November 17, 1940.

SYLLABUS OUTLINE
OF DISCUSSION OF LONG-TERM INTERNATIONAL PROBLEMS
FOR JANUARY 1940 ECONOMIC REPORT

I propose to begin with a discussion of the gift-financed gap in
the U. S. Balance of Payments, and to use this as a springboard for
a discussion of foreign investment under the Point Four Program. Other
important international programs, such as ERP, will be dealt with but
this will be done more or less in passing so that the Point Four Program
will occupy the center of the stage.

I. EXISTENCE, MEANING AND CAUSES OF THE 달러 GAP.

A. Statement of facts about postwar export surplus, pointing out
that it is not confined to Europe.
B. What is bad about it and why do we want to close it?
C. Reasons given in 1947 and reasons for believing that portion
financed by gifts could be eliminated by 1960.

II. DEVELOPMENTS SINCE INITIATION OF THE EUROPEAN RECOVERY PROGRAM.

A. Great progress has been made in last two years to remove what
were believed to be primary causes.
1. Increased European production.
2. Improvement in European shipping earnings.
3. Better control of internal inflationary pressures abroad for
adjustment of exchange rates.

3. Despite this progress and substantial reduction of the gap since 1947, the problem requires reappraisal.

1. Even allowing for the fact that devaluation has not had time to work, it now looks as though the gift-financed gap cannot be eliminated by 1958 with present levels of foreign investment.

a. Position has become worse recently.

b. Much of the improvement resulted from undesirable use of restrictions on purchases from U. S. by foreign countries.

III. Approaches to Solution

A. Export surplus reduced to level of net foreign investment that can be expected in 1958 under present conditions, would not be a solution. Reduction of our exports and increases of our imports necessary to achieve this in two years would involve difficulties here and abroad.

1. Abroad — reduction of resources available to rest of world would require either cut in standard of living or in investment. Cut in investment would inhibit increase of productivity; cut in living standards would threaten political stability, and have harmful ideological effects both in Europe and underdeveloped areas.

2. Domestic — U. S. could find outlets for saving and maintain maximum employment without large export surplus but might require more time to make necessary adjustments to do so. Also specific dislocations would result for industries dependent upon exports to Europe, especially wheat, cotton, and tobacco. Perhaps most important, political effects
abroad might require subsequent resumption of gifts and intensification of defense expenditures, or at least preclude possibility of reducing them.

3. In any case it is doubtful that sufficient cut in export surplus could be made at high levels of trade. Surpluses could of course be cut simply by stopping gifts, but since U.S. imports could not be raised sufficiently this would result in intensified foreign restrictions to curtail imports from U.S.

4. Continuation of gifts abroad is not the sensible alternative. It gets us nothing in return.

5. Expansion of foreign investment under the Point Four Program can provide a satisfactory solution to both European and rest of world's problems, even if not directed to Europe.

IV. Foreign Investment Under Point Four Program in Relation to the Payments Problem.

A. Advantages.

1. Would contribute to European viability if conducted so as to make under-developed countries better market for European capital and other goods. Europe would continue having deficiency with U.S., as it always has in recent history, but would finance it through export surpluses with the rest of the world while maintaining domestic investment and consumption.
2. Provide means for development of underdeveloped countries on business basis raising their standard of living and showing them we mean to help them achieve their aspirations.

3. Would relieve us both of having to make non-productive gifts and of domestic dislocations required by cutting off gifts rapidly in two years. Would constitute income-yielding investment.


6. Might also make possible reduction of future military expenditures compared to what they would otherwise be, through effects on world political stability, attitudes of underdeveloped countries toward us; on Russian pressure, and on ability of free countries to support their own defense establishments without aid from us.

7. Development of resources abroad would contribute to expanding the supplies of many important U. S. needs — raw materials, including strategic and critical materials.

B. Possible Objections.
   1. Unwillingness of private capital to go abroad in sufficient amounts.
   2. Inflationary effects in U. S.
   3. Growth of interest burden and alleged necessity for developing huge U. S. import surplus.
6. Policies required to reap benefits and surmount objections.

II. Programs for Solving Payments Problem.

A. Legislative.
2. Appropriation for technical assistance.
4. Continue ERP.
5. Revision of statutes governing customs procedure.
6. Increase in duty-free goods that tourists may bring in. (f)
7. Substantial increase in Export-Import Bank lending plus guaranteeing authority. (f) (For discussion)
8. Revision of tax provisions on income from foreign investment.
9. Clarification of Export-Import Bank statute to make clear it does not contemplate tying of loans. (f)
10. Other. (f)

B. Administrative policies. (Should these be discussed in Report? They would include recommendation that many things now being done be altered, e.g., tying Export-Import Bank loans; trying to make ERP dependent territories have an export surplus, etc. Also a complete reappraisal of shipping policy.)