THE UNITED STATES FOREIGN ECONOMIC POLICY

18 March 1959

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Washington, D. C.

Mr. W. T. M. Beale, Jr., Deputy Assistant Secretary of State for Economic Affairs, was born in Salisbury, Maryland on 22 July 1909. He was graduated from Princeton University in 1931 and received a Master's degree in Business Administration at the University of Pennsylvania in 1933. During 1933-35 he held the Penfield Fellowship in Diplomacy, International Affairs and Belles Lettres and studied at the London School of Economics and Political Science. From 1936 to 1942 he was an economist on the staff of the U. S. Tariff Commission. During World War II he served with the Office of Strategic Services, completing his service in the Naval Reserve as a lieutenant commander. Mr. Beale joined the Department of State in 1946. He attended the 1948-49 class at the National War College. For approximately two years prior to his present assignment he served as a Foreign Service Inspector, inspecting posts in the Netherlands, Belgium, Luxembourg, Denmark, Finland, the USSR, and Canada. He assumed his present position in October 1957. This is Mr. Beale's second lecture at the Industrial College.

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ADMIRAL CLARK: A keystone in our study of economic capability for international conflict is an understanding of the United States foreign economic policy. Its importance as a factor has recently been recognized in the establishment in the Department of State of the office of an Under Secretary for Economic Affairs. We have turned to this office, where policy is formulated and implemented, to have an analysis of the United States foreign economic policy, its problems, its objectives, and its methods.

Our speaker brings to us a wealth of experience in foreign economic affairs. He was with the United States Tariff Commission for six years prior to World War II, when he served in the Office of Strategic Services. In 1946 he joined the Department of State, and since then has devoted himself to the advancement of the ideals and the interests of our country.

He is a 1949 graduate of the National War College, and last year he addressed this college. We feel particularly fortunate that, busy as he is, he is able to come back again this morning.

It's a great pleasure for me to introduce the Deputy Assistant Secretary of State for Economic Affairs, Mr. W. T. M. Beale.

MR. BEALE: Thank you, Admiral.

General, and Gentlemen, and the one young lady who represents the Foreign Service and demonstrates our theory that we do not actually believe in "the ugly American": I can't stand up on this particular platform without recalling an event 10 years ago when I was one of the tongue-tied group of War College attendants who decided that they had to take a public speaking course.

I am reminded of the young minister who suffered from nervousness and discovered that just taking a drink of water really didn't help him very much. So he asked the advice of one of the deacons. The deacon suggested that he add a little gin to the water in the pitcher. The young minister, never having tried gin before, tried a little and found that it helped. As a matter of fact, it helped so much that he added a little bit more, until the day arrived where there was no water in the pitcher at all.

It was just gin. So after church he asked the deacon if he didn't think he had done better. The deacon said yes; he thought that he had got over his nervousness, but he would like to point out that David slew Goliath; he didn't knock him down and kick the hell out of him.

I must say that you people do not believe in hemming in your speakers. The terms of reference this morning were not, of course, sufficiently broad in just giving me U. S. foreign economic policy to talk about, and so you threw in Mr. Dillon's assignment of last week to make sure that it was rounded out.

A few years ago I was taking my final comprehensive examination at Princeton and one of the three questions in that examination engraved itself on my mind. It is still very, very firmly planted there. It was simple too--"What effect did the fall of Constantinople, the rise and spread of Islam, Charlemagne, and the Crusades have on the church, art, and politics of the Middle Ages?"

Now, as to the subject that I am supposed to discuss, I would like to deal with it under three general headings. First, I will define the objectives; then I will tell you the principal ways in which we seek to achieve the objectives; and then I will discuss the various organizational means we have developed, either on our own or in cooperation with others. In the course of discussing the means I'll hope to indicate some of the accomplishments since 1945 in the field of foreign economic policy. In the end I will touch on some of the problems confronting us at the present time, at which point you will be exhausted.

The three basic economic objectives of U. S. foreign economic policy are, first, to promote the economic strength of the United States; second, to promote the economic strength of the rest of the world; and, third, to build and maintain cohesion among the free world countries.

These three basic objectives of foreign economic policy derive, of course, from our basic general foreign policy objectives, which are to protect and advance the national interest, and to improve the well-being and security of the United States and the American people.

Now, the three principal ways in which these objectives can be achieved are, first, by expanding international trade in both goods and services; secondly, by promoting private investment abroad; and, thirdly, by providing economic and technical assistance.

During the last war some of the best political-economic minds set themselves the task of trying to decide what should be done after the war. They envisaged three main international organizations, as you know: first, the International Trade Organization; next, the International Monetary Fund; and, third, the International Bank for Reconstruction and Development.

The IMF and the IBRD were organized at Bretton Woods in 1944 and were established in December of 1945.

We as a country made our proposal for the expansion of world trade and employment in November of 1945. The charter for the International Trade Organization was drawn up at Havana in 1947. As you know, the ITO has never been established, but one of its main objectives has been achieved in the General Agreement on Tariff and Trade, which was organized in Geneva in 1947.

The immediate problems of postwar relief were largely met by UNRRA. The IMF and the IBRD began their work in 1946, but it took some time for them to get into their stride. The world economic situation was too serious to respond to the gradual treatment which they would be able to take care of. More radical aid and intervention were required; and you will recall that the Marshall plan was our answer to those needs.

Against this very brief historical background let me identify some of the principal means by which we expand trade.

The General Agreement on Tariff and Trade I have already mentioned. There are now 37 countries who are parties to that agreement. In the 12 years of its existence it has resulted in sizeable reductions in tariffs around the world. There have been significant reductions in quantitative trade restrictions; and through the GATT we have found it possible to resolve many complex and difficult trade problems.

In recognition of the fact that the International Trade Organization was not politically feasible, the parties to the GATT have proposed an Organization for Trade Cooperation. The OTC, as an international organization, is intended to serve as a forum for discussion of trade matters; as an organization to collect and analyze and publish facts and figures on trade; and as the administrative organization which would sponsor, but would not actively conduct, trade negotiations.

Thus far the Congress has not approved United States membership in the OTC; and until it does, the organization cannot come into existence. Before it can be established, it must be approved by countries accounting for 85 percent of all the trade of the contracting parties; and the United States, of course, accounts for a large share of that.

The IMF is another organization designed to promote the expansion of trade. It does so by promoting exchange stability, by making short-term advances to member countries who are in balance-of-payment difficulties, and by advising countries on the economic and financial measures that they should take to stabilize their foreign exchange position.

Now, as to the means for promoting private investment, they can be summarized briefly in this way: In the first place, we have the traditional treaties of friendship, commerce, and navigation, which safeguard the rights of American investors abroad. Secondly, we have the Western Hemisphere Trading Act. Under that a 14 percent reduction in income tax is given on earnings by branches or subsidiaries of United States firms in Latin America. Thirdly, you have loans to private business firms from the local currency funds that result from the sale of surplus agricultural products--called Cooley loans. Fourth, you have the ICA investment guarantee program. And, finally, you have the trade promotion activities of the Department of Commerce and of the Foreign Service.

Let me turn next to the means that we have developed for providing economic and technical assistance. One of the most important, of course, is the International Bank for Reconstruction and Development--the World Bank. Through the World Bank we provide development assistance on a multilateral basis. As of the end of last year the World Bank had extended loans in the dollar equivalent of about $4.2 billion.

They have a very impressive record of achievement. For example, they have helped to finance more electrical generators in the member countries than were available in all of Latin America at the end of the war. They have helped to finance the reclamation and irrigation of 3.5 million acres of farmland. They have shared in factory and mining investments in a great many countries. They assisted in bringing about the settlement of the compensation that was to be paid by the United Arab Republic as a consequence of the nationalization of the Suez Canal. It has been through their good offices that an agreement was reached on sharing the waters of the Indus Basin, between India and Pakistan. They have also promoted studies of the commercial feasibility of the use of atomic energy.

More recently, in July of 1956, there was established the International Finance Corporation. The objective of this organization is to further economic development by encouraging the growth of productive private enterprise, particularly in less-developed countries.

They invest in private enterprise in association with private investors where the private capital that is available is insufficient to meet the needs on reasonable terms. They also serve as a clearinghouse to bring together investment opportunities. The IFC has a membership of 57 countries, and thus far has made investments totaling about $10 million. It has a total capital of--what is a relatively small amount these days--only $100 million.

In addition, you have the Export-Import Bank. The objective of the Bank is to supplement the facilities of the private capital market. It makes development loans to private companies in foreign countries. It also makes development loans to other governments or to official institutions. In addition, it makes available exporter credits at the request of American equipment manufacturers.

The Bank was established originally in order to make loans to the Soviet Union. They never made any. But in the 25 years of their existence--and they celebrated their 25th anniversary on 12 February--they have established an enviable record. They have authorized over $10 billion. They have disbursed over $6.6 billion. They have collected over $3.3 billion. They have actually paid into the United States Treasury $438 million. And as an indication of the sound banking principles on which the bank is run, they have paid all their administrative expenses from earnings. They have set aside net profits of $536 million as reserves, and they have charged off losses of $2.9 million. In this process they have encouraged more than $1 billion in private investment abroad.

The most recently established agency--and it is among those designed to promote economic and technical assistance--is the Development Loan Fund. That was organized in 1957. Its objective is to finance specific development projects or programs. It is a supplement to and not a substitute for private enterprise, the IBRD, and the Export-Import Bank.

The DLF is authorized to make what we call "soft" loans. That is, it can lend dollars and accept repayment in other currencies.

The DLF received appropriations of $300 million in 1958 and $400 million in 1959. The President requested a supplemental appropriation of $225 million for fiscal 1959, in addition to a new appropriation of $700 million for fiscal 1960. You have doubtless read in the newspapers recently of the difficulties being encountered in the Congress in connection with the request for the supplemental appropriation. At the present time the House Committee has indicated a willingness to recommend $100 million rather than $225 million.

Economic assistance, as you all know, has also been provided under the Mutual Security Program, first, as defense support, and then as additional special assistance, including certain special programs, such as the U. N. Refugees Program.

Your familiarity with the Mutual Security Program I am sure extends even beyond mine. We are currently going to the Congress in connection with the program. Perhaps it's fair to say that the educational process has obviously not yet been completed in this particular field.

We have supplemented the economic aid funds under the Mutual Security Program by assistance in the form of exports of agricultural surplus commodities under Public Law 480, which was passed in 1954. Under Title 1 of that act, sales of surplus commodities are made for local currency, and then the local currency is used in a number of ways. Part of the local currency is used for agricultural trade development, marketing development, and a very substantial share of the total is used for economic development.

There are three points that I would like to emphasize in connection with the various organizations and agencies that I have just been talking about.

First, with the exception of the Export-Import Bank, each of them has been established to meet the varying requirements of the postwar period. The Export-Import Bank itself has been developed in a way to meet those requirements.

Second, the United States agencies, such as the DLF and the Export-Import Bank, are intended to complement the international organizations and to meet needs that they do not or cannot fill.

Third, as you study the means for the achievement of our foreign economic policy objectives, I believe that you will see in them a consistent

and developing pattern. For example, at the present time three institutions are being considered to meet certain new requirements in the field of economic development. Two of these institutions are regional and one international. The Inter-American Development Bank and the Arab Development Bank are regional approaches to the problem. The International Development Association is an international approach.

Let me turn now to current problems. It is rather difficult to choose from among the problems that we have these days. There are just a few too many to decide among them, but let me touch on a few.

First of all, there is the European Economic Community, which is also known as the European Common Market. The heart of the General Agreement on Tariff and Trade is the most favored nation principle. Under that principle, tariff concessions granted to one country are extended to all countries.

But the GATT provides that countries of an area can be freed from the most favored nation provision provided they undertake to proceed toward the elimination of substantially all barriers to trade between themselves. The European Economic Community is based on that exception in the GATT. It provides for the gradual elimination of trade barriers, and for eventual complete mobility of capital and labor among the six member countries--Germany, France, Italy, the Netherlands, Belgium, and Luxemburg.

But these are only six of the seventeen countries that formed themselves into the Organization for European Economic Cooperation under the Marshall plan. And, as you know from reading the newspapers, problems have arisen in recent months in trying to establish the future relationships between the Common Market and the eleven countries outside. The original proposal was that the seventeen should form themselves into a free trade area. This idea has failed of accomplishment.

I don't think I need to spend any time on trying to assess the blame. Historically who is to say whether the French or the British are to be blamed when you have an argument in Europe? The problem for the future is to avoid the creation of a protectionist and inward-looking community of six and the establishment of another bloc outside the six, perhaps composed of a few countries or perhaps composed of the eleven. Thus far no one has offered a solution for this particular dilemma.

In the meantime the Latin American countries have begun to feel that they should form regional economic groups. But they are not prepared to form a common market along the lines of the European Common Market. Instead, their tendency is to think in terms of preferential arrangements.

The Common Market aims at the transfer of resources from present users to more efficient ones. The Latin American countries tend to think in terms of attracting new resources into the area without disturbing the use that is being made of the resources now in existence within the area.

They would like, for example, to see preferential treatment for their exports in the U. S. markets. And they tend to think of the arrangements that they have in mind as a defense against the European Common Market.

Recently we have held discussions with the Central American countries looking toward the formation of a sound common market among them--a group of five countries. I have some hope that during the next six months or so we will be able to make considerable advance in our discussions with them.

Let me turn for a moment to a problem that is very current in connection with the European Coal and Steel Community. You will recall that the Coal and Steel Community was formed of what are now the six members of the Common Market.

After the war, Europe became an increasingly important market for exports of American coal. In 1957 we exported 53 million tons to Europe, or about 10 percent of the United States production. The long-term prospects for the market seemed to be good, but in 1958 large stocks of coal accumulated in Europe.

There were various reasons. On the demand side, the mild winter had resulted in a decline in consumption. Industrial activity had decreased. There was a switch to fuel oil. On the supply side, German and Belgian production was not curtailed, even though some of their mines were decidedly uneconomical. Imports continued under long-term contracts that had been made as a result of the Suez crisis. And, finally, low shipping rates attracted new contracts.

Last September the problem in Germany became acute and as a result they informed us of their intention to subject imports to license control. We made very strong representations to them, with the result that no action was taken on those lines. Nevertheless, the situation deteriorated, and in December we were told that a virtual embargo was imminent. Again, as a result of our representations, that action was not taken. In January they came up with substantially less restrictive measures. They provided for a duty-free quota of 4.4 million metric tons during 1959, and a tariff on imports above that amount.

Currently we have a very interesting problem. The high authority of the Coal and Steel Community has recommended the declaration of a manifest crisis. Under the Rome Treaty, Article 58 provides that if there is a declaration of manifest crisis, you can impose production quotas and import quotas. The decision of the Council of Ministers of the Coal and Steel Community is to be made next week.

I'd like to point out that here was a problem where we have held a series of very interesting exchanges with American industry. From the very beginning, when we anticipated that this crisis was going to arise, we asked representatives of the coal exporters of the United States and of the United Mine Workers to come to the Department. We have held a series of meetings--in September and December and January and one just the other day. We have kept them fully informed. They have kept us fully informed. I am pleased to say that they feel that our representations in Bonn on the German coal problem and in the other countries as the problem has expanded have been helpful in limiting the extent of the action.

In the commodity field we have had an almost incredible number of problems in the last year or so. Let me just step over to this map on the screen and suggest to you briefly against the context of the map what the world looks like some day viewed from the State Department.

As you all know, the price of coffee has declined. Fifteen Latin American countries are major producers of coffee. They account for about 75 percent of the world's supply. The most important of those countries are Colombia, Brazil, Guatemala, El Salvador, and Haiti. Most of their revenue comes from their coffee exports. There is overproduction. We are reaching a point where stocks will shortly be as large as one year's consumption of coffee.

Each one of those 15 countries regards the United States as having some responsibility for providing a solution for the problem. We have suggested to them that it might be desirable for them to take some steps on their own, such as, for example, retention quotas or export quotas. They have suggested that the United States should impose import quotas on coffee in order to maintain the price of coffee for their best interests.

In a conversation the other day with the ambassador of one of these countries he pointed out that in 1940, when export quotas were imposed, the United States customs officials had collaborated in insuring that they were maintained; and he thought that this was the right way to approach the problem. I was willing to agree with him that one country's exports are another country's imports, but I didn't go so far as to promise him that we were going to establish an import quota system.

Take the problem of cotton. In 1956 Congress passed legislation which instructed the Secretary of Agriculture to offer U. S. cotton for export at a subsidized rate so that it would be competitive with cotton from exporting countries. On 4 February we announced that the export price for cotton was to be cut for the next year, beginning with 1 August by five cents. That aroused the interest of Mexico, Peru, Egypt, and the Sudan. It happened to coincide with President Eisenhower's visit to Mexico and, needless to say, was one of the subjects of discussion at that time.

Then in the last year we finally came to the conclusion that the interest of the lead and zinc mining industry in the United States required action in the form of import quotas. This was a decision that was arrived at reluctantly, after the President had turned down recommendations by the Tariff Commission and after we had tried to reach agreement for international action.

These two products account for about 14 to 15 percent of the value of total exports from Mexico and Peru. But, in addition, they affect Australia and Canada.

As you know, last week the President announced the imposition of mandatory quotas on imports of oil. This was a decision arrived at on the ground that the national security requires quotas in order to promote the healthy development of the American oil industry. We had tried a system of voluntary quotas and it had not succeeded. Free enterprise continues in the United States. There were some people who just didn't like the idea of voluntary import quotas.

We have mandatory ones now. They have been strongly protested by Canada. They, of course, affect Venezuela. The Netherlands minister is coming for the NATO meeting and I understand that he will protest the restrictions from the standpoint of the Netherlands West Indies. The British have pointed out that their balance of payments situation will be adversely affected by the loss of revenues from oil producing countries in the Middle East.

You will notice that I have neglected the Far East. I'll take that up now.

Take rice. Both the Departments of State and Agriculture have been under very heavy pressure from Members of Congress and rice growers to move American rice under Public Law 480. About 300,000 metric tons were programed under Title 1, and at present there remain about 115,000 tons to be moved.

Unfortunately, other countries have surplus supplies of rice. We had thought that we would be able to dispose of a very large tonnage in India, but India has had a bumper crop. It no longer offers a market. Thailand and Burma and Viet Nam, all of which are rice-exporting countries, have had unusually good harvests this year. They want to export to their usual Southeast Asia markets. Any action on our part to interfere with their normal commercial sales is likely to have political repercussions in what for us is an extremely sensitive area from the political standpoint. Currently we are trying to work out a package deal by which we would sell to Ceylon and Indonesia, with prior consultations with Thailand and Burma and Viet Nam to make sure that whatever sales we make would be over and above normal commercial purchases from those three countries.

Those suggest just a few of the problems, but not all of them, that arise in connection with just prices and commodities.

We turn for a moment to problems connected with the promotion of private investment. For the most part, these problems are general rather than specific.

First of all, you have to determine how active the Government should be in promoting private investment; that is, in trying to persuade private investors that they should invest abroad. There are a great many people who believe that our Government should limit itself chiefly to persuading other governments to give our businessmen fair and equal treatment with their own nationals.

The second problem is that capital usually goes to countries where the investment climate is most favorable, where the opportunities for profit are greatest, and where they have reasonable assurances of getting back their money. Since the war about 70 percent of our foreign investment has been made by oil companies in Venezuela and the Middle East. Of the remaining 30 percent, most has gone to Canada and Western Europe. Very little has gone to the less-developed countries.

It's a slow process. The Government cannot tell companies where to invest. The less-developed countries have to be persuaded to avoid nationalistic policies and to permit profits comparable to the risks involved.

There will shortly be issued a report on a study of the promotion of private investment which was undertaken at the request of Mr. Dillon. It is hoped that that report will contain some recommendations for action by both the Government and private investors.

Let me turn for a moment to problems connected with economic and technical assistance. I have already mentioned the request for additional funds for the DLF and the plans for regional banks and the International Development Association. I'd like to mention one very interesting development, that is, what you might call the package approach.

Within the last two years we have found that when countries get into difficulty, there is no single way by which you can assist. So an arrangement has been worked out by which as a general pattern the International Monetary Fund looks at the situation in the particular country. They come up with recommendations for a stabilization program. Then, to use the vernacular, the existing agencies each take a piece. So you have international agencies and U. S. agencies and in some cases European agencies collaborating in the solution of a particular problem.

This was done in the case of Turkey in the summer of 1958. There was a coordinated effort by the United States, by the IMF, by the Organization for European Economic Cooperation, and by private banks. Through them there was worked up a package of assistance that amounted to about $359 million. The U. S. component of this drew on the ICA for balance of payments assistance, contributed something from defense support, something from the Public Law 480 sales, postponed certain debt payments, and then provided credit through the Export-Import Bank and the DLF.

More recently you have had the same approach to the Argentine problem. There 3 United States agencies and 11 private banks in the United States joined with IMF. You had $125 million from the Export-Import Bank, $50 million from the Treasury Exchange Stabilization Fund, and $25 million from the DLF.

This package approach has, to my mind, been one of the most interesting and imaginative of the new devices developed to meet the situation. It has proved extremely successful. The Turkish situation is improving, as is the Argentine. I think if you had asked anyone a year ago whether the situation as it now exists in Argentina could have been achieved, you would have had a flat and definite "No." But they are definitely making an attempt to stabilize their economy.

Let me turn to one other problem and that is the very interesting subject of flags of convenience. As you know, the United States has under its flag a merchant marine that is theoretically equivalent to 23 million gross registered tons. But only 4.7 million of that is active in foreign commerce. Under the flags of convenience, however, we have over 5.8 million gross registered tons and there is another 1.6 million under construction for such flags. We also have 2 million or so owned under various European flags.

About two-thirds of the U. S.-owned flags of convenience fleet are tankers. The remainder consists largely of bulk carriers.

In 1957, of our exports, 50 percent were carried by ships of European flags, 22 percent by Panama-Liberian flags of convenience--Pan-Lib--18 percent under U. S. flags, and 10 percent under miscellaneous other flags.

On the import side, 30 percent were carried by ships of European flags, 44 percent by ships of Pan-Lib flags, 19 percent by ships of U. S. flags, and 7 percent by miscellaneous.

As you well know, in the event of a general war, NATO would establish a shipping pool; and we have agreed to contribute part of the U. S. flag tonnage and all of this Pan-Lib tonnage. But in the initial mobilization period, before the pool is established, or in any war or crisis not involving NATO, the United States would have to have, it would need urgently, its Pan-Lib ships.

On the other hand, as the figures that I have just cited show, the United States depends very heavily upon uncontrolled European flagships to carry its trade, whether in peace or in war.

The problem of flags of convenience is up, and it's going to be discussed with other problems in June as a result of a request from eight European countries.

The controversy on flags of convenience, of course, has been building up for years. Currently the recession in shipping makes it worse. Also European ship owners feel hurt by competition from the "peace flagships." European labor wants to raise its standards.

American labor has recently vastly complicated the situation by insisting that crews of Pan-Lib ships should be organized only by unions in the country of nationality of the capital owning the ships. This is an entirely new principle. In other words, they would make it impossible for U. S. owners to operate under Pan-Lib flags, paying U. S. wage standards, of course. Secondly, if these ships had to come back under the U. S. flag, large additional operating subsidies would be required. Thirdly, if U. S.-owned ships were sold to Europeans or transferred to other flags, they would no longer be under effective U. S. control. I don't need to tell you how the Defense Department feels about this subject.

We in the Shipping Coordinating Committee are currently examining the problem to determine what our national interest is in the situation. We have all of the interested agencies represented on that committee and we have industry advisers. It will be our problem in the next few months to try to come up with some answers.

There are a number of unanswered questions at the moment. Can the U. S. owners get injunctions against labor boycotts of the sort that was instituted recently? Could we permit transfers from Pan-Lib to NATO flags and still by some agreement maintain effective control? Should the Government intervene in this labor-industry fight? And could some tankers come to United States flags without subsidy? There are some nice questions.

One thing I can tell you definitely. There is no truth whatever in the statement that has been circulated in some circles to the effect that the United States Department of State is about to sell the flags of convenience down the river. That I do know.

I hope I have said enough to indicate to you some of the problems that are facing us today and to explain some of the difficulties we face in trying to achieve our objectives. Let me make one final point.

The United States is the leading economic power in the free world and indeed in the entire world. That position carries with it great and grave responsibility. Leaders of other countries have pointed out that we have discharged those responsibilities through the Marshall plan and our other foreign aid programs in a way which is without parallel in history.

The job we have to do is not easy, particularly at the present time; but it's one that we cannot avoid and should not avoid. It is no exaggeration to say that the future of the world will in large measure be determined by the way in which we continue to discharge our responsibilities in the field of foreign economic policy.

CAPTAIN BURKY: Gentlemen, Mr. Beale is ready for your questions.

QUESTION: Mr. Beale, I recognize the complexity of the problem relative to mandatory import quotas on oil, as well as the flags of convenience problem and the local political pressures in this country. I wonder if any consideration has been given to the thought of taking the American flagships and letting them carry oil imported under restrictions, in other words, quotas of oil, using American flagships rather than having them tied up and not being used.

MR. BEALE: As I understand it, under the system of oil import quotas you would say that imports will be restricted to such-and-such amount and they must be carried by U. S. flagships?

QUESTION: No, sir. In other words, to increase the amount that can be imported--

MR. BEALE: --by specifying that if it comes in on a U. S. flagship--

QUESTION: Yes, sir.

MR. BEALE: You would increase the cost of the imported oil probably too.

QUESTION: That's true, but still we have tried to encourage these American companies to invest abroad, but we have discouraged them from selling oil in the United States.

MR. BEALE: I think part of the answer to that would, of course, lie in whether the oil companies with the tankers would be prepared to do that. At the present time they would not be able to ship with U. S. flag tankers, as I understand it. These are U. S.-owned but Pan-Lib tankers or flags of convenience tankers that are being used now. Now, to transfer them would mean that you would have to subject those ships to U. S. wage standards, union rates, and so forth, tremendously raising the cost.

It would have this effect: It would certainly offset the price advantage of Middle East oil in this market.

I am willing to talk about this as an idea the next time I have a chance, but I don't know whether it will get very far down the track.

QUESTION: Over the past few months I have heard talk from time to time about the desirability of setting up some sort of a junior world bank for Latin America and perhaps the Western Hemisphere. I wonder if you would tell us more about this proposition.

MR. BEALE: We have under consideration now in the Committee of Fourteen--I think it's called--an Inter-American Development Bank. It's within measurable distance of the end. As a matter of fact, we may see the results of their deliberations by the end of this week.

The idea is to have a bank--and whoever suggested this phraseology must have started his career as a teller, regardless of where he is now--with two windows--one window for hard loans and one window for soft loans. The problems have been, Who is going to contribute the money? and, What sort of money?

Needless to say, there is great enthusiasm for contributions by the United States, which would be dollars, and less enthusiasm for contributions by the other members, which would be in local currencies. The enthusiasm is sort of mixed, as a matter of fact, because some of the Latin American countries' currencies are hard currencies, and therefore that raises a problem.

At any rate, we have now come up with a bank which will have a sizeable amount of money, both contributed shares and callable. The callable is a good device, because it means that it doesn't have to be produced right away. That has great attraction for some of our friends to the south.

It's going to be a useful thing, and it was a necessary thing. The Latin Americans have had a feeling that they have been discriminated against and forgotten, despite the fact that most of the Export-Import Bank loans, or a great portion of them, have been made to Latin American countries. But they wanted something that was exclusively their own. Now they are going to have it, and it will probably work out fairly satisfactorily.

QUESTION: Mr. Khrushchev has very kindly relieved the Department of Defense from the responsibility of sustaining this tension, because he now tells us that he intends to do this job economically, in an all-out economic war. This throws the responsibility right squarely in your lap. We would like to know to what extent this is recognized as a war within the State Department; and have we any hope of action that will put us on the offensive in such a war?

MR. BEALE: I presume that your choice of the phrase "war within the State Department" had no particular connotation.

The first letter from Khrushchev was in June. The reply by the President that was made in July had a final sentence saying that he was referring the problem to the State Department for further reply. There has been no further reply as yet formally. I would attribute that only in part to the war within the State Department.

Actually, Mr. Dillon has effectively replied to Khrushchev's trade letter in the speech that he made on the realities of Soviet economic foreign policy in New Orleans following Mr. Mikoyan's visit here.

We are very much aware of the Soviet economic offensive in the State Department. It was tackled a number of months ago by the formation of the Boeschenstein Committee on World Economic Practices. It was a cover name to permit them to range widely in the field. They have submitted their report on what might be done.

But I think everybody recognizes that that can only be a beginning. To my mind it's a question of whether you consider that this is economic

warfare which should be dealt with in terms of a defensive attitude on the part of the United States, or economic warfare in which we should say: "This is an area in which we as Americans are effective and in which we can really go to town."

But the latter involves a great many things. It involves really our whole foreign economic policy, because if you take the approach that this is something that should be dealt with by raising the standards of living of the rest of the world and solving your problem that way, that's one approach to it. The other approach, to specify, is to say that we must organize the economy in such a way as to deal with a state trading organization. Let us assume, therefore, that since the Soviet sells through a state trading organization, we ourselves should set up a state trading organization and handle all American business through that. There's a bill in the Congress that would suggest such an organization.

We have some questions about that. Personally, the idea of running American business through the State Department horrifies me. Quite apart from the technical aspects of it, I don't think it would work too successfully. To my mind the basic question that you've got to ask yourself is whether we are going to give up the free enterprise system in order to beat the Russians at their game, and substitute a controlled system.

These are the questions that are being argued now. I don't anticipate that anybody is going to come up with a pat solution to this one. It's a problem, if you want to identify it, of the next decade, as far as I am concerned. The fact that everybody is worrying about it is a good sign. I'm not sure that it isn't a good sign that no one has come up with the exact solution for it, because if you came up with the exact solution, it would be a lot simpler than it is.

QUESTION: One dilemma that keeps cropping up in my mind is that if you underwrite all of these soft loans on an international basis, as other economies emerge on a paying basis, such as West Germany, we in fact are in competition with their international economic loans that they would like to make, in that we will undercut them every time because of the soft loans that we make to those countries. I don't see any end to this, because other countries are going to go to this cheaper market. I wonder if you would comment on that negative question.

MR. BEALE: Take the loans in local currency, for example. You have to realize that those are useful only in the country itself and that they will never entirely meet the problem. A loan from Public Law 480 sales

provides for setting aside certain funds to be used for economic development. But those funds, since they are in local currency, constitute a demand only on the resources of that particular country. There is no way by which, for example, India will be able to produce in the foreseeable future all of its requirements in machinery--turbines or what-have-you. There must be dollar loans. Therefore I don't think, if I understand your question correctly, that there is any danger that the soft loans will completely replace or completely undercut the field of hard loans.

QUESTION: Sir, would you discuss the possibility of an inter-American payments union such as they have in Europe, and the advantages and disadvantages of such a payments union?

MR. BEALE: I am sure that if I did, I would make any number of grievous mistakes in the process, because I am not an expert on finance. But I doubt very much whether a payments union of the sort that you have in Europe would be successful.

You recall that the European Payments Union depended upon the repayment of a certain percentage in dollars. It would probably not be possible to establish a system--at least that would be my guess--among the Latin American countries where you would have as high percentage of settlement in gold or dollars as you did in the European one.

It might be that you could evolve some device that would meet that situation, but I think that you would have to have a much heavier underwriting by the United States than was involved in the European Payments Union. As I recall, we put in only about 137 million or something like that. In the Latin American case my guess is that it would be much larger. But it's a subject that I haven't really gone into. So I apologize for not being able to answer in detail.

QUESTION: Sir, we have had several speakers intimate, and one came right out and stated, that the Russians get a lot more mileage out of their aid through very successful propaganda, if you will. Do you think this is true? Are we going to go about publicizing to the people that we have put in a generator that they will never see? Are we trying to make a more positive approach to getting those people that we are giving these things to to know what we are doing?

MR. BEALE: Well, I think the people who say that they are more successful have a point. No Russian has put out anything the equivalent

of "The Ugly American." That's one contribution that we've made to an understanding of our aid program.

As far as the Russians are concerned, they have concentrated their aid on a few countries; and, as you well know, when you concentrate on a target, it's much easier to hit it effectively.

In addition, they are prepared to make loans for purely political purposes and without much regard to whether in fact they are constructive efforts. True, the steel mill in India is basically a constructive effort and perhaps the road in Kabul that gets so much attention can also be regarded as a constructive effort. But that's not the primary purpose of it. Nor are they trying to underpin or establish an economy on a sound basis.

There is another advantage that they have, to my mind, and that is that whatever they do is very effectively publicized within the United States by the American press. This may be a good trick, but, nevertheless, it gets a little more attention. No one, for example, seems to make much of a point that the Russians abroad hang together in their small communities.

There is a lot said about the Russians being able to speak the language of the country; but, if you want to explain anything to the inhabitants, this is a very useful function. How many of you meet Russians in the United States, which, goodness knows, is a place where they can move quite freely? As I understand it, they keep pretty selectively to themselves. And they are not at all happy about being there, if my understanding of such places as, for example, India is correct.

So that I would say that they have advantages; but that if we're allowed the long run, our chances of demonstrating it are better in the long run than theirs are. I think that 10 years from now our program will have stood up better and will stand scrutiny more than theirs.

QUESTION: On 15 January, Mr. Dillon, in a speech to the Foundation for Religious Action said, in regard to the people of the Middle East and Africa and Latin America, that the need for helping these people forward on the road to economic progress would confront us even if communism and the Sino-Soviet bloc did not exist. On the other hand, Congress appropriates money, it seems to me, based on the contribution that we can expect from these recipients, which makes it hard on our little brothers and on some of the educational programs. What, Mr. Beale, is our national policy in regard to the question, "Why foreign aid?"

MR. BEALE: One thing is this: Both Mr. Dillon and the Congress are right in their respective ways. Our program is designed to achieve the objective. If the Congress is unwilling to accept the idea that we should carry out these programs because there is a basic need in these countries, rather than because there is a Soviet threat or because there is something that the particular country might be able to offer in the way of support in this world, as I say, if they consider that those are the basic arguments, we bow to our masters the Congress. But I think it does not in any way detract from the validity of the statement that Mr. Dillon made in that speech and which, as you know, has received considerable acclaim throughout the country. As a matter of fact, some of the Members of Congress have been studying in the current hearing the humanitarian side.

Moreover, the Committee on Foreign Aid, which put its report out this Monday, and which is against foreign aid, comes down in the end to the conclusion that really we should base our programs on the humanitarian side. Personally, if I may say so, I think they advanced that argument largely because they thought it would defeat the foreign aid program and not because they thought it would assist it.

QUESTION: Sir, thinking about aid through all this economic process and the various things we have established and helped to establish, particularly dealing with underdeveloped countries, leads to the question: Isn't one of our major problems the internal politics, you might say, or political establishment in these countries? My question is, What are we doing and what can we do to bring about political stability that will allow an economic development to take place?

MR. BEALE: I belong to the school of thought that considers that most political things have an economic basis. I arrive at it through a number of ways, including, of course, basic prejudices. But, as I listen to the discussions at the Secretary's staff meetings, and hear my colleagues who are in charge of the so-called political sides of the question bring up their problems, I am interested to discover that, if the discussion goes on long enough, there is usually an economic element in it somewhere. Therefore I would feel that you have to have economic stability before you will have political stability.

I think that political stability will be achieved also in the process of education. Part of our program, therefore, is directed at that element of the body politic, if you want to call it that. It is possible that we will achieve greater results through the educational program for the future

than we will achieve by perhaps the establishment of a dam, although I would consider also that the dam was essential and had to go in equal steps with the educational process.

These Fulbright funds and the funds that are being set aside under Public Law 480 for educational purposes I think are going to have their tremendous long-range impact. I would assume that you will achieve your political stability through that educational process.

QUESTION: Mr. Beale, we have heard that the report that Mikoyan took back to Russia perhaps mistakenly concluded that this country was not solidly behind foreign policy as made in Washington. Could you elucidate a little on this report and whether or not it is accurate?

MR. BEALE: I was present at the discussion that Mr. Dillon had with Mr. Mikoyan and it was an extremely interesting one. As he left the discussion, as you know, his summary remark for the benefit of the press was that the cold war was still going on in the State Department. This is the distinction between "in" and "with."

I think it was quite clearly his intent to try to create the impression of a division between the business community and the Government. He did it in other areas than in the economic.

I think that the people who welcomed him, in quotes, fell into several categories. You had some of the obvious people who sought out the opportunity to entertain Mr. Mikoyan. Those were relatively few. In other cases the Russians themselves sought out the opportunities.

For example, in one city the statement had been made several months previously that they welcomed opportunities to hear from foreign visitors. And so one bright morning a guy out in that part of the world picked up the telephone to discover that the Russian Ambassador was on the telephone saying, "Is that invitation still open?" and he said, "Well, yes." "Well, we have a foreign visitor named Mikoyan. Are you willing to have him speak?" And so he reached for the other telephone to find out what this was all about.

Then when they met Mikoyan, they acted, I believe, as normal Americans. They were as curious as could be. I'm quite sure that any one of you, if you had been offered the opportunity to sit in on a conversation with Mr. Mikoyan, would have gone just out of pure curiosity. I think most people who attended those luncheons and banquets and so forth did so in large part out of curiosity. And when they did, they were not

rude; they indicated an interest. They had been told by the President's letter that the United States favored an expansion of trade. They were willing to listen to whatever he had to say.

Then I think that after he left, they sort of cooled off. You know, we haven't had many inquiries since the Mikoyan visit. We haven't had any sort of aggressive inquiries like, "What are you guys doing about this thing?" There has been none of the pressure to move in this area. Therefore I don't think that they were at all taken in by Mr. Mikoyan's very clever and subtle mind.

Basically, you know, his approach was a quite simple one. "We would like to see an expansion of trade between the United States and the Soviet Union. All you have to do is to lend us the money and then we'll trade with you." Mr. Dillon indicated that that was not the basis on which an expansion of trade would take place. He said that the opportunities existed for trade now, on the basis of the exports to the United States that they have made. Their earnings exceed what we have been selling them, and therefore he thought that was the basis from which to start and then we would go on from there. But that was not Mr. Mikoyan's approach to it.

CAPTAIN BURKY: Gentlemen and Lady: Even though our speaker is still fresh, I see that our time is exhausted. So we'll have no time for further questions.

Mr. Beale, I know that this clear presentation that you have given us of our foreign economic policy is going to be a great help to an understanding of our subject here. On behalf of the Commandant and the entire College, I want to thank you very much for coming down and giving us this presentation.

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