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THE U.S. FOREIGN ECONOMIC POLICY

Mr. Edwin M. Martin

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Reviewed by: Colonel P. B. Klein, USAF

Date: 31 May 1960

INDUSTRIAL COLLEGE OF THE ARMED FORCES

WASHINGTON, D. C.

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22 March 1960

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Reporter: Grace R. O'Toole

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MR. SANDIFER: The logical place to start a study of economic capability for international conflict is a review of the current U. S. economic foreign policy. This will establish a point of reference both for an appraisal of the economic capability of the United States and of the capability of other countries.

I find by way of comparison that the variety and breadth of the experience and training of our speaker this morning are about comparable to those of the scope for his speech--and that is saying a good deal. I never realized until I looked at this scope yesterday how much could be compressed into 2-1/2 lines: An analysis and appraisal of the major features and guiding principles of our foreign economic policy; objectives; methods; accomplishments; and failures since 1945. So that I think that a whole speech could be made on any one of the words that are contained in that scope.

Mr. Martin's reputation at the State Department, as far as my experience goes, has always been for knowledgeability on any subject with which he is charged and a capacity for a clear and concise presentation of that subject.

It gives me a great deal of pleasure to introduce my old colleague in the Department, Mr. Edwin M. Martin, who is the Deputy Assistant Secretary of State for Economic Affairs.

MR. MARTIN: Mr. Sandifer, General, Students: It is a pleasure to come back here again. I remember with a great deal of satisfaction the pleasant time that I had here about a year ago. It is one of the most receptive audiences one can have, and at the same time one of the most challenging.

In view both of the nature of the audience and the breadth of the subject, as described by Mr. Sandifer, I feel a little nervous about approaching it, having been back in the Department looking at the field of economic policy in this broad scope for only a couple of months now. But I will try to touch on some of the points, at least, that are contained in the summary, and leave it to you to probe and question for things I may miss in which you are interested.

I may say I always get up with a little bit of nervousness to speak on an economic subject, or to be introduced on an economic subject, after the experience I had the first time I was speaking in England. The Chairman of the meeting, before introducing me, told a good story he had apparently heard and thought was appropriate. It concerned a young economics professor who had just been employed by the University of London to help on the program of what they call External Examinations, under which they give advanced degrees just on an examination, without course work. The Director of the External Program gave him as his first assignment the drawing up of the examination questions in economics for the Ph. D. degree.

In order to help him with it he gave him a half-dozen sets of previous years' exam questions to indicate the general degree of difficulty that they wanted to achieve.

The chap went off and came back in a day. The supervisor was very surprised. He thought it would take a couple weeks at least to get a good set of questions. He asked, "What are you doing here?" The chap answered, "Oh, I've got the questions for your examination." "Well, this is really surprising. Let's see them, though." He started to look them through and a puzzled expression came on his face. He asked, "Do you have the questions I gave you of past years' exams?" The chap said, "Sure." "Let me see them." He started thumbing through them. "Ah," he said, "just as I thought. These are the same questions we gave last year. This will never do." The young chap said, "Oh, that's all right, sir. Don't let it bother you. The answers are different this year."

Economics does change rapidly, and our economic foreign policy changes rapidly--but I hope not quite that rapidly. It is, I think, a fairly complex field for a variety of reasons. To start off with, we have two jobs in the field of economic foreign policy. One is to promote the economic interests of the United States and of its people and its business enterprise. This involves a variety of different kinds of interests--manufacturers, looking for raw materials; exporters, seeking markets; importers, trying to find products they can sell to American consumers; the consumers themselves, who have interest in a wide variety of goods from around the world;

investors, who want to invest abroad and want conditions which will safeguard their investment; and labor, which has interests of its own in very many facets of the problem, including the imports from low-wage countries. All of these must somehow be pulled together and their interests reflected in a coherent economic foreign policy.

Second, however, economic foreign policy must be so managed as to support political foreign policy. In a basic sense, I think the ultimate objectives of our overall foreign policy are political, in terms of establishing relationships with other countries and their peoples which will promote the peace and security of the United States and U.S. fundamental security interests around the world.

I think there is sometimes a tendency to exaggerate the importance of economic factors in this regard, but they are, nevertheless, of great importance.

As a result of trying to meet all of these interests, I find that economic foreign policy tends to be an exercise, even more than most elements of government, in seeking compromises between conflicting approaches and points of views. Just to start out in the basic economic field, we have to compromise between what we would like to do and the resources that are available to do it. This is particularly, of course, prominent in the field of economic assistance, where we have short resources of money and, even more important, I think, of personnel who are capable of carrying out

technical assistance programs. So that we must tailor our programs to the availabilities.

We must also, in the straight economic field, try to find not only compromises between the interests of, say, importers and exporters, or consumers and manufacturers, or investors and labor, but to add somewhat to the complexity it is not always easy to interpret what the interests of any one particular group are. Not only do we have representations made by conflicting interests within a similar group--for example, recently we had a group of people in the office from one branch of the U. S. shipping industry which was vigorously opposed to a proposed bill which would require that 50 percent of all oil imported into the United States should come in U. S. bottoms, a bill proposed by another branch of the U. S. shipping industry--but even beyond this we have other departments of our Government who feel that they have special responsibilities with respect to certain branches of economic activity and feel that they know best what, say, the farmers want or labor wants or business wants.

So that the State Department finds itself a focal point between the pressures directly from various branches of economic life and branches within branches, but also from the various parts of the Government itself. To some extent it has become necessary to try to work out means by which, above the State Department, in the White House itself, some of these pressures can be reconciled through such organizations as the Committee on Foreign Economic Policy, chaired by Mr. Randolph.

For example, just to cite a few specifics in this, beyond the shipping field, in the aviation field there is a constant tug of war in our aviation negotiations between the domestic airlines, who do not wish to have foreign competition on their domestic routes, and the foreign airlines, who want to have concessions made on such routes, in order to get in return concessions in their foreign operations. We have a real conflict in connection with oil quotas themselves between the big oil companies, who have foreign interests and want to have oil imported, and the independent oil producers in this country, without foreign interests, under whose influence and the influence of other factors we have established quotas on imports of foreign oil.

These are just a few examples of the kinds of conflicts between which compromises must be found in the economic field per se. Once one gets beyond the United States, one must look at the economic interests of foreign countries, because our foreign economic policy can be only partially effective if it is guided solely by the interests of U. S. economic forces. We must take account of the foreign interests because we must reach agreement, in most cases, with foreign countries. This is obvious, for example, in the case of tariff negotiations under GATT, where we can seek concessions from foreign governments for tariff rates on commodities we would like to export, but we can't secure those concessions unless we are willing to offer something that they would like to have.

The same thing, of course, is true in connection with the aviation

negotiations to which I referred. What we can get for U. S. interests depends upon what the foreign governments want and what we can give them on their own part. They are all still sovereign governments which must be satisfied in terms of their own economic interest.

With respect to foreign investments, we are constantly trying to work out treaties and other arrangements to improve the climate for U. S. foreign investment abroad, but in every case this involves negotiation with the foreign country, which is anxious to protect the interests of its own business community, just as we are looking after the interests of ours.

So that, again, we find ourselves in a position of trying to work out compromise positions which, to the maximum degree possible, accomplish the objectives which are sought by our own economic interests by recognizing that other people have similar pressures behind them, and that we must make some kinds of concessions to satisfy them in order to get what we want.

Even beyond this, we, of course, must, in these negotiations on various economic points, be appreciative of the political impact of what we do. We had a case just last week involving a very strong pressure from within this Government to sell a large quantity of rice under the P. L. 480 surplus disposal program to India. Things were going along very well until we suddenly discovered that a negotiation to sell rice to India was in the middle between Thailand and India. The Thailand government is one of our staunch political supporters in Southeast Asia, and their feeling was that, if we sold the rice to India, India would not buy from Thailand, and we would be

responsible. This was a politically unacceptable situation, and we slowed up our negotiations with India and got an assurance from the Indian government, which could be made known to the Thailand government, that the purchases they were making from the United States were not in a quantity to satisfy their total requirements, that they were still interested in negotiating with Thailand, and that the conditions, which probably will cause those negotiations to fail, had been decided upon by India before we offered them rice. I don't know whether the Thailanders will believe this latter, but we can only hope that they will.

This is just one recent small example of the way in which carrying out a program which is in the interest of the U. S. economic pressures and is also helping the Indians to feed their people, which we are also interested in doing from a foreign policy standpoint, ran into conflict with a strong political interest elsewhere.

Throughout our aid program we are continually having to look at proposals to give economic aid, both as between countries and for particular purposes within countries, not solely in terms of the economic factors but in terms of the political interests involved. I think one of our great problems is the degree to which, in handling economic aid of various kinds, we are under pressure from governments in power to do things which in their judgment will be politically popular and will help them remain in power. We, of course, nearly always have various political things we would like from the government in power, and it is a great temptation to do favors

for them with our economic aid, in the hope that they will do favors for us in various political spheres, a temptation which also leads us, I think, down a very tricky path in terms of supporting the "ins" against the "outs," just because the "ins" are in a position to do favors for us, and getting ourselves associated with the "ins" with the tendency that when the "outs" get into power, if they do, they will be anti-U.S. This is, I think, one of the most difficult tightropes that we have to walk in handling our economic aid.

We had another case just a week or so ago. We have been fighting very hard to get support at a law-of-the-sea conference which is being held currently in Geneva. We need support badly, largely for security reasons, for retaining a fairly narrow concept of territorial waters. It was made clear to us by the Dominican Republic, of all people, that their vote in the law-of-the-sea conference would be influenced by our willingness to undertake a P.L. 480 sale of some surplus food to them. I think in the final analysis we decided that this was no time to show special favoritism to the Dominican government even if a possible law-of-the-sea vote could be secured. But this is the kind of a compromise decision that presents us constantly with difficulties.

Another type in the economic aid field which is always a problem and with which we have been wrestling in the last 2 or 3 days is the fact that in our operation of economic aid we feel that the private-enterprise system, which has done so well by us, is one which other countries could well copy. We try in every way we can to use our economic aid to promote

the development of a private-enterprise economy in these less developed countries. In many of them, however, without our background, they do not have this devotion to private enterprise, and they do have a shortage of private capital, so that many things in terms of bigger types of projects can probably be undertaken only if the government takes the initiative and supplies the capital and gets things done; so that there is a much wider concept of what is appropriate for the government to do. We are constantly faced with difficult decisions as to whether or not our aid should be used to help finance, in the public sector, projects which, as far as we are concerned in the United States, it would be quite inappropriate to do in the public sector. We have tried to keep our position flexible on this, feeling that, while we can propagandize and educate and try by example to show them the advantages of private enterprise, our aid would lose its basic political purpose in terms of influencing the fundamental orientation between the Soviets and ourselves in these countries if we make it conditional upon doing everything exactly our way. Our main purpose is to see that they do things in a way which they decide themselves, free from outside dictation.

So that here again we are frequently making compromises between what we would like to do and what, in the circumstances of larger political objectives, seems appropriate in the case at point. As I say, over the weekend we have been wrestling with a problem just like this in the case of a fertilizer plant for India, which they wanted to do as one part

of a program in the public sector and we were very reluctant to have done in the public sector, because fertilizer production just isn't the sort of thing that we think is appropriate for a government plan.

Within the framework of this general situation with respect to having to compromise out our policies in a wide variety of situations, I'd like to talk a little bit about the current major trend of economic foreign policy that we are working on today. It is dictated by the fact that, as we see it, we are in a period of rather important change in the world economic climate. Some time in the past 2 or 3 years, we think future historians will decide, the postwar reconstruction period ended and a new world economic period started. What they will name it, I can't say, but it is a new situation. The postwar period was characterized by a major effort to restore the war-damaged and disrupted economies of Europe and Japan, and the Soviet Union as well. The U. S. was the major source of supply, particularly of capital goods but also of many types of consumer goods for the world in general. There was no place else you could get them in any substantial quantities or with prompt delivery. By the same token, everybody wanted to spend more dollars than they had. Everybody was short of dollars, and we had a massive aid program in order to give them dollars to meet the so-called dollar gap and enable them to purchase minimum necessities in the United States. We also encouraged them to control their imports from the dollar area in order to conserve their dollars for really essential reconstruction goods, and not waste them on, as we said, Cadillacs

and nylon stockings.

Now, in the last 2 or 3 years this situation has completely changed. Between the end of 1955 and the end of 1959 the free world, outside the United States, increased its holdings of golden dollars about 40 percent, or about $11 billion. The U. S. decreased its gold stock by about $2 billion, or about 10 percent. In 1958 and 1959 the deficit that the U. S. had on its balance of payments was in the order of $3.5 billion. Italy, one of the poor countries of Europe, to which we had to give a great deal of Marshall Plan help, now has the third largest gold stock in the free world--something over $3 billion of golden dollar assets, hard currencies. Germany's stock runs close to $6 billion. The Netherlands and Belgium have $1.5 billion. These are figures which are enormous in relation to the trade that a gold balance is supposed to have to finance.

The U. S. does not feel that, despite its enormous gold stocks, which are still about $19 billion, we can continue to have a deficit on our balance of payments of in the order of $3.5 billion, or anything like that figure, for an indefinite period. Consequently, our foreign policy moves, in the broadest sense, have been dictated by the necessity for bringing this deficit ~~into reasonable~~ into reasonable bounds and accomplishing over the years to come a reasonable equilibrium in our balance.

Basically, this deficit has resulted from the fact that, as the manufacturing capacities of these war-damaged countries have been restored with

our help, and as we have achieved the objectives of the Marshall Plan, they are now able to meet their own requirements from their own production, they are able to be good competitors with the U. S. in third markets, and they have been able even, with our encouragement and guidance, to sell more and more in the U. S. market. As a result, the surplus of our exports of goods over our imports of goods has almost disappeared. In the past this was the money, this surplus, that we used for the some $3 billion that we spent abroad for our military forces; for the large private investments abroad, of $2 or$3 billion a year for the past few years; big investments encouraged by the prosperity abroad and the markets that have been found there; tourist expenditures, over $2 billion last year. All of these things are drains on our balance of payments which we feel the United States, on the whole, must keep up and cannot restrict in any substantial degree. We can prune some edges off here and there, but we can't make a major change there.

It has seemed to us also that it was not right to try to make a major change through reducing our imports. Restrictionist policies on our part in this field would only be followed by counter measures on the part of other countries, a general restriction of world trade, a general slow-up of the rate of economic growth and expansion, and that, both in terms of the interests of our consumers and in terms of our power position vis-a-vis the Soviet bloc, this restrictionist policy would be a mistake.

Therefore, our emphasis has been on finding ways and means to increase

our exports and to restore the surplus in our trade that we had before. There are 5 or 6 measures I would like to refer to that we are pursuing to this end at the present time. Basic, of course, is the anti-inflation policy to which President Eisenhower has devoted so much attention. Unless we can restrain the domestic prices within this country, we cannot be in a position to sell our exports abroad effectively. I think we have made real progress on this, both in holding down on price increases and in securing a balanced budget with a surplus next year. All of this helps to keep our prices competitive, because, at the same time, some of our principal competitors abroad are experiencing inflationary pressures and their prices are going up. If we can stand still we can gain.

Second, we have insisted to our partners all around the world that our tolerance of their discriminatory quotas against exports from the United States, which were appropriate in the period of dollar shortage, is no longer appropriate and that these discriminatory quotas must be removed. This is a change in point of view which is not easy for their peoples to make, just as it is not easy for us to realize that we are now on the shortage side. But we have made very great progress in this respect, and nearly every country which had discrimination against us has done a great deal to remove them. On the whole, the remaining discriminations are largely in the agricultural field, where political pressures, as we know, tend to be particularly great on the free movement of goods.

There are a few cases, Italy and Germany, for example, where there

are still important restrictions on manufactured goods, but we are keeping pressure on them heavily to reduce those remaining quotas.

Now, to take advantage of the prosperity around the world and of the removal of these discriminations, we feel it is imperative that the American business community wake up to the fact that, in the overall interests of the United States, they must pay more attention to exports and put some time, energy, ingenuity, and skill into finding markets for their goods abroad, designing their goods to sell in foreign markets, and getting out and restoring U. S. exports to their previous position.

There are some things the Government can do to help with this, and the President announced last week a program to this end. Basically, however, the business community must do the job, and we can only help around the edges with additional personnel in our missions abroad, additional interest on the part of our ambassadors and others in this task, some special export credit guarantee arrangements which the Ex-Im Bank will extend for short-term export transactions, and a few other things like these. This is the third measure which we are pushing.

Fourth, we grew concerned in the late fall about the battle which was going on between the Six and the Seven in Europe--the Common Market and the Outer Free Trade Area. It seemed to us that there was no basis on which the two could get together, and there were large groups on both sides who were anxious to get together, except on an exchange of mutual concessions to the exclusion of the rest of the world, including the U. S. We

did not want them to make an agreement which would prejudice U. S. opportunities to sell in their markets. We also wanted to keep the pressure on both groups to have as liberal policies toward the outside world as possible and to accompany their internal tariff reductions with some cuts in their external tariffs.

Consequently, after a year or more of the hands-off attitude, we decided that we had better be in on the show and be in a position from inside to influence the negotiations between them. Therefore, in January, at our proposal, it was agreed to set up a trade committee of 20 countries, in which we are a member, to work on this problem. We also agreed to look at a new organization to replace the OEEC in which we and Canada would be full members, hoping that by both of these means we would be in a better position to influence their trade policy and attitudes toward U. S. exports as well as accomplishing certain other purposes which are not directly relevant.

Fifth, we have been increasingly concerned about the problem of what some people call low-wage imports which probably should be technically called low-cost imports. The principal case, of course, up to now has been Japan, but Hong Kong has been increasingly a threat in this regard. The problem has been accentuated by the fact that the Japanese, for example, have exported almost entirely, or very largely, to the U. S. and to Canada, among the industrialized countries, and in a fairly narrow

range of goods. The result has been to swamp some U. S. industries. We have tried, as short-term measures, to work out voluntary export quotas which the Japanese would impose, and we are now working with the Hong Kong government on some similar arrangement. We have also pressed the European countries, which now have these large golden dollar surpluses, to take more Japanese goods, and they are doing this. Most of them still have fairly tight quota arrangements against Japanese exports. We feel they now have the reserves to be able to buy more from Japan, and this would be spreading the load a bit and taking the Japanese attention away a little bit from the U. S. market. We have not made too much progress with this, although there are important German-Japanese negotiations going on at the moment which may help somewhat.

This is a problem, however, which cannot be solved on a long-term basis by measures such as these, and it is not just a Japanese-Hong Kong problem, I am afraid. I think that there is a general difficulty here requiring some kind of a compromise solution, because the less developed areas generally, as their economic development progresses, will be getting more and more into manufacturing operations, and will be interested in financing more and more of their development by their own earnings rather than by outside assistance. They will want, and we will want, that they repay the loans that have been given them. We doubt whether they can do so solely by exporting foodstuffs and primary commodities--raw materials--that would not be competitive with us.

So that we must expect over a fairly wide area to have low-cost, low-wage goods which will be seeking an entry into our markets and for which we would like to find at least some market here in order to enable them to earn their way a little more than they have been able to do up to now.

At the same time we don't want to have our industries and our wage standards threatened by these imports. So last fall Mr. Dillon in a GATT meeting in Tokyo described this problem as a general one, and persuaded the GATT to set up a committee to come up with proposals for resolving it. This will be a difficult task, to find a fair and equitable means for compromising between the interests of the industrialized, high-wage countries and the developing low-cost, low-wage countries who want to sell more to us.

But it does seem to us that we must approach the problem from a broad international standpoint and that now is not too early to try to seek a solution to it. As I say, success will be difficult, and no system will be easy to operate. But we feel we must seek an answer to this problem.

Lastly, we have gone with increasing urgency to the countries that have now become richer and have surplus and have urged them to take on a larger share of the job of lending assistance to the less developed countries. It is not that they have been doing nothing. Last year they gave aid in the order of a billion or a billion and one-quarter dollars, but this was to a very large extent to their colonial territories, or once colonial

territories--now rapidly becoming independent. Too much of it was in short-term money--3 to 5 years, or guarantees of private investments of 3 to 5 years. Our experience has been that, when you make loans of that size for basic development in less developed countries, you merely creat a crisis when the 3 to 5 years are up, because nobody in that short period will be ready to pay back the total investment made. Usually, when there is a crisis, we are called upon to bail them out.

This is one of the major reasons why last year we put the Development Loan Fund primarily on a Buy America basis of tied loans, because, to too great a degree, the Development Loan Fund was being called upon, with its untied money, to pay the Germans for goods which they shipped to the less developed countries on a 3-to-5-year basis, and which the Germans, in terms of their balance of payments, were far better able than we to finance on a long-term basis. This was a means of putting pressure.

Just an example of the kind of problem we had, contrary, certainly, to the general tenor of the discussions of the development-assistance group which we organized to work on this problem, and which met two weeks ago here, we just learned over the weekend that an Anglo-German group is negotiating with the government of Iran for a $150 million five-year credit to build a steel plant. Now, a five-year credit to build a steel plant almost any place is financial nonsense. In Iran, which is in a very difficult financial situation, despite its oil revenues, and which we are giving grant money to and DLF money to pay local currency costs, which we are doing almost

nowhere else, this makes no sense. It would certainly be something we would have to bail the Iranian government out on. This is apart from the question of whether a steel plant makes any sense. The general impression seems to be that the Iranian steel plant, if built, would be one of the highest-cost plants in the world.

And I am afraid we are rapidly getting into a situation in which any self-respecting, independent country feels that, instead of having a great palace or other means of show, it must have jet aircraft and a steel plant. This is the sign that you are a mature country, and we are fighting off steel plants all around the world.

This is a situation in which I think we shall have to go to the German and British governments and say, "This makes no sense. This will come back on us. If you want to take on a steel plant, which the International Bank and others have said is economically foolish, you've got to do it with long-term money."

I don't think this program will permit us to reduce our foreign aid bill. We are running about $2 billion, of which about $600 million affects our balance of payments by being spent abroad. I think we will have to continue at this rate. With eight countries, perhaps, becoming independent this year, as against 15 over the last 11 years, every one of these countries feeling that, with independence, there ought to be a major change in their economic situation--a very unrealistic expectation, but it exists--and we feel we have to do something to at least give them a feeling of

movement toward this goal--we have to do something to make them feel that they have some place to look other than the Soviet bloc for assistance, even though we do not wish to particularly compete directly but merely to offer them what we think is a reasonable assistance and let them make their choice.

With all of this, we think we ought to get from other countries of Europe and Japan, over the next few years, a level of assistance which is really sound and reasonably long-term, some of it in soft loans of around the same amount as we are giving, say around $2 billion. I think there is a moderate prospect of getting it. One of the great difficulties is that, in the countries with the best balance-of-payments situation, like Germany and Italy, you have a very heavy tax load already and you have a very weak capital market in which to borrow at the present time. Consequently, it is difficult, through any orthodox financial devices, to find a means for using the gold that is sitting in the vaults to provide aid to less developed areas. There are no easy tricks, other than selling bonds or raising taxes, and we have not yet persuaded the Germans--although we have told them fairly bluntly--I have done it myself, and others of us have--that, if they are going to do what they talk about, in terms of being a leader in this movement of helping the less developed countries, there is no easy answer in terms of finding the funds. They have talked about, for example, using the proceeds from the sales of Volkswagen shares, which the government owns, and wants to put in private hands, to provide the money for aid.

We don't turn this down, but this is a short-term expedient. Things like this won't show up every year. Sooner or later they will have to decide that this is an important purpose which justifies sacrifices. We pointed out that the President of this country has recently vetoed and taken firm stands against politically very popular measures to provide Federal aid to education, Federal aid to combat water pollution, aid to schools, to hospitals, and to roads, but has insisted on just as much, if not a little more, for foreign aid, and that, until you are prepared to make choices of this degree of difficulty you will not have an adequate aid program which is commensurate with the position in the world you are trying to achieve.

We think that, if these countries do step up in this way and take their share of the responsibility, a possible additional drain on our balance of payments through a largely increased aid program can be avoided, and we can operate our own program in a way which will make the most sense in terms of U. S. economic interests.

Now, here are six examples, with a little discussion of each, of the way in which we are trying to tackle, in terms of expanding exports and expanding world trade and world economic growth, the rather sharp change in our own position which has come about in the last two years and has been reflected primarily in a deficit in our balance of payments.

This is the policy at the present time. This is the program we have at the present time. I think, myself, that we have done a rather remarkable job of adjusting our own thinking and our own policy to the new situation

which developed fairly rapidly in the past couple of years. We have not only made our changes but we have secured from the rest of the countries of the world a rather substantial measure of respect for what we have done and agreement as to what we suggest they should do. Agreement that they should do it and the actual taking of the steps are sometimes a little far apart in terms of getting public opinion and legislatures to go ahead. I think it is important that we, through our various channels of communication, educate our own public opinion on the importance of their coming to the support of this new attack and these new measures which we have adopted, in order to be able to maintain the strength of the American economy and the American dollar, which are not only important to our own economic interests but also vital to our political position as the leader of the anti-Soviet bloc in what is still a cold war.

There can be no question that the Soviets, not only in terms of the traditional Marxist doctrine, are looking for economic collapse or decline on the part of the capitalist countries, but also that our ability to manage our economic affairs so as to continue to grow will have a great impact on the way in which the uncommitted countries choose to handle their own political and economic affairs.

I think we have set our foot on a path which is in the right direction, and it seems to me that we are thus far getting the cooperation of the business community and of other elements in the Government and the Congress in order to carry out such a program to what I hope will be a

successful conclusion.

The first measure of success that we have seen has been in the preliminary estimates for the first quarter of this year, which suggest that, on an annual basis, the balance of payments deficit for 1960, if this trend is continued, will be about $1.5 billion less than it was last year--in other words, cut from around $3.7 billion to somewhere between $2 and $2.5 billion. This would be major progress. It is not enough, but it is major progress, and, if we can make this progress, this is a good stepping-stone to move ahead, without hesitation, to a continued economic growth and expansion of world trade, and a freeing-up of world exchanges, which we think is important to what we are trying to do.

Thank you.

CAPTAIN BURKY: I believe Mr. Martin is now ready for questions.

QUESTION: I note from your biography, Mr. Martin, that you just returned from England. Why is it, sir, that the English take such a more adamant stand on these issues that concern their trade than we seem to do? For instance, on the electric generator proposition there, their papers were filled with it at the time, and all their editorials made it a subject, and there was a great hullabaloo, whereas, on something like this fertilizer situation or the case of the steel mill in Iran we don't even read about it in our papers.

MR. MARTIN: I might say with respect to these last two points I

don't think any publicity has come out on them as yet. To take the generator case, which had very little play in this country but was, as you say, played up in the British press quite widely, there are two or three reasons for this. One is the great importance which trade has for Britain. It is not just a little bit of frosting on the cake as it tends to be regarded by many Americans, representing 2 or 3 percent of our income. It is bread and butter for the British; 15 percent of their income, or something like this, comes from trade.

Secondly, they recall the fact that we have, under the Marshall Plan and elsewhere, been urging them to get on the basis of trade, not aid, and encouraging them to find exports to the dollar area so that we would not have to give them our dollars as aid. They say, 'Then when we find an export we can sell to the dollar area, you slap a prohibition on us and won't let us sell it.' This irks them.

Thirdly, I think you will always find that the press will play up a negative situation more strongly than a positive one. Bad news always gets a bigger play than good news.

Lastly, at this particular time, there just happens, by coincidence, to be about 5 or 6 points of irritation with U. S. economic policy, some of them justified and some not, although in Britain I was defending us on almost all counts. At the same time that the electrical generator situation arose there was also the problem with the BOAC route to Tokyo; there was a problem of a wool quota which the British were sure was turning the U. S.

market over to the Japanese. We had instituted oil quotas which didn't affect Britain directly but did affect her Shell interests in Venezuela, and we had instituted lead and zinc quotas which didn't affect her directly but did affect Australia and some of the Commonwealth. And I think many of the people in Britain were sincerely afraid that in the reaction against a recession and against some deficit in our balance of payments the U. S. was turning away from a liberal trade policy toward a restrictionist trade policy; that these were the bits of the ice berg showing above the surface, reflecting underneath a firm determination to move in the opposite direction from that in which we had been moving, a direction which is essential for Britain in terms of maintaining her exports and imports. A free trading operation is fairly important to her.

I think nearly all of these matters have now died down and there is better understanding. I suspect in the electrical generator case also the outcry was encouraged by the fact that there was wide public opinion in this country which sympathized with the British position.

QUESTION: Sir, can you explain how the Russians get so much propaganda mileage over the bare limited amount of exports, compared to the limited propaganda mileage we get out of our large export business and the Western European export business to the underdeveloped countries?

MR. MARTIN: I think it is a little hard to figure out how they do it. Of course, as far as I am concerned, the propaganda mileage that I see most about is that appearing in the U. S. press. I think the U. S. press

gives the Soviets a tremendous lot of publicity on this, which has an impact on all of us, because it is a new thing and a threatening thing, and bad news, and bad news is better for press coverage than good news. Consequently, when the U. S. makes a loan to a country, this is routine business. We are doing it every day. When the Soviets make a loan to a country, this is a new development, a new move in, a new threat, and this is a front-page story.

A second reason, however, is that the Soviets have tended, instead of putting out annual programs or project arrangements, to announce, as they did in the case of the recent Khrushchev visit to Indonesia, a $350 million program. This is an enormous amount of money. What shows in the fine print is that all this amounts to is an agreement that over the next 10 years they will try to find projects on which they would be ready to spend $350 million. But the nice big, round figure makes a big impression. We are able to show that over a shorter period we have given more aid to the Indonesians than this.

There have been a number of cases, and I think it is true in part in Indonesia, because there was a previous Soviet big-splurge announcement of, I think, a $150 million program for Indonesia, of which very little has yet been spent.

People are learning by hard experience that these big splurges of announcements of long-term programs may not mean what they appear to mean and that one must wait and see what actually comes forward. But

it is true that they can make these long-term commitments which our proceedures for working with the Congress on an annual basis in general do not permit us to make. We hope to be able to commit ourselves, at least tentatively, on a 10-year program for the Indus River project which is being developed under the International Bank sponsorship. It will be a billion-dollar project, and deserves a lot of publicity.

These are just some comments on your problem. It is a problem. There is no doubt about it.

QUESTION: Sir, as you know, the Latin Americans are very much annoyed because we have given so little aid to their area and have given so much to other areas, particularly Western Europe, under the Marshall Plan. Now, undoubtedly this is because our political objectives have been greater in other areas than they have in Latin American. In the President's recent tour down there, I couldn't find much that he said that hasn't been said many times before. In fact, it appeared that his speech-writers had taken some old Latin American speeches and merely brought them up to date. My question is: Do you think we really have a genuine interest in having a really aggressive program to do something about this area, which undoubtedly, by the end of this century, is going to be quite important? Or do you think we are going to continue to go on with the status quo?

MR. MARTIN: I think it is a little hard to be precise on this. I think we feel that we have been doing a substantial amount for this area in relation to its population and its needs and its possibilities. We have put a very

large amount of public money into Latin America, particularly Brazil, and also other areas. Private American investment has also been very large as an aid to the development of this area. Where you have large private investment you don't need as much public investment. We don't think the two things have to be disassociated. I think that we are contemplating not any major dramatic change in our position, but there is increasing interest, as reflected in the President's trip, and we will be continually looking for new ways to step up the program gradually in this area.

The American Development Bank, which has just been organized, and which will have a substantial chunk of U. S. capital in it, is one example of a new step that has been taken in the past year which will provide additional financial resources. We have also breached a long-standing, firmly held policy against commodity agreements and a year ago entered into commodity arrangements with respect to coffee and with respect to lead and zinc, both of which were done primarily in the interest of helping with Latin American problems--particularly the coffee agreement.

I don't think that there is a great deal new and major in terms of a reversal of trend that is apt to take place. I think one must realize that there are both economic and political differences. One of the things often forgotten is how many more people there are in India, as one country, than there are in the whole of Latin America. If one is apportioning one's aid on a per capita basis at all, it is natural that India, as one country, should get several times as much aid as Latin America, other things being equal.

Of course, from a political standpoint, other things are not entirely equal.

I must say I haven't had much experience in the Latin American area and there are others here who know a lot more about it than I. I think one of the problems has been that there it is not possible or not useful to put in too large amounts of aid unless you have a local situation which seems apt to make good and effective use of it, which is doing the bulk of the job itself, which is what has to be done.

There are a number of Latin American situations in which the political and economic climate has made it pretty clear that aid put in would be an operation rat hole, in which there was no restraint with respect to inflation and very little political stability. I think in the past decade this situation has improved materially, and there are fewer of these kinds of situations than there have been in the past.

But even Brazil, with all of its great economic potential, has great difficulty managing its economic affairs effectively, and very much of our aid seems to have disappeared into an inflationary rat race there, which has not made it as effective as it should be.

So this again is a factor which has weighed in determining the distribution of our assistance. But, as I say, I think the situation is materially improving country by country. There are still some very bad situations in which we are again having to make decisions to give aid that makes no economic sense, just to try to keep a government politically with its head

above water at all, realizing full well that it probably will be tossed down a rat hole.

I know one country in particular in which there is a very critical situation with respect to one major industry, which could be helped if the price of its product, which happens to be gasoline, could be raised to anywhere a decent level. But it can't be raised, and the government won't permit it, because the main source of support of the government, which is on the whole better U. S.-oriented than the probable alternatives, is the chauffeurs' union. Therefore you can't raise gasoline prices. Therefore we are going to have to bail out the oil company, in a nonsensical operation, really.

QUESTION: Sir, the Wall Street Journal, in an editorial last week, or quite recently, was very critical of your approach to the balance of payments problem. As a matter of fact, they said they felt deliberately inclined to coin a new law, they felt so strongly about this, in addition to Parkinson's Law, which is to the effect that the United States, when faced with a problem, will go about the solution in every way except the right way. They said that exports have nothing to do with this problem, which is a matter of giving away $4 billion a year. Would you care to comment on that?

MR. MARTIN: I don't know who is getting the $4 billion that they are referring to. My impression is that the Wall Street Journal has been against

foreign aid, and that they feel that if we would abolish foreign aid it would solve the balance of payments problem. Apart from the fact that I believe foreign aid has certain value in U. S. policy and I am not prepared to give up all that would go with stopping it, it seems to me their argument assumes somehow that, if we didn't make the goods available through aid that we now do--a couple billion on the military side, and maybe $600 million on the economic side--$2.5 billion, instead of $4 billion, I might say--somebody would buy them and we would get dollars in return for these sales, and this would help our balance of payments situation.

I don't think this is the case. I think if we did not provide the aid nobody would buy these items, from us, certainly. In the military field we are increasingly moving country by country to a pay-as-you-go basis from the aid basis. So that I am prepared neither to accept the premise of the objective as stated by the Wall Street Journal or their conclusion as to what would happen if we even accepted their premise. We have a slight disagreement, in other words.

QUESTION: Sir, one of the objectives that you mentioned was to awaken the American business man to the country's need for more exports and to have him develop markets and products which could be sold. It seems to me that the average business man is not going to be so much concerned with the country's needs as he is in making a profit. I wonder if you could tell us a little bit more about your efforts in this field.

MR. MARTIN: I think you are right, that he will not be so much interested

in the country's needs as his profit, but I think there are a great many business men, and certainly this was the experience of Europe, who can be stimulated by a country's need to investigate new possibilities of profit that he has never taken the trouble to investigate before, and who may find that they are much greater than they realized. With a little effort they can, in fact, increase their profits.

This is probably true much more of the medium and smaller-sized firms than it is of the large industrial corporations, but it is also the medium and smaller-sized firms that tend to produce the specialty kinds of products which can find a market abroad for us, where on some of the standard mass-produced items, on which Europeans are catching up with us in mass-production, we may be a little high in our price.

The Commerce Department is conducting a wide series of activities in educating people on the problem and the need for going abroad. We are going to expand some of our services abroad, and in this country, in the Department of Commerce, for making available information about markets and bringing business men in and telling them about opportunities that exist. It is also, I believe, contemplated to try to organize a business group which is some senses would be patterned on a very successful British group, called the Dollar Export Council, which was largely business run, but with government cooperation, a group with a considerable staff, which made it its business to educate the British business man about the design and marketing problems he must overcome in order to get into the dollar area markets.

This has been a very successful enterprise. As a matter of fact, we have suggested to them that they have had such success at this that they ought to change their name now, in the new circumstances, and call themselves the Dollar Export-Import Council, and start finding out ways by which Britain could import more from the United States. I am not sure they will accept this.

But I think there are, not means that will be overnight changes but means which can gradually interest more American business men in the opportunities for expansion and profits through tapping foreign markets either in the developing newer countries or opened up in the older countries as a result of their increased prosperity and their removal of the quota restrictions, seeing that everybody knows about these. I think we can help on it in this way.

QUESTION: Along with the Administration's efforts to improve relations with Latin America, what do you think are the possibilities for removal or relaxation of the oil import quota? I am thinking particularly of relations with Venezuela and the United States.

MR. MARTIN: I don't see any immediate prospects for relaxation of the oil import quotas, not so long as the Texas allowable is 8 or 10 days out of the month and we continue to have a growth in domestic oil consumption that is somewhat slower than had once been estimated. The basic argumentation for it was to provide enough income from domestic oil production to justify a continued program of wildcatting and well drilling in order to

maintain an expanding, if possible, available known oil reserve in this country. I do not see a change in the situation sufficiently great to justify a removal of the quotas. It may well be that we can expand them somewhat.

As you say, this does present problems as far as Venezuelan exports are concerned, although I think there really is a larger problem than the U. S. quotas which affects the Venezuelan situation, namely, the discovery of oil in the Sahara and Libya, and Argentina becoming an exporter. We are faced, I think, with a fairly critical situation over the next five years in terms of surplus oil every place there are large quantities of oil, a surplus which can not be disposed of presenting extremely grave political problems as well as economic ones.

QUESTION: Mr. Martin, in the last several weeks it has been announced that some grain has been made available to India in a significant amount. I think it was around $150 million worth of wheat. From your vantage point in the State Department, do you see any possible way open to us to use some of our grain surplus to feed so much of the world that is hungry?

MR. MARTIN: I think this is one of the ways of doing it. We have made a very large quantity of grains available over the past several years under this P. L. 480 program, in which the countries do not pay us dollars but pay local currencies which are used partly for our purposes and largely for theirs. The real handicap to moving much more than we have been doing is, (1) it is somewhat of a drain on U. S. funds. In effect, what we are doing is appropriating the taxpayers' money to pay for the wheat that

Agriculture has bought and is now shipping abroad free. (2) There is a real problem in some of the big consuming areas, of which India is one, of facilities to store and move the grain from port out to the consuming public. (3) Most of these countries do not want or are not in a position financially to give the grain away. There are lots of starving people who would be happy to have the grain if it were given away but who cannot afford to buy it. This sets a ceiling on the amount which these countries can take, as well.

I do not foresee this as providing a means to do a great deal more than we have been doing the last several years, and I do not foresee it as a permanent solution. Most of these countries will want to try to expand their own agricultural production and be more self-sufficient, not because they are reluctant to receive this grain free from us so much as that only if their farmers are producing enough grain and selling it will they be in a position to raise the level of living of the mass of the people, which includes the farmers and their ability to buy industrial products and to increase their capital investment in the land.

So that, for all these reasons, they will want to increase their own output. So I don't think this is the solution to our agricultural surplus problem. We are trying to step up the shipments in a variety of small ways, encouraging countries to create national food reserves for famine emergencies. There are a few countries that are apparently willing to make the investment in storage facilities that are required, and we would provide

the grain. But this is fringe operation, basically, I am afraid.

QUESTION: I understand that foreigners have many billions of dollars in short-term credit money invested in the United States. In the last two months the interest rate has been dropping in the United States. Some people feel that as the interest rate in the United States drops, a lot of foreign money will go back overseas as gold, to be invested there at a higher interest rate. Have you taken this into consideration in your program? If you have, what do you propose to do about it?

MR. MARTIN: Yes, we have taken it into consideration. There is about—I don't know—between $16 and $17 billion which is now classed as short-term liabilities to foreigners, about half of which is officially held by foreign central banks and the rest by private individuals.

I would say 2 or 3 things: One, I think that a relatively small proportion of that is held here to take advantage of a higher interest rate and is really floating money that is moved around from capital to capital on a speculative basis, to catch the highest interest rate on short-term account. To a very large extent, these are holdings either by business firms who must have a working capital here because of their operations in this country or are reserves in dollars of foreign governments in central banks.

So long as the dollar is a sound currency and they don't fear devaluation, they will want to continue to hold that money here. This is one of the reasons why we feel that we must do something to correct the balance of payments situation, so that people will not get worried about the soundness

of the dollar. In 1958 there was some speculative movement against the dollar and worry about devaluation, and we had a very large outflow. In 1959 the gold outflow was much smaller.

I would think that, if we can show an improving trend in the balance of payments, there is not likely to be any substantial volume of flight of these short-term assets. Actually, their size, in relation to our gold reserve, is still relatively small compared to what other countries carry. The U. K., for example, with a gold reserve which is now less than $3 billion, has short-term liabilities of the same sort, which amount to something, I believe, over $10 billion--in other words, over three times as much as the gold which is held to meet them; whereas we have more gold than we have short-term liabilities. It is better than one to one.

The basic answer to your question, I think, is that relatively little of the money is really liquid in the sense of moving around on the basis of interest rates. I think it is probably also true that there is a tendency for interest rates in the various major money centers to move somewhat together, and, if there is a falling off in our short-term rates and money moves into Britain, to London and to Frankfurt, which are the two other major centers, this will quickly cause a fall in the rates there, too; and this balances out.

QUESTION: Sir, it seems a shame to leave the subject of operation rat hole without recognition of the Cuban sugar quota. Recently the financial wizard down there has had a lot to say in public about the evils resulting from U. S. purchases of sugar at premium prices, and how much better

the Russian system is in purchasing sugar. It seems to me that the mystery is why we don't accommodate him and either begin purchasing Cuban sugar at the world price or, if we feel it is really necessary to pay more for sugar than the world price, we could distribute the quota amongst more friendly Latin American neighbors.

MR. MARTIN: Well, this is a fairly complicated situation, but I will make a few comments. In the first place, the distribution of the sugar quota at the present time is governed by act of Congress. The President, last week, sent up a bill which would authorize him to modify it in the course of any year, for that calendar year, if necessary, in order to insure a U. S. supply of sugar which would be adequate or for national security reasons. The Congress would, of course, also be free to change it in between times if they chose.

As I understand it, the way the Cuban situation works is that there is a sugar institute run by the government which decides who shall sell to the United States among the sugar producers and get the benefit of the extra price. Up to now this has been prorated around among the various sugar producers. If we should take a major step with respect to the Cuban sugar imports, one of the effects certainly would be that the sugar institute would insure that any remaining sales to the United States which got the benefit of the price differential would be made by sugar plantations not under U. S. ownership.

So that any action we take has to be looked at pretty carefully to

determine the impact upon U. S. sugar producers as well as upon the Cubans generally. It is not quite clear how radical an effect on the Cuban situation action by us would be. Their output of sugar is such a large proportion of the world production that the world probably can't get along without a substantial amount of Cuban sugar, at least at anything like present levels of consumption. Therefore, they would find a market for it.

There is the further political factor that we have a heritage to live down in the Latin American area of intervention in internal affairs, which on the whole goes away back. There is a feeling among many Latinos that tinkering with the sugar quota might well be considered to be an interference or an attempt to interfere in the internal affairs of Cuba.

All the evidence we have received, certainly on the President's trip and from business men I have talked to who have been in Latin America, has been that we have earned an enormous amount of respect and admiration for our patience and restraint with respect to Cuba up to the present time, among all the Latin American countries. This in itself is an asset of no mean importance, in view of the background of, if you will, Marine landings that has disturbed the other Latin countries in the past, as the way we do business with the Latinos.

It also has this significance, that, if a time should come when it would appear that there is no possibility of the Cuban situation being corrected from within--which would be the preferable situation--we have by our restraint, I think, put ourselves in a position to command the support of the other

Latin American countries for a joint action, which, in terms not only of Latin American opinion but even of world opinion and the Soviet propaganda machine, would have enormous advantages for the United States if a time for action should ever come when we felt the situation had gotten so bad that we had to do something.

I think on the whole the restraint has been wise. We are putting additional instruments in our hands if we get this legislation. We are certainly studying other things that might be done. But I think each of them has to be examined from the standpoint not only of what it would in fact do to change the situation in Cuba in our direction but also of what the reaction will be in the rest of Latin America and before world opinion generally.

QUESTION: Sir, it seems to me that we have a little difficulty keeping before us sometimes the fact that the real foundation for profitable foreign trade has to be one where we can import a commodity more cheaply than we can manufacture it and in turn export a commodity to another country more cheaply than they can manufacture it. In this connection it seems that on these problems such as the one of the cheap imports from Japan, which you cited, from the long-range point of view, what we really need to do is to find some way to capitalize on that, to where we can let these things come in and let our consumers have the advantage of them, and in turn try to find something that we can profitably export in exchange. However, I was interested in reading an article which, I think, was in the New York Times a couple days ago, about the situation on the books which were being

printed and shipped in from Taiwan, where they were apparently just out and out pirating books published here and printing and selling them back at about a fifth of the price that our American publishers could publish them for. This seems to be a really flagrant and/really downright dishonest sort of thing. What sort of action can you take on a thing like that?

MR. MARTIN: I will not quarrel with your description of the action. We have been having discussions with the Taiwan government about this for some time and further representations have been made at a very high level within the past week both with respect to simplifying the procedures of the Taiwan government and with respect to securing copyrights. One of the problems has been that the procedures were complicated and long delayed, and it was difficult for American publishers to establish a copyright and therefore a legal position in the Taiwan courts against pirates, although theoretically it exists, the possibility exists, but it wasn't very practical. Second, measures are needed by which the Taiwan government would prohibit exports of these items and take steps to stop them. The measures are before the legislature there to these ends, and the government has promised that it will move aggressively to get the measures through. But, in a place like this, it isn't always easy to inculcate in everybody in the general public the Anglo-Saxon concepts of legality and copyright, et cetera, that we cherish, and we'll probably have to fight this battle for some period of time.

I do agree that we have a real problem on the general principles of international trade which are as you state. The difficulty has arisen over a sudden swamping of an industry and throwing large numbers of people out of work and businesses into bankruptcy in a short period of time, with no time to make the adjustments that are the normal thing that one would expect. I am told, for example, that within a couple of years' time Hong Kong took over 40 percent of the sales of U. S. brassieres. This is a little rough on the U. S. brassiere manufacturers and workers in that industry. When you concentrate on a segment and throw a whole industry out of business, this gets politically important and adjustment is difficult.

The British, I may say, have taken on this task in a little different way. Beitain, of course, was built on textiles. They are now importing more cotton cloth than they are exporting from the Lancashire and Manchester area, and they have faced up to the fact that, except in specialty goods in the most modern plants, Britain was no longer competitive in textiles and that, in view of the Commonwealth relationship, they would have to let them in from India, Pakistan, and Hong Kong, although they have tried to work out voluntary agreements. They have passed a law which provides a very substantial government subsidy to a fund to which the manufacturers also contribute, which has bought out, on a fixed scale, more than half of the textile capacity in Britain and is scrapping it. The manufacturers were paid a certain amount for their mills--so much a spindle. The workers who were discharged were paid discharge pay out

of this fund. They will reduce their textile capacity by a little more than half across the board, primarily in the inefficient plants. They hope that the remainder of the industry will be efficient, will make enough money to keep efficient, and will be able to maintain itself. But this is a fairly radical medicine for a major industry. We haven't gone to that extent as yet.

CAPTAIN BURKY: Mr. Martin, there are a dozen more hands up, but I am afraid our time has gone. I want to congratulate you on tackling and covering without any complaint so completely our rather broad scope. In behalf of the Commandant, the students, and the faculty, thank you for providing us with such an interesting and profitable morning.