Dear:

As to disposition of my money, I trust your judgment.

Walt.
Dear Joe:

I never seem to be able to settle down on this Point IV matter which we discussed at lunch the other day. Some new crisis is always coming up.

Shortly after our conversation (which was in July, wasn't it?), Walter Salant made me a little memo covering points which might be taken up in a serious, yet popular, state of the economic importance of the Point IV idea. I meant to go over this and add some thoughts of my own but I have never had the chance.

What with devaluation, and Jim Lieb back from Europe and other recent developments, the need of getting out a good pamphlet in the field of foreign economic relations seems to me even more pressing than it did last summer.

I am sending you a copy of Walter's memo as it came to me, and I would like to suggest that sometime next week we sit down with him and possibly some others, to discuss what can be done in this field.

Jim Lieb tells me that he has talked briefly to Arthur Schlesinger about it.

Sincerely,

DAVID D. LLOYD

Mr. Joseph L. Rauch
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Introduction: Economic effects arise mainly from foreign investments, not technical assistance. Following discussion in, therefore, confined to the foreign investment side of Point IV. United States economic interest in long period, stable export of capital for developmental purposes has following aspects:

1. Viability of European economy;
2. Necessity for future foreign aid and domestic military expenditures (via political effects in Asia and Europe and easing expanded welfare program possible);
3. Effects on United States exports and employment and production;
4. Effects on realizing United States commercial policy goals;
5. Impact on the investments — effects on volume of imports;

2. Viability of Western Europe.
   a. OECD inform report explicitly and it is now increasingly recognized that Western European balance of payments will not be in equilibrium without rigid controls by 1953 unless there is large foreign investment.

1. Here requires greater reduction of dollar deficits and/or increase of surplus with other areas than is feasible.
2. However, surplus with other areas gives surplus dollars only if the other areas have surplus of dollars which they can get, in absence of U. S. foreign investment, only if they have sufficient export surplus with U. S. In fact, U. S. has sufficient import surplus with them. This means unlikely. Main elements of present U. S. import surplus with these areas were rubber, silk, tin. Synthetics rubber and textiles have cut down first two. Electrolytic process has cut demand for tin somewhat. But significance of this should be checked with tin exports.
B. With foreign investment, even if not directly to Europe, Europe gains. U.S. investment in other areas permits these areas to spend some of investment dollars in Europe (or in countries that are Europe's customers). But this requires that our investment give rise to flow dollars which underdeveloped countries (a) can and (b) want to spend in Europe.

1. Ability of underdeveloped countries to spend in Europe requires us (a) not to over-emphasize direct investment because direct investment rarely involves flow dollars rather merely direct transfer of U.S. currency, and (b) not to use our Export-Import Bank alone.

2. Their desire to buy European instead of U.S. goods requires that Europe offer capital goods at prices and qualities competitive with U.S.

3. Even foreign investment indispensable (though not sufficient) condition for elimination of direct aid and/or rigid trade controls, discrimination and bilateralism.

II. Effect on United States Military and Foreign Aid Expenditures

A. The most far-reaching dynamic influence to be hoped for from Point IV is the effect upon international thinking, which conditions the whole environment in which our economic operation and which makes it necessary for us to devote billions worth of resources toward those that we would prefer to devote to ending of our current and future needs. The Point IV Program may reasonably be expected to contribute to the easing of these tensions. It will show the underdeveloped countries that instead of disregarding or positively deploiting, they seem to see our great ability to help them in pursuit of their economic aspirations, thereby removing the attraction of the Soviet Union's only basic appeal to them. It will make possible an expansion of the world market for capital goods and other goods that Europe must call after U.S. aid ends, thereby permitting gradual improvement of European living standards instead of requiring renewed austerity and endangering European political stability.

B. Argument of A above indicates effect on Europe's need for aid. Alternately, if aid comes there may be severe political repercussions which may cause increase of U.S. military expenditures or prevent reduction that could otherwise occur.

C. Similarly foreign investment in Asia and elsewhere, helping underdeveloped countries, may have political effects that save vastly greater defense expenditures, possibly even war. (cf. earlier discussion of political aspects, to be provided by others.)

D. Saving of military expenditures from U.S. resources and permits greater expenditure by government for domestic development and social welfare programs or else greater private consumption by our reductions. Same is true for saving on foreign aid expenditures to extent that foreign investment is private.
V. In extent that it is public and in substitute for government gifts, it makes no sense resources available to U.S. economy now but, unlike grants, is returned in future, with interest and thus being a direct source of revenue to government like any investment. This return in additional to the saving on military expenditures.

III. EFFECT ON U.S. EMPLOYMENT AND PRODUCTION

A. The export of capital enables the developing countries to finance additional purchases of capital and other goods from the United States or from other foreign countries by asking more dollars available to them. The result is to expand United States exports, either to the underdeveloped countries or through the transfer of dollars (described in I above) to the country from which it buys. If the foreign investment occurs when there is underemployment of labor, plants, and equipment, he stimulus to exports expands domestic production, employment and income. The United States in now facing the problem of preventing such underemployment, now that the extraordinary postwar economic demands are disappearing. This problem will be accentuated as EDP taper off.

B. While foreign investment is one of many possible ways of maintaining maximum domestic production, employment, and purchasing power, this can also be done by expanding domestic investment or consumption. So far as aggregate direct effects on the domestic economy are concerned, there is no special reason to favor the foreign investment approach. Expansion of domestic consumption provides real goods and services directly to the American public immediately, whereas foreign investment, like domestic investment, produces returns over a period of time. If the Government successfully carries out the responsibilities of the Employment Act of 1946, foreign investment will not be necessary to maintain maximum employment and production. It will be merely one way of doing so.

C. Foreign investment, however, does have direct effects upon particular sectors of the economy that are to some extent different from those likely to result from expansion of domestic expenditures. These must be taken into account in appreciating its impact.

1. Its effects would be concentrated on industries producing goods for export and such services as shipping. Among these industries most of the effect would probably be on the industries producing capital goods. But even in the extent that the underdeveloped countries buy capital goods from Europe, exports of other commodities that European countries want from us would be affected. If high levels of total activity were maintained without such foreign investment, a decline in total exports of goods and services perhaps three or four billion dollars from the 1948 level must be expected.

2. A substantial portion of the decline is likely to be in exports to Europe because the great cut in available dollars that Europe will suffer at the expiration of EDP is not expected to be offset by sufficient expansion of dollar earnings in the U.S. is not investing direct. The impact is not likely to be spread proportionately among our exports or even among those going to Europe but is likely to be concentrated on commodities that other countries can get elsewhere or that they regard as least essential.
(c) Some of these commodities, such as cotton and tobacco, would have to undergo substantial and painful reestablishment because of European dollar shortage if IMF is not followed by substantial foreign investment.

(b) It is not likely that the maintenance of medium to high production, employment, and purchasing power by domestic means alone would significantly offset the effects of reduced exports on these commodities.

IV. EFFECTS ON REALIZATION OF U.S. COMMERCE AND POLICY GOALS

A. Without foreign investment and with continuation of foreign aid and continued dollar shortage for Europe (indicated in I) would require continued import restrictions and other related controls. Since it is dollars, not total imports that Europe needs to encourage, they will continue to take discriminatory form. Bilateralism or multilateralism that excludes us will tend to set up non-dollar political blocs.

B. Moreover, extent of such controls by underdeveloped areas may increase, if there is no foreign investments. Their development programs will then require economists on non-essential imports certainly from a dollar area and perhaps from all areas, to permit access to foreign exchange for capital goods. This will require import and exchange controls. Exchange control for current transactions is opposed by us.

C. Development of future bilateralism, economizing on non-essential imports from U.S. by shifting resources of supply will set up new vested interests. This may mean loss of important foreign markets and permanently — for many basic commodities including some for which Europe reserves are very important (e.g., cotton, tobacco, wheat). This means painful readjustments at the least. If we continue supporting prices of these few products by reduction of resources my never occur, will then be saddled with more or less permanent subsidies which do not represent merely a transfer of funds, but actual waste of resources because they are associated with keeping manpower in fields where it is producing unwanted goods.

V. THE MEANING OF INVESTMENT INCOME AND DEBT OF PRINCIPLE

A. Net investment abroad must be visualized as a long term process. Interest and dividends and principle due us will mount gradually.

B. If reinvested, they do not present any balance of payments problem.

C. If they are not reinvested, we shall have to develop an import surplus on merchandise plus service account. How serious a problem does this present?

D. Problem would develop only gradually if interest rates are kept low, equity portion is high, and portion consisting of loans is for long term so that annual amortization is low. This gives plenty of time for adjustment of resources: Review excess of demand as supply would be small per year. (Relative magnitude, absolute and in relation to GDP.) We could take it either as expansion of goods and service imports or as a decline of goods and services exports.
2. Such a reduction of export surplus would present no serious domestic employment difficulties in aggregate if U.S. money is kept operating at high levels.

3. Might present difficulties for particular industries.

4. If an acceptable policy that used subsidies to get these resources out of these industries instead of freezing them where they are would handle this problem. There would be alternative places for them to go, under the assumption of #2 above.

5. Re-supplied difficulties of the accumulation of compound interest is also a problem. The case of domestic investment but nobody suggests that this makes domestic investment undesirable.

6. In any case these difficulties would be present, would be greater in total magnitude, and would be telescoped into a very short period if we do not have foreign investments.

7. Receipt of investment income if transferred in goods and services, is a means of real income to the American economy and means more goods for the same work or less work to get the same goods.


A. Among resources developed abroad would presumably be raw materials, including strategic and critical, that we want to import now and also those we don't import now but would want to in future at high activity here (a) increased in total weeks and (b) accelerated using up of domestic resources. Thus development abroad would provide us with our materials more cheaply than they would be available to us without development.

B. Demand for our products would be larger, developed countries having higher purchasing power than underdeveloped countries and part.

Relative between this effect on exports and development of import surplus.