April 24, 1947

TO: U - Mr. Asherson
FROM: A-B Joseph Jones

Here is my idea for your May 8 speech before the Delta Council.

Parts of it are spelled out in detail; other parts are in padded outline form.

This obviously needs a lot of checking and careful discussion and filling in on the economic side. I am sending copies to Norman Bass and Leroy Stinchemar.

It also needs to be looked at with extreme care from the United Nations point of view, which I have in large part ignored. I am sending a copy to Dean Rusk and will try to make it more acceptable.

The German-Japanese production angle also needs careful consideration and re-phrasing. I felt myself on insecure ground there.

I note from this morning’s papers that Wallace sounded off in Europe on this line yesterday with extravagant figures ($50 billions) and one-third for the USSR. It seems to me that the way is paved for you to come along and discuss the subject in more reasonable terms and espouse the “selectivity” principle and emphasize the limitations.

Attachment
A-B: JW reh
Nearly two months ago President Truman appeared before a joint session of Congress and announced a policy of aid to free peoples who are seeking to work out their destinies free from coercion or subjugation by armed minorities. The immediate focus of the President’s concern was the situation in Greece and Turkey. But it was widely recognized that the issues involved extended far beyond Greece and Turkey.

The overwhelming majority by which the President’s policy has been approved by Congress, the bi-partisan nature of that majority, and the speed with which Congress has acted—all of these are clear proofs to the world that a democracy, our democracy, is capable of carrying out an effective and responsible foreign policy, and of discharging its responsibilities as a world leader.

In its wider context the President’s policy means that it is this Government’s intention to seek through a judicious use of its economic resources to help lay a basis for political stability in the world. For unless a genuine political stability is achieved, the world can hardly get going successfully upon a program of economic reconstruction. And unless we have economic reconstruction, we can have no peace, or continued prosperity.
In the United States.

A government has three principal instruments short of armed force for carrying into effect its foreign policy. The first is diplomacy or negotiation. The second is economic power. And the third is persuasion of foreign public opinion by means of a program of international information and cultural relations.

The United States has been using the instrument of diplomacy over time in the last few years. Of the ___ months that have elapsed since VS day, the Secretary of State has been absent from his desk for ___ months attending international conferences. Certain things have been accomplished, but I think we must admit frankly that our negotiations have been without marked success in achieving that political stability which is necessary for world economic reconstruction. We have not been fully successful in building through diplomacy alone that mutual confidence and trust and cessation of expansionism that must be the foundation for political stability and for the success of the United Nations.

It has become necessary, therefore, and it will probably continue to be necessary for some time to come, to buttress diplomacy by stepping up the use of the economic resources and power of the United States to help create a
basis for political stability—to help create conditions in the world in
which the United Nations can grow and increase in authority over a period of years.

The use of economic power of the United States to achieve broad political
ends in no new policy. We have always used our economic power for political
ends in the national interest. It is only common sense to do so. But for
several reasons it has recently become necessary to increase our use of
economic power in support of our foreign policy and to announce that increased
use publicly. (Elaborate). This implies no disrespect for the United Nations,
on the contrary....... It merely means that the United States has a new
position of responsibility in the world and is obliged to discharge that
responsibility in the interest of peace and stability.

The question has often been raised whether our program of aid to Greece
and Turkey sets a pattern for aid to other countries in case of future
requests for American assistance. The answer given by spokesmen for the
Department of State has consistently been that any requests of foreign
countries for aid will have to be considered according to the circumstances
of each individual case. In another case we would have to study whether the
country in question really needs assistance, whether its request is consistent
with American foreign policy, whether the request for assistance is sincere,
and whether assistance by the United States would be effective in meeting
the problems of that country. Our position has been that it cannot be
assumed that this Government would necessarily undertake measures in any
other country identical, or even closely similar, to those proposed in
Greece and Turkey. But we have never sought to conceal the probability that
there would be additional requests from other countries for American aid, or
that in such instances it would be in the national interest to consider those
requests sympathetically.

Today it is clear that there are going to be many further calls for
American aid.

1. The recovery of Europe and Asia is not going to be nearly as fast as
has generally been supposed.

1. There has been an over-optimism. It has been overlooked that even
after World War I, it was only in 1925 that the world arrived at a reasonable
level of economic activity and finished clearing away the debris of war. But
World War II was many times more destructive. In this war, nations planned on
a vast scale the destruction of the enemy's economic capacity—with enormous
success in terms of devastation. (See Thorp's speech.)

2. The
2. The margins of national subsistence have been so narrow throughout the world that phenomena such as blizzards, floods, and droughts have been sufficient to upset completely any timetable of reconstruction. Such disasters—which countries might ordinarily take in their stride—have occurred in England, France, and elsewhere with the result that funds and resources earmarked for reconstruction have had to be used for consumption, to sustain life, thus setting back reconstruction. Moreover, many foreign countries have been so weakened by the war that loss of resources in this manner cannot be replaced—and further progress toward reconstruction will depend upon outside aid.

3. Political instability has made progress towards reconstruction difficult or impossible in many areas. European recovery is in the end dependent in large measure upon revival of German production and industry. (3) Further extensive economic and financial aid over a period of years, is going to be necessary if the world is to achieve economic viability and political stability.

If that aid is not forthcoming, economic collapse will probably be the result in many areas of the world. This in turn will lead to increased social
social and political unrest, and an increase in extremism and a decline
in respect for democratic institutions and processes, and in the growth and
spread of totalitarianism.

I think the people of the United States will agree that nothing could
be more dangerous to the national interest and security than such an eventu-
ality, and that they will agree to extend whatever aid may be necessary to
prevent it. The fundamental issues of peace and war are involved.

Much of this aid may be channeled through the United Nations and its
various agencies, but in the end, the bulk of this aid must come from the
United States if it is to be forthcoming. Why?

(c) The balance of payments problem.

The world balance of payments problem is largely a problem of finding
enough U. S. dollars to buy the commodities needed for subsistence and
reconstruction. There is hardly a country in the world that does not import
from the United States, and that does not need to import from the United
States, either for subsistence or reconstruction purposes, more than it is
able to export to this country.

In 1947 the United States will export to the rest of the world $16.2
 billions
billions of goods and services, taking into consideration existing and probable foreign financial commitments. The United States will import in 1947 only $8.7 billions of goods and services. In 1947 the United States will thus be financing the rest of the world to the extent of $7.5 billions. Only about $4.5 billions of this $7.5 billions will be financed by private loans or credits. Most of the balance will be financed by the United States Government ($4.8 billions) and out of cash and gold holdings of foreign buyers ($1.2 billions). The International Bank will provide about $300 million, and private remittances about $750 million.

The volume of United States Government foreign financing will, however, under present programs and policies, taper off rapidly during the latter part of 1948 and 1949. Similarly, the ability of foreign purchasers to finance United States exports out of gold and dollar holdings will diminish rapidly as these reserves are drawn down. The volume of private remittances may also be expected to decline.

These factors will be offset only in small part by International Bank financing, by some net increase in private loans and short-term loans and credits, and by an increase in United States imports. Even if the
International Bank were able to increase its activities so as to finance a substantial part of foreign needs, the dollars would in the end have to come primarily from the American market; that is to say, the International Bank would have to float its securities for these purposes primarily in the American market. For it is dollars that the world needs in order to buy American products. The basic problem is the enormous disparity between the productive facilities of the United States and those of the rest of the world. The American productive plant is the only important one to come through the war without major damage. That is why it is our responsibility today to take steps to even up this disparity through aiding foreign-economies to get on their feet.

The conclusion is inescapable that, under present programs and policies, the world will not be able to continue to buy United States exports at the 1946-47 rate beyond another year or year and a half; and that if they are not able to buy such exports at least at the 1946-47 rate, economic reconstruction and in many cases subsistence will be difficult or impossible. It is also clear that there are no major sources of credits or supplies other than the United States to which the needy countries can turn to meet the bulk of their balance of trade deficits and reconstruction and development needs.
We in the United States set enormous store by the preservation of
democratic institutions, free enterprise, and liberal commercial policies
throughout the world. We must face the facts that unless we adopt economic
policies and commercial policies appropriate to world need, the survival of
these conditions and institutions abroad will be extremely difficult if not
impossible.

We must also face the fact that a large part of our economic help for
the next few years must be in the form of gifts rather than loans. Loans
would merely saddle these slowly reviving countries with debt payments that
would strangle international trade for an indefinite period to come.

All of this also implies that the United States must take as large a
volume of foreign imports in payment for our exports to those countries as
is possible. It would be a stupid policy indeed were this country to refuse
payment in imported commodities for funds that must be in any case made
available to foreign countries if international anarchy is to be avoided.

(5) If our foreign markets were to be cut off sharply as a result of foreign
inability to buy, the result might be extremely serious to the domestic economy
and employment. (Elaborate.)
It is clear, therefore, that in order to promote political stability, in order to preserve democratic institutions in the world, in order to create economic bases for peace, and in order to protect our domestic economy—it is clear that for all these reasons we must be prepared in the years to come to extend financial and economic assistance to the world on a scale which we have not hitherto considered.

There are nevertheless definite limitations upon the ability of this country to aid in foreign recovery. It is necessary that these limitations be perfectly understood.

There is an extremely serious dollar problem in the world. But there is an even more serious commodity problem. Money means little in this period of extreme short-supply unless it can be translated into commodities. It is not dollars that foreign countries need, but food, coal, steel, machinery and the like. And for many years there are not going to be enough of these commodities to go around.

Our policy of foreign aid must be closely geared at all times to the realities
realities of production and supply. This is true of the United States no less than of other countries.

(Cite here the essential facts of supply with respect to (a) food, (b) coal. Describe what we are doing with respect to these commodities, the international allocations systems in effect, etc.)

But limited supply extends far beyond these, to items such as steel, machinery, railroad equipment, and the like. Our steel industry in the United States is today operating at 94 percent capacity, which is an all-time record. And yet domestic plants that are seeking to expand their productive facilities are encountering long and expensive delays in obtaining supplies. It would be a short-sighted policy indeed were this country to ship so much steel abroad that we could not expand our own productive facilities for the purpose of increasing supply to our own citizens and to foreign countries. The same consideration applies to box cars, and certain other equipment. Unless we pay close attention to domestic needs, we might very well hamstring the productive processes in the United States upon which recovery everywhere depends.

We must make perfectly certain that in making aid available to foreign countries
countries we are not depleting our own economy. I think that most
thoughtful foreigners will agree that maintenance of the economy of the
United States in a strong and prosperous condition is essential to world
peace.

We are today doing our part to get the world on a sound basis. We
are not letting the world down. The tonnage of goods moving out of east
coast ports is today twice as great as during the peak of the war. This
is an admirable record. But it is a strain.

The conditions of tight supply which prevail today suggest the
following considerations for American policy:

(1) Our policy of foreign aid must be selective. We must make
aid available where it will be most effective in building world political
and economic stability, in promoting democratic institutions, liberal

(2) We must concentrate to a greater extent upon utilizing the
productive capacity and resources of Germany and Japan. European recovery
will never be complete or stable until German productive resources are
brought
brought into play. Likewise, recovery in the Far East can be greatly facilitated by Japanese production. The United States cannot and should not bear the entire burden of world economic reconstruction. Our policy should be increasingly directed towards the harnessing of the productive facilities of Germany and Japan to the needs of world reconstruction.

(c) In order to carry out that selective policy of world aid required by present conditions of tight supply, certain specific kinds of legislation are required:

1. Legislation giving the President the authority to procure and allocate commodities for export. (Give reasons for.)

2. Legislation giving the President authority over shipping space. (The President has already recommended to Congress that expiring war powers in these two areas be renewed.)

3. Passage of the International Information and Cultural Exchange Act of 1947 so as to allow experts and technicians in the Government service to be sent abroad to advise foreign governments.

4. Approval of the budget of the Office of International Information and Cultural Relations so that our programs of foreign aid may be supplemented by
by an information policy to the end of giving the aid policy its maximum effectiveness.

5. Passage of the military missions bill.

The question is often raised how this country can, in view of its present debt load, continue to aid in the reconstruction of foreign countries.

The answer is (1) that expenditures should taper off after a few years; and (2) that a reviving world economy built upon a stable political and economic base should lift this country and the whole world to heights of prosperity never before dreamed of.

There are two ways to pay off a debt. One is to skimp and save and do without until the debt is finally paid off from dwindling resources and earning power. The other is to increase productivity and earning power to the point where the debt is relatively insignificant and can easily be paid off.

For many reasons it is not possible for this great country, as a world leader, to adopt the first alternative. The result would inevitably be a hostile and totalitarian world probably organized against us. In this situation
situation our debt load for armaments, plus our reduced economic opportunities and increased inefficiency as a result of restricted sources of supply and markets, would bear down heavily upon our living standards and make our debt load relatively much heavier than it is today.

The only answer, therefore, to our debt load and to increased expenditures is increased productivity in the United States and throughout the world. That is the only answer that I think the people of this country will accept today.

(At this point, if you desire, you might include some general considerations along the line of your observations from the book which you mentioned to me entitled "The Rise of Islam". Incidentally, I have been unable to find this book anywhere, even in the Library of Congress, and I would like a further steer from you as to the exact title of the book and where it can be found.)