blocked by the British Government in the event of an ouster of the Kuwait Oil Company. Even if the funds remained unblocked, the development program would gradually grind to a halt and business would begin to stagnate. Iran and Iraq possess other sources of revenue, but would face serious economic dislocation as well as drastic reductions in their development programs and general governmental activity if oil revenues were shut off. In all these countries, substantial and prolonged deprivation of oil revenue, particularly if no resumption were in sight, would, we believe, generate sufficient dislocation and unrest to make the fall of their governments likely. In a similar situation, the economy of the UAR would be affected seriously, although probably not so much as to threaten political stability.

II. Changes in the World Oil Picture

Developments in the Industry

10. World consumption of oil has increased greatly since World War II. In Western Europe, requirements grew by about 13 percent annually between 1946 and 1959; for the Free World as a whole the rise was over 7 percent annually. However, Free World producing capacity has expanded even more rapidly, especially in recent years. As a result, there is now a substantial excess of producing capacity over consumption. This situation is expected to continue into the mid-

1960's and possibly beyond. During this period, Western European requirements will level off (to perhaps an increase of 7 percent annually); total Free World demand will rise somewhat less rapidly than in recent years; and producing capacity will continue to grow with the development of new sources of petroleum in the Middle East and elsewhere.⁵ Major discoveries in Algeria and Libya alone are expected to put 1,000,000 b/d on the market by 1965. Soviet exports to the Free World will add to available supplies. Transportation, not long ago a limiting factor in the movement of oil, is more than adequate to meet anticipated demands for the 1960's. Free World tanker surplus is substantial and Middle Eastern pipelines are even now not working at capacity.

11. In recent years a number of new companies have entered the industry in North Africa and the Middle East. New sources of supply have been discovered and additional countries have become producers. Any oil that is discovered by the newcomers will compete increasingly with present Middle East production. In some cases there will be a temptation for the consuming areas to forsake traditional suppliers in favor of a newcomer who can be persuaded to give the consuming country markedly better terms or a share in local refining and marketing operations. Finally, of course, the more liberal terms the newcomers have offered the producing countries are adding to the pressure on the existing pattern of concessions.

12. The oil industry will be increasingly affected by the import policies of the consumer countries. Japan is already taking measures to ensure domestic markets for oil produced abroad by its nationals. Italy will probably eventually do likewise. France has already persuaded foreign-owned refining and marketing organizations within its borders to accept French-owned Algerian crude. As more and more Algerian crude becomes available, Paris may revive its now quiescent efforts to get Common Market preference for it. West Germany may also seek to ensure a place in its domestic market for any crude that may be brought in by the West German companies which are now participating in exploration abroad. The US has for some time had import controls, though these are designed to encourage domestic production rather than protect local markets for oil produced abroad by US nationals.

13. Foreign exchange problems will also continue to affect the oil industry to a considerable degree. The foreign exchange positions of the Western European importing countries have improved substan-

⁵ During this period, as technological developments provide for new transportation facilities, the consuming areas may begin to receive supplies of natural gas from overseas sources. Eventually world energy supplies will be supplemented by a variety of new sources: shale oil and tar sands, wind, solar, cellular, and nuclear power. [Footnote in the source text.]

tially in the past several years, and the extent to which oil must be paid for in dollars or other foreign currencies is now a less important factor than formerly. Nonetheless, most governments are still eager to husband their foreign exchange. Moreover, they will take advantage of offers by new producers selling crude at a sharp discount and be tempted by deals involving soft currency, barter exchanges, or government to government transactions.

14. There is little likelihood that the expanding market east of Suez will provide an outlet for much of the Middle East's surplus producing capacity. Consumption in Asia and the Far East is expected to increase at about seven percent a year during the next five years, but in absolute terms this means only an average of about 130,000 b/d annually. There is a chance that these increased requirements will be partially covered by such developments as expanded production in Indonesia or new discoveries in India. Moreover Soviet oil can be expected to be sold in increasing quantities in this area, as already evidenced by shipments to Japan and India.

The Soviet Challenge

15. Before World War II the USSR exported what were for those days considerable amounts of petroleum (reaching a peak of about 120,000 b/d in 1932). Exports ceased during the war, and the Soviet Bloc did not re-enter the international oil market on a commercial scale until 1955. Since then, Bloc exports to the Free World, which are almost entirely of Soviet origin, have increased rapidly, rising, for example, from about 230,000 b/d in 1958 to 360,000 b/d in 1959.⁶ This year, the Bloc is expected to export about 450,000 b/d.

16. Soviet Bloc exports now go to at least 28 Free World countries. The USSR has used its petroleum exports to obtain capital equipment in Western Europe and Japan. Where politically expedient, as in India and Cuba, it has accepted payment in soft currencies or commodities. The private companies which control Free World oil are especially ill-equipped to cope with the latter kind of competition. The Bloc has also supplied extensive technical services and equipment for exploration activities in the UAR, Iraq, and India.

17. Soviet activities in international oil will almost certainly expand further in the next few years. The current Seven-Year Plan goal for petroleum production in the Soviet Union in 1965 is about 4.8 million b/d, almost double 1959 production. This quantity would provide the USSR with an exportable surplus of about 1 million b/d. About half of this would probably be needed to meet the requirements of other Bloc states. Hence, the volume available for exports to the

⁶ See Appendix II: "Estimated Soviet Bloc Oil Exports to the Free World, 1959." [Footnote in the source text.]

Free World would be about 500,000 b/d, approximately the same as in 1960.⁷

18. However, recent information, supported by Soviet performance during the past two years, indicates that production in 1965 may exceed Plan goals and could run as high as 5.6 million b/d. Of this, we estimate that as much as 1 million b/d could be available for export to the Free World. Whether or not the USSR could export this quantity of oil would depend also on its ability to develop refinery capacity, internal transport, and tanker lift, as well as to open new markets for such oil. There is evidence that the Soviet Union has embarked on a program to do so. Its export drive will continue to be motivated by political as well as economic considerations.

19. We estimate that in 1965 Soviet oil exports will probably account for as much as seven percent of the total international movement into Free World markets. We do not believe that this of itself will upset the preponderant position of the Western companies in international trade or destroy the present overall pattern of the Middle East oil industry. It will, however, enable the Soviet Union to compete actively in the Free World market to the detriment of Middle East oil and to upset markets in various individual consuming countries. In small markets, the USSR could even displace Western oil companies. In a situation of continuing worldwide surplus, a growing influx of Soviet oil is likely also to spur further price cuts, with a consequent disrupting influence on relations between the Middle Eastern governments and the Western companies. Moreover, an expanded program of technical assistance for the development of new producing and refining facilities will probably increase Soviet leverage in various underdeveloped countries. All this will make the USSR a force to be reckoned with in the international petroleum field.

20. For the next few years at least, the USSR's use of its influence for political purposes will probably be limited to some degree by its desire to derive maximum economic benefits for itself from its oil exports. In some areas, especially Western Europe, economic objectives are likely to predominate. Oil exports are at present the USSR's largest earner of foreign exchange and provide a source of much-sought-after machinery and manufactured goods. Hence, though the

⁷ All estimates of future Soviet exports to the Free World are tentative because of the lack of reliable information on longer term Bloc production and requirements, especially in regard to Communist China. The figures in this and the following paragraph are based on the assumption that Communist China, which now produces about 104,000 b/d and imports about 80,000 b/d (almost entirely from the USSR), will in 1965 produce about 360,000 b/d and import 100,000 b/d from the USSR. While the figures represent our best estimate at this time, they could be upset by a number of factors, notably a greater than anticipated increase in Eastern European Satellite or Chinese Communist requirements or a less than expected expansion of production in Communist China. [Footnote in the source text.]

Soviets will resort to price cuts to penetrate markets, unduly deep or prolonged cuts could jeopardize their foreign exchange earnings. In the Middle East, the USSR must beware of arousing local resentment if Soviet oil displaces Middle East oil in foreign markets.

21. In the less developed countries, political considerations will be given greater weight by the USSR. In the oil-producing areas, the USSR is likely to encourage nationalist sentiment to make increased demands on the established companies. In the consuming areas, it will seek in various ways to impinge on Western markets and to promote its own influence.

22. We believe that for some time to come the USSR will neither wish nor be able to assume the political and economic burdens that would be involved in taking over responsibility for the total oil industry in the Middle East. However, in the event of withdrawal or expulsion of Western oil interests from any one country, such as occurred in Iran under Mossadegh, the Soviet Union probably could provide enough economic support of one kind or another to mitigate the resulting dislocations in the economy of the affected country.

23. In terms of physical capability, the USSR will soon, if it does not already, have sufficient transporting and marketing facilities to move and sell most of the production of one or more of the smaller Middle East producers, say Bahrein or Qatar. By the end of the period of this estimate, it may even have developed sufficient facilities to transport and market most of the oil from one of the larger producers, e.g., Iraq. We believe it unlikely, however, that the Soviet Union actually will undertake to do either. British political influence will probably continue to make the smaller producers inaccessible to the USSR; and, except in unusually favorable circumstances, the USSR is apt to be inhibited from assuming responsibility for disposal of the oil of one of the major producers by the formidable political, economic, and technical problems involved, as well as by Western opposition.

III. Middle East Developments

National Aspirations

24. The prospects for a continuing world oil surplus have introduced new problems into the relationship between the companies and the oil-producing countries. The governments of the latter are most immediately concerned with problems of revenue—revenue to add to the power and prestige of the ruling groups, to support economic development programs, and even to pay for regular government expenditures. In the past the various producing countries have taken advantage of each others' difficulties to increase their own oil profits. The Arab states were happy to see their oil fill the gap created by Mossadegh's shutdown of Iranian oil. Iran in turn profited when the

flow of Arab oil was disrupted by the 1956–1957 Suez difficulties. Recently, however, all the producing states have seen further increases in their revenues threatened by two reductions in the posted price of crude oil.⁸ They responded in Baghdad in September 1960 by setting up with unusual speed and cooperation an Organization of Petroleum Exporting Countries (OPEC) whose demand for a voice in pricing was strongly supported by the Beirut Oil Congress in October 1960.

25. For some years there have been other deep and troublesome stirrings in the producing countries. These are based partly on the concept that the oil beneath their territories is a national patrimony which will not last forever and which is being exploited by the Western oil companies under unjust arrangements made when the area and its rulers were under the political domination of the West. From this concept the idea is derived that the national sovereignty and national interests of the contracting states should override the legal rights and commercial interests of the private companies. These feelings are shared even by many members of conservative groups, and they are deeply and widely held among most other politically conscious elements in the area. Out of them have grown a number of demands aimed at increasing local control of oil operations in addition to—and sometimes even apart from—increasing local profits. In addition, local resentment is increased by the rising conviction that ruling groups, such as that in Saudi Arabia, are squandering oil revenues without due regard for the welfare of the people as a whole.

26. In their mildest forms, the demands for change include replacement of foreign staff of the oil companies with local employees, transfer of company headquarters to the producing country, supply by the companies of technical and welfare services only remotely connected with the oil business, and more rapid relinquishment of parts of the concession areas.⁹ There will be increasing pressure on the oil companies on all these issues everywhere in the area. Most of the demands of this type are considered negotiable by the companies, however, and it is unlikely that any widespread deadlock will develop over them alone.

27. A more important area of pressure during the next few years will be the question of profit-sharing. Few Middle Eastern countries regard the 50/50 formula which is now standard in the area as equitable. In addition, these countries believe that the companies are constantly seeking to reduce the countries' share through manipulation of prices and exorbitant claims for amortization and expenses. Demands

⁸ In the Middle East, a producing state's revenue is generally calculated on the basis of posted prices, not actual selling prices. [Footnote in the source text.]

⁹ The concessions usually cover large areas and generally provide for the gradual relinquishment of areas which the concessionaire is not exploiting. [Footnote in the source text.]

for upward revision of the formula will, of course, be spurred by the fact that some of the new companies are offering higher percentages of profits to the host countries.

28. Other aspirations pose an even more direct challenge to the companies. Governments of some producing countries are showing increasing interest in participation in ownership and management of the producing companies. Apart from the additional profits they would receive as stockholders, this would give them a greater voice in such questions as how much oil should be produced and to whom it should be sold. It would also bring them in closer touch with the industry as a whole and would, they hope, enable them to influence international activities now beyond their control. National participation is provided for in recent ventures by Italian, American, and Canadian companies in Iran, and will almost certainly eventually appear as a demand in negotiations for revision of older concessions.

29. The most ambitious of local aspirations, put forward chiefly by Saudi Director of Petroleum Abdullah Tariki, demands that all operations from the producing well to the gasoline pump be handled by integrated companies, in the management and profits of which the host governments would have a share. This goes considerably beyond the other schemes, since it would give the producing governments a share in control over company facilities and operations beyond their own borders. The threat of nationalization, which the area governments have always seen as their weapon of last resort in dealing with the companies, could then extend to the whole integrated company and its facilities inside and outside the producing country. The Japanese company, which was the first to accept the principle of integration in its concession for the offshore areas in the Kuwait–Saudi Arabia Neutral Zone, has already struck oil in promising quantities. If, as appears likely, the Japanese company is able to operate successfully, the pressure for integration elsewhere is likely to increase rapidly.

30. Recent developments have given new impetus to discussions of cooperation between producing states. Arab oil experts have long stressed the desirability of collaboration among themselves and with non-Arab producers, such as Iran and Venezuela. An Arab tanker fleet and an Arab pipeline have been discussed, but no progress has been made to translate these schemes into action. We do not think that, for the next several years at least, any effective joint action by the producing states is likely to take place—chiefly because of mutual jealousy and suspicion because of competing economic interests. There is a possible exception to this in the field of pricing. Being unable to accomplish anything individually, the producing states will probably work more effectively through OPEC to bring pressure on the companies than they have in the past. We doubt that they will be able to

agree on a workable program for prorating production, the only practical way for them to control prices, but they are likely to succeed in influencing the companies' policies to some degree.

Company Reactions

31. The attitudes, intentions, and capabilities of the big international oil companies in regard to the pressures against them are not easy to assess. The position of the companies is strong in many ways. They have developed and control the vast and complex apparatus in Western Europe, Africa, Asia, and America through which most Middle East oil is actually marketed. This apparatus is beyond the physical control of the producing countries. They cannot tax it, nationalize it, or shut it down. The companies alone have the enormous capital and technical ability required for the heavy development and research activities required in every phase of the oil industry. The negotiating positions of most of the European companies are strengthened by the fact of their government's participation in their ownership and by the importance which their governments place on continued access to Middle East oil.¹⁰ In addition, the companies can exert great influence—especially in a surplus market—by adjusting their off-takes from the various producing countries.

32. At the same time, the companies labor under major disadvantages. However benign or constructive their policies may be, they are inextricably linked in the Middle Eastern mind with Western imperialism and are subject to political as well as economic pressures. So strong is the bias against the companies that some local elements are likely even to be susceptible to Communist arguments that Soviet activities in the international oil field (which will almost inevitably be detrimental to Middle Eastern producers) are to be welcomed because they will help break the power of the Western monopolies. Even well-informed local officials and political leaders fail to appreciate the intricacy and complexity of the oil industry and underrate the difficulties which they would encounter in trying to run an international oil business. Finally, of course, the international oil industry is a highly competitive one, and there is a limit to how far the companies can or will go in preserving a common front.

33. There is talk among company executives, and some evidence in company activities, of a new "tough" line toward local demands.

¹⁰ This is especially true of the British Petroleum Company, in which the UK Government has majority ownership and which in turn holds major interests in Kuwait Oil Co., Iraq Petroleum Co., and the Iranian Consortium. While the UK is less dependent financially on Middle East oil now than some years ago, oil revenues are still valuable economically and access to Middle East oil remains important strategically. With the coming into production of the Algerian fields, French reliance on Middle East oil is declining. [Footnote in the source text.]

The Trans-Arabian Pipeline (TAPLINE)¹¹ appears prepared to close down rather than yield to demands for higher transit fees. The Iraq Petroleum Company is reducing its off-take from Basra because of a heavy new port tax imposed there by the Iraqi Government. The established companies have rejected requests from the producing countries for a voice in pricing, and refuse to consider integration. They view the 50/50 profit-sharing formula as a benchmark of stability and insist that breaching it would lead to a continuous spiral of governmental demands. However, the history of negotiations in the Middle East shows that the companies have time and again given in to or compromised substantially with demands which they first rejected as completely unacceptable.

IV. The Outlook

34. The continuing surplus of producing (and, secondarily, transporting) capacity will be a major factor in the world oil picture for the next several years. Because of the numerous uncertainties involved, political as well as economic and technical, it is difficult to determine precisely how this surplus will affect the Middle East. One thing is clear. The great reserves which the area possesses will continue to make it a major factor in world oil. Its exports to Western Europe will almost certainly continue to increase gradually in absolute terms as Western European consumption expands. However, with North African and Soviet oil playing a larger role in the international oil trade, its share of the Western European market is expected to decrease from 73 percent of the total in 1959 to an estimated 59 percent in 1965.

35. While Middle East production is likely to continue to rise for at least the next five years, the rate of increase will be slower, and the halcyon days of spectacular annual increases in revenue are probably over for the Middle Eastern countries. Revenues are apt to grow only modestly and new rounds of price cuts—which are by no means unlikely—could even lead to some diminution in the present level of revenue. Barring such unlikely contingencies as widespread shut-downs or large-scale destruction of oil producing and transporting facilities, however, we believe the odds are against major decreases in the present levels of revenue—chiefly because Western governments, the oil companies, and most influential elements in the producing countries are well aware of the disastrous consequences.

36. Pressures from the producing governments on the companies will grow heavier, and major changes in the present concession pattern are likely. The 50/50 profit-sharing formula will probably give way in the next five years—both because there may be no other way

¹¹ TAPLINE's ownership is identical with that of the Arabian American Oil Company (ARAMCO). [Footnote in the source text.]

to keep revenues up and because the formula has already been breached in Venezuela, Iran, and the Kuwait-Saudi Arabia Neutral Zone. The companies are also likely to permit over a period of time a larger participation of the local government in management of producing companies. They will resist vigorously the demand for integrated companies, chiefly because most of the present producing companies are merely instrumentalities of the parent companies set up for the purposes of exploration and exploitation. For them to engage in marketing would place them in direct competition with the present parents. Even here, however, it is possible that eventually new limited regional refining, transporting, and marketing organizations including local interests may emerge.

37. We do not believe that large-scale nationalization of existing oil company facilities is likely during the period of this estimate, although threats of such action will probably be used from time to time for purposes of pressure. The governments of the producing countries remember the experience of Mossadegh in Iran, and they are unlikely to emulate him unless they become extremely aroused emotionally or come to believe that their loss of revenue would be made up by the Soviet Bloc. However, there may develop a kind of "creeping" nationalization under which the companies gradually retreat to a position where they are little more than managing agents of the local governments. We think the odds are against even this going very far in the next few years.

38. In the past the situation usually stabilized for some time once a new pattern in government-company relationships was established. This may happen again on a basis of greater government profits and more government participation in control. However, these periods of quiescence, if they come at all, are likely to be briefer and briefer. At some time, the companies may come to feel that the oil business in the Middle East has become so hazard-ridden and profits so marginal that they may as well liquidate their interests there and concentrate elsewhere. We believe that this is unlikely to happen within the period of this estimate.

39. On balance, we think the odds are against developments in regard to Middle East oil that would be critically detrimental to US national interests in the next few years. Actual physical seizure of the area by the USSR is unlikely short of a general war. Soviet mischief-making will continue and could become dangerous in specific cases, e.g., a Communist-exploited upheaval in Iran followed by abrogation of the consortium agreement. However, even a Communist takeover in one of the producing countries would not necessarily result in a refusal to sell the country's oil to the West.

40. Under these circumstances, Western Europe will probably continue to get as much oil as it needs from the Middle East while developing alternate sources west of Suez. The Middle Eastern countries are likely to continue to get enough revenue to support substantial development programs. Temporary shutdowns of individual sources of oil may occur as a result of deadlocks in negotiations, or—more likely—political upheavals. Transit facilities may also be blocked, especially in the event of another outbreak of the Arab-Israeli conflict; but we believe a lasting area-wide breakdown in the Middle East oil situation is unlikely, at least for the period of this estimate. Nevertheless, the balance of interest between the desirability of developing alternate sources of oil to meet Western Europe's needs and the importance of assuring Middle Eastern countries of sufficient oil revenues to avoid instability will continue to pose problems for US policy.

41. Other problems may emerge from possible conflicts of interest or objectives between the US and its Western allies, especially the UK and France. The UK has in the past considered it essential both strategically and economically to retain a measure of political control over the oil-producing areas. We believe the British now regard this policy as outmoded in large measure, but it will remain possible that in a crisis situation they might feel compelled to exert physical control over Kuwait. France may come to feel that increasing availability of Saharan oil enables it to take a harder line with the Arab states, who are generally hostile to French interests as a result of France's support of Israel and repression of the Algerian rebels.

42. In addition, as the government of the producing countries gain greater influence in the management of the oil industry, there will probably be a growing number of cases in which their policies and desires conflict with those of the Western governments. A problem of this kind already exists, for example, in Saudi Arabia where the government resents US refusal to allow ARAMCO to sell asphalt to Yemen lest it be used in the Chinese Communist aid program there.

43. Another set of problems derives from the difficulty of determining in particular circumstances whether and how US strategic and commercial interests coincide or conflict. For example, the question of US import restrictions will almost certainly come up again during the period of this estimate, and policy makers will have to weigh the relative importance of promoting a vigorous US domestic petroleum production against the advantages to be derived in the Middle East through increased US imports from that area. Likewise, there will be questions involving the desires of certain allied nations, e.g., Japan and Italy, to adopt import policies designed to give preference to oil from producing companies run by their own nationals, to the detriment of the British and American companies and the general principles of reciprocal trade.

44. Over the longer term, even broader problems are likely to emerge. The ultimate aim of some Middle Eastern officials and leaders is probably an arrangement whereby the present concessionary interests of the international oil companies in the area are eliminated and Western companies act at most only as agents of the producing countries. Such an arrangement would not necessarily preclude the supply of sufficient oil for Western Europe and of sufficient revenue for the Middle East. It might even alleviate certain political problems which now confront the West in its relations with the producing countries—especially those which stem from the close association in the Middle Eastern mind of the companies with Western governments.

45. Nevertheless, a surrender or large-scale withdrawal of Western company interests under pressure would initially at least be regarded as a setback for Western prestige. Liquidation of the role traditionally played by the Western companies—even if they were subsequently replaced by other arrangements—would almost certainly result in some dislocation in the oil picture which would lend itself to Soviet exploitation. Economic factors of major interest to the West would also be involved, e.g., the loss of much of the substantial increment to the balance of payments which the Western oil companies now earn through their operations in the area.

U.S. POLICY REGARDING ECONOMIC DEFENSE

318. Memorandum of Conversation

January 15, 1958.

SUBJECT

Discussions with the British and Canadians Concerning Trade Control Criteria

PARTICIPANTS

Mr. G.F. Thorold, Economic Minister, the British Embassy
Mr. Peter Garran, Commercial Minister, the British Embassy
Mr. J. Hosie, British Ministry of Defense
Mr. Roger N. Jackling, Counselor, the British Embassy
Mr. E. Youde, First Secretary, the British Embassy
Captain Brayne-Nicholls, British Joint Services Mission
Mr. A.E. Ritchie, Minister, Embassy of Canada
Mr. Arthur Neal, Canadian Delegate to COCOM
Mr. R.G.C. Smith, Commercial Minister, Embassy of Canada
Mr. Thomas C. Mann, Assistant Secretary for Economic Affairs
Mr. John W. Jones, Deputy Assistant Secretary for European Affairs
Admiral W.S. DeLany, Deputy Director for Mutual Defense Assistance Control
Mr. John N. Irwin, Deputy Assistant Secretary of Defense
Mr. Marshall Smith, Deputy Assistant Secretary of Commerce
Captain W.B. Thorp, Department of Defense
Mr. Clarence Nichols, Deputy Director, Office of International Resources
Mr. Edwin G. Moline, Deputy Director, Office of British Commonwealth and Northern European Affairs
Mr. L.O. Sanderhoff, Office of European Regional Affairs
Mr. Ralph Clough, Director, Office of Chinese Affairs
Mr. Robert B. Wright, Chief, Economic Defense Division

Mr. Mann opened the discussion with comments based on the attached statement¹ of the United States viewpoint with respect to the question of trade control criteria. Upon concluding his statement Mr. Mann said that Mr. Irwin of the Defense Department might wish to comment more fully with respect to the NATO concepts and assumptions since the differing viewpoint on the military aspects of the problem constituted an important element of the problem. Mr. Thorold said that he was in agreement that the question of the nature of

Source: Department of State, Central Files, 460.509/1-1558. Secret. Drafted by Wright and cleared by Nichols and Mann.

¹ Printed below.

possible future war is important, particularly with respect to the estimated duration of such war. He suggested that Mr. Hosie who had come from London for the current discussions might usefully expound the British position on this point.

Mr. Irwin said that he would like to correct one point before Mr. Hosie presented the British comments. He said that the matter of the duration of a possible war was not actually the critical point of difference. He said that the real focus of our concern is to avoid assisting the military-industrial capacity of the Soviet bloc to build up during peacetime a force in being for use in war. He said that to the degree the West contributes to the present industrial capacity of the Soviet bloc it contributes to their basic capability for war preparations.

Mr. Hosie explained that the British had come to the viewpoint outlined in their December memorandum² by a somewhat devious route. He said that their point of view originated in a re-examination of their industrial mobilization assumptions which actually began somewhat prior to 1954. He said that the earlier British viewpoint with respect to industrial mobilization had been the conventional assumption that there would have to be reliance during a period of hostilities upon an adequate industrial base which would be converted to military production gradually by stages after the commencement of actual hostilities. The new British assumption, however, was that they could not count upon defense production after "D Day" in the United Kingdom if the type of warfare involved were thermonuclear in nature. This general philosophy was applied in stages to various aspects of defense planning. It was, for example, applied with general public knowledge in 1956 when it was announced that the British strategic stockpiling arrangements should be replanned.

Mr. Hosie said that the new British assumptions were tied directly to NATO assumptions. [1½ lines of source text not declassified] He said that the British had concluded that if it were true that the United Kingdom could not plan on military-industrial production after "D Day" in a thermonuclear war, it was likewise true that the Soviet Union could not mount a massive military production program after "D Day". Furthermore, the British considered that it would logically follow that Soviet strategic stockpiles accumulated prior to "D Day" would no longer have importance. Their conclusion therefore with respect to the trade control program had been that the multilateral controls were wrongly directed for conditions of total war.

With respect to the conditions involved in limited warfare, Mr. Hosie said the British likewise felt the trade control program was misdirected and ineffective. [6½ lines of source text not declassified] It was inconceivable to the British that there could be anything like a

² Not printed.

limited war of long duration. It was clear, they felt, that only in a limited war of long duration could productive capacity become a significant factor.

Mr. Irwin said that he found himself agreeing with Mr. Hosie's statement on many points but that he disagreed on the basic premise which Mr. Hosie had stated. He said that the United States does indeed consider the mobilization base for production after the start of hostilities to be important, but that the more important aspect is the capacity of the Sino-Soviet bloc's industrial potential *currently* for the creation of a force in being which might be drawn upon to launch either limited or total warfare at some point in the future. Thus the United States considers the Sino-Soviet military-industrial potential as it exists today to be the critical element. With respect to the possibility of limited war, Mr. Irwin said that the United States still recognizes the possibility of limited hostilities of varying duration both outside the NATO area and inside the NATO area in terms of hostile incursions. He said that he would emphasize the importance of the trade control program in its bearing on Sino-Soviet capacity for conducting economic warfare, as Mr. Mann had pointed out in his opening statement.

Mr. Thorold said that the British considered that what the trade control program has been able to do thus far did not seem to have affected either the Soviet ability to produce arms or their capacity to engage in economic excursions in the uncommitted areas of the world. Mr. Mann said that in making reference to the Soviet effort at economic penetration, we had in mind not trade simply in the sale of conventional arms but also trade in other commodities and the provision of financial assistance by the bloc.

Mr. Thorold said that in the British view the American suggestion that the strategic controls might be shaped to some extent by Western objectives with respect to counter measures in the face of Soviet penetration went considerably beyond the existing concept of the multilateral control system. He said that the British could not admit the propriety of attempting to mount an economic war under the control system for the purpose of crippling the Soviet general export capacity for dealing with underdeveloped areas.

Mr. Mann said that a general economic war on the Soviet Union was of course theoretically a possibility although he did not suggest that precisely. We had in mind, he said, raising the question of the extent to which the West should contribute to the Sino-Soviet capability both for military preparations and for economic activities in vulnerable areas of the world.

Mr. Ritchie said that he would raise a question as to whether it had been agreed that the Soviet economic offensive in underdeveloped countries should invariably be deplored by the West. He said that the Canadians held the view that many things which the Soviets

do in terms of economic assistance to underdeveloped countries should be welcomed because the West itself does not possess the capability to meet in full the economic needs of such areas. He said the Canadians were prepared to acknowledge that it would be highly desirable if the West could in fact meet all such needs but felt that since the West is not able to do so it should not feel undue concern if underdeveloped countries look increasingly to the Soviet Union for such assistance. He said that it appeared to Canada that any assistance from any source which supplies the legitimate economic needs of underdeveloped areas is in the interest of the West since the strength of the economies of such countries works naturally in the direction of increasing their political strength and independence. Thus he concluded that the economic assumptions which had been suggested by the United States as a factor in reshaping the international controls was of even more questionable validity than the strategic assumptions.

Mr. Mann said that of course the United States was not opposed per se to the underdeveloped countries receiving whatever economic benefits they are able to regardless of the motivation of the donor. The problem with Soviet economic aid, as we see it, is that the increase of trade and financial arrangements between the Soviet bloc and the underdeveloped countries carries with it an undesirable increase in Soviet political influence. We deplore the latter because it may lose us the uncommitted areas of the world.

Mr. Ritchie said that Canada was disposed to agree with the United Kingdom that it goes far afield to look at export controls as a matter of counter measures to Soviet economic penetration.

Mr. Mann emphasized the American view that it is not possible to divorce these two aspects. In this period of cold war our objective is to build up the deterrents to hostilities through restraining both Soviet military and Soviet political power. Mr. Jones endorsed this point, adding that the question of economic warfare was discussed with the United Kingdom at the time of the Eisenhower-Macmillan talks³ with a view to developing effective joint action in the face of Soviet activities in underdeveloped areas. He said it might indeed be true that economic blockade of the Soviet Union would be an extreme measure which it is not practical to consider. At the same time we are convinced that strategic controls cannot be operated in a vacuum. They are a part of the West's total position of strength vis-à-vis the Soviet bloc.

Mr. Smith (of Commerce) noted that in the discussion of Soviet resort to limited warfare there had been no reference to the situation of Communist China. He said it seemed clear that the West should still

³ Apparent reference to the Bermuda Conference, March 21-23. See *Foreign Relations, 1955-1957*, vol. x, pp. 434-438.

have concern at what Communist China might do with Soviet support in pursuing limited warfare outside the NATO area. Since Communist China is in the Sino-Soviet bloc, the importance of the Sino-Soviet industrial base takes on added significance because of the more conventional nature of Chinese military technique. Since an industrial base is potentially more flexible and less subject to obsolescence than a stockpile of military items, the building up of such a base on as strong a basis as possible must represent a prime objective for Communist China.

Mr. Hosie said that so far as Chinese aggression was involved, he felt it was still valid to assume that the defense pacts such as SEATO would inevitably draw the European and Western hemisphere countries into such hostilities. Because of the very fact of the conventional equipment at the disposal of the Chinese, such an aggression could be halted rapidly unless the Soviet supplies nuclear bombs. In the latter event the hostilities would mushroom into global war. Mr. Clough pointed out that there remains in the picture the element of Chinese capacity for miscalculation and that this might have a bearing on the course of events.

Mr. Irwin pointed out that the British still seemed to exclude the importance of the present mobilization base as a relevant factor in the picture. He said that the United States still considers it important to identify the parts of the industrial complex which are critical to an offensive military-industrial base and to impose controls in those areas. He said that of course the United States is prepared to review this sort of coverage, to make adjustments in it and in essence to place the international controls on the basis of a 1958 model rather than a 1953 or 1954 model.

Mr. Hosie said that the British do not entirely exclude the element of peacetime industrial capacity so long as such capacity is related to the development of a thermonuclear capability. He said that of course in a sense the diversion of Soviet resources to produce materials for underdeveloped countries keeps the Soviets away from outright military production.

Mr. Irwin said that of course this raised a range of other considerations which would place a question mark beside such a simplified conclusion. For example, there would be the effect on the Soviet satellites of diverting resources to underdeveloped areas which might be required within the bloc itself for essential civilian purposes.

Mr. Garran said that apart from the question of the criteria as such, it seemed to him that the real issue was whether the United States agreed with the assumptions which underly the criteria. Specifically, he referred to paragraph 8 of the British memorandum and inquired whether the United States could accept that enumeration of objectives.

Mr. Mann said that the United States could at least provide the British with its views on criteria although it did not appear likely that agreement could be quickly reached on their interpretation. He suggested that there be further discussions between the British and Canadian defense elements and the American defense people. It was agreed such talks would take place. Mr. Thorold and Mr. Jackling pointed out that an examination of the military elements would not get us very far since the question would remain of whether or not we are discussing economic warfare. It remained the British view that the question at issue is that of the controls over strategic materials moving to the Soviet bloc and that a discussion of a limitation upon the Soviet economy as a whole would be out of order. Mr. Irwin said it was not a matter of attacking the economy "as a whole". Mr. Jackling said that nonetheless the issue would remain of how far to go beyond the strict military area.

It was agreed that a meeting would be scheduled in Mr. Irwin's office in the Pentagon for January 16 at 10 a.m.⁴ It was noted that any questions concerning the discussion raised by other participating governments or by the press would be dealt with on the basis of the agreed COCOM formula for press inquiries.⁵

⁴ No record of such a meeting has been found.

⁵ On January 24, Assistant Secretary Mann outlined for Senator John Sparkman this exploratory conversation with the British. Mann stated that the Department had subsequently received an embargo list from the British which was a great deal shorter than the United States draft list. The British list concentrated on electronic and chemical categories, but made wide deletions in other categories such as nonferrous metals, machinery, and equipment. In general, Mann informed Sparkman that there was a wide gap between the United States and United Kingdom on the basic philosophy of the control system. Sparkman stated that the United States "tended to be a little too rigid on the trade control question" and urged compromise with the British and other allies. Sparkman saw trade as a means of increased understanding and improving relations between East and West and therefore saw no need to embargo commodities which added to the economic or industrial base of the Soviet bloc. Mann pointed out that many commodities had dual military and industrial applications, such as copper. Sparkman recognized the problem. At Mann's request, Sparkman estimated that most Americans who had an opinion on the issue and most members of Congress would support a "moderate line" on trade controls. (Department of State, Central Files, 460.509/1-2458)

[Attachment]⁶UNITED STATES STATEMENT FOR TRADE CONTROL
DISCUSSIONS WITH THE BRITISH AND CANADIANS

We have studied the memorandum on "Revision of the Strategic Criteria" prepared by the United Kingdom and appreciate their explanation of the assumptions underlying the specific wording of their proposed new criteria. We believe the British and Canadian representatives are entitled to a similar general exposition of the American thinking on this matter.

We recognize that a re-examination of the multilateral strategic trade controls would be timely and we welcome an opportunity to discuss this matter. We consider the trade controls to be an integral part of the total security effort of the Free World through NATO and the associated bilateral and multilateral defense arrangements. We agree that the trade control program must be based firmly on the strategic concepts prevailing in NATO.

The chief objective of the NATO planners is to prevent war by creating an effective deterrent to aggression. [8 lines of source text not declassified]

[6½ lines of source text not declassified] The trade control program, in order to be consistent with current NATO concepts, should therefore be directed at inhibiting the ability of the Sino-Soviet bloc to create and further the development of a force in being and to sustain the Soviet bloc military efforts, once hostilities have begun, during the second phase of indeterminate duration.

We are pleased to note in paragraph 6 of the British memorandum that we seem to be in agreement that the NATO concepts require us to mount an effort through the strategic trade controls to hinder the Soviet bloc and Communist China in the accumulation of the nuclear weapons and the means of their delivery for a global offensive and in their development of defensive counter-measures. To us this pinpoints the importance of the current industrial base in the Sino-Soviet bloc and its capacity to produce the weapons necessary to mount either an all out nuclear war or a war of limited area. Thus we feel that the importance of trade controls as they relate to a mobilization base is more their effect on the base now in being in the Soviet bloc than upon the bloc's capacity to mobilize industry after the outbreak of war. We think the size of a Soviet nuclear stockpile at the outbreak of a war marked by intense nuclear exchange is less significant than the current industrial mobilization base or capacity of the Sino-Soviet bloc to create and sustain effective forces in being which could be employed

⁶ Secret.

by the bloc in military operations. Thus any raw materials or products which currently help to expand current Sino-Soviet bloc industrial capacity contribute directly or indirectly to improving its war-making potential and the posture of its military force.

Against this background of NATO assumptions and strategic concepts, it is somewhat puzzling to us to see the British conclusion in paragraph 2 of their memorandum [6 lines of source text not declassified]. It is likewise puzzling to see the British suggestion in paragraph 5 of their memorandum that because of the importance attached to the concept of a short initial phase of global war, there should no longer be need for the trade controls to concern themselves over the expansion of Sino-Soviet industrial capacity and the accumulation of raw materials; the sole concern of the trade controls rather should be to hamper the Sino-Soviet bloc in the accumulation of nuclear weapons and the means for their delivery in a global offensive.

The United States cannot subscribe to this thesis. It seems to us to base the trade controls on a partial and hence defective view of the NATO strategic concepts.

We are pleased to note in paragraph 7 of the British note agreement that it would be unrealistic not to take account of political objections to the export even of conventional weapons together with that of materials which are essential to the utilization of machinery and materials whose primary function is the production of arms, and of know-how which improves the quality or output of such arms. Whereas nuclear weapons may or may not be of more importance in the NATO area for possible use in war, certainly the ability to provide conventional weapons in other less developed areas of the world increases the Soviet capacity for creating trouble, unrest and revolution in these areas. It might specifically be noted that in the Far East where the United States bears a heavy defense burden pursuant to collective security arrangements for deterring Communist aggression, limited war, and even non-nuclear war, are still possibilities to be reckoned with. It may be many years before Communist China has any significant nuclear capability and in the meantime it is essential to limit Chinese Communist ability to wage conventional war.

Beyond the shipment of weapons as such, the current Soviet industrial base also has relevance to Soviet economic warfare or economic penetration activities in the underdeveloped countries. It would seem that the ability of the Soviet to conduct such operations would depend directly on the size and build up of the current industrial base. It would likewise seem clear that it would be unwise for the West to be taking measures to counter Soviet intervention in key areas while at the same time shipping freely to the Soviet bloc commodities which facilitate such intervention.

There is one further point which merits comment. In their first criterion the British refer to the necessity to control materials and equipment designed specifically or “in peacetime used principally” for the development of arms. It would seem to us that use of the phrase “in peacetime” would substantially nullify the purpose of this criterion since it would have the effect of exempting from control materials and equipment which are not used exclusively or almost exclusively for the production of arms during peacetime. The only materials or equipment used principally for the development, production or utilization of arms in peacetime would seem to be the most highly specialized machines installed in arsenals or naval gun factories, for example. This seems to us much too limited a concept of military production for purposes of an effective trade control program, particularly against the background of NATO concepts and assumptions to which I have referred earlier.

319. Memorandum of Conversation

Ankara, January 30, 1958.¹

SUBJECT

Strategic Trade Controls

PARTICIPANTS

The Secretary
William Rountree
Frederick Reinhardt

The British Foreign Secretary
Sir William Hayter
Mr. Denis Laskey

Mr. Lloyd said the U.S. had now introduced a new theory into the problem of strategic trade controls, namely, limitation of the growth of the Soviet industrial base. He thought the China List had been a good example of how to handle the matter. U.S. action in that case had resolved the whole problem for him and he was no longer attacked with complaints about the U.S. attitude on China. Some of his colleagues, he continued, thought we should seek to improve relations with the Soviet Union through trade. He thought it unlikely you would really widen the Soviet industrial base very much by relaxing

Source: Department of State, Central Files, 460.509/1–3058. Secret. Drafted by Reinhardt.

¹ Dulles was attending the Baghdad Pact Ministerial Meeting as head of the U.S. Observer Delegation.

trade controls. The Czechs were offering for sale in the U.K. certain machine tools that were on the list. He thought a little more trade would probably be a good thing.

Sir William Hayter observed that the Soviet industrial base was so large that it was questionable whether one could make any significant effect on it, while at the same time the internal level of consumption was so depressed.

The Secretary said his own disposition which he believed was also that of the President was to take a more liberal view of this general matter. Yet the U.S. Government was up against violent opposition in Congress. Furthermore, there was the problem of the Battle Act² which became operative if an item were removed from the international list without U.S. agreement. The Secretary said that we had considered the copper wire exports to the Soviet Union a serious business because it had facilitated their putting their communications underground. Mr. Lloyd replied that this trade in copper had meant 20 million pounds for the economy of Southern Rhodesia.

Mr. Lloyd believed it was not possible for the U.S. and the U.K. to resolve their difference in this field through COCOM. He agreed it must be done at a higher level and he hoped it would be possible to get together before the February meeting. He had heard that Mr. Dillon was coming to London shortly for some meeting and thought that might be a good opportunity to deal with the matter.

² The Battle Act, formally entitled the Mutual Defense Assistance Control Act of 1951, stipulated that U.S. military, economic, and financial assistance be terminated to a nation which knowingly permitted shipments of an embargoed item to a country threatening the security of the United States. (65 Stat. 644)

320. Memorandum of Discussion at the 353d Meeting of the National Security Council

January 30, 1958.

[Here follow a paragraph listing the participants at the meeting and agenda items 1-4.]

Source: Eisenhower Library, Whitman File, NSC Records. Top Secret; Eyes Only. Drafted by Boggs on January 31.

5. *U.S. Economic Defense Policy* (NSC 5704/3; ¹ NSC Action No. 1780 ²)

Mr. Cutler said he understood that at the end of February or early in March the United Kingdom would propose extensive reductions in the COCOM controls. There were indications that the U. K. would propose (1) elimination of 43% of the items on List I, exclusive of AEC and munitions items; (2) establishment of a requirement for additional justification on 34 of the remaining List I items; (3) elimination of Lists II and III entirely. Mr. Cutler said he understood the U. K. believed it was no longer worthwhile through trade controls to attempt to slow down expansion of the Soviet industrial base. Mr. Cutler said the State Department had advised the Secretary of State of this development.

Secretary Herter said the U. K. proposals were likely to lead to very serious differences between the United States and the United Kingdom. He did not know to what extent the U. K. had communicated its views to other governments, but in any case there appeared to be in the making a plot to under-cut COCOM and leave the United States holding the bag. This was a serious situation striking at the concept of US–UK interdependence.

Mr. Cutler said he had addressed memoranda on this subject to Mr. Randall and to the Secretary of Commerce. (A copy of Mr. Cutler's letter is filed in the minutes of the meeting, and another is attached to this memorandum.)³

Both Mr. Walter Williams (Commerce) and General Twining said they had not previously heard of the British proposals.

Secretary Herter remarked that the lure of Soviet trade was proving attractive and the Soviets were pushing their trade offers hard.

*The National Security Council:*⁴

Noted an oral report by the Special Assistant to the President for National Security Affairs that it was expected the United Kingdom would propose at the next COCOM meeting extensive revisions of the COCOM multilateral trade controls.

Marion W. Boggs

¹ NSC 5704/3, "Statement of U.S. Economic Defense Policy," September 16, 1957, is printed in *Foreign Relations, 1955–1957*, vol. x, pp. 495–498.

² For text of NSC Action No. 1780, see *ibid.*, p. 494.

³ Not printed. (Eisenhower Library, Whitman File, NSC Records)

⁴ The following paragraph constitutes NSC Action No. 1854, approved by the President on January 31. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

321. Letter From the President's Special Assistant and Chairman of the Council on Foreign Economic Policy (Randall) to Secretary of State Dulles

February 5, 1958.

DEAR FOSTER: This is with respect to the proposal of the British that the trade controls with the Sino-Soviet bloc be once more sharply reduced.

Some two weeks ago, when I first heard of this matter, I asked Douglas Dillon to send me a letter framing the issue, so that I might put in motion the procedures of the Council on Foreign Economic Policy. Sensing urgency, I then had in mind appointing a small committee at the Assistant-Secretary level from the sensitive departments to review the matter on about a five-day crash basis.

Soon after I received an urgent letter from Bobby Cutler,¹ asking me to start.

The letter from Douglas did not come, however, and last Saturday he telephoned me,² asking me not to initiate these proceedings, and explaining that you preferred to bring the matter directly to the President in a meeting in which Secretary McElroy, myself, and others would participate.

Without disclosing that this was your purpose, I therefore informed Bobby Cutler, and others, that you had asked that the matter be deferred until your return, saying that I felt this was an altogether reasonable request.

Because I leave tomorrow afternoon for a short vacation in Arizona with my wife, and because of your indisposition today, I thought you would not mind if I put my ideas on paper.

On the main substantive question, I am a liberal. I hold the strong conviction that this matter must not be allowed to disrupt NATO unity. I think we should bargain out the best deal we can with the British, holding the maximum degree of control that good negotiation will produce, but I would be prepared to go the whole distance to meet their viewpoint rather than risk the serious consequences of an open rupture.

I am sure that you understand how deep the differences are within our Government on this subject. It is one of the most difficult problems I have had to handle since I have been here.

Source: Department of State, Central Files, 460.509/2-558. Secret. Handwritten notes on the source text indicate that Dulles and Herter saw it.

¹ Reference is presumably to the memorandum from Cutler cited in footnote 3, Document 320.

² No other record of this February 1 telephone conversation has been found.

For myself, I accept readily your taking the question directly to the President, but there are many who will be disturbed at this. Their grievances would be mitigated were they to be overruled after the matter had gone through the regular procedures.

Since I will not be available next week, when no doubt you will be moving on this, I shall appreciate it if you or Doug will let me have a memorandum as to what policy is established.

As I have said to Doug, the activities of the Council on Foreign Economic Policy will not be suspended because of my absence. Colonel Cullen can initiate any matter. If it deals with an economic question, Gabe Hauge will chair a meeting. If it is a security matter, Bobby Cutler will chair a meeting.

Clarence R.

322. Memorandum of Discussion at the 354th Meeting of the National Security Council

February 6, 1958.

[Here follow a paragraph listing the participants at the meeting and agenda items 1 and 2.]

3. *U.S. Economic Defense Policy* (NSC 5704/3; NSC Actions Nos. 1780 and 1854)¹

Secretary Dulles said that while he had been at the meeting in Ankara, he had had a lengthy conversation with U.K. Foreign Secretary Lloyd,² who had indicated that the British Government feels that it is imperative to undertake a complete review of the philosophy underlying our controls of materials going to the USSR. Lloyd had argued that the Soviet Union was now a very powerful industrial state which was quite capable itself of waging economic warfare. Therefore, it was out of date for the Western powers to try to prevent the USSR from becoming an industrial power by the restrictions we placed on trade. Lloyd felt that we should, of course, maintain our controls over items of clear military importance; but that anything like an economic

Source: Eisenhower Library, Whitman File, NSC Records. Top Secret; Eyes Only. Drafted by Gleason on February 7.

¹ See footnotes 1, 2, and 4, Document 320.

² See Document 319.

blockade was out-dated. All that we gained was a reservoir of ill will in the allied countries, an ill will which was not counterbalanced by any security gains.

Secretary Dulles said that Lloyd recognized that the review he was proposing should be made at a high level. Secretary Dulles then expressed the view that the United States should review its own position prior to the COCOM meeting in March. He added that he was personally inclined to feel that there was a good deal in Lloyd's point of view.

The President added that his views on the futility of much of our trade controls were too well known to need restatement.³

General Cutler suggested that the review of U.S. policy on COCOM controls be undertaken by the Council on Foreign Economic Policy, which would then present its recommendations to the National Security Council. Secretary Dulles pointed out that the U.S. position must be determined at least by the first of March, and that the process was bound to be controversial.

*The National Security Council:*⁴

a. Noted and discussed an oral report by the Secretary of State on his conversations with the U.K. Foreign Secretary with respect to the United Kingdom's position favoring extensive revisions of the COCOM multilateral trade controls.

b. Agreed that the Council on Foreign Economic Policy should review U.S. policy with respect to COCOM controls, in the light of the U.K. position mentioned in a above;⁵ reporting to the National Security Council in time for Council consideration not later than March 1, 1958.

Note: The action in b above, as approved by the President, subsequently transmitted to the Chairman, CFEP, for appropriate implementation.

[Here follow agenda items 4-6.]

S. Everett Gleason

³ In a meeting, February 5, among Eisenhower, Secretary Dulles, and Ambassador Lewellyn Thompson (on leave from Moscow), the question of reducing trade control on strategic goods with the Soviet Union was discussed. The President "strongly favored" reducing the number of strategic goods denied the Soviet Union. (Eisenhower Library, Dulles Papers, Meeting with the President)

⁴ Paragraphs a and b and the note that follows constitute NSC Action No. 1857, approved by the President on February 7. (Department of State, S/S-NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

⁵ On February 6, Chairman of the CFEP, Clarence Randall, appointed a three-man committee composed of Dillon as the chairman, and Assistant Secretary of Defense Mansfield Sprague and Under Secretary of Commerce Walter Williams as the other members. Their task was to study the issue and report to the CFEP as soon as possible. (Memorandum from Randall to the CFEP, February 6; *ibid.*, E/CFEP Files: Lot 61 D 282A, U.S. Economic Defense Policy, CFEP 566)

323. Memorandum From the Secretary of the Council on Foreign Economic Policy (Cullen) to the Council

CFEP 566/2

February 13, 1958.

SUBJECT

CFEP 566—U.S. Economic Defense Policy

1. On February 6, 1958¹ the Chairman of the Council on Foreign Economic Policy established a Committee consisting of Mr. Douglas Dillon, Deputy Under Secretary of State—Chairman; Mr. Mansfield Sprague, Assistant Secretary of Defense; and Mr. Walter Williams, Under Secretary of Commerce to study and submit recommendations concerning a proposal by the United Kingdom to reduce substantially the existing levels of multilateral controls covering trade with the Sino-Soviet bloc.

2. Essentially the British proposal is to reduce International List I from 181 to 31 items plus, perhaps, parts of another 62 items and to eliminate entirely International Lists II and III.²

3. The recommendations of the CFEP Committee are as follows:

a. State and Commerce recommendations

(1) Seek to restore the community of design and purpose essential to the effective functioning of the multilateral security trade control system.

(2) Obtain the maximum possible agreement on the part of the COCOM countries with our revised criteria, lists and administrative and exceptions procedures. (Contained in EDAC D-142)³

(3) Continue to participate in the multilateral organization and control system so long as that system serves to impose worthwhile restrictions on the Sino-Soviet bloc.

(4) In the conduct of the present and forthcoming negotiations it will be necessary for both the United States and other participating governments to remain flexible in their objectives if

Source: Department of State, S/P-NSC Files: Lot 62 D 1, U.S. Economic Defense Policy. Secret.

¹ See footnote 5, Document 322.

² Under the strategic control system as revised by the nations of COCOM in 1954, 181 items on International List I were totally embargoed to the Soviet bloc; 25 items on List II were under quantitative control; and 63 items on List III were under surveillance.

³ EDAC D-142, January 17, was a memorandum from the Chairman of the Economic Defense Advisory Committee to the Chairman of the Executive Committee of the EDAC. It consisted of a 9-page statement of the basic elements of the multilateral control structure and four annexes: annex A, a proposed rewording of the criteria; annex B, proposed International List changes; annex C, proposed revisions of Administration Procedures; and annex D, proposed revised exceptions procedures. In all, the U.S. position as recommended in EDAC D-142 contemplated 141 items in List I, none in List II (although most of the items dropped were transferred to List I or List III), and 53 on List III. (Department of State, E/CFEP Files: Lot 61 D 282A, U.S. Economic Defense Policy, CFEP-566)

multilateral agreement is to be reached. While pressing for the maximum objectives, United States negotiators are authorized ad referendum to the appropriate interagency forum, to restrict the scope and severity of proposed controls.

(5) Recognize the probable necessity for adjusting the scope and severity of United States controls to the Sino-Soviet bloc to those agreed multilaterally plus unilateral United States controls toward the bloc where beyond question such controls will be effective in advancing our security objectives.

(See Tab A attached.)⁴

(b) Department of Defense recommendations

(1) Continue to discuss in COCOM and bilaterally with the U.K. and other COCOM countries (with emphasis on the latter) the U.S. position as outlined in EDAC D-142, stressing the basic principles and objectives of the trade control program, in order to attempt to revitalize the security as opposed to the commercial aspects of the controls.

(2) Request a Consultative Group meeting as soon as possible to attempt to reconcile the divergent views on basic policy as revealed in COCOM and bilateral discussions.

(3) If the Secretary of State determines after a CG meeting that further pursuit of the U.S. objectives threatens to become seriously divisive to the point where important mutual security relationships are endangered, he shall request the agencies principally concerned to consider alternatives.

(4) No change in current U.S. policy is required at this time.
(See Tab B attached.)⁵

4. These recommendations will be considered by the Council on Foreign Economic Policy on February 14, 1958.

Paul H. Cullen

⁴ Tab A contained the report of the Committee, February 13, with the Departments of State and Commerce recommendations which are printed above.

⁵ Tab B contained a revision of the report by Irwin, February 13, which substituted the Department of Defense recommendations, which are printed above.

324. Memorandum From the Secretary of the Council on Foreign Economic Policy (Cullen) to the Executive Secretary of the National Security Council (Lay)

February 17, 1958.

SUBJECT

CFEP 566—U. S. Economic Defense Policy¹

1. Reference is NSC Record of Action No. 1857 dated February 7, 1958 which requested the Council on Foreign Economic Policy to review U.S. Economic Defense Policy in the light of the United Kingdom proposal to substantially reduce the COCOM multilateral trade controls.²

2. Pursuant to the above, the Council on Foreign Economic Policy, on February 14, 1958, reviewed the United Kingdom proposal and took the following action:³

a. Disagreed with the concept underlying the British proposal, outlined in the CFEP Committee report, that multilateral trade controls should be limited to items having a direct bearing on the Soviet capabilities in an initial thermonuclear exchange; and that the controls should be solely strategic in purpose and should not be directed at the Soviet industrial base even though the strengthening of this base facilitates Soviet penetration of underdeveloped areas.

b. Approved the position outlined in EDAC D-142 as the U.S. negotiating position in the current COCOM negotiations. (EDAC D-142 is attached.)⁴

c. Agreed that the basic issue confronting the U.S. in the current COCOM negotiations is whether to be more influenced by the objective of maintaining what the U.S. considers to be an effective multilateral control system or achieving a unified Allied position with respect to the level of the multilateral controls. Further agreed that this issue should be presented to the NSC as soon as possible, with a view to obtaining Presidential policy guidance.

Source: Department of State, S/P-NSC Files: Lot 62 D 1, U.S. Economic Defense Policy. Secret. Lay transmitted this memorandum and the minutes of the CFEP meeting of February 14 to the NSC under cover of a memorandum of February 17.

¹ Document 322.

² See footnote 4, Document 322.

³ Subparagraphs a-d are taken verbatim from the substantive portion of the CFEP policy minutes of February 14, attached as Tab A, but are not printed.

⁴ EDAC D-142 was not attached. A note on Lay's covering memorandum indicated that it was available through EDAC channels or upon request of the Executive Secretary of the NSC. See footnote 3, Document 323.

d. Agreed that any reductions in the controls beyond those outlined in EDAC D-142 should be subject to the agreement of the Secretaries of State, Defense, and Commerce, consistent with approved policy in NSC 5704/3 and taking into account Presidential policy guidance on the issue stated in (c) above.

3. A copy of the minutes of the CFEP of February 14 reflecting the above action is attached as Tab A. Also attached is a copy of the report and recommendations of the CFEP Committee on Economic Defense concerning the U.K. proposal. EDAC D-142 is attached to the CFEP Committee report.

Paul H. Cullen⁵

⁵ Printed from a copy that bears this typed signature.

325. Memorandum of Conversation

February 18, 1958.

SUBJECT

Strategic Controls

PARTICIPANTS

Sir Harold Caccia, British Ambassador
 Mr. Paul Henry Gore-Booth, British Deputy Under Secretary of State
 Mr. G.F. Thorold, British Economic Minister

Mr. Douglas Dillon, Deputy Under Secretary of State for Economic Affairs
 Mr. T.C. Mann, Assistant Secretary of State for Economic Affairs
 Mr. Willis C. Armstrong, Director, OR
 Mr. E.G. Moline, Deputy Director, BNA
 Mr. Myron Black, Officer in Charge Economic Organization Affairs, RA

Mr. Gore-Booth said that he wanted to consider the matter of strategic controls. He had prepared himself for the discussion by going through the whole story with his people in London. He observed that changes in this field usually come by spasms and that we appeared to be due for another one. He noted that the United States and the United Kingdom are some distance apart in their positions. There were three aspects of the matter which he wished to discuss: (1) strategic concepts, (2) political considerations and (3) economic effect. In con-

Source: Department of State, Central Files, 460.509/2-1858. Secret. Drafted by Armstrong on February 21 and approved by Dillon on March 26.

nection with the first, he referred to certain military strategic concepts which have been approved in NATO. He pointed out that the British military establishment has given full endorsement to these concepts, and he noted that the U.S. had also approved them in NATO. [7½ lines of source text not declassified]

Mr. Gore-Booth then discussed the political aspect of strategic controls. He said that the clamor for commercial opportunities in England has stimulated a demand for relaxation of controls, which, when coupled with general impressions of the technological achievements of the Soviet Union, made it impossible for the government to take a position favoring the status quo for controls, or a more rigid system. He said that he recognized that a relaxation of controls would not, in fact, bring much growth in trade, and that the political point was primarily psychological.

He then turned to the economic aspect of controls and said that his impression from the material presented to him was that the U.S. favored a broad program of economic warfare. The British question was whether you could do very much damage to the Soviet Union by this process. He noted that some of the goods now being embargoed by western countries are also being exported by the Soviet Union, such as aluminum. He said that the UK had recently talked with economic experts of all the Commonwealth countries, and had discovered that none of these countries would go along with any kind of general program of economic warfare and, indeed, felt that underdeveloped countries needed Soviet aid. Consequently, the UK is convinced, both from its commercial contacts and its own experience, that a wholesale approach to deterring Soviet growth and development would not work. He also noted that, while the UK was much interested in preventing Soviet economic penetration of underdeveloped areas, it did not feel that there was any likelihood of intensified trade controls having any effect on Soviet capabilities in this field. Furthermore, in most cases the underdeveloped countries themselves were sophisticated about dealing with the Russians.

Mr. Dillon said in response that he was pleased to have the opportunity to clarify the U.S. views on this matter. He noted that the discussion of List II quotas last autumn had led the U.S. to conclude that there was need for a new look at the whole control picture, and this intensive review had proceeded within the government for several months. The review was not focused on criteria, which have generally been dedicated toward blocking the Soviet military effort, and no significant changes in criteria have been or are being proposed by the U.S. The emphasis of the U.S. effort during the past several months had been on developing a set of proposals for modifying the lists, which would correspond to the best intelligence data and the latest expert opinion on technical and military implications. The result of

this examination had been to remove a lot of items from the list, including, for example, items which the Soviet Union itself exports. We had proposed a very few items for embargo which had previously been on List II because the new list applies as a whole to Communist China as well as the Soviet Union, and there are special items, such as jet fuel, in which Communist China is deficient and the Soviet Union is not. We feel, in view of our special defense responsibilities in the Far Eastern area, that it is necessary to limit the supply of jet fuel in the hands of the Chinese Communists. We had nevertheless proposed dropping List II as a general concept, and had proposed that we retain List III, under a modified set of ground rules.

Mr. Dillon then said that Mr. Gore-Booth's remarks had shown that there is a real difference of opinion in military thought and concept, which is at the root of the difference of opinion between the U.S. and UK regarding the level, nature, and purpose of controls. We had originally thought that the entire pressure for modification of controls within the British Government originated in the Board of Trade for commercial reasons, but we were now interested to learn that the British position was based on the position of the Ministry of Defense. Mr. Dillon noted that we certainly agree that priority in attention should be given to the items which would contribute to the availability on D Day of goods and equipment, but our Chiefs of Staff also believe that we should not neglect items which would be useful in a period subsequent to the initial thermonuclear exchange. Also, they feel that the military industrial potential is most important in connection with the possibility of conventional or semi-conventional warfare in the area of the Middle East or Far East, although we recognize the improbability of conventional or semi-conventional warfare in the European area. Consequently, from a military standpoint we feel that exclusive emphasis on the point selected by the British Ministry of Defense is incorrect, and that a proper military view should also take into account supplies for the subsequent period and the capacity of the Sino-Soviet military industrial complex to wage conventional warfare, especially in Asia.

Mr. Dillon then dealt with the political problems of the Executive Branch in dealing with this matter. He noted that the whole Mutual Security concept is based on the theory that it is a bulwark against Soviet expansion. He said that a substantial open break between the U.S. and its allies over trade controls, or an agreement on the part of the U.S. to a serious downward reduction of trade controls, might well lead to considerable harm to the aid program at a time of crucial importance in its consideration by the Congress. He did not wish to hazard a guess regarding the results. He observed further that this problem is different from the problem regarding the China differential,

because it has to do with the nature of our general policy toward the Sino-Soviet Bloc, and not with a question of a difference of opinion regarding one aspect of the whole problem.

Mr. Dillon then went on to consider the relationship of strategic controls to Sino-Soviet economic penetration of the underdeveloped areas. He said our views were not too different from those of the British. We think that this is the most serious aspect of our struggle with the Soviet Union at this time. He emphasized that we do not believe in broad-scale economic warfare but rather in a selective approach. He said our proposals were designed precisely for this purpose. He added that we have no intention of suggesting to third countries that they do not engage in trade with or accept aid from the Soviet Union. Our domestic problem of obtaining approval for trade agreements legislation and of obtaining funds for foreign aid are closely related, however, to the question of a general western policy response to the Soviet economic challenge, and it is difficult to persuade people of this if we are at the same time asked to agree to a serious and damaging modification of controls.

Mr. Dillon concluded his remarks by saying that obviously the U.S. did not wish any open break on this issue, and that some ground for agreement must be found. He said that he had a personal feeling that it was much easier to deal with this matter in terms of an item by item approach to the lists, rather than to argue one theory or another. He said we are considering the whole matter at the NSC level to determine whether there is any basis for arriving at some form of compromise position. He did hope that the British position has sufficient latitude so that, given a willingness to arrive at an agreement, there can be some mutually agreeable compromise.

Mr. Gore-Booth said Mr. Dillon's statement of the U.S. position had made the matter very much clearer, and he could see that a good deal of the argument turned on the question of what is a strategic material. He had noted that the U.S. proposal called for a reduction of about 29 items from the 181 in List I. He said that the British view was that the list could be approximately cut in half to about 93. Mr. Dillon said that an American reading of the British paper had led to the conclusion that the British had intended to abolish the list entirely, except for 31 items, whereas we felt we were making a significant reduction in proposing the elimination of about 40 items, rather than 29. Mr. Dillon and Mr. Gore-Booth agreed that further analysis by both the U.S. and UK would be useful in determining the extent to which there is a real disparity in position. He commented wryly that while it is in the U.S. interest to take as long as possible to work out the situation, because of pressures it is to the British interest to conclude the matter as rapidly as possible.

Mr. Moline said that he thought the discussion had thus far failed to mention one significant aspect, which is that too much emphasis on what both sides would have available on D Day, or thereafter, overlooks the need to consider the material and technical position of the two sides in the period before D Day. Mr. Dillon emphasized the importance of this point.

Mr. Gore-Booth raised a question as to whether it was in our power to do very much with this problem, in terms of restraining the Soviet Union. Mr. Dillon agreed that further analysis of the impact of the trade control program was always in order, but noted that U.S. intelligence sources indicate that the program has been effective in restraining Soviet growth and development. Mr. Mann raised the question as to whether the western world should act in such a way as to facilitate meeting the needs of the Soviet population, or of Communist China, or whether it should move in the opposite direction. Mr. Gore-Booth said that he wondered whether the trade control device was the right piece of machinery, assuming that it was our objective not to facilitate meeting the needs of the Soviet population.

Mr. Dillon and Mr. Gore-Booth agreed that it was desirable to avoid endless argument on criteria, and that it would be advisable for both sides to take a mild attitude on the question of criteria at the COCOM discussion beginning on the 20th. Mr. Gore-Booth said his government would consider U.S. views seriously and respond in due course. He could not predict the reaction of his Ministry of Defense. He would consider whether the UK could put emphasis on the list review. It was noted that care would have to be taken regarding the sensitivities of the French, and possibly those of other countries concerning the situation. It was agreed that the best place for technical discussions was COCOM.

326. Telegram From the Embassy in the Soviet Union to the Department of State

Moscow, February 19, 1958, 1 p.m.

1436. Paris for USRO. Reference: Deptel 891.¹ Soviets have shown continuing strong interest in removal obstacles to trade which doubtless due to economic as well as political reasons. Regarding former, need for machinery for automation, materials in short supply particularly in non-ferrous metals field, and increased access to Western technology are important factors. In political field Soviets have always been sensitive to any discrimination against them and are acutely conscious of relationship between economic and political questions.

In view Soviet knowledge of pressures in West for relaxation of controls would appear difficult if not impossible exact any specific quid pro quo. A bargain of this nature might be possible in the course of general discussions on easing international tensions such as an eventual summit conference, in which case relaxation of controls might be tossed into the scales against such Soviet concessions as termination jamming Western broadcasts. If impossible hold the line with our Western allies pending such conference believe we might at least gain some advantage by informal discussion with Mikoyan in which we would indicate our readiness work toward relaxation of controls in return for some Soviet concession, although I find it difficult to suggest what concession we should seek. As a minimum we might suggest Soviet cooperation in orderly trading procedures. For domestic reasons I would assume that we would not seek a specific exchange which would be made public but rather that the approach would be that following upon the conclusion of the agreement on exchanges as we are prepared to work for a further relaxation of tension and are prepared to take some steps toward relaxation trade controls. On the other hand we hope that Soviets will make a contribution, for example, moderating their propaganda against West, relax-

Source: Department of State, Central Files, 460.509/2-1958. Secret; Limit Distribution. Repeated to Paris. A summary of this cable was included in White House Staff Notes No. 311, February 24, which was seen by the President. (Eisenhower Library, Whitman File, Eisenhower Diaries)

¹ In telegram 891 to Moscow, February 14, the Department requested the Embassy's estimate "whether partial relaxation of control by Western countries could be employed with Soviets in order concessions in other fields." In effect, the cable continued, the Department wanted information on which to base a judgment on what quid pro quo might be obtained from the Soviets in exchange if controls were removed. (Department of State, Central Files, 460.509/2-1458)

ation in restrictions on granting exit permits to dual citizens and close relatives of American citizens, easing travel controls, avoiding disruption international or some other such concession. For such approach to be effective suggest it should be made promptly before Soviets become aware that relaxation of controls is probably inevitable.

Thompson

327. Memorandum of Discussion at the 356th Meeting of the National Security Council

February 27, 1958.

[Here follows a paragraph listing the participants at the meeting.]

1. *U.S. Economic Defense Policy* (NSC 5704/3¹ and references listed therein; NSC Action No. 1857;² Memo for NSC from Acting Executive Secretary, same subject, dated June 25, 1957;³ Memos for NSC from Executive Secretary, same subject, dated February 17⁴ and 26, 1958;⁵ Progress Report, dated March 8–December 31, 1957, by the Secretaries of State and Commerce on NSC 5704/1 and NSC 5704/3⁶)

Upon entering the Cabinet Room ten minutes late, the President commented with a smile that national security affairs occasionally had to give way when domestic politics raised its ugly head.

Thereafter, General Cutler briefed the Council in some detail on the CFEP position paper (CFEP 566)⁷ and the recommendations of the

Source: Eisenhower Library, Whitman File, NSC Records. Top Secret; Eyes Only. Drafted by Gleason on February 28.

¹ See footnote 1, Document 320.

² See footnote 4, Document 322.

³ Apparent reference to a memorandum from the Joints Chiefs of Staff, June 13, 1957, transmitted to the NSC by the Executive Secretary on June 25, in which the JCS stated their opposition to erosion of trade controls against the Soviet bloc. (Department of State, S/P–NSC Files: Lot 62 D 1, U.S. Economic Defense Policy)

⁴ Document 324.

⁵ In this memorandum, Lay transmitted the views of the JCS, February 25, in which they reiterated their opposition to erosion of trade controls against the Sino-Soviet bloc on the grounds that from a military point of view it constituted a threat to the national security. (Department of State, S/P–NSC Files: Lot 62 D 1, U.S. Economic Defense Policy)

⁶ Not printed. (*Ibid.*, E/CFEP Files: Lot 61 D 282A, U.S. Economic Defense Policy, CFEP 566)

⁷ See Document 323.

CFEP with respect to the U.S. position in the current COCOM negotiations, particularly as they concerned the U.K. proposal for a drastic reduction in the existing levels of multilateral controls on trade with the Sino-Soviet bloc. General Cutler concluded his briefing by pointing out that the basic issue confronting the United States in the current COCOM negotiations was whether: (1) to be more influenced by the objective of maintaining what the United States considers to be an effective multilateral control system, or (2) to be more influenced by the objective of achieving a unified allied position with respect to the level of multilateral controls (having in mind the possibility of an upcoming Summit Meeting). He also noted that the State and Commerce Departments, in the CFEP, wished general authority to negotiate downward from the agreed position of the Economic Defense Advisory Committee (EDAC). Defense, on the other hand, wished instead to hold substantially to the EDAC position for the present, and to develop alternatives to the EDAC position only after (a) there had been an attempt to reconcile international differences at a meeting of the policy-level Consultative Group, and then only after (b) a determination by the Secretary of State that further pursuit of U.S. objectives would endanger important U.S. mutual security relationships.

In the course of his briefing, General Cutler also noted the continuing views of the Joint Chiefs of Staff to the effect that any further erosion of international trade controls must be viewed as "imposing an increasing threat to our national and collective security by virtue of its direct contribution to Bloc military build-up." (A copy of General Cutler's briefing note, together with a statement entitled "Comparison of Present International Control Lists, Lists Proposed by U.K., and Lists Proposed by U.S.," are filed in the minutes of the meeting and attached to this memorandum.)⁸

Upon concluding his briefing, General Cutler called first upon Secretary Dulles, who stated that he was dissatisfied with both the position taken by State-Commerce as well as the position taken by the Department of Defense in the discussion of this problem in the CFEP. He therefore wished to present an alternative position, which went further in the direction of liberalization than either of the other two. Secretary Dulles expressed great doubt as to whether the military potential of the Sino-Soviet bloc was appreciably affected by Western controls on trade with the bloc (assuming, of course, that we maintain controls on certain generally agreed items).

In explaining this doubt, Secretary Dulles went on to state that a nation as strong as the Soviet Union, and one as capable of giving priority to military needs, would encounter virtually no impairment of its military power through the imposition of trade controls by the Free

⁸ Printed below.

World states. In illustration of this, Secretary Dulles reminded the Council of the widely-held and quite mistaken view at the outset of World War II, that Germany was incapable of fighting a long-drawn-out war.

Secretary Dulles pointed out further that all our U.S. military planning is based on the assumption that if general war breaks out it will be a nuclear war and that, accordingly, it would be of relatively short duration. He believed that our economic planning should be kept in line with the above assumption underlying our military plans.

Secretary Dulles said that of course he recognized that elimination of controls on some of the items presently controlled would help the Soviet Union to accelerate slightly its current rate of industrial development—as, for example, in providing automation more rapidly. On the other hand, this may be a good thing or it may be a bad thing, in terms of keeping the peace. It was quite possible that the more rapid development of the Soviet industrial base would not turn Soviet policy to more peaceful ends, but rather would increase its capability to wage effective economic or political warfare against the Free World, although the Secretary was inclined to doubt it. Furthermore, we should remember that trade is a two-way proposition. When we trade with the Soviet bloc we do not give things away; there has to be an exchange of goods and advantages.

All this was one side of the picture. Beyond this side, however, we must remember that we are obliged to think of the impact of our policy on trade controls as it affected our alliances; not only the obvious impact on NATO, but the impact on other allied countries like those in Latin America, for example. In the face of an economic recession in the United States, with the resultant severe impact on industrial activity, it was going to be increasingly difficult to induce other countries to maintain restraints on their trade with the Soviet bloc when they feel they need to trade with bloc countries. As an illustration, we might take copper. The world price of copper is now approximately half what it has been. This works a very great hardship on countries like Chile and Peru, which depend on the sale of their copper. We would be in a difficult position if we find ourselves obliged to raise a protective tariff on imports of copper, while at the same time being obliged to insist that Chile and Peru refuse to sell their copper to Soviet bloc nations.

As for NATO, the pressure to trade with the Soviet bloc would become irresistible if there is any considerable recession in the United States. If we take an isolated position on this issue, our cordial relations with our NATO allies and other allies will be seriously endangered. For all these reasons, Secretary Dulles said he would personally go further than the positions outlined in the CFEP paper which was now before the Council. He would favor more liberal trade policies

than this paper envisaged. He did not think that the negotiating position in COCOM proposed for the United States in this paper was sound—a negotiating position which amounted to prolonged wrangling over each item, with appeal to the three Cabinet Members (the Secretaries of State, Defense and Commerce). In support of this latter view, Secretary Dulles reminded the Council of the bitterness which had been occasioned in COCOM by the battle over the elimination of the China differential, particularly on the part of the British. Before the China differential had been eliminated, the British had been in the habit of blaming us for the fact that trade between the United Kingdom and Communist China was of negligible size. Now that the differential has been removed and the trade is still not very notable in volume, the British must blame the Chinese Communists rather than ourselves.

When Secretary Dulles had concluded his observations, the President spoke up to state that in five long years this was the first time that a voice had been raised in support of his, the President's, position on the issue of controls on trade with the Soviet bloc, which for the most part he had considered damned silly practices (laughter).

General Cutler addressed himself to Secretary Dulles and said that he understood that in favoring liberalizing the controls on trade with the Soviet bloc, the Secretary would still maintain the controls on war-making items. Secretary Dulles replied in the affirmative, whereupon General Cutler summed up the Secretary's position as in general following closely the British position. Both the President and Secretary Dulles said that this was correct, generally speaking; the President adding that of course we would continue to control shipment of scarce items, of which we were the sole producers, to the Soviet bloc. Secretary Dulles agreed with this proposal, and added that we would also negotiate the controls on an item-by-item basis rather than on a category basis, as the British desired.

General Cutler then called on Mr. Walter Williams, the Acting Secretary of Commerce. Secretary Williams indicated that while he was somewhat intimidated by the force of the views of the President and the Secretary of State, he still felt that he must make his differing position clear. He believed that the issue was essentially a matter of protecting ourselves by refusing to provide an enemy with items which are potentially useful and helpful, especially items involving advanced technology. He then added that he had four main points which he wished to make.

In the first place, it seemed to Secretary Williams that it was not necessary, as the CFEP paper suggested, to make a choice between maintaining an effective multilateral control system or achieving a unified allied position with respect to control levels. We don't want merely either one or the other of these desiderata; we want both. Our

negotiating approach should be to sift the list of items carefully, make up our minds which items should be controlled, and then do a job of selling our U.K. associates on our list.

Secondly, Secretary Williams wanted to ask whether our past efforts to maintain controls on trade with the Soviet bloc had been effective. Secretary Williams maintained that these efforts would seem to have been effective, because of the evidence of Soviet procurement through clandestine trade and activity. So eager had been the Soviet Union to obtain certain scarce items which had been controlled, that there was evidence that they had paid five times the original price of the items they desired. Secretary Williams cited certain instances—Soviet deficiencies in copper have been and remain very serious; so also was their deficiency in hydraulic industrial presses, where the United States was far ahead of them. Do we really want to make our technology and know-how in such areas available to the Sino-Soviet bloc?

At this point the President interrupted to ask what the argument was about. We were all agreed that items such as those mentioned by Secretary Williams should be embargoed to the bloc. The President emphasized that he had never argued that we would simply accept the British list of items to be decontrolled.

On the same subject, Secretary Dulles stated that of course he was not competent to judge the particular items that Secretary Williams had cited. It was, however, foolish to delude ourselves that the Soviets, on their part, do not have some very fine machines; the launching of the Sputniks had clearly proved this. Our previous idea of our innate industrial and technological superiority has been blasted, and properly so. If the United States and the Free World possess a real know-how and a superior technology, we should by all means restrict the export of this know-how or technology to the Soviet bloc. But we must check carefully to be sure that we do possess these advantages. Secretary Dulles also stated that he too did not propose simply adopting the British list of items to be decontrolled. He was, rather, proposing a different approach, and he did not think it very productive to battle to keep every item that we thought should be controlled on the control list.

Secretary Williams pointed out, in answer to this argument, that the United States had already made concessions to the British with respect to the decontrol of various items. Secretary Dulles replied that while we should constantly keep in mind how we could hurt the Soviet bloc most, we must not forget or overlook how we may in the process hurt ourselves and our alliances.

Secretary Williams reverted to his list of points, noting thirdly that the proposed reduction of items for control would surely increase the Soviet bloc's capability for economic penetration of the Free World.

Secretary Williams' fourth point was a plea that if the urgency of the situation doesn't actually compel an answer to the United Kingdom right now, could we not postpone a decision on further reduction of the levels of control until the approach of the Summit Meeting or at least of a pre-Summit meeting. If we decontrolled too many items now, we would have nothing to bargain with the Soviet Union at these meetings.

Secretary Dulles answered this latter point by indicating that the State Department had given consideration to a delay, but had concluded that the matter could not be handled in this fashion. If postponed much longer, the thing would blow up. The Soviet Union knows very well the attitude and position of most of our allies on the issue of trade controls. Moreover, continued Secretary Dulles, he did not believe in the wisdom of negotiating with the Russians on any basis that we do something injurious to ourselves in order possibly to gain some concessions from the Soviet Union—concessions which might well prove illusory.

General Cutler then called on Secretary McElroy, who stated that he thought that Secretary Dulles' exposition of the problem had been very persuasive. The most that he would like to add at this time was that the approach of the Department of Defense to these lists of items would be more conservative than the approach of the Department of State. However, when you added it all up, Secretary McElroy said he did not believe that it would be too difficult to reach a common point of view. Accordingly, the Defense Department did not want to take a violent position on the issue.

Secretary Dulles said that it was his guess that we would probably end up in a position somewhere about half-way between the control list desired by the British and the list desired by the United States. While the lists were not susceptible of a mathematical division, we would probably end up roughly mid-way.

The President said he was deeply impressed with the variety of considerations which entered into the development of lists for multi-lateral trade controls. On the other hand, if the Soviets want copper, he couldn't think of anything that would be better for the United States now than to sell it to them. He had been under very heavy pressure by U.S. copper producers. In general, the President added, he did not believe in these restrictive trade practices except on items whose technology was known to the United States but not known to the Soviet bloc. He would like to see these lists taken up in the negotiations item by item for a careful scrutiny. The President predicted that the Free World would be stronger if we in the United States were more sensible about trade practices. The President cited Japan.

The Japanese desired to manufacture stainless steel. Our manufacturers of stainless steel wanted the President to put on a protective tariff. If he did so, what would the Japanese do?

In summing up the discussion of this item, General Cutler said that he would try to write out in general terms the desired policy guidance for the U.S. negotiators. He would submit this proposed policy guidance to the Departments of State, Defense and Commerce before showing the guidance to the President. General Cutler then outlined what he believed to be the consensus of the meeting as to the desirable U.S. position in the COCOM negotiations.

Thereafter General Cutler suggested to the President that it would be desirable for the President to ask the CFEP to review our current U.S. Economic Defense Policy (NSC 5704/3) in the light of the changes which were now contemplated in our COCOM position with respect to the level of multilateral trade controls against the Sino-Soviet bloc.

The President reiterated that he wanted a scrutiny of the lists item by item. General Cutler said that this would be done, and that the three Secretaries (State, Defense and Commerce) would agree on which items were to be decontrolled. Such a process, however, would be better accomplished in the CFEP than in the National Security Council.

Mr. Allen Dulles said that the Central Intelligence Agency ought to be brought into this scrutiny of the items on the lists, because of the immense amount of information on the subject available to that agency.

After consulting with Under Secretary Dillon, who sat behind him at the meeting, Secretary Dulles pointed out that there was very little time to reach agreement on the U.S. position, and he added that he thought the technique of having all three of the Secretaries agree on the items to be decontrolled, before they were presented in the COCOM negotiations, would not be effective. He believed, therefore, that the decision as to the actual items which we would agree to decontrol should be determined by the Secretary of State in consultation with the Secretaries of Defense and Commerce, together with the advice of the Director of Central Intelligence.

*The National Security Council:*⁹

a. Discussed the actions by the Council on Foreign Economic Policy, taken pursuant to NSC Action No. 1857 and transmitted by the reference memorandum of February 17, 1958, with particular reference to the U.S. position in current negotiations on multilateral secu-

⁹ Paragraphs a-c and the note that follows constitute NSC Action No. 1865, approved by the President on March 3. (Department of State, S/S-NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

rity trade controls; in the light of the views of the Joint Chiefs of Staff, transmitted by the reference memorandum of February 26, 1958, and the reference Progress Report on NSC 5704/1 and NSC 5704/3.

b. Agreed that the best interests of the United States would be served by liberalizing the multilateral security controls on trade with the Sino-Soviet bloc; thereby facilitating accord with our allies and agreement on the maintenance of an effective multilateral security trade control system. Such system should continue controls on munitions and atomic energy items and on other items having a clear military application or involving advanced technology of strategic significance not available to the Sino-Soviet bloc.

c. Requested the Council on Foreign Economic Policy to review current U.S. Economic Defense Policy (NSC 5704/3) in the light of b above and of developments in such current multilateral security trade control negotiations.

Note: The action in b above, as approved by the President, subsequently transmitted to the Secretary of State for implementation, in consultation with the Secretaries of Defense and Commerce and with the advice of the Director of Central Intelligence, in relation to the current multilateral security trade control negotiations.

The action in c above, as approved by the President, subsequently transmitted to the Chairman, CFEP.

[Here follow agenda items 2–4.]

S. Everett Gleason

Attachment 1¹⁰

Briefing Notes Prepared for the President's Special Assistant for National Security Affairs (Cutler)

February 27, 1958.

Item 1

1. The first item concerns U.S. economic defense policy and the U.S. position in the current COCOM negotiations for review of international trade controls.

2. The Council will recall that, in the course of similar negotiations a year ago, the so-called "China differential" was eliminated, with the result that the system of multilateral trade controls which applied to the European Communist bloc now also applies to China, North Korea and North Vietnam. The U.S., however, has continued a unilateral embargo on China trade.

¹⁰ Secret. Drafted by Cutler and Robert H. Johnson on February 25.

3. During 1957, as the recently-circulated CFEP Progress Report covering that period points out, there was continuing disunity and deterioration in the overall multilateral trade control structure:

“These disturbing elements reflect the participating countries’ belief that the system needs to be revised and brought up to date. This belief is motivated partly by consideration of commercial advantage, but also by genuine concern that present controls are not an effective response to the Soviet threat.”

4. A further evidence of this deterioration was noted by the Secretary of State at the Council meeting on February 6¹¹ when he told of his talks with the British Foreign Secretary relative to new British proposals for further radical reductions in the international trade controls.

5. Since the last Council meeting, a Special Committee of the CFEP (representing State, Commerce and Defense) has submitted a report, circulated to Council members by the CFEP as a basis for discussion today, relative to the U.S. negotiating position in the COCOM negotiations.

6. There is before you a single page table showing by categories: (a) the current level of international trade controls; (b) the new international trade control level proposed by the U.K., and (c) the new level worked out by EDAC, the U.S. Economic Advisory Committee, as the U.S. negotiating position. (EXPLAIN)

7. At the CFEP meeting which considered the Special Committee’s report, these points were discussed:

a. The proposed UK reduction in controls is based on the stated British concept that such controls:

(1) should be limited to items having a direct bearing on the Soviet capabilities in an *initial thermonuclear exchange*;

(2) should be imposed *only* for strategic military purposes; and

(3) should not be directed at the Soviet industrial base, even though the strengthening of that base facilitates Soviet penetration of underdeveloped areas.

b. The basic concept underlining U.S. economic defense policy (NSC 5704/3-9/57) is:

(1) that the current Sino-Soviet threat warrants continued application of economic defense measures “to retard the growth of the war potential of the bloc and to reduce its unity” (para 1).

(2) that our attitude and program should not increase the possibility of war, and should be based upon the assumptions; (a) that interference in trade should take place “only where a clear

¹¹ See Document 322.

advantage to the Free World would accrue from such interference", and (b) that personal, cultural, and commercial contacts with the bloc have positive advantages (para 1).

c. A difference of view exists as to the U.S. negotiating position in the COCOM deliberations:

(1) *State and Commerce* wish general authority to negotiate downward from the agreed EDAC position, subject only to reference of proposed changes to the appropriate interagency forum.

(2) *Defense* wishes instead to hold substantially to the EDAC position for the present. Defense would develop alternatives to the EDAC position only after (a) there had been an attempt to reconcile international differences at a meeting of the policy-level Consultative Group, and then only after (b) a determination by the Secretary of State that further pursuit of U.S. objectives would endanger important U.S. mutual security relationships.

Defense also indicated that it was not satisfied with the effectiveness of existing controls and believed that some controlled items (e.g., tanks) were less important than some that are not controlled (copper wire).

d. There was *no* agreement in the CFEP with the British concept.

e. There was a belief, confirmed by reports received since, that most countries would not be prepared to go as far as the UK, but would insist on going further than the present U.S. position.

f. The CFEP, therefore, agreed that the basic issue confronting the U.S. in the current negotiations is whether: (1) to be more influenced by the objective of maintaining what the U.S. considers to be an *effective* multilateral control system, or (2) to be more influenced by the objective of achieving a unified Allied position with respect to the level of multilateral controls (having in mind the possibility of an upcoming Summit meeting).

g. The CFEP also agreed that *any* reductions from the present U.S. position (EDAC D-142) should take into account Presidential guidance on the foregoing issue and should be subject to agreement of the Secretaries of State, Defense and Commerce consistent with approved policy.

8. In their written views dated February 25, the Joint Chiefs of Staff have reaffirmed their position taken in 1957:

That any further erosion of international trade controls must be viewed as "imposing an increasing threat to our national and collective security by virtue of its direct contribution to Bloc military build-up".

9. Call on

Secretary Dulles
Secretary Weeks
Secretary McElroy

Attachment 2¹²

Comparison of Present International Control Lists, Lists Proposed by U.K., and Lists Proposed by U.S.

	List I ¹³ (Embargo)	List II (Quantitative Control)	List III (Surveillance)
Present	181	25	63
U.K. Proposal	85 ¹⁴	0	0
U.S. (EDAC D-142) ¹⁵	141	0	53 ¹⁶

¹² Secret.

¹³ Does not include 16 International Munitions List items or 35 International Atomic Energy List items, on which the UK has made no specific proposals but which it has suggested should be reviewed. [Footnote in the source text.]

¹⁴ Early in the current COCOM negotiations the indicated tentative UK position was to retain 31 items, plus perhaps parts of 62 other items. As a result of further review, the indicated tentative UK position has been modified to retain 77 items and to add 8 new items (total of 85); to considerably narrow definitions of 30 of the 77; and to broaden definitions of 3. [Footnote in the source text.]

¹⁵ The US reductions in the three Lists (EDAC D-142 above) should be judged in the light of: (a) certain items, now listed separately, would be combined, thus reducing numbers without changing the level of controls; (b) U.S. agreement to drop List II is contingent upon international agreement to add most of its items to Lists I or III, and (c) definitions for a number of items would be broadened and the exceptions procedure would be strengthened. [Footnote in the source text.]

¹⁶ The composition of List III will be altered by eliminating altogether some of the present 63 items, by transfer of others to List I and by adding some items from List II. [Footnote in the source text.]

328. Editorial Note

On May 1, at the 364th meeting of the National Security Council, the President and the Council discussed in detail item 2, "Basic National Security Policy." Included in the discussion was consideration of an interagency disagreement over the wording of a paragraph in draft NSC 5810, "Basic National Security Policy," April 14, 1958, which dealt with trade with China, North Vietnam, and North Korea. According to the memorandum of discussion of the meeting, May 2, the discussion went as follows:

"General Cutler then moved on to subparagraph 37-c, dealing with Communist China and reading as follows:

" 'c. The United States should continue its unilateral embargo on trade with [similarly liberalize its trade policies with]* Communist China, North Korea, and North Vietnam.

“ * ODM alternative proposal.’

“He pointed out his agreement with the position of Mr. Randall that proposals such as this, for changes in our economic defense policy, should be made first in the Council on Foreign Economic Policy. He then called on Mr. Gray to speak to the proposed ODM amendment of subparagraph 37–c.

“Mr. Gray stated that he was agreeable to sending the subparagraph to the CFEP for prior consideration, but that he had changed his mind recently with respect to the liberalization of U.S. trade with Communist China, and felt that the ODM proposal had merit substantively. He accordingly said that he wished to make his position clear when this matter was considered subsequent to CFEP consideration.” (Brackets in the source text.)

The NSC adopted NSC 5810 with the deletion of the Office of Defense Mobilization bracketed alternative and the deletion of the footnote. (Eisenhower Library, Whitman File, NSC Records)

For the portion of the discussion on international commodities, see Document 279. The full discussion of this item and the NSC paper as approved, NSC 5810/1, May 5, are scheduled for publication in volume III. The draft paper, NSC 5810, is in Department of State, S/S–NSC Files: Lot 63 D 351, NSC 5810.

329. Memorandum Prepared in the Department of State

June 16, 1958.

NOTES ON THE EXPANSION OF US-USSR TRADE

I. Summary of Khrushchev Proposals

In his June 2 letter to the President,¹ Mr. Khrushchev made the following main proposals:

Source: Eisenhower Library, CFEP Chairman Records. Official Use Only. Drafted by Herbert F. Propps and Alfred Reifman of the Office of International Trade, Trade Agreements and Treaties Division, Bureau of Economic Affairs. According to an attached covering memorandum by Cullen to the CFEP, June 23, this memorandum was prepared to supplement general discussions at the Council on the Khrushchev letter and would not be subject to further Council action.

¹ Khrushchev's letter of June 2 and Eisenhower's response of July 14 are printed in *American Foreign Policy: Current Documents, 1958*, pp. 846–850.

A. Massive expansion U.S.-Soviet trade in "non-strategic" goods. Soviet purchases concentrated chiefly on industrial equipment, especially for the production of synthetic materials and consumer goods. Soviet exports would comprise chiefly basic commodities, such as manganese and chrome ore, asbestos, lumber and furs.

B. Expansion could be accelerated by long-term U.S. credits.

C. Conclusion of licensing agreements and various proposals to exchange technical information.

D. An inter-governmental trade agreement.

II. Major Considerations

The major considerations in our response to the Khrushchev letter are political. The economic consequences of an affirmative reply would be relatively small. In any event, the volume and composition of our exports would be controllable by the United States.

A. *In favor of acceptance:*

1. It would be viewed abroad as concrete evidence of our interest in a relaxation of East-West tensions, a rapprochement with the Russian Government, and our interest in the Russian people.

2. It might reduce Russian suspicion of U.S. policy.

3. It would avoid the unfavorable repercussions abroad of a rejection of what appears to be a bona-fide offer to trade. (The letter is not an obvious attempt to make propaganda points against the U.S.)

4. It would provide increased opportunity to expand our contacts with the Soviet people.

5. If the U.S. does not supply the non-strategic goods referred to in Khrushchev's letter, the USSR will probably be able to obtain them elsewhere in the free world, particularly in the U.K. and Germany.

B. *Against acceptance:*

1. An attitude that suggested rapprochement with the USSR might weaken the solidarity of the anti-Communist coalition. In particular, it might weaken the current unity of purpose of NATO and other free world military alliances.

2. It would discourage anti-Russian elements in the satellite countries.

3. It would accelerate the trend of primary producing countries toward expanding their trade and making long-term purchases and sales agreements with Communist countries.

4. Increased U.S. imports from the USSR would be at the expense of imports from free world countries, largely the primary producers.

III. Other Considerations—Economic

A. Khrushchev's letter of June 2 is consistent with his May 6 speech to the Central Committee Plenum announcing plans for a rapid expansion of the chemical industry, particularly synthetics, and with Soviet decisions to expand consumer goods output. This indicates that the letter is not entirely a propaganda gambit.

B. Expanded trade between the U.S. and USSR would contribute, to a limited extent, to the economies of both countries. It is unlikely that the trade would become a large proportion of the trade of either country. In 1956, U.S. exports to the USSR were \$3.5 million; U.S. imports from the USSR were \$16.5 million.

C. The USSR could expand its imports from the exports to the U.S. without any change in U.S. policy and without any trade agreement. U.S. policy (see IV below) only moderately affects our imports.

D. However, U.S. exports to the USSR are limited by a variety of legal, extra-legal and administrative factors.

E. It is not likely that increased trade would directly affect the military strength of either the U.S. or the USSR. The amount of resources which both countries devote to military purposes is independent of the amount of trade between them.

IV. U. S. Obstacles to Expansion of Trade

A. Political

The strong anti-Communist sentiment in the U.S. and the non-committal Government attitude toward legal trade with the USSR are major factors inhibiting American business from exploiting trade opportunities with the USSR.

B. Legislative

1. Section 5 of the Trade Agreements Extension Act of 1951 prohibits the applications of MFN treatment to the USSR. Thus, it does not have the benefits of the U.S. tariff reductions which have been made since 1934.

a. A detailed analysis of the items in Khrushchev's letter indicate that the lack of MFN status for the USSR has probably had only a limited effect on the volume of U. S. imports from that country. Many of the items in Khrushchev's letter, e.g., chrome ore, platinum, palladium, asbestos, certain potassium salts, cellulose and paper products, certain chemical products, some undressed furs, iron ore and sausage casing, are free of duties or restrictions. Lack of MFN treatment probably prohibits imports of Soviet manganese ore and certain ferrous alloys.

b. Nevertheless, the Soviets may attach an importance to the denial of MFN treatment out of proportion to its actual economic value.

c. An Act of Congress would be required to extend MFN to the USSR.

2. Section 307 of the Tariff Act of 1930 prohibits the importation of products made by forced labor. In a 1951 finding under this Act, imports of canned crab meat from the USSR were prohibited. In 1950 these imports amounted to \$2.3 million.

3. Section 11 of the Trade Agreements Extension Act of 1951 prohibits the entry of seven specified furs from the USSR and Communist China. Imports of undressed furs declined from \$21.1 million in 1951 to \$12 million in 1953. The decline of \$9 million is largely attributable to this Act.

4. The Johnson Act² makes it a criminal offense for any private American firm to make a loan to any country which is in default on a debt to the US and is not a member of the IBRD and the IMF. This law would have to be repealed or the Soviet Union would have to join the named international institutions to permit private US credits to be granted.

5. The Mutual Defense Assistance Control Act (Battle Act) might be interpreted as preventing the US Government from granting economic aid to the USSR.

6. The Export Control Act of 1949 authorizes the President to prohibit or curtail the export of "strategic" goods to the Soviet bloc. In contrast to the legislation noted above, which would have to be repealed in order to permit trade to expand or public and private credits to be extended, the Export Control Act of itself does not severely restrict U.S. exports. It is the administration of the Act which is determining. The President has the authority to designate the goods which are "strategic" and which are not. This list is under continuous review and change.

C. Administrative

The administration of the Export Control Act is the major governmental device limiting U.S. exports to the USSR. This could be altered by Executive Branch decision.

1. The Commerce Department estimates that under current practice, some 95 percent of the commodity groups in the Khrushchev shopping list would require individual export licenses. Only a few items could be shipped without hurdling this administrative obstacle.

2. a. There would be a presumption of approval for refrigerator equipment, air-conditioning installations, and equipment for the cellulose paper and wood processing, textile, leather footwear and food industries.

b. The rest of the equipment categories on page 6 of the Khrushchev letter would not carry a presumption of approval since most of them are metalworking, pumps and compressors, or electronics equipment.

² April 13, 1934; 48 Stat. 574; as amended by the Bretton Woods Agreement Act, July 31, 1945; 59 Stat. 516.

3. The U.S. now denies licenses for the export of some goods which are *not* embargoed by other countries. The current COCOM review of the international list is likely to reduce the international “strategic” list and may logically be expected eventually to lead to a modification of the more stringent U.S. export control requirements. The latter decision, however, is independent of the former.

4. In 1957 export license applications for shipments to the USSR amounted to \$24 million. Of this, \$13 million were approved, \$11 million were rejected. The Department of Commerce estimates that as much as 90 percent of the licenses rejected were for items *not* on the international list.

V. The Request for Credit

A. It is not politically and probably legally impossible for the U.S. Government to extend credit to the USSR.

B. In a reply we should note that the USSR has relatively large financial (gold) and economic resources available to it and that the U.S. desires to direct its assistance to countries, principally the under-developed ones, which are in greater need.

C. It is possible that the USSR intended to suggest that normal private commercial installment financing for their purchases of long-term capital equipment be made available. The Johnson Act may prevent the extension of such credit by private institutions if these were interpreted as “loans” within the meaning of the Act.

330. Memorandum of Discussion at the 371st Meeting of the National Security Council

July 3, 1958.

[Here follow a list of participants in the meeting, a list of persons present only for items 2 and 3, and agenda items 1–5.]

*6. U.S. Economic Defense Policy (NSC 5704/3)*¹

Referring to the forthcoming visit of himself and the President to Ottawa,² Secretary Dulles predicted that one of the most important

Source: Eisenhower Library, Whitman File, NSC Records. Top Secret; Eyes Only. Drafted by Gleason on July 5.

¹ See footnote 1, Document 320.

² President Eisenhower and Secretary Dulles visited Ottawa, July 8–11, for discussions with Canadian officials. Eisenhower and Prime Minister Diefenbaker discussed the question of trade with China on July 8 and 10. Secretary Dulles and Secretary of State for External Affairs Sidney E. Smith discussed the question of COCOM on July 10.

questions on the agenda would be the difference between U.S. policy and Canadian policy with respect to trade with Communist China. The Chinese Communists are making apparently attractive offers of trade with Canada, including offers to Canadian subsidiaries of U.S. corporations. Therefore, the President may feel that he will have to relax our existing policy, which prevents trade with Communist China by Canadian subsidiaries of U.S. corporations, and provide licenses for such companies.

Secretary McElroy commented that he did not himself see how we could expect U.S. corporations having subsidiaries operating in a foreign country to operate under any other law than the law of the country in which the subsidiary was located.

Secretary Dulles added the information that this problem had been thoroughly discussed by the State Department with the Treasury Department.

*The National Security Council:*³

Noted and discussed an oral statement by the Secretary of State that the United States, in forthcoming meetings with the Government of Canada, may deem it desirable in the national interest to relax its policy with regard to trade with Communist China by Canadian subsidiaries of U.S. corporations.

S. Everett Gleason

Memoranda of these conversations are scheduled for publication in volume VII, Part 1. On July 9, the United States and Canada issued a joint press statement as follows: "The Canadian and United States Governments have given consideration to situations where the export policies and laws of the two countries may not be in complete harmony. It has been agreed that in these cases there will be full consultations between the two Governments with a view to finding through appropriate procedures satisfactory solutions to concrete problems as they arise." (*American Foreign Policy: Current Documents, 1958*, p. 470)

³The following paragraph constitutes NSC Action No. 1944, approved by the President on July 7. (Department of State, S/S-NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

331. Memorandum From the Assistant Secretary of Commerce (Kearns) to the Chairman of the Council on Foreign Economic Policy (Randall)

CFEP 575/1

July 7, 1958.

SUBJECT

Review of Foreign Assets Control Regulations and Their Effect on American-owned Subsidiaries and Other Foreign Firms

I. The Problem

At the present time foreign subsidiaries of U.S. corporations located in friendly countries are not permitted by U.S. Government regulations administered by the Treasury Department to engage in trade and related transactions with the Sino-Soviet Bloc on the same basis as other firms incorporated in these countries. In addition non-subsidiary foreign corporations which are subject to a degree of control by U. S. private interests, as for instance patent licensees, are also bound by these unilateral U.S. controls. At present the effect of the Treasury regulations is to prohibit all trade by such firms with Communist China. So far as the European Soviet Bloc is concerned, Treasury licensees are required only for the more highly strategic goods and such licenses are considered on a case by case basis. The question is raised as to the appropriateness of these controls in the light of changed circumstances, and specifically whether greater flexibility should be permitted by the Treasury.

II. Facts Bearing on the Problem

A. Background

The Treasury regulations that give rise to the stated problem are the foreign assets and transactions control regulations, which have been issued under the Trading With The Enemy Act of 1917, as amended. The regulations have been put into effect primarily to support the U.S. embargo policy toward Communist China and North Korea. In general these regulations prohibit U.S. persons and firms at home and abroad, as well as foreign agents, subsidiaries, licensees and others subject to their control, from engaging in exportation, importation, financing, servicing or making arrangements for any of these activities, in connection with trade with Communist China. The form

Source: Department of State, E/CFEP Files: Lot 61 D 282A, CFEP 575, U.S. Foreign Assets Control Regulation. Confidential. Distributed to the members of the Council on Foreign Economic Policy under cover of a memorandum by Cullen, July 14.

of the regulations, however, is such that no absolute prohibition is stated but rather that specified transactions are prohibited unless licensed by the Treasury.

The transactions control regulations also require a license for persons and firms subject to the jurisdiction of the U.S. in order to trade with the European Soviet Bloc in certain strategic goods (specifically those designated with the symbol "A" in the Department of Commerce's published *Positive Lists*). These "A" items are those that are agreed internationally for embargo to the entire Soviet Bloc or for limitation on a quantitative basis. The U.S. as a matter of policy permits neither category to be shipped to the Soviet Bloc directly from the U.S. under U.S. export controls. Treasury controls prohibit foreign firms controlled by U.S. interests from shipping these items to the Bloc without a Treasury license. Therefore respecting the controlled items, the U.S. Treasury controls go beyond the level of control imposed by the country in which the U.S. subsidiary firm is located. There have been very few cases in recent years, however, and in practice the Treasury has been willing to issue licenses if the U.S. has accepted a COCOM action or other exception.

B. Impact of Controls on Trade Activities Conducted Abroad

Foreign assets or transactions controls are applicable to trade activities when the following are involved:

1. Wholly-owned U.S. subsidiaries, including manufacturing and trading subsidiaries.
2. Foreign firms in which U.S. persons or firms own an interest sufficiently great to constitute de facto control, so far as operations affecting trade with the Sino-Soviet Bloc is concerned.
3. Licensees of U.S. corporations.
4. Foreign branches of U.S. firms.
5. U.S. banks, insurance companies, shipping lines, freight forwarders, brokers, etc., not trading on their own account.
6. Materials of mainland China origin entering into the production of companies in which there is a U.S. interest.

The FAC regulations impose an additional obligation on American owned or controlled firms, to use reasonable care to ascertain that the goods they are selling are not going to be shipped to Communist China.

From the above it is evident that the Treasury regulations are not limited to U.S. citizens or firms but have an impact on a wide variety of business interests in friendly foreign countries.

C. Recent Cases

There have been no recent cases respecting Treasury licenses for trade with the European Soviet Bloc.

Interest on the part of U.S. foreign subsidiaries and associated firms in trade with Communist China had been negligible until the spring of 1957. Following the wide publicity given to the decision at that time of most countries to trade with Communist China on the same basis as with the European Soviet Bloc interest in such trade has increased. This interest has centered in three countries, namely, Canada, Japan, and the United Kingdom.

The following list of cases or inquiries during the past year or so is illustrative and is not in any way meant to be complete:

1. Ford of Canada and Ford of England—passenger cars for Communist China. Ford of Canada was asked to bid on a sale for 1000 cars of the 1958 model.
2. Quaker Oats of Canada—sale of general line of products to Communist China.
3. American Cyanimid of Canada—sale of fertilizer to Communist China.
4. Joy Manufacturing Company's Canadian subsidiary—mining bits and hoisting and lifting equipment for Communist China.
5. Robin Hood Flour Mills of Montreal (subsidiary of International Milling Co.)—trade with Communist China.
6. Square-D Company's English subsidiary—sale of electrical transformer and switch equipment to Communist China.
7. Cargill Co. of Minneapolis—wheat for Communist China via Canada.
8. International Harvester Co. of Australia—trucks for Communist China.
9. U.S. firms having licensing agreements with foreign firms:
 - (a) Willys on behalf of Mitsubishi of Japan—jeeps for Communist China.
 - (b) Otis Elevator Co.—Japanese subsidiary to manufacture and export electric equipment to Communist China.

III. Discussion

The embargo character of the FAC regulations as far as Communist China is concerned was determined as a matter of policy during the Korean hostilities. At the time the United Nations branded Communist China as an aggressor many countries joined the U.S. in the fighting in Korea, and therefore gave support to these policies in the trade field. At the present time, however, no important trading country joins the U.S. in the embargo policy and most countries find the U.S. regulations running counter to their policies so far as trade with Communist China is concerned.

The FAC regulations respecting the European Soviet Bloc were introduced at a later date and were designed to help implement the agreed COCOM controls and the more stringent U.S. unilateral controls. Inasmuch as the items agreed for embargo control by the COCOM and other countries with which we have mutual aid/Battle

Act treaties are already effectively controlled, the Treasury regulations have a potential impact only with respect to the so-called quantitatively controlled items. These items for many years have been licensed to the European Soviet Bloc by all the COCOM countries except the U.S. In general the Treasury operates its controls toward the European Soviet Bloc so as to parallel Department of Commerce controls over commodities, or to permit U.S. firms to engage in transactions authorized through COCOM or through special exceptions procedures. It is difficult to assess the actual impact of the Treasury regulations in the absence of recent cases, but the existence of the regulations probably has some deterrent effect.

From the above it is evident that conditions have changed materially with respect to Red China and non-China aspects of the Treasury regulations. In both cases, our friends and allies have passed from an initial period of active cooperation to acquiescence or actual resistance to our off-shore regulations. At the same time the U.S. has had to modify its attitude toward such trade by friendly countries, and at present our position is emerging as a neutral one of not strongly objecting to trade carried on in accordance with the agreed rules.

Opposition to the FAC regulations is most pronounced in Canada, Japan and the United Kingdom. These countries have for some time been critical of the U.S. embargo policy, but so long as only U.S. trade was involved they could have no basis for objection to our policy. However, following the Paris meetings of the strategic controls committee in the spring of 1957 it was determined by all the participating countries other than the U.S. to reduce the level of controls toward Communist China to that applied to the rest of the Soviet Bloc.¹ Since that time, therefore, the U.S. controls have served to deny business to firms incorporated in and doing business in these countries—contrary to the trade policies of these countries and to the presumed detriment of their economies. In other words, U.S. Government actions tend to negate the policies of these countries in a field of trade that they consider normal and desirable. This is particularly the case in Canada, where U.S. financial interest in Canadian corporations is of such great importance.

In the case of Canada this subject has direct consequences beyond the trade question. The business recession in Canada has caused labor and business interests to view the Chinese market with perhaps greater hope than the facts justify. In addition the subject has come to occupy a place of some importance in Canadian politics under the general heading of "U.S. interference in Canadian affairs."

¹ In 1957 preliminary figures indicate that Free-world exports to Communist China totalled \$511 million and imports were \$618 million. [Footnote in the source text.]

An additional important consideration is the adverse effect of present policies respecting private foreign investment. This aspect was most succinctly stated last fall in a despatch from the U.S. Embassy in Japan as follows: "As a final note, the Embassy wishes to indicate its concern over the possible adverse reaction of the Japanese if a distorted impression is obtained that the United States is attempting to use American investment in Japanese firms to further United States Governmental policies which may not fully coincide with those of the Japanese Government."

In the light of the developments and considerations discussed above it appears desirable to consider whether some degree of flexibility can appropriately be introduced into the foreign aspect of the Treasury regulations. In this connection, the following basic questions must be considered:

1. Are our relations with friendly countries being so seriously adversely affected by our controls over their corporate citizens that changes in these controls are warranted on foreign policy grounds? What would be the over-all foreign policy impact of a changed U.S. position?

2. Can the U.S. maintain its embargo policy on direct U.S. transactions with Communist China and at the same time permit a significant amelioration of the impact of controls respecting foreign corporations subject to control by U.S. private interests?

3. How serious a problem of discrimination would arise if U.S.-controlled firms off-shore were permitted to engage in trade but this privilege were denied to firms operating in the U.S.?

4. Would our economic defense position be strengthened or weakened by adopting a more conciliatory approach respecting off-shore operations of firms controlled totally or partially by U.S. private interests?

5. Is there a domestic political problem to be considered?

IV. Conclusion

From the above the Department of Commerce has drawn the following conclusions:

1. U.S. foreign transactions controls as applied to foreign firms controlled by U.S. interests are becoming an irritant in our government-to-government commercial relations with a number of countries.

2. These controls, except as applied to strategic goods, are difficult to justify on economic defense grounds.

3. U.S. private firms in their relations with friendly foreign governments are subject to embarrassment as a result of these regulations.

4. Private U.S. investment abroad, directly and through licensing agreements, may be adversely affected.

5. Our relations with friendly countries respecting the China embargo have undergone a fundamental change since the adoption of the Treasury regulations, and therefore these regulations should be evaluated in the context of other U.S. commercial policy objectives, particularly that of expanded trade and investment in friendly countries.

V. Recommendation

The Department of Commerce believes that it would be in the national interest for the U.S. to reexamine its position on the question of trade with the Sino-Soviet Bloc by foreign-based U.S. subsidiaries and affiliated firms. In such a review the relative importance of the basic factors involved must be evaluated, particularly the threat to future private investment abroad, the over-all effect on our foreign relations, the economic defense consequences, and the political implications.

332. Minutes of the 78th Meeting of the Council on Foreign Economic Policy

August 7, 1958.¹

[Here follows a list of participants.]

I. The Council on Foreign Economic Policy approved the minutes of July 29, 1958 as corrected.

II. CFEP 566—U.S. Economic Defense Policy

1. The CFEP considered a recommendation by the Department of State that Executive Branch approval be recorded on the recently negotiated new level of international multilateral security trade controls in the Coordinating Committee (COCOM) and the Consultative Group (CG), in the light of (a) the current international situation, (b) the requirements of national and free world security, and (c) the standards created in NSC Action No. 1865.² (See CFEP 566/3.)³

Source: Eisenhower Library, CFEP Chairman Records, CFEP Minutes, 1958. Secret.

¹ The meeting took place in the Executive Office Building.

² See footnote 9, Document 327.

³ CFEP 566/3, August 5, was a memorandum to the CFEP from Cullen reporting on NSC Action 1865, summarizing an attached letter from Dillon to Randall, August 4, which outlined the results of the agreement reached by the Consultative Group at Paris, and noting that the Secretary of State recommended approval of the new multilateral trade controls as agreed upon at Paris. (Department of State, E/CFEP Files: Lot 61 D 282A, U.S. Economic Defense, CFEP 566)

2. Under Secretary Dillon stated that on February 27, 1958 the National Security Council agreed, in connection with the then forthcoming international security trade control negotiations, that the best interests of the United States would be served by liberalizing the multilateral security controls on trade with the Sino-Soviet Bloc, thereby facilitating accord with our allies and agreement on the maintenance of an effective multilateral security trade control system. The NSC further agreed that such system should continue controls on munitions and atomic energy items and on other items having a clear military application or involving advanced technology of strategy significance not available to the Sino-Soviet Bloc. (See NSC Action No. 1865.) He added that this action was transmitted to the Secretary of State for implementation, in consultation with the Secretaries of Defense and Commerce and with the advice of the Director of Central Intelligence.

3. Mr. Dillon reported that the international negotiations have now been concluded and that the new lists will be announced on August 15. He said that while the resulting coverage of the control lists is not as wide as that proposed in the original United States submission to COCOM, it has facilitated accord among the participating countries and, thus, set the basis for the continued maintenance of an effective multilateral security trade control system. He stated that with the exception of the Department of Defense, all agencies represented on the Economic Defense Advisory Committee considered that the final agreement maintained controls on items having a clear military application or involving advanced technology of strategic significance not available to the Sino-Soviet Bloc.

4. Mr. Dillon advised the Council that the COCOM and CG negotiations had the following practical results:

a. The International Munitions List has been modernized and extended in coverage;

b. The International Atomic Energy List remains the same but is subject to review, beginning in September;

c. The international embargo list (International List I) covers about 120 items;

d. The secondary control list contains about 35 items which will be kept under surveillance and reports; and

e. There has been an agreement to review controls in the light of prevailing conditions in the fall of 1959.

5. Mr. Irwin reported that the Department of Defense considers that the new controls do not maintain effective coverage over many items which, in its opinion, have a clear military application or involve advanced technology of strategic significance not available to the Sino-Soviet Bloc, but that Defense has no alternative other than to accept the multilateral system as agreed in the CG. He added that the Depart-

ment of Defense agreed that the results of the negotiations met the NSC requirements. He concluded by saying that the Department of Defense was submitting a paper to the CFEP further elaborating the Defense position. (This paper is attached.)

6. A question was raised in the CFEP as to whether the language in NSC Action No. 1865 meant that the United States should not agree to reductions in the Atomic Energy List as presently constituted when this list is reviewed in September.

7. The CFEP took the following action:

a. Noted that the agreements made by our negotiators in the recent COCOM and CG meetings on multilateral security trade controls meet the requirements of NSC Action No. 1865 and deserve Executive Branch approval.

b. Agreed that the NSC should be asked to note and concur in the actions taken by our negotiators at the COCOM and CG meetings.

c. Noted that the question as to the meaning of the language in NSC Action 1865 relative to review of the Atomic Energy List should be referred to the NSC.

Paul H. Cullen

Lt. Col., USA

Secretary

Attachment⁴

Letter From the Assistant Secretary of Defense for International Security Affairs (Sprague) to the Chairman of the Council on Foreign Economic Policy (Randall)

August 11, 1958.

DEAR MR. RANDALL: Reference is made to CFEP Document 566/3 reporting the results of the recent Consultative Group negotiations and outlining State Department findings and proposals. It should be noted that a numerical comparison between the new International Embargo List of 120 items and the former list of 182 items is misleading because the magnitude of the reduction is much greater than the mere comparison of numbers would indicate as a result of the adoption of new definitions greatly narrowing the coverage on most items. The complete list with definitions has not yet been received in Washington, but Defense's preliminary study indicates that the over-all coverage of the former embargo list may have been reduced by as much as 70 to 80 per cent.

⁴ Secret.

The Department considers that the new controls do not maintain effective coverage over many items which, in its opinion, have a clear military application and incorporate advanced technology of strategic significance not available to the Sino-Soviet Bloc. However, the Department sees no alternative other than to accept the multilateral control system as agreed in the Consultative Group.

Sincerely yours,

Mansfield D. Sprague⁵

⁵ Printed from a copy that bears this typed signature.

333. Memorandum From the Under Secretary of State for Economic Affairs (Dillon) to Acting Secretary of State Herter

August 19, 1958.

SUBJECT

US Economic Defense Policy

Problem

To seek NSC agreement to the recommendations made by the Secretary to the CFEP that the new level of international security trade controls be approved; and to seek NSC endorsement of the continuation of the policy of conforming the Battle Act Lists to the International Lists in coverage.

Discussion

The memorandum for the NSC of August 13, 1958 (Tab A)¹ contains a report by the CFEP on the recent review of the international trade controls which resulted in revised International, Munitions and

Source: Department of State, S/P–NSC Files: Lot 62 D 1, U.S. Economic Defense Policy. Secret. Drafted by Douglas Henderson, Assistant Chief, Economic Defense Division, Office of International Resources, Bureau of Economic Affairs; Jerry Knoll, also of that division; and Dillon. Cleared in draft with Robert Carr, Director, Office of International Resources; Admiral Walter S. Delany, Deputy Administrator for the Mutual Defense Assistance Control Act; and Robert H. McBride, Myron L. Black, and William E. Culbert all of the Office of European Regional Affairs.

¹ This memorandum transmitted to the NSC a memorandum from Randall to Lay, August 12, which summarized the negotiation in the COCOM and CG. (*Ibid.*)

Embargo Lists, and a secondary list of items which will be kept under surveillance by COCOM. Agreement was also reached to review controls in the fall of 1959 in the light of then prevailing conditions.

It is the consensus of the CFEP that the agreements made by the negotiators meet the requirements of NSC Action 1865 of February 27, 1958 (Tab B)² and deserve the approval of the Executive Branch.³

Defense has been reluctant to endorse the results of the CG/COCOM List Review as meeting the requirements of NSC Action 1865. Defense is therefore reluctant to concur with the action of the Battle Act Administrator in making the Battle Act Lists identical to the International Lists. Defense filed a statement (Tab C)⁴ with CFEP on August 11, three days after the meeting, which registered acceptance of the results of the negotiations. This statement alleges that the new International Lists represent a 70–80 percent reduction in previous overall coverage and does not maintain effective control over many items which Defense believes have a clear military application and which incorporate advanced technology of strategic significance not available in the Sino-Soviet bloc. Defense sees no alternative to acceptance of the multilateral control system as agreed by CG/COCOM but has been unwilling to give formal concurrence to any action implying that these controls meet U.S. security objectives.

CIA's evaluation of the results of the List Review (Tab D)⁵ concludes that the recent reduction in coverage of the COCOM embargo could not result in a significant increase in the Soviet bloc's overall military-industrial capacity. Commerce views the results as establishing a satisfactory basis for an effective multilateral control system, although not entirely satisfied with the item coverage.⁶

The question may arise whether NSC Action 1865 permits the review of the International Atomic Energy List which the CG agreed should begin in September. (The U.S. proposal for this review was prepared and officially transmitted to EDAC for action by the Atomic Energy Commission.) Bilateral discussions on AEC recommendation have already been initiated with the British Embassy.

² See footnote 9, Document 327.

³ See Document 332.

⁴ Attached to Document 332.

⁵ CIA views were contained in a memorandum from Robert Amory, Jr., to Dillon, August 18, transmitted by Lay to the NSC Planning Board on August 19. (Department of State, S/P-NSC Files: Lot 62 D 1, U.S. Economic Defense Policy)

⁶ Department of Commerce views were contained in a memorandum from Marshall M. Smith, Acting Assistant Secretary of Commerce for International Affairs, to Dillon, August 19. (*Ibid.*, Central Files, 460.509/8-1958)

Recommendation

It is recommended that you authorize me, in my capacity as Administrator of the Battle Act, to make a further report on the CG–COCOM negotiations and to

(a) seek NSC agreement to the new level of international controls, which were agreed by the U.S. negotiators as meeting the requirements of NSC Action 1865. (The changes in the list were essential to maintain the multilateral security trade control system as drafted by the NSC in Action 1865.)

(b) request the NSC to confirm the principle of conforming the Battle Act Lists to the new International Lists. (This would be consistent with the action taken at the time of the 1954 List Review. To have Battle Act Lists more extensive than the International Lists would be interpreted by our allies as an attempt to enforce by unilateral means a level of control which we were unable to negotiate multilaterally. In order to avoid a lapse following the coming into effect of the new International Lists, a determination was signed on August 15 revising the Battle Act Lists; this determination was without prejudice to action by the NSC on August 21.)

(c) If the question is raised as to whether the language of the NSC Action 1865 permits modification of the present International Atomic Energy List, express the Department view that the first sentence of paragraph B of the NSC Action does permit such modification as has been or may be approved by the Atomic Energy Commission.

334. Memorandum of Discussion at the 377th Meeting of the National Security Council

August 21, 1958.

[Here follows a paragraph listing the participants at the meeting.]

1. *U.S. Economic Defense Policy* (NSC 5704/3; ¹ NSC Action No. 1865; ² Memo for NSC from Executive Secretary, same subject, dated August 13, 1958 ³)

Mr. Gray briefed the Council on the subject item, and called immediately upon Mr. Randall as Chairman of the Council on Foreign Economic Policy. (A copy of Mr. Gray's briefing note is filed in the

Source: Eisenhower Library, Whitman File, NSC Records. Top Secret; Eyes Only. Drafted by Gleason on August 22.

¹ See footnote 1, Document 320.

² See footnote 9, Document 327.

³ See footnote 1, Document 333.

minutes of the meeting, and another is attached to this memorandum.)⁴

Mr. Randall pointed out that the CFEP had met, and had received the report of the negotiations at the recent meetings of COCOM and of the Consultative Group (CG). The sole issue before the NSC this morning was whether the results of the negotiations were within the authority extended by NSC Action No. 1865-b, reading as follows:

"Agreed that the best interests of the United States would be served by liberalizing the multilateral security controls on trade with the Sino-Soviet bloc; thereby facilitating accord with our allies and agreement on the maintenance of an effective multilateral security trade control system. Such system should continue controls on munitions and atomic energy items and on other items having a clear military application or involving advanced technology of strategic significance not available to the Sino-Soviet bloc."

The CFEP had unanimously agreed that the negotiations had been conducted within the above-mentioned authority, although the Defense Department representative was not very happy at some of the results of the negotiations.

Mr. Gray then called on Mr. Douglas Dillon, the Under Secretary of State for Economic Affairs. Mr. Dillon presented to the Council an oral report covering the background of the negotiations in COCOM and in the Consultative Group. He pointed out that at about this time last year, when the China and Soviet control lists had been consolidated, we had agreed with our allies to undertake a review of the new combined lists. Work had proceeded all during the following autumn and resulted in a U.S. proposal for a new list containing 148 items which would be subject to control. When we presented this new list to our allies, they had thought that our list was still too broad and inclusive. This was the background for the discussion of the subject which was held in the National Security Council in February 1958, the end product of which was NSC Action No. 1865-b quoted above.

Negotiations on the technical level lasted from mid-March 1958 to the first of July 1958. The U.S. negotiators started out with our original list of 148 items and argued for them as effectively as they could on technical grounds. Subsequently, certain further reductions in the list were agreed upon. Following this, the Consultative Group met in Paris in the middle of last month. The Departments of Defense and Commerce were provided with an opportunity to go over the instructions to the U.S. Delegation prior to these final negotiations. The Defense Department desired us to hold out for certain items which most of our Delegation felt it would be impossible to negotiate successfully without at the same time threatening the effectiveness of

⁴ Attached but not printed.

the whole multilateral security trade control system. Defense's concern centered around four major items: jet fuel, tankers, nickel, and steel rolling mills. We succeeded, in the international negotiations, in retaining jet fuel on the international control list. We also succeeded in maintaining control on nickel to a considerable degree. The problem of the tankers proved very difficult. We agreed to relax the controls on tankers whose speed was less than 18 knots, while keeping control on tankers whose speed was 18 knots or better. The United Kingdom also finally agreed to our keeping steel rolling mills on the list for international control.

The President inquired why there had been such controversy about retaining steel rolling mills on the control list. He had not thought that this would be so important, in view of the high degree of efficiency now known to exist in the Soviet steel industry.

Mr. Dillon replied that Commerce had thought it extremely important to retain the international controls on the export of steel rolling mills to the Soviet bloc. This was the only aspect of Russian steel production in which the Russians were still behind the United States in progress.

Mr. Dillon expressed the view that as a result of the July negotiations the list of military items for international control had actually been somewhat expanded and strengthened. The only item to come off the military list was civilian aircraft, which everybody agreed did not belong on the military list. Certain kinds of civilian aircraft and aircraft weighing over 90,000 pounds were to be continued on the list for control, though on the regular list and not on the military list.

The final result of the negotiations in Paris was agreement on an international list of 119 items for multilateral control. The extent of the controls was considerably decreased, although it was the feeling of most of the U.S. Delegation and of the State Department that we now had a solid and reasonable international list.

Mr. Dillon then read the conclusions of a letter from the Deputy Director, Intelligence, CIA (Mr. Robert Amory), to himself,⁵ indicating the judgment of the Central Intelligence Agency that the items decontrolled in the new lists would not substantially benefit Soviet military capabilities.

Mr. Dillon also insisted that items containing advanced technology were safeguarded under the new control list, and that it had been agreed to relax the controls on raw copper because it had been impossible to maintain control over the export of copper wire, which was the really crucial item which we would have liked to maintain controls on. At least, the decontrol of raw copper would be highly pleasing to Chile.

⁵ See footnote 5, Document 333.

In addition to these main items which had been removed from multilateral control, some 20 new items had been added. These were mostly items which contained very modern technology. Mr. Dillon expressed the general view that the new agreement would stick. All the nations making up the multilateral control system were happy about it, with very few exceptions. However, it had been agreed to review the list annually. The new review will occur in September 1959, when the United Kingdom may again attempt to remove steel rolling mills from the international list.

With respect to the language of NSC Action No. 1865-b as it applied to controls on atomic energy items, Mr. Dillon said that he had not understood the language to mean that we could never change the list of atomic energy items subject to international control, but, rather, that the language meant that we would not decontrol items on the atomic energy list which we agreed were significant. The Atomic Energy Commission is now discussing this matter with representatives of the United Kingdom. There are only two or three items on this list about which there might be a disagreement between ourselves and the United Kingdom. We should have guidance that whatever eventuates from the AEC discussions with the United Kingdom should be acceptable to the United States provided the AEC agrees.

With respect to the Battle Act lists, Mr. Dillon said that he, as Battle Act Administrator, had signed a revised list in mid-August which conformed the Battle Act lists to the newly-agreed international lists. Mr. Dillon felt that he had no alternative but to sign such lists, but since this was a matter of major decision, he had not sent forward the new Battle Act lists until he could secure approval in principle again for the precedent set in 1954 of having the Battle Act lists conform to the international lists. He therefore hoped that the National Security Council would note that the Battle Act Administrator had conformed the Battle Act lists to the new international lists. Finally, said Mr. Dillon, a "watch list" was set up in Paris over some 35 items.

When Mr. Dillon had concluded his oral report, the President inquired if there were any questions. Secretary McElroy said that what Mr. Dillon had said was OK with him. He believed that the Department of Defense had been given consideration with respect to its own views. Defense was not altogether happy with some of the decisions made in the international negotiations, but Secretary McElroy said he realized that decision had to be taken. He would not suggest that the NSC take any other action than to note the action taken by our negotiators as provided in the CFEP report.

Secretary Weeks noted that representatives of the Department of Commerce had also sat in on these negotiations, and had done the best they could to advance their own views on what items should be

controlled and what items should be decontrolled. Secretary Weeks went on to point out that the emergence of a new international control list made it requisite for Commerce to bring out a new Export Control List. It would be necessary to go over the new international control lists with a view to determining which of the items on the new multilateral control list should be subject to continued U.S. unilateral control and therefore be placed in the new Export Control List. In this regard, Secretary Weeks pointed out that the Russians want to buy from the United States and the West not consumers goods, but heavy industrial equipment. Accordingly, it was his view that the CFEP should sit down and decide what the United States could do by way of unilateral controls on industrial equipment which the Russians were eager to purchase. He felt that this subject should receive some mention at this meeting.

At the conclusion of the discussion, the President asked for further information about the matter of steel rolling mills, where the Russians were clearly behind the United States and the West. Given the fact that the Russians were still unable to buy steel rolling mills from the West, were they not in a position to secure models of Western rolling mills and then copy them for production in the Soviet Union? Mr. Dillon replied that they would be unable to obtain such plans legally. The President commented that, by and large, he believed that we were often kidding ourselves in imagining that in embargoing or controlling items for export from the West to the Soviet bloc we were securing any concrete advantage. However, he emphatically believed that it was desirable to maintain controls over such items as steel rolling mills, where the Russians were obviously behind the West.

*The National Security Council:*⁶

a. Noted and discussed the report on the subject by the Chairman, Council on Foreign Economic Policy, transmitted by the reference memorandum of August 13, 1958; in the light of an oral report on the subject by the Under Secretary of State for Economic Affairs.

b. Noted that the Battle Act Administrator had signed new Battle Act Lists which conform to the new international lists recently negotiated in the COCOM and CG.

c. Noted the statement by the Under Secretary of State for Economic Affairs that, under NSC Action No. 1865–b, U.S. negotiators would have sufficient flexibility in the forthcoming review of the International Atomic Energy Lists.

[Here follow agenda items 2–8.]

S. Everett Gleason

⁶ Paragraphs a–c constitute NSC Action No. 1969, approved by the President on August 26. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

335. Special National Intelligence Estimate

SNIE 100-8-58

October 7, 1958.

IMPLICATIONS OF AN INCREASE IN US-SOVIET TRADE**The Problem**

To estimate the implications within the Bloc and the Free World of an increase in US-USSR trade.

Conclusions

1. The Soviets probably genuinely desire an increase in US-USSR trade. The possibilities for expanding this trade are severely restricted, however, by the limited range of Soviet goods likely to be marketable in the US, by US administrative and legislative measures in the fields of commercial policy and economic defense, and by the uncertainty of private US business reaction. We believe it reasonable to assume that if the US were to modify certain administrative restrictions, especially export licensing, US export to the USSR might expand over the next few years to about \$100-150 million annually. While the USSR would probably not be able to balance trade at this level by its own direct export of goods to the US, it could make up the residual amount by reexports, transfers of free exchange, and by selling more gold to the Free World. (Paras. 5, 7, 9, 14)

2. An increase in imports from the US of the volume and composition postulated in this estimate would have little impact on the Soviet economy. The consumers goods industry could benefit the most if the Soviet leaders so decided; in some cases, however, the imported machinery and equipment could be used to increase the output of commodities for use in more basic industry. Assuming US control on the export of strategic goods, we believe the postulated increase in trade would have little effect on Soviet military potential. Soviet trade with underdeveloped countries or Communist China would not be significantly affected. (Paras. 15-20)

3. The Soviet leaders probably believe that increased trade with the US would strengthen their line of peaceful coexistence, diminish US ability to maintain Western trade controls and a generally strong

Source: Department of State, INR-NIE Files. Confidential. A note on the cover sheet indicates that this special estimate, submitted by the CIA, was prepared by CIA, INR, and the intelligence organizations of the Departments of the Army, the Navy, the Air Force, and The Joint Staff. All members of the U.S. Intelligence Board concurred in this estimate on October 7 with the exception of the representatives of the Atomic Energy Commission and the Federal Bureau of Investigation who abstained on the grounds that the topic was outside their jurisdiction. An annex entitled "Possible Level and Composition of Future US-Soviet Trade," is not printed.

anti-Communist position, and create frictions in the West as various countries found themselves in competition with the US for Soviet trade. We do not believe that these developments would occur to a significant degree. Most non-Communist countries would favorably view an increase in US–USSR trade as a sign that world tensions were relaxing. This would not be true of South Korea and Nationalist China, however, or among some elements in other countries. Japan, as well as many underdeveloped countries, would become less receptive than they are today to US advice against expanding economic relations with the Bloc. (Paras. 8, 21)

4. In the final analysis the view taken by most countries would depend largely upon the impact which increased US–USSR trade had upon the trade of those countries. It is possible that certain countries would be adversely affected by US competition in the Soviet market or, more probably, by an increase in Soviet raw material exports to the US. We believe that at the postulated levels of trade such effect would in general be small. Nevertheless, substantial increase in US imports of certain specific commodities from the USSR might seriously damage the trade or the foreign exchange position of particular Free World countries. (Paras. 21–23)

Discussion

I. Introduction

5. The possibility of a substantial increase in US–USSR trade was raised by Khrushchev’s letter to President Eisenhower, 2 June 1958.¹ Khrushchev proposed that the USSR would buy non-strategic industrial equipment, especially for the production of synthetic materials and consumer goods, and would sell to the US in return basic commodities, including manganese and chrome ore, asbestos, lumber, furs, and possibly some machinery and equipment of modern design. To accelerate the expansion of trade, he suggested that the US provide long term commercial credits. He also proposed the conclusion of licensing agreements, exchange of technical information, and an inter-governmental agreement to regulate economic relations between the two countries.

6. Khrushchev’s proposal, although generally businesslike in tone, was probably in the first instance a propaganda gesture. Whether or not it was accepted, it would further the Soviet line of “peaceful coexistence” by appearing to respond positively to US proposals that world trade be increased. It asserted that US industry would be interested in getting orders “now,” an obvious reference to the US recession, the impact of which has been overestimated by the Soviets.

¹ See footnote 1, Document 329.

Moreover, the fact that Khrushchev referred to trade in the "billions" demonstrates the propaganda aspects of the note. He is certainly aware that the Soviet Union does not have exports sufficiently attractive to the US market to support trade at such a level; he must also be aware that there is only the most remote chance that the US, in present circumstances, would extend large and long term credits to the USSR.

7. Nevertheless, we believe that the Soviet Union genuinely desires an increase in its trade with the US—a trade which in 1957 comprised exports to the US of \$16.8 million and imports from the US of only \$4.5 million. The Soviet effort to strengthen its industrial base and to increase the availability of consumer goods would be facilitated by obtaining technologically advanced machinery and equipment from the US, e.g., for the petrochemical and plastic industries. The Soviets would thus avoid some of the costs of development, and, as Khrushchev pointed out to the Central Committee in May 1958, could save much time by importing plants from the US, UK, and West Germany. If in addition, they could obtain long term US credits, they could acquire the facilities to increase production with a minimum initial drain on their own resources.

8. The Soviet leaders almost certainly also believe that important political gains would flow from a substantial increase in Soviet trade with the US. In their view, it would be likely to strengthen the Moscow line of peaceful coexistence and to weaken the effectiveness of US efforts to maintain a strong anti-Communist position. The Soviet leaders probably believe that such a development would further diminish the US ability to maintain Western trade controls. They may also think increased trade with the US would create divisive frictions in the West as other Western industrial countries observed the US increasing its share of the Soviet market.

II. Potential Magnitude of US-USSR Trade

9. Despite Soviet desire to expand US-USSR trade, it is difficult to estimate the extent to which this trade might realistically be expected to increase, and to judge the permanence of such an increase if it were to occur. The primary factors involved would be the ability of the Soviet Union to make available for export commodities which could be sold in the US, the willingness of the US government to relax legal and administrative discriminations against trade with the USSR, and the willingness of private US industry to do business with the Soviet Union.

10. Judging by the Soviet goods which we believe potentially available for export to the US, it is almost certain that the Soviet Union would have difficulty in increasing its exchange earning capacity. The US now obtains from non-Communist sources virtually all its imports

of the raw materials mentioned by Khrushchev. Further, for manganese and chrome in particular—at one time major Soviet exports to the US—many of the new sources to which the US has turned have been developed by US private and government capital, and supplies appear ample. While the USSR could undercut existing prices of these materials, it would have to be wary of charges of dumping, which could result in additional US restrictions. While the Soviet leaders would probably be willing to sell some types of machinery in which they have made innovations, there would not be enough of such items to yield a significant return. The Soviets would be unlikely to make the effort necessary to market ordinarily competitive types of machinery and equipment in quantity to US importers.

11. Existing US measures tending to restrict US–USSR trade also pose a formidable obstacle to any increase in such trade. Congress has enacted laws under which the import of crabmeat and certain furs of Soviet origin is prohibited and most-favored-nation (MFN) tariff treatment is specifically denied the Soviet Union, thus depriving it of the tariff benefits negotiated since 1934. The lack of MFN tariff treatment would be a most significant obstacle to US imports of manganese ore and ferroalloys from the USSR. More important, perhaps, it would hinder US imports of Soviet goods which have not historically been part of US–USSR trade but which would probably have to enter the trade to finance a really substantial volume of Soviet purchases here. The USSR and other communist countries also place a high symbolic value on MFN treatment and would undoubtedly make it a major objective in any trade negotiations with the US. US export controls continue to be more stringent than those recently agreed to by the members of COCOM. Finally, the Battle and Johnson Acts prohibit governmental and private loans to the USSR; under present legal interpretations US exporters or banks could grant no more than 180-day commercial credit to the Soviet Union.

12. Even if the US government acted to facilitate trade with the USSR, the response of US private industry is uncertain. It would obviously depend in the first instance on the profitability of specific deals. Even so, many US importers would probably be reluctant to switch from established sources of supply, especially in view of their uncertainty as to the permanence and reliability of the USSR as a source. Many US manufacturers would be reluctant to give the Soviets access to equipment embodying advanced technology, fearing that the Russians would choose to compete in third country markets. Others, feeling that trade with the USSR would be sporadic and risky, might be reluctant to undertake the retooling and plant modification necessary to meet Soviet specifications. Finally, American private business

often foresees public relations difficulties in trade with the USSR, even though the transaction may be entirely legal, and therefore would probably move cautiously in the matter.

13. As to the permanence of Soviet desire for expanded trade with the US and other advanced countries, pre-1941 performance suggests that the fear of a one-shot operation, or at least of highly irregular Soviet levels of demand, is well-founded. Khrushchev's offer emphasized the Soviet desire to buy plant equipment and technology rather than finished products, and it may be that in many areas the Soviets would proceed to produce their own and not draw further on the West. However, it appears likely that the West will continue to develop a variety of processes attractive to the USSR; imports of Western machinery would also, as a practical matter, ease the pressure which growing internal development and demands from other Bloc countries have placed on Soviet machinery and equipment industries. Hence, the aggregate of Soviet demand for machinery and equipment should continue and even grow at a fairly steady pace. Moreover, while the Soviets still adhere basically to a doctrine of self-sufficiency, they have in fact attained this goal in virtually all key sectors of the economy, in terms of capacity for emergency purposes, and can thus afford to accept a degree of dependence on the West in non-critical fields. Thus, there may be a continuing growth in Soviet willingness to buy finished products from the West.

14. In view of these conflicting factors, it is clearly impossible to make any firm prediction of the extent to which US trade with the USSR might realistically be expected to increase. For the purposes of this paper, we believe it reasonable to assume that if the US encouraged such trade by taking administrative action to liberalize export licensing policy and to minimize import discriminations, exports to the USSR might expand to about \$100–150 million annually over the space of the next few years. This figure reflects an estimate of Soviet requirements for imported machinery in light of their Seven Year Plan, and a consideration of the possible magnitude of Soviet exports to the US.² While the USSR would probably not be able to balance trade at this level by its own direct export of goods to the US, it could make up the residual amount by reexports, transfers of free exchange, and by selling more gold to the Free World. This assumption of a trade expanded to \$100–150 million does not allow for an increase which might occur if US credits and MFN tariff treatment were made available to the USSR—developments which would require legislative rather than merely administrative action.

² See annex, *Possible Size and Composition of US-Soviet Trade*. [Footnote in the source text.]

*III. Effects Within the Bloc of Increased US–USSR Trade**A. Economic*

15. Should the USSR import machinery and equipment from the US in approximately the assumed amounts, it would of course gain certain advantages. We cannot, however, give any exact estimate of the size or extent of these advantages. The total value of the imports—\$150 million—is an insignificant percentage of the total value of Soviet domestic production of machinery and equipment—\$25 billion. Moreover, the net gain to the USSR would be but a small proportion of the \$150 million, since the imports would have to be paid for by exports drawn from the Soviet domestic economy. It is clear, however, that the advantages accruing to the USSR would be greater than these figures indicate to the extent that the Soviet imported complete plants of advanced design, or types of machinery and equipment they themselves had never produced. Such imports would permit savings of development capital and of the time of relatively scarce trained personnel. By importing complete plants, the USSR could reduce the time needed to reach a full production run.

16. The effects of increased trade in terms of output of specific industrial categories or of specific commodities would depend wholly on decisions made by the Soviet leaders. Soviet leaders would be able to use the new equipment either to increase output or to reduce the cost of production at the existing level. The Soviet leaders would also, in some cases, have the option of using the imported machinery either to facilitate an expansion of consumers goods production or to increase output of commodities for use in more basic industries. Importation of plant for the petrochemical industry would assist Soviet efforts to shift from agricultural products to petroleum as the principal source of raw materials for the production of synthetic rubber, alcohol, and other chemical products.

17. With respect to military production, we assume US export controls will prevent the movement to the USSR of strategic commodities. On this basis the increase in trade projected in this estimate would have slight effect on the Soviet military potential. However, improvements in the chemical and synthetic industries, for example, would make for some additional flexibility in the range of materials available for military production and might cut the costs of production of these or other items.

18. Increased trade with the US, of the assumed level and character, would have little effect on Soviet trade with the underdeveloped countries or with the rest of the Bloc. The bulk of Soviet exports to these countries consists of arms and military equipment, raw materi-

als, and basic industrial machinery and equipment; it does not include technologically advanced equipment of the type which the Soviet Union apparently hopes to obtain from the US.

B. Political

19. The postulated expansion of US-USSR trade, by itself, would probably have little or no impact on the attitude of Soviet leaders or of the Soviet public toward the US. Even if the gains from this increased trade were turned largely toward improving the Soviet standard of living, the USSR's own contribution to such a program would be so large that the US contribution, even if publicly admitted, would be almost completely overshadowed.

20. We do not believe that an increase of trade between the US and the USSR would have any appreciable political or economic effect upon the European Satellites or upon Communist China. The governments of the European Satellites might, if they saw US-USSR trade expanding, seek to increase the trade of their own countries with the US, and they would probably expect neither the US nor the USSR to pose any insuperable political objection to such an increase. Some of the people of the European Satellites might be discouraged by evidence of improving relations between the US and the USSR; we believe, however, that such an effect would not be of long-term significance.

IV. Effects on the Non-Communist World of the Increased US-USSR Trade

21. From a political point of view, most non-Communist countries would probably welcome the prospect of an increase in trade between the US and the USSR. They would view it as a sign that world tensions were relaxing, and that the danger of war was lessening. Many of them would consider that the US had come around to a more realistic trade policy. At the same time, it is virtually certain that some elements in many countries, and the governments at least of South Korea and Nationalist China, would regard the development as signifying another capitulation by the US to the USSR. The Japanese government would be highly resentful that the US government had changed its own policy after pressing the Japanese to move cautiously in their trade with the Bloc and to minimize their political and economic relations with Communist China. Many underdeveloped countries would be even less willing than they are today to listen to US warnings concerning the dangers of expanding economic relations with the Bloc. Reactions would be affected to a considerable extent by the timing and handling of the US move and the circumstances of the international situation. But in the final analysis, the view taken by most countries would depend largely upon the impact which the increase of US-USSR trade had upon the trade of these countries.

22. Should the US export to the USSR the types of goods which we discuss in the Annex to this paper, it would find itself in competition with Western European and perhaps Japanese exporters. If this competition led to a reduction of presently existing levels of Western European or Japanese exports to the USSR it would certainly become an irritant in US relations with the countries concerned. It is probable, however, that the total amount of Soviet imports from the non-Communist world would increase sufficiently to allow not only for the projected increase in imports from the US, but for an increase of imports from other countries as well. Moreover, the US is now in competition with Western European exporters in many third areas without giving rise to serious political problems. We believe, therefore, that increased US export to the USSR would not lead to significant political difficulty with other non-Communist countries. Nevertheless, it is possible that irritations could arise from this cause, especially if the general level of trade in the Free World was low. There might also be certain particular lines of US exports which would displace the corresponding lines of certain other countries. Finally, the possibility cannot be excluded that the USSR itself would deliberately take US goods and exclude the goods of certain other countries in order to cause friction in the Western alliance.

23. As for US imports from the USSR, some countries selling to the US would be adversely affected by competition of Soviet raw materials in the US market. There would be minor reductions in the dollar earnings in some cases, but at the levels of US-Soviet trade we have postulated the effect would in general be small. It would be necessary to consider, however, whether a substantial increase in US imports of some specific commodity from the USSR might seriously damage the trade or the foreign exchange position of some particular Free World country. For example, substantial US imports of manganese from the USSR might displace imports of the same commodity from India, and imports of forest products from the USSR might displace those from Scandinavia. The degree of such displacement, and its political and economic effects, could only be judged after study of the particular commodities involved and of the trade patterns which would be disturbed.

336. Letter From Acting Secretary of Defense Quarles to the Under Secretary of State (Herter)

October 21, 1958.

DEAR MR. HERTER: Because of the serious military situation and the continuing ChiCom build-up in the Formosa Straits area, the views of the Joint Chiefs of Staff were requested as to whether an attempt should be made to restore at least temporarily the embargo of certain items recently removed from multilateral control to Communist China, and to reimpose a more extensive control of cargo vessels calling at Communist Chinese ports.

The Joint Chiefs of Staff have now given their views in a Memorandum for the Secretary of Defense, dated September 26, 1958, inclosed herewith, together with a copy of request for their views.¹ Prompt initiation of the government-to-government contacts suggested by the Joint Chiefs of Staff would appear to be entirely appropriate at this time. It should be noted that the JCS recommend the initiation of bilateral negotiations leading to the reimposition of embargo control on only those items most directly related to the immediate military build-up of the Communist Chinese, and not a reopening of multilateral negotiations for the broad reimposition of COCOM controls which were drastically reduced in August of this year. It is suggested that the proposed agreement to act in concert with our Allies would be useful, not only as a potential means of interfering with the supply of the Communist military forces, but also as a bargaining point in the current Warsaw discussions.

It is sincerely hoped that these suggestions may meet with your approval and that appropriate action may be taken. The Defense Department will be happy to assist you in this matter in any way possible.

Sincerely yours,

Donald Quarles

Source: Department of State, Central Files, 493.009/10-2158. Confidential.

¹ Both attached but neither printed.

337. Memorandum From the Acting Assistant Director, Research and Reports, Central Intelligence Agency, to the Director, Office of Intelligence and Research Analysis (Evans), Department of State

November 6, 1958.

SUBJECT

Office of Secretary of Defense Suggestion for Reimposition of Trade Controls

1. I have discussed with [*less than 1 line of source text not declassified*] and [*less than 1 line of source text not declassified*] the following which is in response to your request for an OER reaction to the memorandum from Acting Secretary of Defense Quarles¹ suggesting that certain multilateral embargoes be reimposed against Communist China.

2. The controls proposed in the OSD memorandum would, we feel, in no way deter the present level of activity in the Taiwan Strait. The disposition of forces in being and of supplies accumulated through earlier Russian shipments of military equipment are more than sufficient to sustain the present or higher level of activity in this area for some time to come.

3. It is of course possible that a high level of Communist Chinese air activity in the Taiwan area might be reduced to some extent in the future by an effective restriction of tanker tonnage available to Communist China. China's present demand for petroleum fuels apparently exceeds the capability for overland supply from the USSR; the bottleneck is principally the Chinese rail system. On the other hand, even if seaborne shipments of POL are interdicted, a fairly modest reallocation of existing supplies would permit the support of such limited action as that in the Taiwan Straits.

4. Because of limited capability of overland supply, any significant increase in present levels of China's demand for petroleum will require either charter of Western tankers or the deployment of Soviet tankers. Even in this case it should be pointed out that the numbers of tankers required would not be great. For example, the estimated probable movement of 200,000 tons of Soviet petroleum to China by sea in 1958 could have been moved in only four Soviet tankers. Of the total of 92 ships in the Soviet tanker fleet, 40–50 of them are of the type required for such voyages.

Source: Department of State, INR Files: Lot 58 D 776, East-West Trade Controls. Secret.

¹ Document 336.

5. We think it is important to emphasize that the partial embargo of selected strategic goods could be expected to have no significant impact on Communist Chinese military effectiveness. In a controlled economy the size of Communist China's, particularly when backed by the combined economies of the rest of the Bloc, the inconvenience resulting from selected trade controls such as those proposed could be easily accommodated. The Chinese military build-up depends rather on: (1) Chinese decision to divert domestic economic resources away from other programs to defense, and (2) Russian willingness to augment Chinese resources by [illegible] exports of Soviet strategic supplies.

6. The Chinese economy although growing rapidly is still relatively underdeveloped by Western standards. Nevertheless, the rate of expansion of Chinese military strength has been considerable in the past few years and may be expected to grow with increased Chinese industrial growth.²

[less than 1 line of source text not declassified]

² John D. Lacey of the Division of Research and Analysis for Far East sent Hugh S. Cumming, Jr., Director of INR, a memorandum which came to a similar conclusion. In his November 7 memorandum, Lacey concluded:

"It would thus appear that the imposition of the proposed controls would have little immediate effect on a Chinese Communist military build-up. Over the longer run the controls would to some extent limit the economic choices available to Peiping, and thereby impose certain costs. These costs would clearly be very small in relation to Communist China's total economic and military effort, but to the extent they existed they could be considered to reduce Communist China's industrial expansion and thereby its long-run military capabilities." (Department of State, INR Files: Lot 58 D 776, East-West Trade Controls)

338. Telegram From Secretary of State Dulles to the Embassy in the United Kingdom

Seattle, November 12, 1958, 2 p.m.¹

1. From USDel SEATO. For Ambassador from Secretary. After consideration British proposals eliminate voyage and bunkering controls² Department much concerned.

While Communists may have shipping capacity to move strategic items from USSR and European satellites to Communist China, public opinion and psychological aspects of abandonment voyage controls are paramount. If voyage controls abandoned USSR may be expected commence shipments of jet fuel and possibly even certain items on COCOM military list to Comm China in British vessels as means disrupting Anglo-American relations. Recent case of "Merchant Baron" provides foretaste of what could be expected. At time when ChiComs are engaged in hostilities in Formosa area avowedly to expel US from the South Pacific, such shipments by UK would inevitably cause severe reaction of US public opinion and would emphasize to world differences between US and UK. For these reasons US considers it most important that UK continue to apply voyage controls and if necessary seek special legislation for this purpose after law containing general authorization for controls is repealed. Otherwise UK may be in position of helping the ChiComs fight the US in Far East and drive it from area which is part of the SEATO treaty areas (e.g., Philippines) such voyage controls would be similar in purpose to inclusion of certain conventional weapons on COCOM military list even though USSR has full capacity and technical ability in these lines.

Regarding bunkering controls while US does not fully share UK views regarding present ineffectiveness these controls US does recognize that they could be source serious embarrassment to UK in Singapore and elsewhere. Therefore US prepared accept UK termination

Source: Department of State, Central Files, 460.509/11-1258. Secret. Repeated to the Department of State as Secto 5 and to Paris. Secto 5 is the source text.

¹ Dulles was attending the 10th Ministerial Meeting of the Consultative Committee of the Colombo Plan in Seattle, November 10-12.

² On October 30, the British Delegate at the COCOM meetings in Paris informed his U.S. counterpart that the United Kingdom was planning to discontinue the obligation imposed on British ships in 1953 of obtaining a voyage license when trading to ports in China and North Korea. At the same time, the British Government's controls upon supply of coal and oil bunkers to ships of any nationality operating to China and North Korea were also to be discontinued. The repeal of this emergency legislation was part of the British Government's program of lessening administrative burden on the government and British shipping companies. (Polto 1164 from Paris, October 30; Department of State, Central Files, 460.509/10-3058)

these controls. Clear distinction which US draws between voyage licenses and bunkering controls should be emphasized. Request you take this up with Lloyd or Ormsby-Gore speaking along foregoing lines and emphasizing serious threat to US-UK relations which would be posed by shipments of any COCOM controlled items to Communist China in British vessels. Have just heard that UK plans announcement its intention abandon voyage and bunkering controls in COCOM November 17. If British not prepared agree continuation voyage controls they should be requested postpone announcement in order permit further high-level consideration between US and UK Governments.

Dulles

339. Telegram From the Embassy in the United Kingdom to the Department of State

London, November 17, 1958, 6 p.m.

2698. Department for Secretary. Excon. Reference: Seattle's telegram 1¹ and Embtel 2670.² I saw Lloyd today and raised problem voyage controls. Also delivered memorandum containing substance and most text of first reftel.

He began by saying that his personal opinion Anglo-American relations in long run would be best furthered by lack of governmental powers to interfere in private shipping. In that case, incidents arising out of action by shipping companies would not become issue between governments. I pointed out that UK shipping controls enacted only in 1953 and had been preceded by very serious US public and congressional reaction against British ships carrying strategic goods to Communist China.

Lloyd said fundamental political decision had been made to dismantle post-war controls. Cabinet consciously decided in this process to eliminate voyage controls "regardless of consequences". He also raised question whether the US concerned with shipping of all countries to Communist China or just UK shipping. In this connection, FonOff official (Cranston) said all other COCOM countries with

Source: Department of State, Central Files, 460.509/11-1758. Secret. Repeated to Paris Topol.

¹ Document 338.

² Dated November 14. (Department of State, Central Files, 460.509/11-1458)

Merchant fleets have some form voyage controls but have been impatiently awaiting UK lead in dismantling them. I said that we considered it especially important that UK and US have parallel policies. The US Government would be particularly concerned if the UK were to appear to be the leader in a movement that could be represented as making it easier for Communist China to obtain strategic items for use against US in the Taiwan Straits.

Lloyd referred to the action taken by the UK last year in eliminating the "China differential" which the US had reluctantly "accepted." He said that he believed this action and our reaction to it had contributed greatly to improving the state of public opinion in the UK concerning US Far Eastern policy. He felt that otherwise it would have been impossible for the British Government to take the position they have concerning Quemoy and Matsu. He felt that action had been directly responsible for the British Government's success in avoiding serious public reaction here to our present position in the Taiwan Straits.

Lloyd referred to the British understanding that the bloc has ample shipping for the supply of China and also the fact that, even under the present legislation, there was nothing to prevent their buying British ships for the China trade. But he recognized the psychological point made by US and felt that it would be most unfortunate if British shipping were used on any large scale for the supplying of strategic goods to Communist China. He would be prepared, if necessary, to make his position in this regard clear at appropriate time. Meanwhile, he wished that there were some way to prevent such misuse without requiring a reversal of the fundamental political decision that had already been made by the government.

In summing up the position, Lloyd emphasized that he was speaking for himself at this point. Other ministries more concerned with the earnings of shipping companies might feel differently. Therefore, he would have to check his own preliminary ideas with the Cabinet. In the meantime, his position was as follows: (1) HMG would use all its power of persuasion with shipping companies to prevent their carrying strategic goods to Communist China. On inquiry, he explained that he was talking about goods that would require licenses when shipped from the UK. He also pointed out that the UK Government's power to persuade might not extend to shipping that is under British registry but really not controlled by British businessmen. (2) If there were serious abuse by shipping companies of the termination of formal controls, it would be much easier to obtain favorable action from Parliament on new legislation. Under those circumstances, such legislation would be seriously considered. (3) In the absence of such abuse, he considered it virtually impossible to obtain parliamentary approval of special legislation, at least before the general election.

I said I would report these views to Washington, and Lloyd said he would let me know the results of further discussions in the government.

Subsequently, the Embassy was assured by Cranston that the formal announcement would not be made in the COCOM without further discussions with US.³ He wanted to be sure it was understood by the Department, however, that the British action concerning voyage controls had already been mentioned informally to some COCOM delegations as well as the British intention of making a more formal announcement. He said that the Greek Delegation has been asking when the announcement may be expected.

Whitney

³ On December 8, the British Ambassador in Washington informed the United States by a note that the British Government could not reverse its decision to discontinue voyage licensing and bunkering controls nor further delay notification to COCOM. The U.S. Delegation to COCOM was instructed to reply to the British statement that it regretted this step since it might be subject to "misinterpretation" of Western intentions to stand firm against "Chinese Communist aggression" in the Taiwan Straits. (Telegram 1965 to Paris Topol, December 9; *ibid.*, 460.509/10-3058)

340. Minutes of the Meeting of the Council on Foreign Economic Policy

January 8, 1959.

SUBJECT

U.S. Trade with the Soviet Bloc

The Chairman advised the members of the Council on Foreign Economic Policy that he had asked the Economic Defense Advisory Council last December to review our Economic Defense Policy and to submit its recommendations to the CFEP. Because of this and the fact that Mikoyan is expected to return to Washington about January 19,¹ he said it would be useful to talk about what our policy should be in connection with our peaceful trade with Russia. He said that he hoped

Source: Eisenhower Library, CFEP Chairman Records. Secret. These minutes were described as "extended" and prepared by Cullen on January 9. There is no list of participants.

¹ Soviet First Deputy Premier Anastas I. Mikoyan made an unofficial visit to the United States, January 4-20.

that the discussions would be free and open and pointed out that no formal action would be taken by the CFEP today as a result of the discussions.

He then asked Mr. Dillon to review for the CFEP State's discussions with Mikoyan. Mr. Dillon stated that the Department of State had been unable to find out what Mikoyan wants to discuss. He said that the discussions with Mikoyan to date were mostly political and related to the German problem, and that the question of trade did not come up. State believes that Mikoyan does not want to talk about trade. Nevertheless, Mr. Dillon stated that Mikoyan brought up the matter of trade while in Cleveland.

Mr. Dillon said that two questions are involved in connection with our policy on peaceful trade with Russia and the bloc. First, we must consider just what this trade should consist of and, secondly, we must consider the propaganda advantage that results to either side as a result of the trade.

Mr. Dillon then reviewed the history of our policy advocating increased peaceful trade with Russia. He said that the President was very clearly in favor of the development of peaceful trade with Russia. The President first called for this at a meeting of the Summit in 1955. Mr. Dillon said the joint directive of the Summit meeting² called for all countries to study measures to eliminate the barriers to trade. He said that the principal interest of the Soviets in trade is the propaganda advantage that they can get out of it. The Soviets look on trade as a balancing out of their economy for the things they need.

Mr. Dillon then reviewed the recent CIA estimate on trade with the Soviet bloc³ which claims that if all controls were removed, our maximum exports would be between \$100 and \$150 million per year. He then summarized by saying that the Department of State is in favor of increasing peaceful trade with the Soviet bloc but not in favor of conducting such trade through state trading. Also, the State Department is not in favor of granting credits to Russia and, in any event, this is precluded by the Johnson Act. He concluded by saying that he did not believe that trade between the United States and Russia will be very greatly increased in the near future. He said that he looked on trade as an element of the cold war and as more important psychologically than economically.

The Chairman said that our NSC policies call for an expansion of peaceful trade with Russia and that the language in this connection is clear. He said that trade has sharply decreased in the past few years and that he thought this was a result of certain agencies dragging their

² The text of the joint directive, issued at the Geneva Summit on July 23, 1955, is in *American Foreign Policy, 1950–1955: Basic Documents*, pp. 2015–2016.

³ Document 335.

feet who are opposed to increasing such trade. He said that our policy has been implemented so as to convey the impression to American business that trade with Russia is a dirty word, bootleg, and disloyal. He said that trade has stagnated and that positive conduct is necessary to implement clear U.S. policy. He concluded by saying that he thought that an increase in this trade would help the cause of peace. At this point Mr. Strauss said that he did not agree and that was the reason he had requested that our Economic Defense Policy be reviewed.

Mr. Anderson said that he was troubled by the items that we and other free countries were sending to Russia. He said that the big problem here was a difference of opinion on what was peaceful trade. He spoke about the shipments of copper wire by COCOM nations to Russia requiring Presidential intervention with Mr. Churchill. He said that business is also troubled by the definition of peaceful goods. He believes that the difference of opinion on what is peaceful trade is causing the responsible agencies to take a negative attitude in issuing licenses for trade with Russia.

Mr. Randall repeated that there is a vast area of goods that are unquestionably on the peaceful side and that this is the area in which trade has nevertheless fallen.

Admiral Strauss said that the question of trade with Russia was brought very strongly to his mind several days after he had taken office as Secretary of Commerce. He said he was asked to approve a license for the shipment of carbon black to Russia. As a result of his experience as a director in the U.S. Rubber Company, he knew that carbon black was used to harden and extend the life of rubber in tires, and that since an army travels on tires in this modern age, it seemed to him that we should not be shipping carbon black to the Russians. He also said that since he had taken office, he has received communications from businessmen who fear that if they sell certain industrial machinery to the Russians, that it will be used to produce goods which will be dumped on world markets in competition with U.S. products. He said he did not know what peaceful trade means when Khrushchev says that "Russia has declared war on us." He added that if we increase trade with Russia, it would seem to him that we would be negating our trade policy with Poland under which we had expended some \$200 million to date. In his opinion, Russia should be treated the same as China; namely, the U.S. should embargo all trade with Russia. He concluded by saying that he had two responsibilities: one, as Secretary of Commerce to protect American business; and the other as a private citizen to recognize the State Department in its role as arbiter of U.S. foreign policy.

Dr. Saulnier said that he was not surprised that the people of the United States are confused as to what is our policy on trade with Russia. He said that if you believe that trade is beneficial to both countries and that Russia's interests are inimical to our own, it follows in the minds of the people of the United States that trade with Russia is bad and therefore should be precluded. He is disturbed by the perils of peaceful trade with Russia, but believes it is right.

Mr. Randall stated that there certainly should be no confusion in the Government as to what our policy is on this matter, but that nevertheless the interested agencies did not seem to want to carry out the policy.

Dr. Paarberg said that he was satisfied with the present policy.

Mr. Irwin said he was opposed to any relaxation of strategic controls. He said that the Russians act from political motives and that whatever they do, they do for their own advantage. He said that although our policy is for peaceful trade with Russia for ourselves, we want other countries to avoid dependence on trade with Russia. He does not necessarily oppose all peaceful trade with Russia but would like to see a study showing the advantages and disadvantages; and which section of our economy and which goods would benefit from such trade.

Dr. FitzGerald advised that no Mutual Security purchases are made behind the Iron Curtain.

Dr. Reid said that the Bureau of the Budget supported the position taken by Mr. Randall but they believed the report now in preparation by EDAC should indicate clearly as to whether our objectives with respect to increasing peaceful trade with Russia are being met.

Mr. Bennett said he was concerned with respect to the recent dumping by Russia of aluminum and tin and he was also concerned about the dumping by the Chinese Communists of textiles in South-east Asia. He thought that this was a very important question that we should take into our consideration in connection with trade with the bloc, but that he realized that this was not necessarily included in our Economic Defense Policy. Otherwise, he could see nothing wrong in what we call peaceful trade, if it did not include dumping.

Mr. Amory of CIA said that if the United States does not trade with Russia, that Russia will trade with Germany or other Western European countries. He said that he did not agree with Mr. Strauss that the Russians are engaged in an all out trade war with the United States. He said that statements by Russia in this connection just point up the fact that they are competing with us.

Mr. Lodge said that the political factors of peaceful trade with Russia are overwhelming and that this would therefore make him support the position of the Chairman. He said he had just returned from India and it was quite evident that the Indians question our

peaceful intentions as a result of some of the things that we are doing. He said that if we indicated that we really intended to increase our peaceful trade with Russia, it would help to alleviate this suspicion.

Mr. Patterson of ODCM stated that he agreed with Admiral Strauss that we should not do any trading whatsoever with Russia and the bloc.

Mr. Morse said that if we back away from what the President has said with respect to increasing our peaceful trade with Russia, it would indicate that we may be withdrawing from the other commitments that we have made with Russia for cultural exchanges, etc. He said he thought that we ought to try to increase the demand of the Russian citizens for consumer goods. He further indicated that he thought that one of the ways that we could increase our trade with Russia was through agricultural surpluses.

Mr. Dillon said that the Department of State favors a study in depth as to whether peaceful trade with Russia is actually helpful to the United States. He said that the Department of State hopes that friendly foreign countries will not become economically dependent on trade with Russia but, on the other hand, State did not object to friendly countries conducting a small amount of trade with Russia.

Mr. Randall concluded the meeting by saying that he would see to it that the EDAC review was presented to the CFEP as soon as possible. He urged members of the Council who had not submitted their recommendations on this matter to EDAC to do so immediately. He stated that he would like EDAC to make its recommendations to the CFEP by January 16 and that the CFEP would try to consider the EDAC recommendations on January 22.

Paul H. Cullen⁴
Lt. Col., USA
Secretary, CFEP

⁴ Printed from a copy that bears this typed signature.

341. Memorandum of Discussion at the 393d Meeting of the National Security Council

January 15, 1959.

[Here follows a paragraph listing the participants at the meeting.]

1. *East-West Trade (Foreign Assets Control Regulations)* (NSC 5704/3;¹ NSC Action No. 1944;² Memo for NSC from Executive Secretary, same subject, dated December 23, 1958³)

In briefing the National Security Council on this agenda item Mr. Gray pointed out that the National Security Council action proposed by the Council on Foreign Economic Policy (CFEP) consisted essentially of applying to other foreign countries the action taken by this Government with respect to Canada on the occasion of the Ottawa meeting in July 1958. That is, to relax our policy with respect to trade with Communist China by subsidiaries of U.S. corporations in friendly foreign countries. These exceptions to the normal prohibition against trade with Communist China by U.S. subsidiaries abroad would be limited, according to the proposed CFEP action, to situations (a) which are important to the economy of the friendly foreign country and (b) in which an indigenous company not controlled by the U.S. was unable to fill the order. It was understood that licenses for such trade by U.S. subsidiary corporations would be kept to the minimum.

Mr. Gray also noted that the Joint Chiefs of Staff opposed the proposal of the CFEP on the ground that "it is to the net disadvantage of the U.S., from the viewpoint of its military security to take actions that will ease Communist China's problems in developing its military capability or potential."⁴ Following upon this explanation Mr. Gray called on the Secretary of State.

Source: Eisenhower Library, Whitman File, NSC Records. Top Secret; Eyes Only. Drafted by Gleason on January 16.

¹ See footnote 1, Document 320.

² See footnote 3, Document 330.

³ In this memorandum, Lay transmitted to the NSC a draft NSC Action which suggested that the NSC accept the following language:

"Agreed that it may be desirable in the national interest to make exceptions for friendly foreign countries with respect to trade with Communist China by U.S. subsidiaries abroad. (Paragraph 20, NSC 5704/3.) Such exceptions should normally be limited to situations (a) which are important to the economy of the friendly foreign country, and (b) in which an indigenous company (not U.S. controlled) is unable to fill the order. The NSC understands, however, that the licenses issued will be kept to a minimum."

Lay's memorandum also contained a memorandum from Dillon to the CFEP, August 1, 1958, suggesting that the CFEP consider making such a recommendation to the NSC. (Department of State, S/P-NSC Files: Lot 62 D 1, U.S. Economic Defense Policy)

⁴ The Joint Chiefs made this case in a memorandum to the Secretary of Defense, January 13, which Lay transmitted to the NSC on January 14. (*Ibid.*, NSC 5704 Series)

Secretary Dulles stated that in his opinion this issue was primarily of political rather than of economic or military significance. The Communists have developed to a high degree of efficiency the technique of dangling before countries friendly to the U.S. prospects of large orders if only subsidiaries of U.S. corporations in these countries could be compelled to fill orders placed by Communist countries. Secretary Dulles then referred to the agreement with Canada on this matter which he and the President had reached during their visit to Ottawa last summer.⁵ Despite the relaxation which was then agreed to, in point of fact Communist China has never placed any orders with subsidiaries of U.S. corporations in the Dominion of Canada. In short, the Communist proposals are mere devices to sow discord between the U.S. and its friends. We need not expect that any orders will actually be placed by the Chinese Communists in Canada. Accordingly, Secretary Dulles felt it would be wise on the part of the U.S. to relax its policy and thus cut the ground out from under the Communist attempts to cause trouble between the U.S. and friendly foreign countries. Such a move would have no practical implications and what were essentially "phantom orders" by Communist Bloc countries would cease to be the means of creating discord between the U.S. and other friendly countries.

The President said he was reminded that another point had come up in the discussion of this problem in Ottawa. The Canadians had been faced with a domestic political problem of being obliged in effect to tell a Canadian subsidiary of a U.S. corporation in Canada that it was not subject to Canadian laws with respect to exports but was in effect subject to U.S. laws on this matter. Obviously this created a very difficult internal problem for the Canadian Government. It certainly appeared to the President to represent an infringement of Canadian sovereignty. The President added his agreement with the view of the Secretary of State that the Communist tactics in this context simply represented a needling device.

Secretaries Dulles and Anderson pointed out that almost immediately after we had agreed at Ottawa last summer to relax our hard and fast rule against trade with Communist China by Canadian subsidiaries of U.S. corporations, the Chinese Communists had withdrawn their orders for flour and for automobiles or had simply not proceeded to send in such orders. Secretary Anderson added that at Treasury's last meeting with their opposite numbers in Canada, the Canadians had been prepared to come at us pretty harshly with respect to our attitude on trading with the Chinese Communists but we had man-

⁵ See footnote 2, Document 330.

aged to give them assurances that we were not discouraging trade with Communist China by Canadian subsidiaries and the Canadians seemed satisfied with our assurances.

The President then suggested that the U.S. should enter into a general agreement with Canada so that they would keep us informed of Communist orders for goods produced by Canadian subsidiaries so that we could talk over with them in advance the problems that such orders might present. It seemed to the President that we had been pretty tough in the past in insisting that under no circumstances could Canadian subsidiaries of U.S. corporations fill any orders placed by Communist China.

Mr. Gray pointed out that the issue with Canada had been amicably settled by a relaxation of our hitherto stern policy against trade with Communist China. What was now before the Council was a proposal that the relaxation we had entered into with respect to trade by Canadian subsidiaries of U.S. corporations be extended to cover such trade by U.S. subsidiaries located in other friendly countries throughout the world. The President said he understood this and pointed out that we should ask any such country to give us a report in advance of completing a deal whereby goods produced by a U.S. subsidiary in that country were shipped to Communist China.

Secretary Strauss said that he felt that compliance by the National Security Council with the action proposed by the CFEP would actually constitute an incentive to U.S. corporations to establish in friendly foreign countries new subsidiaries for the explicit purpose of trading with Communist China. This seemed undesirable to Secretary Strauss who therefore suggested that the Council defer action on the CFEP proposal pending completion of the forthcoming review of U.S. Economic Defense Policy in general which was now underway in the CFEP. Apropos Secretary Strauss' suggestion, Secretary Dulles said he could see no reason why the U.S. Government could not see to it that no export licenses were granted to U.S. subsidiaries abroad if the subsidiaries had been created for the specific purpose of evading U.S. export controls on trade with Communist China. In reply Secretary Strauss said he doubted the practicability of the Secretary's suggestion and called again for his original proposal that the Council table action on the CFEP suggestion at this time.

The President stated that he did not see how this proposal could be tabled at this time. He expressed the view that if the subsidiaries of U.S. corporations in friendly countries were wholly owned by their parent U.S. companies which, he added, was a bad thing in any case, the U.S. Government was certainly in a position to be able to protect itself against evasion of our export controls by newly formed subsidiaries created for the explicit purpose of evading these controls. Secretary Strauss was still skeptical of this possibility and said he doubted

whether this Government would be aware of the export of goods to Communist China by a subsidiary corporation until after the shipment had been made. This view puzzled Secretary Dulles who inquired whether the subsidiary corporation would not have to apply for and receive a license to ship goods to Communist China. In that case we would certainly know in advance of the shipment if the subsidiary corporation were wholly U.S.-owned. Secretary Anderson indicated concurrence in this view of the Secretary of State.

Secretary McElroy pointed out that the opposition of the Joint Chiefs to the CFEP proposal was merely a repetition of their well-known view that such an action would constitute another step taken to increase the military and economic strength of the Sino-Soviet Bloc. He also asked the President to suspend judgment for a time as to the wisdom of having subsidiaries of U.S. corporations in friendly countries wholly owned by the U.S. Secretary McElroy said he could not agree with the President's view that wholly-owned subsidiaries were bad. He thought that, particularly in newly developing countries, wholly-owned subsidiaries could be valuable to these countries. If U.S. ownership was not complete, the profits made by these subsidiary corporations might well be paid out too quickly in dividends. The President replied that he had learned his lesson as a result of having a small holding of Cocoa Cola stock. He said that it had been his experience that when there was local participation in a Cocoa Cola subsidiary abroad, the product sold better and produced greater profits.

At this point Mr. Gray closed the issue noting that the CFEP proposal had indicated that the relaxation of the U.S. prohibition would be done on a case by case basis and the Secretary of Commerce's view that action on the CFEP proposal nevertheless be postponed pending further study. The President replied that as long as the Secretary of Commerce felt that there was need for further study of this problem before the Council took action, he was agreeable to such postponement. Nevertheless, he stated that as of now, he agreed thoroughly with Secretary Dulles's views because of his experience with respect to Canada. Perhaps, however, there was no need of hurry in this matter. Secretary Strauss said that he could very well document cases where goods could be shipped to Communist China without obtaining a license. Secretary Dulles added that he could see no particular urgency for Council action on the CFEP proposal at this time. If specific cases came up prior to Council action, we could deal with each individual case as it arose.

Mr. Gray then stated that it appeared to be the consensus that action on the CFEP proposal should be deferred.

*The National Security Council:*⁶

a. Noted and discussed the recommendation by the Council on Foreign Economic Policy contained in the draft NSC Action (transmitted by the reference memorandum of December 23, 1958), in the light of the views of the Joint Chiefs of Staff (transmitted by the reference memorandum of January 14, 1959).

b. Deferred action on the recommendation in a above, pending completion of the forthcoming review of U.S. Economic Defense Policy (NSC 5704/3) now under way in the Council on Foreign Economic Policy, pursuant to NSC Action No. 1865–c.

[Here follow agenda items 2–5.]

S. Everett Gleason

⁶ Paragraphs a and b constitute NSC Action No. 2032, approved by the President on January 19. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

342. Memorandum From the Secretary of the Council on Foreign Economic Policy (Cullen) to the Council

CFEP 579/1

January 19, 1959.

SUBJECT

CFEP 579—Economic Defense Policy

1. On December 4, 1958 the Chairman of the Council on Foreign Economic Policy requested the Economic Defense Advisory Committee (EDAC) to examine and submit recommendations on U.S. Economic Defense Policy (NSC 5704/3).¹

2. Attached as Inclosure 1 is the report by the Chairman of EDAC submitted pursuant to the above.

3. The Chairman, EDAC, reports that all EDAC agencies except the Departments of Treasury and Commerce support a continuation of the present policy. Commerce recommends a cessation of all trade with the Soviet bloc except where a clear advantage would accrue to the United States. Treasury reserves its position. The language re-

Source: Eisenhower Library, White House Office Files, Staff Research Records, East-West Trade. Secret. T.W. Stanley sent this memorandum with its enclosures to Goodpaster in the hopes of getting the issue placed in the President's Staff Notes. On January 27, a summary of the issue was included as item 2 of Staff Notes No. 491, which was seen by the President. (*Ibid.*, Whitman File, Eisenhower Diaries)

¹ See footnote 1, Document 320.

quired to effect the changes in policy proposed by Commerce are contained in Tab A, Inclosure 1. Justification for the Commerce proposal appears in Tab B, Inclosure 1.²

4. Inclosure 2 contains our present Economic Defense Policy (NSC 5704/3) together with the changes recommended by Commerce for changing this policy.

5. In addition, the Department of Defense, with the concurrence of EDAC, recommends that a study be made by a group outside of Government to determine the relative advantages and disadvantages to be derived from an expansion of peaceful trade with the Soviet bloc.

6. The National Security Council (NSC) on January 15³ considered a CFEP recommendation concerning the question of trade with Communist China by foreign based subsidiaries of U.S. companies (See Incl. 3). The NSC deferred action on this recommendation pending completion of this review of U.S. Economic Defense Policy by the CFEP. This matter and the EDAC recommendations have been scheduled for CFEP consideration on Thursday, January 22, at 4:00 P.M. in Room 213 of the Executive Office Building.⁴

Paul H. Cullen
Lt. Col., USA

² Attached but neither printed.

³ See Document 341.

⁴ At its January 22 meeting, the CFEP considered CFEP 579/1 and agreed that existing U.S. Economic Defense Policy should be continued pending a CFEP study of the effectiveness of implementation of existing NSC policy on trade with Russia. The study was to be undertaken by a committee made up of representatives of the Departments of State, the Treasury, Commerce, and Defense, and chaired by Commerce. The committee was asked to report in 60 days on the terms of reference for a study by an outside agency on the advantages and disadvantages to the United States of peaceful trade with the Soviet Union, who should make the study, and how it should be financed. (Minutes of the January 22 meeting of the CFEP; Eisenhower Library, White House Office Files, Staff Research Group Records, Economic Policy)

Inclosure I⁵

**Memorandum From the Chairman of the Economic Defense
Advisory Committee (DeLany) to the Chairman of the
Council on Foreign Economic Policy (Randall)**

January 14, 1959.

SUBJECT

Economic Defense Policy Review

REFERENCES

1. Your memorandum to me dated December 4, 1958⁶
2. NSC 5704/3, U.S. Economic Defense Policy
3. EDAC D-154, December 5, 1958⁶

Pursuant to the request contained in your memorandum (Reference 1), the Economic Defense Advisory Committee has taken under consideration current economic defense policy (Reference 2). Only the Department of Commerce has made recommendations for changing current policy.

The major Commerce proposal is attached as Tab A. The Commerce memorandum to EDAC which explains the reasons for these changes is attached as Tab B.

Commerce recommends, in effect, the reversal of the present attitude toward "peaceful trade" and the substitution of economic warfare approach. The concept now contained in our policy provides for interference with trade *only* where a clear advantage to the free world would accrue from such interference (Reference 2, paragraph 1). Commerce takes the position that "peaceful trade" with the USSR is incompatible with the current situation brought about by the Berlin crisis and by what Commerce interprets as the USSR declaration of economic warfare and its dumping of goods in free world markets. Commerce proposes a policy which would deny U.S. exports of strategic or nonstrategic goods to the USSR unless such exports are individually determined to be to the advantage of the U.S.

The Department of State considers that the proposals of the Commerce Department would reverse established policy as expressed by the President and by existing policy directives. The Department does not interpret the existing situation as requiring such a reversal of policy. The Department favors a continuation of the present policy on the grounds that it provides desirable flexibility for dealing with the Soviet bloc on trade control questions. The achievement of any effec-

⁵ Secret.

⁶ Not found.

tive impact upon the military and economic capabilities of the Soviet bloc is dependent upon multilateral actions. On the basis of the known attitudes of other cooperating countries, there is little likelihood of obtaining their support for a tightened control policy. Moreover, assuming the maximum level of \$150 million annually for U.S. exports to the USSR, outlined in SNIE 100-8-58,⁷ the denial of U.S. present or potential exports to the Soviet bloc would not significantly affect the bloc's ability to continue to engage in economic penetration activities in free world countries.

The Department of Defense feels that a greater effort should be made to overcome the many shortcomings in the implementation of the present policy, but that beyond that a whole new approach to the problem of our over-all economic posture, vis-à-vis the Soviet bloc, is needed. Defense feels that an impartial study to determine the relative advantages and disadvantages to be derived from a change in policy should be made by qualified experts (preferably an outside of government research organization) before a sound position can be taken. The Commerce proposal, it seems to Defense, underlines the need for such a study.

EDAC generally supports the Defense proposal for a study. State endorsed the proposal with the understanding that current policy would apply pending the completion of the study.

EDAC notes that if economic defense policy is changed as recommended in the Commerce document (Tab A), there would be a need for reviewing several other NSC policy statements. These include, but are not limited to, the following: 5706, 5726/1, 5808/1, 5810 and 5811.⁸

It would be necessary for EDAC to consider very carefully the new courses of action which would be necessary to implement such revised policy and, further, that it would be necessary to revise and expand the terms of reference of the Advisory Committee on Export Policy and the terms of reference of the Economic Defense Advisory Committee itself because neither Committee has as a current frame of reference either economic warfare concepts or policies designed to provide countermeasures for the penetration efforts of the Sino-Soviet bloc.

It is recommended that the CFEP consider the revision of policy proposed by the Department of Commerce in Tab A. EDAC has been unable to agree to this proposal. The positions of the Departments of

⁷ Document 335.

⁸ NSC 5706, "U.S. Policy on Defectors, Escapees, and Refugees from Communist Areas," February 13, 1957; NSC 5726/1, "U.S. Civilian Aviation Policy Toward the Sino-Soviet Bloc," November 22, 1958; NSC 5808/1, "U.S. Policy Towards Poland," April 16, 1958; NSC 5810, "Basic National Security Policy," May 1, 1958; and NSC 5811, "U.S. Policy Toward Soviet Dominated Nations in Eastern Europe," May 9, 1958.

Commerce, State and Defense are stated above. The Department of Agriculture, the Office of Civil and Defense Mobilization and the International Cooperation Administration support a continuation of the present policy. The Treasury Department reserved its position.

343. Memorandum of Discussion at the 395th Meeting of the National Security Council

January 29, 1959.

[Here follows a paragraph listing the participants at the meeting.]

1. *U.S. Economic Defense Policy* (NSC 5704/3; NSC Actions Nos. 1865–c, 1944 and 2032;¹ Memos for NSC from Executive Secretary, “East-West Trade (Foreign Assets Control Regulations)”, dated December 23, 1958,² and January 14, 1959;³ Memo for NSC from Executive Secretary same subject, dated January 23, 1959⁴)

Mr. Gray gave a brief statement of the problem and recommended approval of the draft NSC Action proposed by the Council on Foreign Economic Policy. (A copy of Mr. Gray’s briefing note is filed in the Minutes of the Meeting and another is attached to this Memorandum.)⁵

After the Council had agreed to Mr. Gray’s recommendation, the President inquired as to how many foreign countries would be affected by the action which the Council had adopted. Secretary Dulles replied that he doubted if the new action would produce any appreciable, practical effects but there might be certain instances in the United Kingdom and France. The President inquired whether West Germany would be affected. In reply Secretary Dulles pointed out that the new action would apply only in cases where the subsidiary of an American

Source: Eisenhower Library, Whitman File, NSC Records. Top Secret; Eyes Only. Drafted by Gleason on January 29.

¹ See footnote 9, Document 327; footnote 3, Document 330; and footnote 6, Document 341.

² See footnote 3, Document 341.

³ See footnote 4, Document 341.

⁴ In this memorandum, Lay transmitted to the NSC a memorandum from Randall to him, also January 23, in which Randall reported on the conclusions of the CFEP meeting of January 22. (Department of State, S/P–NSC Files: Lot 62 D 1, U.S. Economic Defense Policy) See footnote 5, Document 341.

⁵ Not printed.

corporation in a foreign country represented the sole source in that country for the goods which Communist China was ordering. Accordingly, the chances of practical effects were very remote.

*The National Security Council:*⁶

a. Noted the report in the reference memorandum of January 23, 1959, that:

(1) The Council on Foreign Economic Policy agreed that existing U.S. Economic Defense Policy (NSC 5704/3) should be continued pending a CFEP study of the effectiveness of the implementation of existing policy on trade with the USSR.

(2) The Chairman, CFEP, appointed a CFEP committee to make the above study and to recommend the terms of reference, organization and financing for a study, by an outside agency, on the advantages and disadvantages to be derived by the United States from peaceful trade with the USSR.

b. Noted that, following the statement by the Secretary of State to the NSC on July 3, 1958 (NSC Action No. 1944), with respect to NSC 5704/3 (paragraph 20), the Canadian and United States Governments issued the following joint press statement on July 9: "The Canadian and United States Governments have given consideration to situations where the export policies and laws of the two countries may not be in complete harmony. It has been agreed that in these cases there will be full consultations between the two Governments with a view to finding through appropriate procedures satisfactory solutions to concrete problems as they arise."

c. Agreed that it may be desirable in the national interest to make exceptions for friendly foreign countries with respect to trade with Communist China by foreign subsidiaries of U.S. corporations abroad (Paragraph 20, NSC 5704/3). Such exceptions should normally be limited to situations (a) which are important to the economy of the friendly foreign country, and (b) in which an indigenous company (not U.S. controlled) is unable to fill the order. The NSC understands, however, that the licenses issued will be kept to a minimum.

Note: The above actions, as approved by the President, subsequently transmitted to all holders of NSC 5704/3.

The actions in b and c above, as approved by the President, subsequently referred to the Secretaries of State and Treasury for appropriate implementation.

[Here follow agenda items 2-4.]

S. Everett Gleason

⁶ Paragraphs a-c and the note that follows constitute NSC Action No. 2042, approved by the President on February 3. (Department of State, S/S-NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

344. Memorandum From the Under Secretary of Commerce (Mueller) to the Chairman of the Council on Foreign Economic Policy (Randall)

March 23, 1959.

SUBJECT

CFEP 579/2—Report of Committee

Transmitted herewith, in two parts, is the report of the CFEP Committee established pursuant to the CFEP agreement on January 22, 1959:¹

I. To review the effectiveness of the implementation of existing NSC policy on trade with Russia;

II. To recommend terms of reference for a study, by an outside agency, on the advantages and disadvantages to be derived by the United States from peaceful trade with Russia, who should make such a study, and how it should be financed.

Frederick H. Mueller

Enclosure²

Part I. Review of the Effectiveness of the Implementation of Existing NSC Policy on Trade With Russia

Attachments

1. Summary report of Staff Committee, composed of Mr. Marshall M. Smith, Chairman, Commerce; Captain W.B. Thorp, Defense; Mr. Edward F. Rains, Treasury; and Mr. Robert B. Wright, State, [1 line of source text not declassified]
2. Detailed report of Staff Committee³

The CFEP Committee has unanimously accepted the analysis of the effectiveness of the implementation of existing NSC policy on trade with Russia, contained in the attachments hereto and forwards it for consideration of the CFEP.

Part II. Terms of Reference for a Study, by an Outside Agency, on the Advantages and Disadvantages to be Derived by the United States From Peaceful Trade With Russia, Who Should Make Such a Study and How It Should Be Financed

Source: Department of State, E/CFEP Files: Lot 61 D 282A, CFEP 579, Economic Defense Policy. Secret. Mueller was the chairman of the CFEP Committee charged with preparing the terms of reference for a study on trade with the Soviet Union.

¹ See footnote 5, Document 342.

² Secret.

³ Neither printed.

Attachments

1. Outline for a Study of the Advantages and Disadvantages to be Derived by the United States from Peaceful Trade with the Soviet Bloc—submitted jointly by State and Defense⁴

The CFEP Committee has been unable to reach agreement as to the desirability or necessity for making a study, as proposed by Defense at the January 22, 1959 CFEP meeting, to assist in the determination of U.S. policy toward trade with the Soviet bloc. Basically, Defense strongly supports the proposal; State concurs under certain conditions; Commerce opposes, while Treasury is up to now unconvinced as to the value of the study. The positions of the different members with the reasons therefor follow:

A. The Department of Commerce believes such a study to be unnecessary and fails to see wherein the results would be helpful in determining future U.S. trade policy toward the Soviet bloc for the following reasons:

1. The subject of U.S.-Soviet bloc trade has been under constant study and review by competent personnel of the Executive Branch for many years resulting in full knowledge of the problems.

2. Expansion of U.S.-Soviet bloc trade even to the \$150-200 million level, as estimated in NIE-100-8-58,⁵ would require either (a) extension of credits by the U.S., (b) large increase in U.S. imports from the Soviet bloc, or (c) payments for U.S. exports in gold.

3. There is no indication that the bloc as a whole, or the USSR in particular, plans to satisfy their defaulted obligations to the U.S. in the foreseeable future. Under the Johnson Act, therefore, the extension of credits is prohibited, and there is no indication that this Act shall be recommended for modification.

4. There are no Soviet bloc exports needed by the U.S. which are not presently, and in the foreseeable future, being adequately supplied from Free World sources. To the extent that the U.S. would shift its purchases from Free World sources to Soviet bloc sources, serious damage would result to the economies of those Free World countries, which is contrary to the U.S. policy of strengthening them. Additionally, in order to counteract this result the U.S. through its Aid program would be forced to devote additional aid to those countries, and finally, such a transfer would serve to make the U.S. more dependent upon Soviet bloc sources of supply, an undesirable situation and also somewhat contrary to U.S. policy.

5. There does not appear to be any indication that the Soviet bloc has any intention in the foreseeable future to utilize its reserves or current production of gold for payment of needed imports. Rather, recent action in this field would indicate a reversal of the sales by the USSR of gold in order to acquire needed exchange.

⁴ Not printed.

⁵ Document 335.

6. Even should U.S.-Soviet bloc trade increase in a few years to the estimated \$150-200 million figure, the economic impact on the U.S. economy would be negligible when viewed from overall U.S. foreign trade or the GNP. Accordingly, economic factors are of little weight in determination of U.S. policy as opposed to political and psychological factors.

7. From the political and psychological side Commerce believes that increased trade in the commodities desired by the bloc would be disadvantageous to the U.S. First, such exports would materially assist the bloc by providing them in minimum time and at relatively small cost, the fruits of long and costly research had technological development. Second, such exports would place the bloc in a more favorable position, at least time-wise, in intensifying their economic warfare and penetration activities. Lastly, such exports would serve to bolster the hold the Soviet regimes have over their people by providing them with increased examples of alleged Communist superiority and progress.

8. The Soviets have openly declared that they utilize trade as a political weapon. Certainly, therefore, in any increase in trade on the part of the Soviets, it can be considered to be to their political advantage.

9. Finally, U.S.-Soviet bloc increased trade would be contrary to U.S. interests from the standpoint of assisting a military political and economic enemy whose avowed purpose, backed by day-to-day actions, is the destruction of the U.S. form of government, its prestige and leadership and its ever expanding economy leading to the highest standards of living in history.

B. The Department of Treasury reported that it as yet has not been convinced of the value of the proposed study in assisting the Executive Branch in determining future U.S. policy on trade with the Soviet bloc. However, Treasury indicated they would accede to the majority views of the CFEP that such a study would be helpful, provided it would be made by a governmental task group assisted by outside consultants whenever appropriate.

C. The Department of State favored the proposed study on the basis that the results might prove to be helpful in determining future policy. As an example of a question which the study might answer, they pointed to the supposition on page 3 of the summary relative to the probability that U.S. firms might have competed successfully with Western European firms for some of the sales of items unilaterally embargoed. However, the Department of State indicated it would wish to review its position should other than the joint State/Defense outline guide for the study be accepted and should other than the Rand Corporation be suggested for making the study.

D. The Department of Defense strongly supports their proposal for a study by an outside agency for the following reasons:⁶

⁶ According to a memorandum from Cullen to the CFEP, March 30, the Department of Defense requested that paragraph D be changed to read as follows:

1. Present U.S. policy is based upon short term considerations and is not responsive to conditions which might exist in a period ten to fifteen years in the future. We, therefore, need to postulate various situations and analyze the pros and cons of trade under those assumptions.

2. While the present policies on trade may be appropriate for the short term view, they may, at the same time, be inappropriate and detrimental to the accomplishment of long term objectives.

3. Should the study confirm the present policies as being appropriate, there is a possibility it might point the way for the adoption of other measures which would extend, reinforce and make more effective those measures presently being taken.⁷

4. The evolution of the USSR standard of living may well lead to changes in the political situation making it possible that a greater degree of coexistence would be desirable and advantageous.

5. While Defense recognizes the Soviets have openly stated they will show the superiority of their economic system over that of the West and will bury us, it doesn't necessarily follow the best way to combat that is by withdrawing from all trade. The study by unbiased experts might show that a continuation of present or increased trade would be more advantageous to the U.S. in combatting this threat.

6. Even though a great deal has been done in this field within the government by qualified people, the work has been mostly by part time attention and by personnel who have been very close to the implementation of existing policies. Therefore, an objective study by newcomers, expert in the whole field of international trade, based on long range thinking would serve to either confirm the accuracy of the present policy base or point the way to desirable changes in policy. In short, such a study would bring into the determination of policy a new fresh look of a problem which has been with us for ten years.

With respect to outside firms which might make such a study, there was no agreement in the CFEP Committee. State felt that it would wish to reconsider its views if a firm other than Rand Corporation was to be concerned. Defense, while not limiting its selection to Rand Corporation, indicated it was satisfied of the competency of that firm. Commerce and Treasury did not express any preference since

"On the basis of available information and current postures, Defense would support, on a day-to-day basis, views expressed by the Commerce Department. However, Defense is anxious to see these and other views restudied by an outside agency so that there may be an up-to-date and objective basis for both short-range and long-range policy. Such a study might point to tightening of the U.S. attitude toward peaceful trade, continuation of the present policy, or greater liberalization of the policy. Defense believes the following considerations strongly support such a study." (Department of State, E/CFEP Files: Lot 61 D 282A, CFEP 579, Economic Defense Policy)

⁷ According to the same memorandum, Defense requested that paragraph D 3 be changed to read as follows:

"Should the study confirm the present or more restrictive policies as being appropriate, there is a possibility it might point the way for the adoption of other measures which would extend, reinforce, and make those policies more effective."

Mueller authorized these changes. (*Ibid.*)

basically they are opposed to the study. However, in addition to the Rand Corporation, the names of Battelle Institute, Johns Hopkins, and Stanford Institute were mentioned.

On the matter of financing such a study if one is to be made, it was the consensus of the Committee that funds therefor should come from funds available to the President. Additionally, the time element was mentioned. Defense reported Rand had indicated a period of at least three months, but felt that six months would be desirable in order to provide a complete and comprehensive study.

345. Memorandum From the Assistant Secretary of State for European Affairs (Merchant) to the Under Secretary of State for Economic Affairs (Dillon)

March 27, 1959.

SUBJECT

Problems Posed by Commerce Department Views on East-West Trade

I know that you are very much aware of the problems created by recently expressed viewpoints of the Commerce Department on east-west trade.

The publicity in the press last week centering around the Senate Committee testimony of Admiral Strauss emphasizes, in my opinion, the need for coping with these problems at an early date. The Administration has gone on record on several occasions, most recently in your conversation with Mikoyan, and in the President's reply to Khrushchev's letter of June 2, 1958 on trade,¹ as favoring an expansion of peaceful trade with the Soviets. Admiral Strauss, however, has been quoted as stating that there is no such thing as "peaceful trade" with the Soviets, as favoring the shipment only of consumer goods to the Soviets, as attributing to the Administration planning for an "Economic NATO", etc.

Source: Department of State, Central Files, 460.509/3-2759. Confidential. Drafted by Lubert O. Sanderhoff of the Office of European Regional Affairs with clearances from B.E.L. Timmons, Director of the office, and Ruth H. Kupinsky, also of that office. Cleared with Edward L. Freers, Director of the Office of Eastern European Affairs, and William N. Turpin also of that office.

¹ Mikoyan and Dillon discussed possible expansion of U.S.-Soviet trade on January 19, 1959. For Khrushchev's letter and Eisenhower's reply of July 14, see *American Foreign Policy: Current Documents, 1958*, pp. 846-850.

The various agencies can, of course, be expected to produce different ideas on economic defense during the current review of policy in this field. However, I know that in CFEP discussions you have emphasized, and it has been agreed, that during this review period existing policy would continue in effect. The public statements of Admiral Strauss scarcely seem consistent with this agreement.

The press has increasingly begun to pick up evidences of Commerce viewpoints at variance with those of other agencies and of the President. It would be surprising if this were not to lead to further and more searching press inquiries, replying to which would prove quite embarrassing. Questions might well be raised, too, by our NATO allies, in such forums as the UN ECE and ECOSOC. In ECE and ECOSOC meetings our position in favor of expanding peaceful east-west trade has been very useful in gaining the support of our allies in resisting Soviet "propaganda proposals", e.g., for a World Economic Conference, etc. In such a forum, the Soviets could now cite the public statements of Admiral Strauss as evidence that the Administration has not been sincere in stating its support for an expansion of peaceful trade, and as indications of a rift between the U.S. and its allies. Such accusations would have their effect, also, on our negotiations with the Soviets on political matters, e.g., at a Foreign Ministers' meeting, thus generally weakening our posture in the cold war.

The problem of reconciling Commerce statements with Administration points of view may, of course, come to a head when the CFEP considers certain of the draft replies to the questions posed by Senator Fulbright.² I am hopeful that whether or not this is the case, you will find some means of seeking early top-level resolution of this problem, in light of the dangers which I have noted.

² The questions asked by Fulbright and the replies provided by the Department of State are included in "U.S.-U.S.S.R. Trade Relations," Committee Print, U.S. Senate Committee on Foreign Relations, 86th Congress, 1st Session, June 24, 1959 (Washington, 1959), pp. 9-26.

346. Memorandum of Discussion at the 404th Meeting of the National Security Council

April 30, 1959.

[Here follows a paragraph listing the participants at the meeting.]

1. *U.S. Economic Defense Policy* (NSC 5704/3; NSC Action No. 1865;¹ Memos for NSC from Executive Secretary, same subject, dated January 23² and April 6³ and 27,⁴ 1959; NSC Action No. 2042⁵)

Mr. Gray said that a year ago the National Security Council had asked the Council on Foreign Economic Policy to review U.S. Economic Defense Policy (NSC 5704/3). Three months ago the NSC noted a report by the Council on Foreign Economic Policy that the policy should be continued pending CFEP study of its implementation. The CFEP study has now been completed and a further report from the CFEP is before the Council. The Joint Chiefs of Staff in their comments on the CFEP Report have re-affirmed their interest in effective trade controls against the Sino-Soviet Bloc.

Mr. Randall said that at the request of the NSC the CFEP had reviewed U.S. Economic Defense Policy and had arrived at the conclusion that it would submit no recommendation for changes in that policy at this time. There were, of course, differences of opinion among the agencies represented on the CFEP as to our policy on trade with the Soviet Bloc. Existing policy was based upon "the assumption that interference in the trade between the Free World and the Sino-Soviet Bloc should take place only where a clear advantage to the Free World would accrue from such interference," (par. 1 of NSC 5704/3). A recent letter from the President to Khrushchev had stated that the U.S. favored the expansion of peaceful trade with the U.S.S.R.⁶ Questions had arisen as to the effect of this letter on existing economic

Source: Eisenhower Library, Whitman File, NSC Records. Top Secret; Eyes Only. Drafted by Boggs on April 30.

¹ See footnote 9, Document 327.

² See footnote 4, Document 343.

³ In this memorandum, Lay transmitted to the NSC a memorandum from Randall to him, April 3, summarizing the consensus of the April 2 meeting of CFEP. Also attached to Lay's memorandum were the minutes of the April 2 CFEP meeting. (Department of State, S/P-NSC Files: 62 D 1, U.S. Economic Defense Policy)

⁴ In this memorandum, Lay transmitted the views of the Joint Chiefs of Staff to the Secretary of Defense as expressed in a memorandum of April 21 which reiterated the consistent and continuing belief of the Joint Chiefs of "the need for the preservation of effective trade controls against the Sino-Soviet Bloc." (*Ibid.*)

⁵ See footnote 6, Document 343.

⁶ See footnote 2, Document 345.

defense policy. These questions had been reviewed by a CFEP committee which had submitted an exhaustive report to the CFEP.⁷ From this report the CFEP had concluded that the implementation of economic defense policy was satisfactory and that no changes in such policy were needed. This conclusion by the CFEP represented a middle course between the shades of opinion among the various agencies. In conclusion Mr. Randall noted that any department could propose a change in U.S. Economic Defense Policy and that if any change were proposed, the CFEP would again review the policy. Assistant Secretary of Commerce Mueller said he endorsed the comments made by Mr. Randall and had nothing to add. Mr. Gray remarked that the question of review of U.S. Economic Defense Policy would continue to come up annually.

*The National Security Council:*⁸

Noted the enclosures to the reference memorandum on the subject dated April 6, 1959, and the views of the Joint Chiefs of Staff thereon, transmitted by the reference memorandum of April 27, 1959.

[Here follow agenda items 2-5.]

Marion W. Boggs

⁷ A summary of the report is printed as an enclosure to Document 344.

⁸ The following paragraph constitutes NSC Action No. 2071, approved by the President on May 4. (Department of State, S/S-NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

347. Memorandum of Conversation

September 15, 1959.

SUBJECT

COCOM List Review

PARTICIPANTS

The Viscount Hood, Chargé d'Affaires ad Interim, British Embassy
 The Under Secretary
 Mr. Harold A. Levin, Director, USRO/ST, Paris
 Mr. L.O. Sanderhoff, Office of European Regional Affairs
 Mr. Robert B. Wright, Chief, Economic Defense Division

Source: Department of State, Central Files, 460.509/9-1559. Confidential. Drafted by Wright and approved by Dillon's Special Assistant, Robert C. Brewster, on September 26.

The Under Secretary referred to the British proposals for COCOM which had been transmitted to the Department on September 8th.¹ He said that the proposals were described as being the product of the official working level within the British Government, not as yet reviewed or approved by British Ministers. He said that of course the United States had not made a detailed technical analysis of the British proposals, but did have some initial views.

The Under Secretary said that the cumulative effect of the British proposals was so extensive as not to be in accord with the spirit of the general understanding which prevailed at the time of the 1958 Consultative Group meeting to the effect that the annual list review would involve only minor adjustments in the international lists necessitated by significant changes in technology or Soviet bloc utilization during the year. He said that the prevailing view had clearly been that the 1958 list review represented a major revision and reshaping of the international control system for a long-term period, at least several years. The previous general list review had taken place in 1954 and it was the view of the participating governments that the 1958 review would remove the necessity for any major revision of the lists for approximately a similar period of time. He said that of course it was understood that any participating country might make a special proposal on a particular item at any time as, for example, the UK had done with respect to rolling mills.

The British proposed changes, contrary to the view that the 1959 review should be a minor overhaul operation, would affect half of the present embargo list. The list contains 120 items at present and the British proposals would contemplate removing 26 items plus an additional six sub-items, would propose redefinitions for an additional 12 items, and might involve some potential changes in an additional 16 items which are still under study within the British Government. Changes of this magnitude would necessitate a major negotiation in COCOM on the scale which was necessary last year, especially when the suggested changes of other participating governments were added to the changes suggested by the British. One of the most disappointing aspects of the British proposals was the fact that they proposed the deletion of all the items which had been the subject of special compromise efforts in 1958. This honestly seemed to us not to be in the real spirit of the 1958 agreement. The Under Secretary said he hoped the British Ministers would consider this U.S. reaction most seriously.

He said that the British proposals left us in a difficult situation. A major negotiation would require the assignment of large numbers of technicians and lengthy discussions in COCOM which would unques-

¹ The British draft proposals are described below.

tionably extend for many months. This negotiating process could not possibly be completed within the schedule set by the Consultative Group. Instead of a January 1 effective date for the revised lists, a June 30 date would be more realistic. Apart from the extended time involved for such negotiation, the worst part of the situation is that it would inevitably involve a sharp and unedifying debate between the United States and the United Kingdom in the multilateral forum before the other participating governments. Such an exhibition could not help but be damaging to the interest of both the United States and the United Kingdom in maintaining a cooperative atmosphere within the COCOM and NATO community. Any such flare-up of basic differences on East-West trade control questions would be particularly unfortunate at this time since such good progress has been made in recent months in resolving the various economic problems which have troubled US-UK relations.

The Under Secretary said that he felt there might be a better way out of the difficult situation which we would face if the British proposals were tabled as they stand in COCOM, and that he wished to outline his views on this matter for consideration by the British Ministers when they go over the UK official-level proposals. He said that it might be possible for the British to select a few items which were of special importance to them either for trade reasons or for political reasons or because of other considerations of urgency, and propose changes on those items in the forthcoming annual list review. If the British were to select six or eight or, at most, ten of such items for discussion in COCOM, this would represent a manageable task for the Committee and would be quite acceptable to the United States in terms of a feasible working program. The remaining items in the British proposals could then be made the subject of bilateral technical discussions between the United States and the United Kingdom, beginning at such time as the 1959 annual COCOM review has been completed. The purpose of such bilateral US-UK discussions should be to discover whether a substantial agreement might be reached between the two countries on the remaining British proposals. If such agreement could be reached, the United States would then have no objection to British submission of such proposals to COCOM at any time following the 1959 list review or at the latest at the time of the 1960 list review. This arrangement would have the advantage of permitting the British to deal with a few items which are of importance to them and on which changes might be justified in COCOM and would be in accordance with the prevailing concept of a limited annual list review. In addition, it would remove the danger of an unrewarding semi-public debate between the United States and the United Kingdom and would permit an orderly bilateral examination of the British

proposals on their merits. As a practical matter, the British would not really lose any time as compared with a major review which would extend well into next year in any event.

Lord Hood said that he was not familiar with the details of the items dealt with in the British proposals but inquired whether the Under Secretary had in mind that the British might make the selection of items for discussion in COCOM in the 1959 review themselves or whether he had in mind that such selections would be a joint matter with the United States. The Under Secretary said that he had in mind that the British would make the selection themselves taking account of their own special interests. Lord Hood said that he had little idea of what items might be of special importance, but he did recall that he had heard considerable reference made to the importance of aircraft. Mr. Dillon noted that the British proposal with respect to aircraft did not appear to be a troublesome one to deal with in the COCOM discussions. He said the British proposal was essentially for a clarification and extension of embargo coverage for aircraft engines to bring this treatment into conformity with the treatment of aircraft themselves, and seemed to be an appropriate suggestion. He noted also that the British had made proposals for the liberalization of certain instrument systems and navigation radar systems for aircraft to make such equipment freely available for export to the Soviet bloc for use on scheduled services to the free world. Mr. Dillon said that this might be another point of special interest to the British. It was a liberalization somewhat beyond our present policy on such sales but might be a reasonable question to re-examine.

The Under Secretary said that while there might be some items such as those which had been mentioned which were of significance to the British and which might profitably be re-examined, he felt that there certainly appeared to be many items in the British list to which the British themselves might wish to give some careful second thoughts. For example, he said that the proposal to delete fishing vessels designed for speeds of 17 knots and over was a type of proposal which seemed to be highly doubtful. It was clear that nobody would build a fishing vessel of that speed unless it was actually intended for naval applications. While the United Kingdom and the United States might not wish to build or sell such vessels to the bloc, the removal of the item from the international list would make it possible for other COCOM countries to take advantage of such trade, and the Japanese, for example, might be most interested in building substantial quantities of fishing vessels for sale to the Communist Chinese where they would in fact constitute a significant military potential item.

The British Chargé said that he would report the U.S. reactions and proposal to London for consideration there and indicated that he saw some merit to the proposal which Mr. Dillon had outlined.

348. Editorial Note

At the United Nations, Secretary Herter discussed with British Foreign Secretary Selwyn Lloyd on September 18 the possible revision of the COCOM list. According to the memorandum of conversation, September 21, the discussion went as follows:

“At a meeting with Lloyd this morning, the Secretary raised the question of the revision of the COCOM list contemplated by the UK. The Secretary said he hoped that the UK was not frozen on this matter and would be willing to discuss it further at a technical level. Lloyd said that the Department had asked the UK to consider shortening the list and selecting certain items which would be submitted at the October 1 meeting and leaving other items for examination by an Anglo-American committee. Lloyd said he had promised to consider this matter sympathetically.

“Lloyd then said he felt it desirable to delay the whole matter since he did not want it mixed up in the elections. He instructed his staff to seek agreement of other governments to postpone consideration of the items in view of these special circumstances. He said this was very much a Cabinet matter and is the subject of discussion with the UK Board of Trade.” (Department of State, Secretary’s Memoranda of Conversation: Lot 64 D 199)

As Hood told Dillon September 22, upon Lloyd’s return to London the Foreign Secretary found it impractical to postpone the whole COCOM review, but the British Government agreed that “further large-scale public disagreement between the U.S. and U.K.” should be avoided. Hood stated that the British Government would like to suggest a total of 12 or 13 items for consideration rather than the 10 which the U.S. Government had suggested. Dillon agreed with that proposal as a “reasonable number.” Hood said that the British hoped that 8 of these items could be agreed upon in the ensuing review and the remaining items could be the subject of bilateral discussions early in 1960 after the completion of the present COCOM review. (Memorandum of discussion, September 22; *ibid.*)

349. Editorial Note

The annual review of trade restrictions toward the Sino-Soviet bloc by the 15-nation Coordinating Committee (COCOM) in Paris began on October 30. These consultations were expected to make minor adjustments which better reflected changes in technology in the Sino-Soviet bloc and to clarify some of the definitions of the 120 strategic items over which the COCOM countries exercised export control. During the course of the review, five items were deleted from the embargo list and five items, proposed by the U.S. Delegation, were added to the list as well as one item to the surveillance list. Forty-four items raised for discussion were either redefined or left unchanged after technical examination.

There were, however, five items in the field of electronics for which no agreement could be reached. Two of these—radio transmitters and communications, navigation, and radar equipment—were of particular interest to the United Kingdom. While the United States was unprepared to remove these two items from the list, it did tentatively agree to redefining portions of their definitions. The three remaining items—radio communications equipment, line communications equipment, and communication cable—were considered by the United States to be of great strategic value to the Soviet bloc because of their application for peripheral early warning air defense and ground controlled interception systems. The United States believed the Soviet bloc, deficient in this technology, was engaged in a campaign to obtain it from the West.

Among the COCOM countries other than the United States there was widespread support for a proposal to export the three items as long as they would be put to nonstrategic use. The other participants at Paris suggested a plan whereby COCOM would be notified of the exportation of the items on an *ex post facto* basis. The United States opposed this proposal on the grounds that it would be interpreted so loosely that there would be little meaningful control over the equipment. The U.S. Delegation proposed consultation prior to exportation of the three items and, if the COCOM members agreed that the exports met the criteria for nonstrategic use, then the items could be shipped to the Soviet bloc. Other participants at Paris opposed the U.S. suggestion on the grounds that the United States would object to most requests for exportation of these three items of electronic equipment.

In view of this basic disagreement, the COCOM members agreed to postpone the enactment date of the 1959 list from January 1 to February 1, 1960. In the interval, there was some expectation that a compromise could be worked out. The United States used this interval to strengthen its position among certain COCOM members—Turkey,

the Netherlands, Belgium, and Canada. As a result, the discussion at Paris failed to resolve the impasse. Although the United States was prepared to relax controls on the two items of particular interest to the United Kingdom, the French Delegation insisted on a settlement on the three remaining items as the price for its acceptance of the compromise on the first two. The United States was unprepared to accept the French conditions. Because COCOM procedures required unanimous agreement to change existing definitions, all five electronic items therefore remained on the embargoed list. (Department of State, *Current Economic Developments*, No. 590, February 2, 1960, pages 4–6)

350. Memorandum of Discussion at the 460th Meeting of the National Security Council

September 21, 1960.

[Here follow a paragraph listing the participants at the meeting and agenda items 1 (see Document 309) and 2.]

3. *U.S. Economic Defense Policy* (NSC 5704/e;¹ NSC Action No. 2166–b–(5));² Memos for NSC from Executive Secretary, same subject, dated July 12³ and September 2, 1960⁴)

Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Boggs on September 21.

¹ Reference is to NSC 5704/3, "Statement of U.S. Economic Defense Policy," September 16, 1957, printed in *Foreign Relations, 1955–1957*, vol. x, pp. 495–498.

² This NSC action, approved by the President on December 23, 1959, stated that the NSC should ask the Council on Foreign Economic Policy to undertake a review of NSC 5704/3. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95)

³ In this memorandum, Lay transmitted to the NSC a memorandum from the Secretary of the Council on Foreign Economic Policy describing the results of the Economic Defense Advisory Committee's (EDAC) initial review of Foreign Economic Defense Policy. According to the memorandum transmitted by Lay, the EDAC recommended and the CFEP considered and approved the recommendation that "existing policy be continued without change at this time." (*Ibid.*, S/P–NSC Files: Lot 62 D 1, U.S. Economic Defense Policy)

⁴ In this memorandum, Lay transmitted to the NSC the views of the JCS on economic defense as set forth in a memorandum to the Secretary of Defense, August 15. The JCS stated that "from a military viewpoint, stringent restrictions on export trade of strategic materials with nations of the Sino-Soviet Bloc are a means of retarding the growth of the Bloc's war making potential." In view of the "increased world tensions since the breakup of the Summit Conference," the JCS recommended tightening controls on trade with the Sino-Soviet bloc. (*Ibid.*)

Mr. Gray presented this subject to the Council. (A copy of Mr. Gray's Briefing Note is filed in the Minutes of the Meeting and another is attached to this Memorandum.)⁵

Secretary Gates said this subject was a rather old one. The Department of Defense believed that the Soviet Bloc war-making potential was enhanced by trade with the Soviet Union. In the past the U.S. had had difficulty in maintaining the firmness of its allies in this field. Defense had always advocated stronger restrictions on trade with the Soviet Bloc. He believed we should have a controlled strategic list and would like to see our controls tightened. He understood that the Chairman-designate of COCOM, an Italian, believes that there is now an opportunity to add items to the strategic list.

General Twining said the Joint Chiefs of Staff, in addition to endorsing the comments of the Secretary of Defense, felt that the present policy had been approved at a time when the international situation was more peaceful and less tense than it is now.

Secretary Mueller pointed out that it was his responsibility to approve or disapprove licenses for the shipment of commodities to the Soviet Bloc. He said that in addition to the COCOM list on which our allies are agreed, there is a U.S. "positive list" of eighty items which the U.S. is not exporting to the Soviet Bloc. Of course it could be argued that any export, for instance sheet steel, a great deal of which we were now sending to the USSR, relieves the USSR of the requirement of making that commodity and therefore inures to the strategic benefit of the Soviet Union. However, Secretary Mueller was more worried about sales by U.S. nationals of industrial processes to the Soviets, whether such processes are strategic or not. Under present law and policy it is permissible for industrial processes to be sold to the USSR, thus enabling the latter's industrial development to proceed by leaps and bounds which eliminate some of the long research and development activities necessary to the development of finished industrial processes.

The President believed that international trade was something like a horse trade. The question was, do we get greater benefits than the other side from the trade? He added that we were quite concerned by the outflow of gold, which might almost be classed as a strategic matériel. The President would be willing to ship almost any commodity to the USSR if we could receive gold in return, since gold was an important element in our economic strength. Secretary Mueller said we could not require U.S. nationals to receive gold in return for shipments to Russia. The President said it might be desirable to make a

⁵ Attached but not printed.

policy requiring the payment in gold for our exports to the Soviet Union. If objections to such a policy were voiced before the Supreme Court, we had an Attorney General to argue the case for us.

Secretary Dillon said we had experienced difficulties with our allies on the question of restricting exports to the Soviet Union. An agreement had been reached two years ago and the situation had been quiescent since then. An agreed list of items fully covers commodities which have direct strategic value. The view had been that trade in general industrial items should not be eliminated. The agreed list is reviewed each year. The first review took place last year and the second review is due to begin in a week or so. State and Defense are in agreement on the deletion of four items from the agreed list and the possible deletion of several more. There is also agreement that increased coverage should be sought for 23 items. Secretary Dillon felt that in the present situation we ought to look coldly and with a great deal of skepticism at any suggestion that items be deleted from the list of commodities which cannot be exported to the Soviet Bloc.

The President said the JCS views spoke of the implementation of economic defense controls being liberalized, rather than of adding or deleting items on the list. Secretary Dillon said implementation of U.S. Economic Defense Policy was good with respect to any item on the list. Therefore the question, he thought, was one of what items should be on the list.

The President asked why it was not desirable for the Department of Commerce, in considering applications for export licenses, to find out what kind of payment would be made for the export. Secretary Dillon said a great many of the transactions which the USSR attempted to arrange were barter transactions. Secretary Mueller agreed, adding that businessmen were constantly thinking up deals with the USSR and presenting them to the Department of Commerce, which generally turned them down. Each case arising under economic defense policy is presented to the inter-agency group working on this problem. Secretary Mueller noted that the Defense representative on this group usually voted against permitting trade with the USSR. Secretary Mueller said that multilateral as well as bilateral trade was often involved. The President asked whether this kind of problem could be processed through the National Advisory Council. Secretary Dillon said that a complex inter-agency organization existed for the purpose of dealing with this problem.

Mr. Randall believed that two types of controls were often confused—the multilateral controls of COCOM and the U.S. unilateral controls. He asked whether the JCS were suggesting that the U.S. initiate an entire new review of the COCOM controls. He believed such an undertaking would be hazardous. He had discussed this problem with Ambassador Burgess during his recent trip and had been told

that NATO would be perturbed by a review of COCOM controls aside from the continuing review which constantly takes place in COCOM. With respect to U.S. unilateral controls, the President had established the general policy line when he said that the United States favors trade. The Department of Commerce was constantly attempting to increase our exports. Mr. Randall pointed out that exports to the USSR counted in the balance of payments the same way as exports to any other country. The President agreed but said he did not want soft currencies in exchange for our exports.

Mr. Randall said the Russians were shrewd traders whose credit was good. There was no need to worry about the soundness of the method of payment they used in making settlements for their imports. Secretary Dillon said one exception to Mr. Randall's observation might be the barter deals which the USSR worked out. Mr. Randall believed it was in the overall interest of the U.S. not to limit trade in general. No commodity was involved which the USSR could not produce itself or buy from our allies. We had consented in advance to the sale of these commodities by our allies. Mr. Randall said there was wonderment in the business community at the idea that we should prevent the shipment of a commodity to the USSR while permitting our allies to ship it. In conclusion, he thought existing U.S. Policy on Economic Defense (NSC 5704/3) should stand as written. The President agreed. The President then remarked that the Soviet record on lend lease was not a good one. He added that in his view peaceful trade was desirable.

Secretary Mueller believed it was not in the national interest for our industrial processes and industrial secrets to be sold to the Soviet Bloc. He thought the acquisition of these processes improved the military potential of the Soviet Bloc. In response to a question from the President, Secretary Mueller said that under present rules the selling of industrial processes to the Soviet Bloc could not be halted. The process for making thermopane windows was a case in point. The Soviets could develop this process in time but they would require a long time. The President asked why the selling of industrial processes could not be stopped. He wondered whether industrial processes could not be declared strategic. Secretary Gates agreed that an industrial process could be declared strategic.

Secretary Anderson concurred in the remarks of the Secretary of Commerce. He said that ten to twelve years ago when someone invented a new industrial process, ten years were required before the process began to be used abroad. Now, however, a new industrial process comes into use abroad in about two years. We encourage private companies to engage in extensive research with the result that

new processes developed by this research are exported and are soon producing goods which come back into the U.S. at a lower price than they can be produced here.

Secretary Dillon said that one problem faced by Commerce was that an industrial process which the USSR wanted has often been sold already to our allies, so that if we do not allow the sale to the USSR, the latter can obtain the process from our allies. Secretary Mueller said it was sometimes claimed that a process could be obtained from our allies when in fact the process obtained was not as effective as our own process.

Mr. Gray pointed out that U.S. Economic Defense Policy (NSC 5704/3) provided in Paragraph 11 that we should "maintain toward the European Soviet Bloc U.S. export controls over multilaterally-agreed items and over much materials, equipment, technology, and services as can be so unilaterally controlled by the U.S. as to achieve a worthwhile adverse impact on the war potential of the European Soviet Bloc or can effectively serve other U.S. policy objectives . . ."⁶

The President said he believed he could apply that policy to prohibit the sale of U.S. industrial processes to the USSR. He pointed out that the word "technology" appeared in the paragraph Mr. Gray had just read. Secretary Mueller said that unilateral controls had been developed under this paragraph. Secretary Dillon believed the key to the problem was what the U.S. itself could effectively control. Mr. Gray believed that the thermopane process mentioned by Secretary Mueller could be controlled by the U.S. Secretary Mueller said the policy was one of peaceful trade. The President said trade was actually decreased by making our industrial processes available to the USSR.

Secretary Mueller hoped the Council would realize he was not in favor of trade with the Russians; in fact, he would like to cut off all trade with them. The President said he favored trade whenever the U.S. secured an advantage from such trade.

Mr. Gray believed that the policy statements in NSC 5704/3 would enable us to control the export of industrial processes. He then noted that no one seemed to be recommending a change in U.S. Economic Defense Policy. He suggested the Record of Action show agreement that the policy did not require change at this time but that the interested departments and agencies should keep the implementation of the policy under constant scrutiny.

Mr. Dulles pointed out that Cuba would soon be needing certain U.S. industrial processes in order to keep its oil industry going. Secretary Mueller said that in theory Cuba was still a friendly country and that we were not prohibiting general trade with Cuba. However, he had prohibited the export of certain items such as jeeps and crop-

⁶ Ellipsis in the source text.

dusting airplanes. Secretary Anderson said our only recourse at present was to appeal to exporters not to export to Cuba. The President wondered why it would not be possible to delay clearance of ships or planes bound for Cuba. Secretary Anderson said that Cuba might need a chrome valve for its oil industry because of the use of corrosive Russian oil. Under present rules there was no way of preventing shipment of this valve to Cuba. The President said he would be inclined to delay the sailing of the ships carrying this valve for about four weeks. He felt this government had so many resources that we should not say we are helpless in the face of this kind of situation. Secretary Mueller said that he could stop trade with Cuba but we would have to make a public statement of our position. Moreover, the President could declare Cuba a Communist country, in which case commodities denied the USSR would also be denied Cuba.

Secretary Dillon questioned whether it was necessary to initiate a whole new study of the implementation of U.S. Economic Defense Policy. Mr. Gray said he had not meant to suggest that a new and separate study was required but was only recommending that the present inter-agency group keep the implementation of NSC 5704/3 under constant study. Secretary Dillon pointed out that it had been suggested that the Rand Corporation make such a study; he did not believe this would be a desirable step. Mr. Gray said the operating agencies could arrange for whatever studies they desired. He felt no new mechanism for a study should be created.

*The National Security Council.*⁷

a. Discussed the report on the subject by the Council on Foreign Economic Policy, transmitted by the reference memorandum of July 12, 1960; in the light of the views of the Joint Chiefs of Staff, transmitted by the reference memorandum of September 2, 1960.

b. Concurred in the recommendation of the Economic Defense Advisory Committee, as approved by the Council on Foreign Economic Policy, that existing policy on the subject (NSC 5704/3) be continued without change at this time; but agreed that the implementation of this policy should be kept under continuing scrutiny by all interested departments and agencies to ensure that it serves the purposes of retarding the growth of the war potential of the Sino-Soviet Bloc and reducing its unity. Noted that, with respect to paragraph 11 of NSC 5704/3, U.S. export controls over such materials, equipment, technology and services as can be unilaterally controlled by the United States may be imposed not only to achieve a worthwhile adverse impact on the war potential of the European Soviet Bloc, but also to serve other U.S. policy objectives, especially with regard to technology and services.

⁷ Paragraphs a and b and the Note that follows constitute NSC Action No. 2304, approved by the President on October 5. (Department of State, S/S-NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council)

Note: The action in b above, as approved by the President, subsequently transmitted to all holders of NSC 5704/3.

[Here follow agenda items 5 and 6. There apparently was no item 4.]

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