G. **International Economic Policies for Common Security**

In framing the economic programs to build up our national strength, we must constantly bear in mind that this strength is bound up with that of other free nations, immediately as well as in the long run. The problems of obtaining maximum total production, devoting it to the best uses, distributing the burdens of defense equitably, and preventing inflation, are world, not merely domestic, problems. Our economic programs must take account of the combined military programs of all the free nations; of their combined productive possibilities, whether in military goods or in raw materials or fabricated products that contribute directly or indirectly to the common defense effort; of economic requirements arising from international political and diplomatic needs; and of the equitable distribution of the burden of rapid rearmament among the free nations whose security is benefited by the common defense effort.

The new requirements of defense call for the adoption of certain new economic programs in the international field and for changes of emphasis in some of our present ones. They also call for close coordination in the planning of all our international and our domestic economic programs and in the day-to-day operation of many of them.

1. **Economic Aid to Foreign Countries.**

The rapid restoration of Western Europe's defensive strength requires provision of large amounts of military equipment to our North Atlantic Treaty partners. Our aid to Western Europe will now have to take primarily this form. Production has been rising continuously in the Western
European countries, and the international accounts of most of them were improving rapidly, even before the decision to rebuild our defenses stimulated our imports.

This does not mean, however, that economic aid is no longer necessary. For the countries that must rearm rapidly, this improvement may be short-lived. In the second half of 1950, most of them were enjoying the benefits of the lag between the actual and anticipated expansion of the United States defense program and the building up of their own defenses. They shared, directly and indirectly, in the expansion of dollar earnings arising from the increased United States demand for imports. Their problem of finding markets may be regarded as ended, so long as our defense expenditures are very large. Their own rearmament, however, will greatly increase the pressure on their economic resources, as defense requirements are superimposed on national economies that are in most cases already working at high levels. The more rapid rise in the prices of raw materials, most of which they must import, than of their exports, has already increased the volume of their imports required to pay for a given quantity of imports, and has put upward pressure on their domestic prices and on money incomes. The full impact of this rise has probably not yet been felt. Furthermore, the increase in their armed forces, and in materials needed to maintain military equipment we provide, will reduce the resources available for their own production. The building-up of Western Europe's own armament production will increase the quantity of imports needed and at the same time make it increasingly difficult for these countries to provide goods for export and for their own consumption and investment.
The production programs of all North Atlantic Treaty partners must be formulated in a way which will result in each country producing those portions of combined military and civilian requirements for which it is best equipped. Likewise, the military programs for each country must take into consideration the amount of resources that should be devoted to civilian consumption, domestic investment, and exports. Since military and civilian production in each country compete for the total labor and material supplies, the needs for military and economic assistance are intimately related. Those amounts should be determined in the light of the total resources and capabilities of all cooperating countries, considering the requirements for military production and overall strength, including civilian needs.

Western Europe will have to provide some of the resources required for defense production by foregoing consumption and improvement of its capital stock to the maximum extent consistent with maintaining national strength. But this will not free sufficient labor, materials, and plant capacity to meet present urgent needs. Once rearmament gets under way, therefore, sheer inability to produce enough may be adversely affect both the dollar and non-dollar balance of payments positions of the Western European countries. Their need for economic aid, which was declining rapidly, will on balance be enlarged, not reduced, by the great rise in defense requirements.

The need for increasing production calls for the fullest possible use of economic resources outside as well as inside the United States.
In some of the industrial countries, for example Germany, Japan, and Italy, the labor force and plant capacity is not being fully utilized and production can be increased with relatively little difficulty as a result of increased demand and placement of orders. There is also a great production potential in the underdeveloped countries. Here the difficulties are primarily inefficient techniques of production, inadequate capital to develop the resources, and in many cases institutional obstacles. The large contribution which many of these countries can nevertheless make must be fully taken into account. The present situation does not call for dropping our plans to help them increase their productive abilities and develop their resources. From the outset, these plans recognized that such increases contributed to our national security, both directly and by improving the economic welfare of these countries. Rather, the common danger calls for cutting out, for the time being, elements of such plans which do not contribute to the common strength in its military and non-military aspects, and altering the character and time-focus of the production that should be expanded. This will require, among other things, putting greater emphasis on production of raw materials, the supplies of which will be far short of the quantities required to satisfy military and important non-military demands. Since the markets for these products have expanded so greatly, enlargement of their production will be profitable for the underdeveloped countries, as well as beneficial to the other free nations. It will also be necessary to shift emphasis from programs that produce results only in the distant future to those that produce results more quickly.
In shifting this emphasis, however, we must continue to recognize that Soviet-dominated aggression is neither solely military nor of short-run character. In some of the underdeveloped areas where there is a military threat, this threat is serious because political, social and economic conditions provide a fertile soil for penetration of Soviet-Communist ideology. In some other cases, military assistance would not help but assistance in expanding production, even of goods unrelated to the common military strength, can contribute greatly to the non-military but equally essential assets of common security.

Expansion of the productive capacity of the underdeveloped countries calls for measures to facilitate private capital investment, for expansion of public investment, for capital development and technical assistance. It is still desirable to enact legislation authorizing guarantees to private capital against risks peculiar to foreign investment, and to continue efforts to negotiate investment treaties.

In the field of public loans for development purposes, the United States should place primary reliance on the International Bank for Reconstruction and Development. It is more important than ever to avoid wasting resources by improving coordination between the Bank and U. S. Government financing agencies.

But it is clear that the burden of aid to develop production, especially in fields that directly and primarily involve United States security interests, also requires the Export-Import Bank to play an active role. The Bank's uncommitted lending authority is now only about 500 million dollars.
This seriously restricts its ability to make loans. This lending authority should be raised by 1.5 billion dollars, from the present 3.8 to 5 billion dollars.

2. The utilization and the burden of aid.

With an economy operating under forced draft, expenditures that are wasteful must be kept out of our foreign, as well as our domestic programs. Foreign aid programs must not only be originally planned to serve high priority purposes, but be continuously reappraised to see that such plans are being carried out and that aid does not exceed needs. Reasonable assurance of cooperation and performance on the part of other countries should be required as a condition of both the initiation and continuation of aid. In many cases, the success of such aid will require that the programs be administered internationally in order to draw skills from the largest possible supply, to induce maximum cooperation, and to make clear the common interest in fulfilling these conditions.

In determining what we can afford by way of aid to sustain or strengthen other countries, we must weigh the importance of the last dollar spent on each program against the importance to us what it would require to give up. This is the true meaning of the question "Can we afford it?" In answering this question we must take into account not only the expected contribution of aid to the political and economic as well as the military aspects of our security interests. We should also recognize that our own standard of living is relatively high and that we are one of the few countries in which living standards have risen substantially since before World War II.
This fact should also be taken into account in considering the possible contributions of other countries. In this connection, it should be recognized, too, that some of the countries whose position has recently been improved are countries in which poverty has itself constituted a vulnerable point in the collective long-run security of the free nations. Provided they take positive steps to use the additions to their real incomes wisely, these additions can become a very effective instrument for obtaining the funds necessary for the development of their productive capacity.

The provision concerning the need for vigorous internal policy measures is important, however. Without them, higher export earnings may merely raise the cost of living and inflate profits, causing harmful internal effects and also dissipating their additional foreign exchange earnings on wasteful imports. It should also be recognized that some countries will benefit economically from the defense efforts of others, will be little strained by their own rearmament, will be able to afford a contribution, and will also participate in the benefits of greater security. They should be expected to bear their share of the common defense burden.

3. Control of Commodities in World Trade.

However vigorously we press efforts to expand foreign and domestic production of the major raw materials, results cannot be achieved quickly or in time to prevent some important cases of severe shortages, sharp price rises, and misdistribution of supplies. For some commodities these effects have already occurred. In a few cases, greatly increased United
States demand or, as in the case of cotton, reduced supply, has in fact threatened to compel curtailment of essential production in other countries. While controls are not now needed or desirable over a wide range of internationally traded commodities, it has become clear that products in critically short supply must be allocated among the consuming countries so that less essential uses in one do not deprive essential uses in others. The major concrete questions remain to be solved, however: to identify the commodities which will need to be allocated, to work out the policies that should govern their allocation, and to work out and put into effect the mechanisms best suited for the purpose, both internationally and within the countries affected.

It will become increasingly necessary to prevent undue export of materials in short supply in the United States which are necessary to our defense program, and to direct exports of some specific commodities to countries where they are most urgently needed. For these reasons, as well as for obvious security reasons, the power to control exports, which is scheduled to expire on June 30, 1951, will have to be extended.

It will also become increasingly urgent to assure close coordination of the day-to-day operation of domestic and international commodity control programs. Where there is excess demand for commodities that we import or export, we must limit domestic use, not only to avoid taking more than our agreed-upon share of world imports, but also to assure that we actually make available our proper contribution to world needs.

Domestic fiscal and credit policies can help by restraining market demand
for the final products which use the particular raw materials. For example, controls that cut the demand for automobiles also indirectly cut the demand for rubber. But it is unlikely that such measures can suffice; international allocation of a commodity implies domestic priority or allocation as well. The administration of these domestic controls must take into account the needs of other countries, not only for goods used in defense production, but also for civilian goods to the extent that their provision increases the common strength.

Fiscal, credit, and allocation measures may be expected to exert some restraining influence upon prices of the major commodities in world trade. But this influence is likely to be limited. Unrestrained price rises in these commodities create balance of payments difficulties in the importing countries and, through their effects upon costs, reinforce existing inflationary pressures. For the exporting countries, they raise real incomes but also introduce a considerable element of inflation. No general statement can be made, however, concerning the advisability of attempting to place ceilings upon them by international action. Such depends on the extent to which the higher prices elicit increased production, which depends largely on the technical conditions of production for the particular commodity and on how long the price increase is expected to last. In general, it seems desirable to place primary emphasis on vigorous measures to limit the demands of consuming countries.

4. Commercial and financial policies.

With the virtual certainty of widespread labor and material shortages for an indefinite period, we must use all methods of increasing our
available supplies that do not prevent other friendly countries from satisfying their own needs. Commercial and financial practices which divert demand from foreign to United States production put pressure on our resources; their relaxation can help to counter inflationary pressures.

First, the Federal Government is required by many laws to obtain goods in the United States, even though they can be obtained more cheaply abroad. The basis of this policy is the "Buy American" Act of March 3, 1933, which provides that, with certain exceptions, only materials produced or mined in the United States, and only manufactured goods made here from domestic materials, shall be acquired for public use. Such restrictions apply generally to all Federal Government buying, including buying of strategic materials for stockpiling, and also to purchasing by State and local governmental bodies which receive United States funds, such as housing authorities. Besides conflicting directly with our basic foreign economic policies, these restrictions increase the cost of defense and restrict supplies available to the domestic economy, intensifying inflationary pressures. The "Buy American" Act of 1933, and later legislation which extends or reinforces the application of its underlying principle, should be repealed. Meanwhile, administrative action should be taken to the extent permitted by present law to minimize its effects.

Second, tariff barriers to imports should be reduced. Despite duty reductions made under the reciprocal trade agreements program, many United States imports are still subject to high duties. For reasons
that have often been explained, our long as well as short-run policies require that the Trade Agreements Act, which expires on June 19, 1938, be extended and strengthened, and customs procedures, which now also impede the entry of foreign supplies, should be simplified. But further action is desirable in the present inflationary situation. Temporary emergency legislation should be enacted authorizing the President to make unilateral reductions in tariff duties and import restrictions on commodities in short supply so long as general inflationary pressures exist. This may be desirable not only in connection with materials for further processing, such as copper, but also in connection with finished commodities.

Third, we place an additional strain upon our resources and add to domestic inflationary pressures when we require that government loans or grants to foreign countries be spent on goods produced in the United States. Such aid is generally intended to supplement the recipient country's total economic resources, not to promote United States exports. If the recipient can obtain the particular commodities it needs more cheaply from another source, it should in general be left free to do so. There are good reasons, apart from the present situation, why this should be our general policy. Until recently, it was probable that the "tying" loans or grants affected primarily the composition rather than the total amount of United States exports; if the recipient of dollar assistance did not spend the proceeds in the United States, it was very probable that the country in which it did spend the dollars would so. Now, however, it is probable that a larger portion of aid spent in foreign
countries would not in turn be re-empt here. A general policy of not
tyng dollar aid to United States goods can contribute, therefore, to eas-
ing the inflationary strain of exports on our economy. At the same time,
it gives other countries a greater chance to export to the residents of
our aid and thereby to increase their dollar earnings. Since some of
these countries may themselves be receiving aid from us, this policy may
reduce their need for such aid. These principles were recognized in the
Mutual Defense Assistance Act, which provided that United States military
assistance for foreign countries may be used to obtain equipment, materials,
and services from any source.

In general, all measures to reduce artificial barriers to imports
and artificial stimuli to exports tend to ease inflationary pressures.
Present circumstances offer the opportunity for taking these measures with
little, if any, disturbance to related domestic industries, and with max-
imum benefit to the American public as a whole.