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THE PAPERS OF WILL CLAYTON.

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The Papers of Will Clayton

by

Fredrick John Dobney

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[Signature]

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FOR FLOSSIE AND BILL SHOFNER
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INTRODUCTION

Students of the early Cold War have benefited considerably from recent publication of a number of important books by participants: George Kennan's Memoirs 1925-1950, Dean Acheson's Present at the Creation, and Charles Bohlen's Transformation of American Foreign Policy. However worthy, these works give an incomplete view of policy formulation. Concerned almost exclusively with the political they ignore the economic component of policy. This edition of Will Clayton's papers should provide a needed corrective. It is the purpose of this volume to show how Clayton's ideas developed and how they helped shape national economic policy in a crucial period.

On December 12, 1944, William Lockhart Clayton was confirmed as Assistant Secretary of State for Economic Affairs; for the next three years he was to exercise greater influence than any other individual on the postwar foreign economic policy of the United States. In his roles as Assistant Secretary (1944-1946) and Undersecretary of State for Economic Affairs (1946-1947) Clayton was instrumental in preserving the capitalistic basis of the Western European economy and thus denying a foothold to communism and revolution. An examination of the documents which follow will provide useful insights into the liberal-capitalist mentality that shaped the American response to Soviet imperialism in the early Cold War.

Understanding Will Clayton requires first an appreciation of his character and the background in which it was formed. Clayton
was a product of the nineteenth century and perhaps the greatest example in the twentieth century of the "Southern gentleman." An imposing figure physically, he always conducted himself with the greatest dignity, modesty and courtesy. He was unfailingly polite, even in the bitterest of debates and negotiations and he was never in his eighty-six years known to precede anyone through a door. Such exceptional behavior would bear comment even in an antebellum Southern planter, but this subscription to the code of the cavalier in the son of an unsuccessful cotton farmer and bankrupted railroad contractor was especially noteworthy.

Born February 7, 1880, on a cotton farm near Tupelo, Mississippi, Clayton was the eldest son of James Monroe and Fletcher Burdine Clayton. His father's inability to provide the family with more than the bare necessities of life profoundly affected the young lad. Upon completion of the seventh grade in 1893, Will quit school to become an assistant to the clerk of the chancery court of Madison County, Tennessee, at a salary of ten dollars a month, four dollars of which he invested in shorthand lessons. So dedicated was he to self-improvement that he even practiced his shorthand at the dinner table: he would use his finger or his fork to trace on the tablecloth a transcript of dinner conversation. When objection was made to this habit, he began writing instead on his trouser leg. As a result of his diligence, a year later at the age of fourteen he was performing the duties of deputy clerk.

His proficiency in typing and shorthand enabled him to obtain extra work at night in the local hotel, typing for transient businessmen and dignitaries in need of a secretary. A speech that he typed for William
Jennings Bryan blaming all of the ills of the South on the tariff made a profound impression on Clayton. Clayton pondered Bryan's viewpoint, adopted it, modified it, and spent a large part of the rest of his life propagating it. But more immediately important to him was the acquaintance he made at the hotel with Jerome Hill, a St. Louis cotton merchant, who offered Clayton a position as his private secretary in St. Louis. At the age of fifteen Clayton moved to St. Louis, and a year later he followed Hill to New York, where through diligent application Clayton rose rapidly in the American Cotton Company. In June of 1902 he was named secretary-treasurer of the Texas Cotton Products Company -- a corporation formed with one million dollars capital to take over the American Cotton Company's Texas business. On August 14 of the same year he married Sue Vaughan, a popular Kentucky girl who numbered among her suitors Alben Barkley. By 1904, when Clayton terminated his association with the American Cotton Co., he was assistant general manager of the company, and he was drawing a salary between $3000 and $3600 a year.2

Now Clayton was ready for bigger things. He struck out on his own when his brother-in-law, Frank Anderson, proposed starting a new cotton firm in Oklahoma City. Clayton agreed to Anderson's proposal, and, with Frank's brother, Monroe, opened the firm of Anderson, Clayton and Co. (ACCO). Each of the three partners supplied $3000 capital; in the first year they cleared a $10,000 profit, and the following two years netted a total of $100,000. Meanwhile, in 1905, Will's brother Ben joined the firm as a full partner. Anderson, Clayton and Company prospered as a result of the contacts Clayton had made while working for the American Cotton Co.
When that company failed shortly after Clayton left it, the availability of America's physical facilities proved invaluable to the growing young firm. During this period of his life Clayton worked from early in the morning until midnight every day. The oldest of his four daughters, Ellen Garwood, has said that he was under considerable strain resulting from his association with the Andersons, "one of whom was almost psychopathically cautious" in a business that required snap decisions and quick action to insure success. In banking circles Anderson, Clayton and Co. was known as a one-man firm, as evidenced by the fact that Clayton's life was insured for two million dollars "in order to offset any credit slump that might result from his death." By 1939 he was the sole active partner: Frank Anderson had died in 1924, Ben Clayton retired in 1929 because of ill health, and Monroe Anderson died in 1939.

Since a port location would afford the most economical line of transit from producer to consumer, the firm moved into Houston, Texas, in 1915 and established headquarters there the following year. World War I marked a turning point in ACCO's economic development. As a result of the shift in the United States financial position from that of a debtor to a creditor nation, the banking center of the world moved from London to New York. This in turn meant that more risk capital was available for investment, and ACCO was one of the first American firms to capitalize on that situation. Several innovations were accomplished by the aggressive young firm, the most important being the building of its own warehouses and the opening of European offices. By taking advantage of the financial distress of European cotton merchants resulting from the war, ACCO was able
to break the colonial pattern of European cotton marketing and gain a greater share in the distribution of cotton to European markets. Despite his heavy business commitments, Clayton spent a year in wartime Washington as a member of the Cotton Distribution Committee of Bernard Baruch's War Industries Board. ACCO opened offices in France and Italy during the war, and in Germany and England shortly thereafter. On the basis of capital accumulated and offices opened, ACCO had established a firm economic advantage over its competitors during the war which it exploited fully during the succeeding ten years — years which saw Anderson, Clayton and Co. become the world's greatest cotton factor.²

Although the interwar period was a time of great economic growth for ACCO, it was also a period of unhappy national exposure and investigation. In 1928, 1929, 1930, and 1936 "Cotton Ed" Smith's subcommittee of the Senate Committee on Agriculture and Forestry investigated ACCO. The ostensible purpose of these investigatory hearings was to discover the reason for the decline in cotton prices in 1926 and again in 1935. But apparently the investigations were aimed at Clayton himself. This desire to blame Clayton for the price drops stemmed from Clayton's fight for Southern Delivery.

Southern Delivery meant simply that cotton sold on futures contracts could be delivered to southern ports such as Houston and New Orleans instead of New York. Futures contracts at the time stipulated that the cotton had to be delivered to New York upon demand of the buyer; such delivery was exorbitantly expensive since New York was not in the normal line of commercial transit for cotton. If the seller refused to pay the high freight costs necessary to get the cotton to New York, he had to buy the cotton back at
whatever inflated price the buyer set on that month's future contracts.

"Thus the New York manipulator was able to operate a 'squeeze' on the merchant, forcing him to buy in at an unnaturally high figure . . . . Naturally under such conditions, the New York futures contract was a very unreliable device for the hedging of merchants' risks." Clayton campaigned against this system to no avail, so he fought back by playing the speculators' own game. "His method was to do his own squeezing, but to do it so often, so fast and so hard, that cotton men would rise in arms, forcing the Exchange to modify the rule. His operations are still referred to by those who got burned as nothing less than 'fiendish.'" Some small merchants were incidental victims of Clayton's squeezes, and consequently he gained immediate unpopularity in some cotton circles.

Although the long term effect of the adoption of Southern Delivery by the New York Cotton Exchange on February 27, 1930, was to reduce speculation and stabilize the cotton market, Clayton's crusade had made numerous enemies for him on the Exchange, enemies who "had the ear" of "Cotton Ed" Smith. Hence the investigations. However, the most serious charge that Smith was able to prove was that Clayton "dominated" the cotton market. Though the investigations were arduous, embarrassing, and often insulting, Clayton did not regret participating in them. In each case he appeared before the subcommittee voluntarily. He later pointed out that without these investigations, it could have taken "10, 15, maybe 20 years longer getting Southern Delivery."

While on one front Clayton was defending himself and his company from congressional attacks, on another front he was attacking Franklin
D. Roosevelt's farm policies. He objected strenuously to the New Deal's efforts to make a supported market pay the farmer, contending that if subsidies were necessary they should be paid directly to the farmer. Just as he rejected artificial price-fixing in agriculture, he rebelled against the maintenance of artificial price levels through the erection of tariff barriers. He firmly believed that tariffs, by forcing the farmer to sell in a free market and buy in a protected market, had relegated the South in general and the Southern farmer in particular to an exploited colonial status. Clayton's concern for the South and the farmer were genuine. He opposed government farm policies even though his firm had profited from them. In the five seasons preceding 1935 ACCO made at least half of its profits as a result of government policies which allowed the sale of cotton at subsidized prices.8

In 1934 Clayton's opposition to New Deal farm policies took the form of membership in the American Liberty League, an organization of anti-Roosevelt businessmen, conservative lawyers, and disgruntled Democratic politicians. Clayton explained to his wife that he had joined at the request of his friend, John W. Davis. Clayton saw the League as a means of fighting New Deal agricultural policies by turning Roosevelt out of office. But in 1935 he resigned from the League "because of certain League actions which he did not approve."9 Clayton's discontent with the League derived in part from its failure to accept his plan for a Texas organization to disseminate League philosophy. On several subsequent occasions Clayton would again dissociate himself from organizations which were not operating in what he considered to be an efficient or economical manner.
Also responsible for his defection from the Liberty League was Cordell Hull's enunciation of a philosophy of liberal international trade in the Reciprocal Trade Agreements program. If the Democratic administration would back free trade, Clayton would support it. In 1936 he created a minor sensation by announcing that he intended to vote for Roosevelt contrary to his earlier announcement that he would ignore the election altogether. In explaining this change of heart Clayton told newsmen, "A vote for President Roosevelt is a vote to keep Secretary Hull in office, where his work, just beginning to bear fruit, may go forward with infinite benefit to the nation and to the world."  

From this time forward Clayton was to spend much of his time and energy in propagating the idea of free trade, or at least liberalized trade policies. He pointed out time and again that the United States owed its great economic preeminence to the absence of tariff barriers between the states. On this basis he generalized that the entire world would benefit from a broad reduction or abolition of tariff barriers. His Southern agricultural background told him that the South and the farmer would benefit from such a policy because they could buy in an unprotected market as well as sell in one. Free trade was to be the panacea of modern man.

By 1936 Clayton was no longer only a businessman. He was now concerning himself with national economic policy, and although free trade would benefit his firm ultimately, he was concerned with the benefits it would bring to mankind rather than just any financial benefit which might accrue to Anderson-Clayton. Clayton's assumptions about capitalism belonged to a democratic-capitalist tradition whose most brilliant spokesman was Woodrow
Wilson. Clayton believed in American exceptionalism—the idea that the United States differed from all other nations in the purity and benevolence of its motivation and goals—and regarded the United States as uniquely fitted to lead all nations to a rational world society based on an efficient economy. The United States would lead the crusade against trade barriers, and the destruction of these barriers would result in a beneficent world economic order in which the United States could sell its surpluses abroad, permitting other countries to obtain needed goods while allowing the American economy to produce at peak efficiency. The first step toward this world economy was extensive adoption of Hull's Reciprocal Trade Agreements program. It is important to remember that, although Clayton's economic philosophy became more sophisticated with the passing of the years, it was always predicated on the assumption of the ultimate desirability of free trade.

In 1940 Clayton was invited to come to Washington as an official of the Reconstruction Finance Corporation by Jesse Jones, the Federal Loan Administrator and head of the RFC. In deference to his wife's wish that he not undertake such responsibilities at the age of sixty, he initially refused, but a personal call from President Roosevelt won her over, and Clayton went to Washington. After helping Nelson Rockefeller set up the Office of Inter-American Affairs, Clayton was appointed Deputy Federal Loan Administrator and Vice-President of the Export-Import Bank. He also held positions at the policy-making level in a number of RFC subsidiaries, in which he was responsible for overseas purchases of strategic and critical materials for stockpiling purposes.

When Roosevelt abolished the Federal Loan Administration and shifted its responsibilities to the Secretary of Commerce, Clayton was named Assistant
Secretary of Commerce. Given additional duties as President of the War Damage Corporation and Chairman of the Board of the U. S. Commercial Company, he was now also charged with preclusive buying of strategic materials. His most spectacular wartime work was in the field of monopolizing strategic materials in order to prevent their acquisition by the Axis powers, and his agents were involved in considerable international intrigue. But in 1943, by executive fiat, Clayton's duties were transferred to the Board of Economic Warfare under Vice-President Henry Wallace.

His responsibilities reduced from the policy-making to the administrative level, Clayton decided that his services were no longer required in Washington and resigned from the Commerce Department in January 1944. A month later, at the behest of Bernard Baruch, Clayton was appointed Surplus War Property Administrator. His tenure was short and stormy. In June his name was linked with a movement in Texas to deny electoral votes to Roosevelt unless certain Southern demands were met. Although Lamar Fleming, President of ACCO, and another high ACCO official were prominent in the movement, Clayton, despite the allegations of the Washington Post, was not in any way involved. In July James Patton of the National Farmers Union accused him of secretly assigning the disposal of surplus farm lands to an inappropriate agency -- the RFC. The Nation and The New Republic were outraged at this disclosure, and Clayton endured severe censure. Clayton had assigned disposal of the lands to the RFC, and, even though his motives were honorable, he had to quiet the furor by issuing a reassuring statement that the farm lands would be sold in family-size lots. Moreover throughout 1944 Clayton was dueling with Congress over the form that the Surplus War Property bill was to take.
He was convinced that a single administrator would be far more efficient than the Senate's proposed three-man board. When Congress passed the bill establishing this three-man administrative board, Clayton pronounced it unworkable and resigned effective December 1, 1944. His judgment was vindicated a year later when the board was scrapped and a single administrator appointed.

Clayton was packing his bags to leave Washington when he was contacted by James Byrnes, Director of the Office of War Mobilization, who asked Clayton to serve as his deputy. Clayton accepted, but as he prepared to join Byrnes he was approached by Secretary of State Edward Stettinius, who offered him the position of Assistant Secretary of State for Economic Affairs. After several days of haggling with Byrnes and the President, Stettinius won Clayton's services. His nomination was approved by the Senate on December 12, 1944, by a vote of fifty-two to nineteen. FM, a left-wing New York daily, strongly opposed Clayton's nomination charging that he was "an intellectual . . . as articulate and intelligent a spokesman for capitalist conservatism as Henry Wallace is of capitalist liberalism." Yet Clayton never considered himself an intellectual and was in fact sometimes guilty of anti-intellectual bias. Nor would he have classified himself as a spokesman for capitalist conservatism. In later years he described himself as a "liberal capitalist" who believed that "it is necessary for government to put on the brakes occasionally, and to lay down rules which people should follow."

Confirmation of Clayton's appointment set the course for State
Department economic policies in the postwar years. Clayton was to become one of the two most influential men in the State Department (along with Dean Acheson), and his influence was exercised with unaltering zeal in behalf of liberal economic policies. Although the events in which Clayton participated were significant in themselves, perhaps more profoundly important was Clayton's overriding conception of how each event contributed to his final goal of destruction of trade barriers. His first important assignment as Assistant Secretary of State for Economic Affairs was to head the economics section of the United States delegation to the Chapultepec Conference in Mexico City. There Clayton assured the Latin Americans of American intentions to help the Latin economies make the transition from war to peace, but he hastened to add that the United States (through the Export-Import Bank) would not make loans "for the establishment of enterprises which can only make their way through government subsidies or excessive tariffs."20 Thus Clayton asserted his allegiance (and, by implication, that of the State Department) to the traditional Open Door trade policies which had guided American foreign policy throughout the twentieth century. This statement provided the theme for Clayton's State Department career: trade as free as possible between economies as efficient as possible.

Following the end of the war in the European theater, the great Allied powers convened in Potsdam, Germany, to settle a number of policy questions, most notably Russia's insistence upon the Oder-Niessse line as the western boundary of Poland and Russia's demand for ten billion dollars in reparations from Germany. As chairman of the American eco-
nomic delegation, Clayton addressed himself to the latter problem. He worked out a compromise with Arutinian, the Russian representative, whereby Russia received 25% (15% free, 10% in exchange for goods) of the German plants designated for dismantling by the Reparations Commission. Though in later years Clayton felt Stalin's decisions at Potsdam had generally been "pretty fair," he found Russian reparation demands unreasonable. Clayton left the Conference optimistically, "with the hope that we might be able to get along with the Russians."\(^\text{21}\)

Clayton early recognized the necessity of extensive postwar aid to Europe if European economies were to return to viability. Consequently in 1945 and 1946 he strongly advocated United Nations Relief and Rehabilitation Administration aid and a large loan to Britain. In July 1945, President Truman appointed Clayton United States member of the United Nations Relief and Rehabilitation Council. Although he had assigned Colonel Tyler Wood the responsibility for State Department relations with UNRRA, Clayton served as liaison between UNRRA and Congress and in fact was the moving force in obtaining approval of UNRRA funds from a reluctant Congress in 1946. This approval was purchased at a dear price: Clayton promised that no more UNRRA funds would be requested. But he had done all that he felt was possible to extend the life of this international relief organization.

Clayton's role in securing adoption of the British loan was also influential. Clayton had early perceived the necessity of postwar aid to the British economy and had strongly but unsuccessfully opposed the abrupt termination of Lend-Lease to the British in 1945. Clayton was in London at the time the decision was made, and when he heard of
it immediately placed a call to Secretary Byrnes. As Roy Harrod phrased it, "On Monday morning Mr. Clayton took up the transatlantic telephone and vented the vials of his wrath."22 As Clayton later related the event to his daughter, "I called Byrnes from London and just told him it was shocking, it was going to floor the British; they were bowled off their feet by it. I said everything possible should be done to restore Lend-Lease."23 Unable to reverse the decision, he was able to soften the blow. Clayton was certain that further aid would be required, and he immediately began to lay the groundwork for the British Loan. Emilio Collado called Clayton "the great architect of the British-American financial agreement in 1945,"24 and all of the available evidence seems to justify that assessment.

Negotiations were conducted by Lords Halifax, Keynes, and Brand on the British side and Secretary of the Treasury Fred Vinson and Clayton on the American side. In addition to the actual work of negotiating, Clayton found himself serving as referee and pacificator between Vinson and Keynes, who had formed an immediate dislike for one another, and not the least of his accomplishments was keeping these two from each other's throats. The British wanted a six billion dollar grant-in-aid, finally compromising on a three and three-quarter billion dollar loan; they wanted too an interest-free loan, but had to compromise at two percent interest.25 These compromises were reached not on the basis of what the United States could do, but rather on the basis of Clayton's knowledge of what the American people and Congress would be willing to accept.
Equally as important to Clayton as the financial arrangements for British recovery were the trade policies which he felt such aid would promote. These trade policies were outlined in the Proposals for Consideration by an International Conference on Trade and Employment, released to the public by the United States concurrently with the text of the financial agreement "so that the American Government could claim the 'Proposals' as one of the benefits received in return for the loan to Britain and the writing off of Lend-Lease." Because of domestic politics, the British government was unwilling to co-sponsor the 'Proposals' but it did state its concurrence with the sense of the document. The Financial Agreement itself contained no commitments concerning the Imperial Preference system, a system of preferential trades practices among members of the British Empire, but Clayton believed that passage of the agreement was necessary to create the economic climate which would permit elimination of the preference system. Clayton felt that Britain had committed herself to eventual elimination of preferences in Article Seven of the Mutual Aid Agreement of 1942, and he fully expected that elimination to occur in the negotiations which Britain had agreed to in the 'Proposals.' Article Seven stated that the two countries would work toward "the elimination of all forms of discrimi-
natory treatment in international commerce, and . . . the reduction of tariffs and other trade barriers." That the British had no intention of eliminating preferences in exchange for anything less than across-the-board American tariff reductions is now clear, but Clayton foresaw no such intransigence on the part of British leaders. In a letter to General R. E. Wood of Sears, Roebuck and Co. Clayton
asserted that the financial agreement would enable the British people to open up their commerce to the United States and all other countries instead of confining it to the British Empire as they would largely be compelled to do if they were not able to obtain the necessary assistance to get their trade back on a multilateral basis."  

After the agreement was signed, Clayton undertook the most difficult part of the process -- winning Congressional approval of the agreement. Here Clayton was invaluable. He stressed the benefits to be had by elimination of the preference system and the sterling dollar pool, he argued that the United States had a moral obligation to the British for carrying the brunt of the battle against fascism, and he pointed out the possible deleterious consequences of failure to ratify the agreement. Among the opponents of the bill whom he was able to convert was Representative Hatton Summers of Texas, a man of considerable influence and prestige whose support was crucial in the House. Clayton also helped "educate" the public and mobilize public opinion behind the loan through a number of speeches early in 1946, emphasizing the trade benefits which would accrue to the United States as a result of the loan. In a speech before the National Farm Institute on February 15, 1946, Clayton said, "Britain is enabled by this credit to join with the United States in full partnership in supporting our Proposals... We have discussed and considered these proposals with the British in great detail and our two countries are in substantial agreement." A large part of Clayton's success in obtaining eventual approval of the Financial Agreement was this conception of the loan as a means of eliminating the British Empire Preference system. Time and again he assured the Congress that the financial agreement was more than just a
loan, and that the United States stood to benefit as much as Great Britain ultimately through the expanded trade which it would promote. By picturing the agreement in terms which redounded to America's economic advantage, he gained much-needed support for passage of the act.

It was in 1947, however, that Clayton's pursuit of multilateralism brought its most memorable result. On May 19, 1947, Clayton finished a memorandum, which Dean Acheson called "the concrete outline for the Marshall Plan." Although Clayton later modestly disclaimed the title of "father of the Marshall Plan," his influence was profound not only in its conception and proclamation but also in its application. On March 5, 1947, while en route by plane to Tucson, Arizona, for a convalescing vacation, he recorded his preliminary reflections on the European crisis. Although his memorandum was never handed to Secretary Marshall -- Marshall left on March 5 for the Moscow Foreign Ministers Conference -- it reflects Clayton's early preoccupation with the necessity for further aid to Europe. This memo was undoubtedly prompted by the research Clayton had been doing on the Truman Doctrine. In studying Greece and Turkey (he was "in the center" of that research according to Acheson) he delved into the situation of the rest of Europe and was deeply disturbed at what he saw there.

Clayton became even more distressed after spending a month in Europe in the spring of 1947. He arrived in Geneva April 15 to assume his role as head of the United States delegation to the International Trade and Employment Conference at which the General Agreement on Tariffs and Trade (GATT) was negotiated. According to Clayton the purpose of the Geneva meeting was twofold: "to negotiate reciprocal reductions in tariffs, multilaterally,
and to discuss the charter for an international trade organization. 37

While engaged in these negotiations, Clayton relayed to the State Department a depressing portrait of European economic conditions. According to Dean Acheson, "messages from Clayton showed that statistics were lagging behind facts, said facts were worse than statistics showed." When Clayton found it necessary to return to Washington to fight a wool tariff bill that threatened to wreck GATT negotiations, he once again wrote out his thoughts on European recovery. Although he was ill at the time he arrived in Washington on May 19, before May 27 he had the memorandum in circulation. It "made a profound impression on the State Department . . . . It was a dark frightening picture [Clayton] gave." 38 This memorandum (supplemented by George Kennan's Policy Planning Staff memorandum) served as the basis for Secretary Marshall's Harvard speech on June 5, which announced to the world the intention of the United States to aid Western European economic recovery.

Two weeks later Clayton was winging his way back to Europe. He had a victory on the wool tariff measure, but more important he had instructions to stop in London to begin negotiations for the enactment of the Marshall Plan. For the duration of the summer Clayton divided his time between negotiations at the Geneva Conference and consultations on the Marshall Plan in Paris. He worked closely with Ambassador to Great Britain Lewis Douglas and Ambassador to France Jefferson Caffery in conferring with European representatives to the Marshall Plan discussions on the final form of the European organization to administer Marshall Plan aid. Clayton helped create the Committee for European Economic Cooperation, the forerunner of the Organization for Economic Cooperation and Development. He enjoyed further success by the end of the summer: in Geneva the twenty-three participating
nations completed 122 agreements for mutual tariff reductions, and in Paris sixteen countries agreed to American stipulations attached to granting of Marshall Plan aid.39

Clayton's concern for long-term economic goals was at no time more evident than during the Marshall Plan discussions in the summer of 1947. That this emphasis on long-term goals was somewhat unique in the State Department is indicated by an unsigned memorandum dated August 22, 1947, concerning a meeting in the Department attended by Charles Bohlen, George Kennan, Charles Kindleberger, and others.40 They agreed that Clayton departed from departmental thinking rather abruptly in his emphasis on the development of a European Customs Union and his advocacy of financial and multilateral trade agreements among European countries. Clayton, on the other hand, believed that the European crisis was the ideal catalyst for promoting free trade in Western Europe, and he encouraged liberalized trade and financial agreements as the cure for European economic problems. Four days after the Departmental policy meeting Kennan arrived in Paris to consult with Clayton and bring his thinking into agreement with that of the rest of the Department. Kennan's success was reflected in a New York Times story on August 31: "The United States has given its blessing to the customs union idea, but recognized it was a long-range possibility, and the United States diplomats did not press for it today."41 (N. Y. Times, August 31, 1947, p. 25).

Much has been written of Clayton's role in the development of the Marshall Plan, but generally the Plan has been treated as an end in itself, a stopgap measure conceived in reaction to an emergency situation. But a true appreciation of Clayton's conception of the Marshall Plan cannot
be attained unless it is recognized that in Clayton's economic philosophy the Plan was but one step in an economic progression, a progression which required restoration of a healthy European economy to achieve success. Clayton's entire State Department career can be seen in terms of this progression -- the renewal of the Reciprocal Trade Agreements Act, the Chapultepec Conference, the British loan, the General Agreement on Tariffs and Trade, the Marshall Plan, the International Trade Organization -- all of these were steps toward Clayton's ultimate goal, the propagation of free trade principles throughout the world.

The most advanced step in the progression was the International Trade Organization, for which Clayton was largely responsible. Clayton headed the United States delegation to the final world trade conference in Havana, Cuba, in November 1947, in his role as Special Advisor to the Secretary of State. As the direct result of an ultimatum from his wife, Clayton had officially resigned from his post in the State Department on October 15, 1947, at the same time refusing the proffered post of European Recovery Plan Administrator, but he did agree to handle occasional special assignments such as the ITO Conference. Fifty-seven nations attended the Havana Conference to consider approval of the proposed ITO Charter and, after considerable haggling, the Charter was approved and signed by fifty-four of the fifty-seven participating nations. The ITO had as its goal the development of liberal commercial policies rooted in multilateralism. However, the charter was diverted so far from its original free trade goals by compromises and concessions necessary to achieve agreement on its final form that many who had supported it in its original conception now turned a deaf
ear to Clayton's plea that it was the best document possible under the circumstances and was better than no Charter at all. All of Clayton's work in behalf of ITO came to naught, for it soon became apparent that Congress had no intention of accepting the Charter, primarily because of the opposition of big business, generally staunch supporters of freer trade policies. Big business opposition resulted in part from the extraordinary State Department concessions to U. S. agricultural interest, concessions necessary to obtain the approval of the Agriculture Department; these concessions necessitated further concessions to special interests in other countries, and thus destroyed the free trade character of ITO and cost the proposal crucial support.43 The Charter never reached the floor of Congress, and Clayton suffered the bitterest disappointment of his government career.

After the Havana Conference Clayton reluctantly returned to Houston in November 1948. As he told Paul Nitze shortly before he left, "I guess I'll go back to Anderson, Clayton and Company . . . Lamar Fleming has been running the firm with great success . . . . When I go back to Houston they'll give me a great big office and give me respect, but there won't be a thing for me to do." And as he spoke, "tears came into his eyes."44 But Clayton was to do an admirable job of keeping himself occupied for the last seventeen years of his life, devoting his not inconsiderable energies to the doctrines of economic internationalism for which he had labored throughout his State Department career. The agency for his most fervent efforts was the Atlantic Union Committee, an organization of idealistic internationalists who envisioned a political, military, and economic union of the free nations of the world (for "free" read non-Communist), beginning with Western Europe,
the United States and Canada. His exertions in behalf of Atlantic Union spanned the period from 1949 until shortly before his death in 1966, when, as in the case of the American Liberty League and the Surplus War Property Administration, he once again demonstrated by his resignation his unwillingness to remain affiliated with an organization which he felt operated inefficiently or uneconomically.

The political goals of Atlantic Union seemed somewhat visionary to Clayton, but he used the forum provided by Atlantic Union to spread the gospel of economic liberalism to all who would listen. A trademark of Clayton's Atlantic Union statements was his emphasis on the economic struggle with Communism, a struggle which held the key to the future of the free world. He scorned the notion that Russia would physically attack the free world, contending instead that without at least an Atlantic economic union the Communists would conquer the free world by "boring from within."  

Even during his term in the State Department Clayton had scoffed at the possibility of Russian military attack. Yet the vitriol of his anti-communist rhetoric snowballed as he convinced himself of the imminence of Communist economic victory.

It was during the period of late 1947 and 1948 that Clayton adopted the rhetoric of anticommunism in order to secure support for his economic policies. Surprisingly, throughout Clayton's three years in the State Department -- a period when the Cold War took form -- there appear few references in his papers to communism. It was not until after Andrei Zhdanov, on October 22, 1947, called on Communists everywhere to defeat the Marshall Plan that Clayton began to seek an economic federation
against the Communists. And it was not until October 1948 that for the first time he publicly recognized the existence of the Cold War and called on Russia to retire to her prewar boundaries,\(^48\) emphasizing that his position on Soviet-American relations had evolved to a point which represented a departure from his earlier attitude and thus required clarification. The papers of 1945-1947 demonstrate that Clayton was not during this period of policy formulation a "bitter-end" Cold Warrior of the ilk of Byrnes, Vandenberg, Harriman, and others. His role in the Truman Doctrine indicates an awareness of the potential threat of Communist expansion, but his apparent lack of concern with the capitalist-communist ideological conflict raises certain questions for the New Left interpretation of the Cold War.

The basic tenet of the New Left view of American foreign policy\(^49\) is that American statesmen are motivated in their actions primarily by a desire for markets for American exports and for control of access to raw materials. Reduced to its simplest terms, American foreign policy is the captive of American corporate interests and the capitalist value system generated by those interests. The leaders of this corporate system believe that continued American prosperity requires constantly expanding foreign markets, and foreign policy is formulated to that end. This expansionary policy, although anti-colonial, is imperialistic, and economic imperialism is supplemented by an ideological imperialism arising from a belief in American exceptionalism and the resultant desirability of casting the rest of the world in the American mold. Despite this imperialism, New Left historians have been willing to grant benevolent intentions
on the part of American corporate leaders, feeling that these leaders actually believed that their economic policies would benefit not only the United States but ultimately the entire world. Even one of the more extreme New Left writers, Carl Oglesby, who labelled America's economic imperialism "sustained theft," granted that "the American world businessmen may very well think of himself as a liberal, a liberator, a hardened anti-imperialist cum anti-communist." American imperialism, the New Left argues, resulted after World War II in the demarcation of the lines of the Cold War by presenting Russia with a choice of accepting the American policy of equal economic access into all nations or rejecting that policy and facing implacable American hostility. When it became obvious that Russian political-economic goals in Eastern Europe clashed with those of the United States, conflict of some kind became inevitable, for Americans felt that their policies were right and therefore not subject to negotiation. Unwilling to grant the right of Russia to pursue its own postwar nationalistic goals, American statesmen adopted policies which made the Cold War unavoidable.

In a sense Will Clayton fits to perfection this New Left image of trade-oriented policy maker. The New Left contends that American foreign policy is concerned above all with disposing of domestic surpluses created by unregulated capitalism in a world economic order characterized by free trade. Clayton indeed brought with him to the State Department an awareness developed during his business career that the capitalistic system itself -- like the cotton industry -- suffers from overproduction and requires the sale of surpluses to foreign buyers. And as a capitalist-philosopher and then maker of policy Clayton saw free trade as the most efficient means of achieving the necessary sales. He pointed out in 1943
that "to dispose of this surplus production, great new markets must be
developed abroad,"52 and new markets could be found only by liberalizing
trade policies. Clayton, of course, believed free trade served more than
American interests: free trade offered "a great new hope of peace for
America and the world."53 While Clayton believed that all nations would
benefit from free trade, he foresaw the triumph of American capitalism
over Russian communism in a free trade world order, a triumph which implied
that the United States was to be the ultimate beneficiary of such an order.

Also significant to a possible New Left interpretation of Clayton's
career in the State Department was his participation in the framing of the
Truman Doctrine. American action in Greece was a prime example of the
New Left's contention that the United States has rejected its heritage
of revolution and self-determination by exerting pressures in foreign
countries to maintain in power governments which are disposed to uphold
American economic interests although those governments might be neither
democratic nor even popular among the majority of that country's people.
Admittedly Clayton was less bellicose in his anticommunism than were his
peers, but he actively supported American anti-revolutionary actions in
Greece. Further damning Clayton, in the New Left view, would be his con-
ception of specialization of economic functions in a world trade order,
a specialization which would place the Third World in the role of suppliers
of raw materials to the industrialized nations and thus prevent industria-
lization.

The New Left view assumes the inherent injustice of free trade for
underdeveloped nations. William Appleman Williams, for example, has stated
that "the long-range result of the reciprocal trade program was to place
economic and political obstacles in the way of the development of a balanced economy in the raw material areas ... American leaders opposed politi-
cal or social developments which delayed or threatened the integration of such regions into the economic system of the United States. 5\[4\] In this view, free trade is a form of imperialism, retarding the political, economic, and ideological independence of underdeveloped nations.

If, on the other hand, the traditional interpretation of American history is correct, then Clayton's career was an example of benevolent pursuit of economic progress for all nations. The traditional view states that in the postwar period the United States was engaged in a struggle against a Soviet totalitarian imperialism which threatened to use postwar economic dislocations to enslave much of the free world under a repressive communist system. According to this view, the United States (and statesmen like Clayton) staved off a great Soviet postwar expansion throughout Europe and the Middle East by its timely economic aid to those areas. Although American statesmen tried to cooperate with the Russians, Stalin proved unreasonable in his expectation to control all of Eastern Europe.

The best way to fight communism, the traditionalists argue, was through liberal trade policies which would strengthen free world economic interre-
lationships. Strong economies were necessary to withstand the subversive pressures of domestic communists working hand-in-glove with Moscow. Be-
sides, free trade was beneficial to all participants; it was not imperialistic. Economists have argued cogently both affirmatively and negatively as to the desirability of the open market for the underdeveloped nations and have
reached no consensus, but the controversy makes it clear that underdeveloped
nations are not necessarily better off raising tariff barriers to protect
inefficient domestic industries instead of participating in trade-liberali-
zation programs such as the reciprocal trade agreements program and the
International Trade Organization.

Thus Clayton's career is subject to two quite different interpretations.
If the New Left view is correct, if free trade is an exploitative policy
detrimental to the underdeveloped countries of the world, designed primarily
to sell surpluses, then Clayton's policies promoted exploitation through
free-trade imperialism, and his career is regrettable for its well-inten-
tiononed but unfortunate misdirection. But if the traditional view
is accurate, if free trade is beneficial to all participants, if Russia
was an expansionary totalitarian menace to world freedom, then Clayton's
career was a combination of foresight and action resulting in the preser-
vation of the sovereignty of a substantial part of the free world.
Footnotes


4Garwood, Will Clayton, p. 98.

5"Cotton and King," Time, August 17, 1936, p. 58.

6"Conversations about Cotton," Time, April 20, 1936, p. 82.

7Oral History, p. 54.

8U. S. Congress, Senate, Committee on Agriculture and Forestry, Hearings to Investigate the Causes of the Decline of Cotton Prices, 74th Cong., 2nd sess., 1936, p. 419.

9Garwood, Will Clayton, p. 103.


11For a discussion of Woodrow Wilson's theories of capitalism and except

12Oral History, p. 103.

13Will Clayton to Wayne Coy, June 27, 1944, RG 250, DNA; Will Clayton to Eugene Meyer, June 29, 1944, Baruch Papers, Princeton University.


17Clayton interview with Ellen Clayton Garwood, December 1947, CP, Rice University.

18Quoted in Current Biography, 1944, p. 98.

19Oral History, p. 69.


21Oral History, p. 156.


23Clayton interview with Ellen Clayton Garwood, 1958, CP, Rice University.

24Emilio Collado, director of the Office for Financial and Development Policy of the Department of State (1945-1946), interview with Ellen Clayton Garwood, November 6, 1958, CP, Rice University.


26Ibid., p. 146.

27Ibid., pp. 152-153.
29 Will Clayton to R. E. Wood, November 17, 1945, CP, TL.
31 Speech before the National Farm Institute, Des Moines, Iowa, February 15, 1946, CP, ACCO.
33 Acheson, Present at the Creation, p. 228.
34 Oral History, p. 213.
35 Will Clayton, memorandum, March 5, 1947, CP, Rice University.
36 Acheson interview with Ellen Clayton Garwood, November 2, 1958, CP, Rice University.
38 Acheson interview with Ellen Clayton Garwood, November 2, 1958, CP, Rice University.
40 Memorandum, August 22, 1947, Marshall Plan files, State Department.
42 Will Clayton to Alfred Clason, November 16, 1953, CP, ACCO.
44 Nitze interview with Ellen Clayton Garwood, November 4, 1958, CP, Rice University.
45 Will Clayton to John S. Knight, July 30, 1949, CP, ACCO.
46 Will Clayton, memorandum, March 5, 1947, CP, Rice University.


48 Will Clayton to John Kenneth Galbraith, October 21, 1948, CP, ACCO.


51 Ibid., p. 72.

52 Will Clayton, speech delivered before the Thirtieth National Foreign Trade Convention in New York on October 25, 1943.

53 Ibid.

54 Williams, Tragedy, p. 133. On the other hand, economist Harry Johnson has stated that "it is the pursuit of illiberal economic policies—by both advanced and less-developed countries—rather than the pursuit of liberal economic policies that constitutes a major impediment to the development of the less-developed countries." Harry G. Johnson, The World Economy at the Crossroads (Oxford: Clarendon Press, 1965), pp. 10-11.
Statement of Editorial Method

The purpose of this volume is to present a representative edition of the papers of William Lockhart Clayton, including selected letters, articles, speeches, statements, and memorandums. This material should provide significant insights into the thought and attitudes of one of the most important economic statesmen of twentieth-century America. This edition will allow both the historian and the general reader to trace change and continuity in Clayton's economic and political philosophy and will provide a context for analysis of his role in formulating American foreign policy in the crucial years 1945-1947.

Clayton was an exceptionally prolific writer. Eleven filing cabinets, covering only part of the last forty years of his life, remain at Anderson, Clayton & Co.'s general offices in Houston, Texas, and another large collection of forty-four boxes is on deposit at the Truman Library. In addition, much of his official correspondence is scattered throughout a number of record groups in the National Archives. Other significant holdings of Clayton material are deposited at Rice University and at the Cossitt Library in Memphis, Tennessee. Given the quantity of material available, it has been necessary to be highly selective in choosing documents. Every effort has been made to include the most important papers. Unfortunately, much of Clayton's official correspondence is still in the restricted and closed files of the State Department, but much of it will be made available to the scholarly public shortly in the Department's official Foreign Relations of the United States series. As of this writing, the volumes for 1945 and volumes V, VI, VII, and XI for 1946 have been published. With the
exception of these restricted papers, the editor has examined all extant Clayton documents, foraging, over a period of three years, through an estimated half a million pages. Mass mailings to Clayton's former colleagues, scholarly journals, and libraries were utilized to insure that no document was overlooked.

It was decided at the outset to use photocopies of the documents in the editorial process. Photocopies not only provided a certain flexibility in working with the documents themselves, but also afforded, in examining them, a certain leisure which is generally not possible when working in repositories. Upon acquisition, each photocopy was catalogued and cross-indexed in master files according to author, recipient, date, and location of document. The entire file of photocopies, together with a number of original documents, accumulated notes and indexes, and other data, has been deposited in the Fondren Library at Rice University, where it will be made available to scholars.

The documents in this volume are arranged topically within a broad chronological framework. Reminiscences appear in the time span to which they refer along with other papers of that period. A standard pattern has been followed in footnoting the documents. In every case the first footnote will provide the physical description and location of the document. This footnote will appear in abbreviated form, as indicated in the Guide to Editorial Apparatus which follows. Thus the designation "LS, DNA, RG 16" denotes a letter signed by the author which is in the National Archives, Record Group 16. If the source of a document is a periodical or pamphlet, the first footnote will read "Printed in the ACCO Press, June 1931, pp. 4-5." Where necessary, the editor will provide additional footnotes identifying
persons and events. Such identification, as a rule, will be brief, furnish-
ing only that information which is essential to an understanding of
the significance of the document. If further amplification of the docu-
ment’s significance is deemed necessary, an editorial introduction will
precede the particular paper or group of papers. Clayton’s peculiarities
of punctuation and capitalization have not been altered unless the meaning
of the document is unclear. When corrections are necessary, they are made
silently. The editorial [sic], which is bothersome to the reader as well
as interruptive to the document, will not appear in this volume.

A final word of caution is perhaps in order with regard to the whole
of this work. Limiting Clayton’s writings over a forty-year period to one
volume inevitably means elimination of some documents which the editor
would like to include. In order to avoid redundancy it is often the case
that an illustration of consistency of thought is not possible. Where
appropriate, the editor will indicate such consistency in the editorial
introductions to documents. Similarly, change in outlook or attitude will
be noted.
Guide to Editorial Apparatus

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Chapter I

Capitalist in the Depression Era
By 1930, Will Clayton's anti-tariff bias had evolved into a mature philosophy of free trade, which would later guide him during his years in the State Department. For Clayton, liberal trade policies provided the answer to the problems of world economic depression. The following four documents illustrate his basic attitudes toward international trade:
A Statement on the Problems of the Cotton Farmer

Houston, Texas
April 15, 1930

What Congress Can Do For The Cotton Farmer

* * * * *

Our exports of raw cotton have several times since the World War exceeded in value one billion dollars annually.

The Nation cannot be indifferent to any development which seriously threatens the life of this vast international trade, woven as it is into the very fabric of our national economic structure.

Nevertheless, every student of the subject has recognized that foreign growths of cotton have for several years been gaining steadily on our own.

* * * * *

American domination in cotton for the past century has rested upon a foundation, the component parts of which presented a varied assortment of conditions favorable to such domination.

* * * * *

American supremacy in cotton has rested also on the exploitation of rich virgin soil requiring little or no fertilization and relative freedom from insect pests. Thirty years ago average yields of 200 to 250 pounds of lint cotton to the acre were fairly common. For the 10 years since the World War the yield of lint cotton has average
only 156 pounds to the acre, due principally to the boll weevil and to impoverishment of the soil.

Coincident with this serious decline in yield has been an equally serious deterioration in quality due to the same causes and to new strains of early maturing seed.

Throughout the nineteenth century the South had no labor problem. At first there were the African slaves, and after that the freed negroes, living in rural isolation, knowing nothing of urban industries and unattracted by them. Meantime, there was a large and steady influx of cheap foreign labor to supply the ever-growing needs of the factories, so that industry had no necessity to recruit its labor from agricultural districts.

About 15 years ago we substantially closed our doors to immigration; the War came on, drawing men out of the country into munitions works and other War industries where they got wages such as they never dreamed of before. Furthermore, in the past quarter of a century the South has greatly increased its manufacturing industries, especially in textiles, the labor for which was drawn from the country. During the same period we have developed the automobile, good roads, rural free delivery, the telephone and the radio, so that there is no longer any such thing as rural isolation. The cities have drawn heavily on the country for labor.
The cost of producing a pound of cotton in the past 20 years has certainly more than doubled.

And during the past 20 years the list of manufactured articles unprotected by tariff has grown much smaller, whereas the rate of protection has grown greater.

More than 100 years ago Thomas Jefferson said, "The way to encourage purchasers is to multiply their means of payment." Our tariff policy as it affects our great export commodities, like cotton, is the reverse of this.

During the past 15 years, our foreign purchaser's means of payment has been artificially maintained by liberal American credits and loans. Dr. Anderson, the economist of the Chase National Bank, recently said that our excess of exports over imports for that period has amounted to twenty-five billion dollars, and that this was just about the sum of our own securities repurchased. In other words, we sold the goods largely on credit and the bill is still unpaid.

No nation, however rich it may be, can go on indefinitely selling its goods on credit and never collecting the bills. This has finally been realized, and we have practically ceased adding to these loans. So now the foreign purchaser, instead of buying on credit, not only must pay cash for his current purchases but also must pay the interest on the accumulated debts of the last 15 years.
He is thus in this situation: either he must buy less from us for lack of cash to pay with, or else he must sell us something in exchange for our goods.

Congress answers him on this point with a tariff bill which raises barriers against the goods that he might sell us so high as virtually to say, "Thou shalt not pay."

So, instead of multiplying our foreign purchaser's means of payment, we are fast destroying it; and, as a consequence, our export trade dwindles month by month and there are upwards of four millions of people walking our streets unable to find work.

Is there any wonder that England, France, Germany, Italy and Japan turn for their raw cotton to those countries which are willing to receive payment in their manufactured goods? When will we learn that trade is a reciprocal thing, and consists both of buying and selling?

In analyzing the factors contributing to our success as the world's chief supplier of raw cotton up to the beginning of this century, and contemplating the enormous changes which have taken place in the past quarter century, affecting this situation, the wonder is that we have not lost far more ground than we have.

What can be done about the matter? It is quite clear, if we continue in the direction in which we are moving, that it is only a question of another generation or so until we shall have lost to other countries
A Statement on the Problems of the Cotton Farmer
April 15, 1930
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substantially all of our export trade in raw cotton. Meantime, must our cotton farmers be ground down to an even lower standard of living, and only learn through the painful process of attrition that they are waging an impossible fight? There are over two million of them, making, with their families, ten million people; and then there are other millions in the towns and cities of the South whose economic existence is tightly bound up with that of the cotton farmer.

Can we do nothing about the matter except to advise reduction of acreage? We tell all farmers to cut acreage. When a farmer reduces his acreage in one crop, he generally substitutes another. Hence, cutting acreage just carries us around in a circle. There are in the United States so many hundreds of millions of acres of agricultural lands devoted to such staple crops as cotton, wheat, corn, oats, rye, tobacco, etc., and there are so many millions of people who are earning their living, such as it is, by the tilling of this land. If we cut the total acreage 10 per cent, we are going to have a good many idle people in the country as well as in the city.

Mr. Legge\(^1\) and others have told the wheat farmer that he would be far better off if he reduced his output to a point where it would barely cover domestic requirements, in order that he might then benefit from the tariff on wheat. Is the cotton farmer to be told the same thing? If so, it introduces the highly interesting problem of finding some other use for twenty-five million acres of land and some other means
of earning a livelihood for about five million people.

It ought to be apparent to every thinking person that the productive capacity of the United States, both in agriculture and in manufactures, is far in excess of domestic requirements, and that our national policy of raising higher and higher the tariff is doing these two things: elevating our costs of production and depriving our foreign customers of the ability to pay.

It is impossible for the cotton producers of the United States, operating behind this high wall of protection, to continue to lift over that wall and into the channels of international trade their present percentage of 40 bales out of every 100 which are consumed outside of the United States. We have lost a very substantial share of the world trade in raw cotton in the past quarter century, and we must continue year after year, a little at a time, to relinquish that which is left, unless the cotton producer can get some relief from the unjust burdens which his Government has permitted the urban and industrial population to place upon him.

The Agricultural Marketing Act is entitled "An Act for the Purpose of Placing Agriculture on an Equality with Other Industries."

Most of the gentlemen who assisted in the framing and passage of this legislation knew perfectly well that it never could do any such thing; hence it was conceived in deceit.
Unless the Federal Farm Board, acting under the present Farm Relief Act, can devise some means of curtailing agricultural production (as suggested by Mr. Legge for wheat) to the point where there will be no surplus for export, and unless they can at the same time find some other employment for about 1,500,000 farmers, totalling with their families, about 7,500,000 people, they will never place agriculture on an economic equality with industry.

Will any one deny that the highest obligation of Government is the preservation of equality of opportunity to all the people?

Under existing conditions, equality of opportunity to the cotton farmer in the United States has been absolutely destroyed.

Equality, under a protective tariff, is a contradiction in terms. Somebody must be left to pay the bill. Equal protection to all is the equivalent of free trade.

The only way to get equality for agriculture without abolishing all protection is to give to agriculture the same measure of protection that is afforded other industries.

The farmer spends the proceeds of his unprotected labor for the products of protected industry. Year by year, his unprotected proceeds command less of these protected products.

This is the major farm problem.

It will only be settled when we either protect the farmer's labor or "unprotect" the things he must buy. He cannot continue to buy in a
protected market and sell in a free one.

Where is the boasted American standard of living if ten millions of our people on cotton farms are known to have a lower standard than the farmers of any country in Europe except Russia and possibly the Balkans?

The cotton producer is not asking for protection against foreign competition, but he should demand and receive protection against his exploitation by the capital and labor of other American industries.

The right way, of course, and the one which will prevail in the end, is the abolition of protective tariffs, so that all exchanges of goods and services will be made on the basis of real values, as opposed to fictitious or "protected" values. Only in this way can the world's fast growing population maintain itself.

The needs of the cotton-growing industry, however, are pressing; they cannot await so remote a relief. Something must be done for them quickly, not alone on the producer's account, but for the preservation of this vast international trade, which affects in one way or another our entire population.

Since Congress is just now engaged in raising instead of lowering tariff walls, what can be done to restore to the cotton farmer a measure of equality of opportunity in this country?

The most practicable plan by which Congress can grant the cotton
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farmer the relief to which he is entitled, is through an export bounty or debenture on cotton. An export bounty of two cents per pound on cotton would not equalize costs of production with foreign producers, nor would it entirely relieve the cotton farmer of the full measure of the unjust burdens which he suffers by the operation of our high tariff, but such a bounty would go far toward enabling him to compete for his share of the world's cotton trade, and to continue to produce from 40 to 50 per cent of the cotton consumed by the world outside of the United States.

* * * * *

Only two courses are open to the cotton farmer: Either, he must get some relief from the inequalities which have been imposed upon him by his Government, or, failing this, he must substantially change his occupation.

If the Congress of the United States is unwilling to grant relief to the cotton farmers from the inequalities which Congress itself has imposed upon them, then in common honesty Congress should say to the cotton farmers that no relief is to be expected, and that the only course open to them is gradually to abandon, through a systematic reduction in acreage, the export trade in raw cotton, and seek some other means of earning a livelihood.
A Statement on the Problems of the Cotton Farmer
April 15, 1930
Footnotes


Alexander Legge, Chairman of the Federal Farm Board (1929-1931).
A Statement on War Debts and Tariffs

October, 1931

How Long?

Remedies wide in range and limitless in number are being offered for the relief of cotton. Destroy part of the surplus; restrict acreage by legislation; let the government buy the surplus on condition that the farmer refrain from planting, etc., etc.

Prosperity to be restored through a sort of injunction against the fructifying processes of nature!

A world, sick unto death from an overdose of artificiality, is asked to swallow more of the same as the only means of relief.

How long will we go on with a patch here and one there trying to cure that which only a major operation can reach?

To say that our troubles are due to overproduction is too easy.

One suffering from arthritis is not benefitted by the mere knowledge of the technical name of his malady. He wants to know how to get rid of it, but first he must know what causes it.

In spite of a surplus of all commodities, producers are no longer able to effect exchanges among themselves on a fair basis. Stocks pile up and everybody cries: "Overproduction"—"cut down production to fit consumption, etc."

Before condemning the farmer for producing too much and seeking means of forcing him to curtail, let us carefully examine the highways of international trade to see if the trouble may not be due to obstacles there in the way of a
free exchange of goods.

Instead of serving an injunction on nature to "cease and desist" from bringing forth her bounties, is it not wiser to seek the reason for inability to keep commodities moving in the customary processes of exchange. Why should there be great unmarketable surpluses of wheat and cotton, etc., when many millions of the world's population are cold and hungry?

What are the facts surrounding the so-called overproduction of cotton?

Cotton is now selling on the farm at one-half the average price obtained by the farmer for ten years prior to the war. Other farm products show approximately the same price comparison. Practically every product of the farm is selling far below the cost of production.

For every five bales of American cotton sold to mills in this country, six to seven bales must be sold abroad; hence the price of cotton depends more upon foreign than upon domestic buying power.

One of the consequences of the war was a quick reversal of the international financial position of the United States from that of a debtor nation to a creditor nation.

During the first decade following the war, citizens of the United States made enormous investments in foreign countries. The proceeds of these investments were, for the most part, spent in the United States for raw materials, manufactured goods, machinery, etc., to repair and renew the wastage of war.

By the end of 1928, the United States was the world's greatest creditor nation and had reached a position of apparent prosperity unequalled in the history of the world.
We now see that our house was built on a foundation of sand.

We were lending our customers the money with which to buy our goods and then lending them more money with which to pay the interest on the loans. Obviously a halt had to come to this process.

When it came in 1928-29, the highly artificial foundation on which our exports had been built, crumbled with the stock market.

It took England centuries to win the position of chief banker to the world.

Along with the laborious process incident thereto, she also gained an understanding of the significance of her position and the ability to carry its vast responsibilities.

The displacement of England by the United States as the world's chief banker came almost overnight through a quick turn of the wheel of fortune. But those cultural processes represented by experience, understanding and the ability to accept heavy responsibilities do not lie on any wheel of fortune.

It can hardly be questioned that an examination of our stewardship as chief banker to the world for the past ten years will convict us of gross and stupid incompetence.

We should have recognized that our new responsibilities placed us in the position of requiring payment from the rest of the world, not only for the goods which we were still expecting them to buy from us—cotton, wheat, automobiles, radios, etc., etc., but in addition that we should have to receive heavy annual payments as interest and amortization on the vast sums of money which we had loaned abroad. We should have known that these payments could only be made
in goods; that any requirement of payment in gold if persisted in would undoubtedly crack the economic foundations of the world.

Needless of the insistent warnings of international bankers and economists, we proceeded to raise our tariff barriers to a higher level than ever before. We practically put the rest of the world on notice that they need not expect to sell to us any commodity which we could manufacture or grow in the United States; that they must pay their debts to us in gold and pay for our cotton, wheat, etc., in gold.

The debts due us by foreign countries had their origin not in the loan of gold but in the loan of goods, the value of which was expressed in gold when gold's purchasing power was very low. Now we decline to accept payment in goods even though due to a great increase in the value of gold, we can get three or four times the weight of goods that we loaned.

Thus, the war debts and the protective tariff have operated to siphon into the United States over one-half of all the monetary gold in the world; 40 percent of the remaining supply is held by France; hence these two countries, with about 12 percent of the population of the world, now hold approximately 70 percent of the world's stock of monetary gold.

As one economist has aptly put it, the United States and France are running a gigantic corner on gold.

While the corner is in process, the price of gold rises and rises, which is another way of saying the price of everything else, expressed in gold, goes down and down. This is one reason why cotton sells on the farm at 5 cents a pound and wheat at 25 cents a bushel.
Two years ago, when the cornering process had just commenced to tighten
the screws on its victims, five pounds of cotton or three-fourths of a
bushel of wheat on the farm would buy a dollar in gold. Today on the farm it
takes twenty-pounds of cotton or four bushels of wheat to buy a dollar in
gold.

The larger our pile of gold grows, the scarcer it becomes in other
countries of the world and the greater the difficulty experienced by our
foreign customers to pay the interest on their debts, and to buy our products
like wheat and cotton and copper. Like King Midas, everything we touch
turns to gold.

Fortunately, there is a safety valve, otherwise the top of the world would
be blown off under the pressure. The first operation of the safety valve came
with England's announcement that she could no longer pay in gold. Other dis-
tressed countries will almost certainly follow suit.

One of the "shorts" has thus announced to the world its inability to
make further deliveries of the cornered article. With pressure released,
the price of gold ceases to rise and the price of commodities remains steady
or advances.

England is to be commended for taking this courageous step. It is a
constructive development, not only for England but for the whole world.

History will also convict us of another stupid thing. Not content with
arranging matters so that our debtors and our customers would have to pay in
gold, we thought of another cunning device by which (as we believed) the
amount of gold which they would have to send us in exchange for our commodities
would be greatly increased. It was so easy! So we drank deep of the poisonous nostrum of government stabilization of commodity prices.

Not content with cornering gold, we would also corner wheat and cotton! Why not? Were we not the richest nation in the world? If $500,000,000 were not enough to do it, wouldn't Congress give the all powerful Farm Board another $500,000,000 and another and another? Of course they would! We had their (F. B.) word for it.

So our Uncle Sam started in just before planting time in 1930 when the farmer had sold 95 percent of his previous crop and proceeded to corner May and July cotton. There was no reason for doing so, because the farmer had practically no cotton left for sale; on the contrary there were weighty reasons against it, as, for instance, the serious effect which such artificial action would have on the consumption of our cotton as well as the importance of avoiding any move which would give the farmer false hopes as to prices for the next crop, thus preventing a natural reduction in acreage so much to be desired. But what has reason to do with $500,000,000 appropriated by Congress to "stabilize" the prices of commodities and to "minimize speculation!"

So away we went. And how Uncle Sam did make the shorts dance! They were wicked fellows who had had the audacity to buy the farmers cotton at a time when no mill wanted it and to hedge it by the sale of futures so that they would be in position to borrow from banks without jeopardizing the money entrusted to the banks by their depositors! Uncle Sam actually made some of them bring their cotton back from foreign lands where it had been shipped in the hope of finding a buyer. We would show them what the United States
government could do with the price of cotton!

What was the result? The story is too long to tell here in it entirety: in good time it will all come out, but this is open to anyone to see: Cotton acreage in 1930 was reduced only 4 percent whereas if the market had been left to itself, we would have had a much heavier reduction. **Consumption of American cotton in season 1929-30 declined 2,200,000 bales, whereas consumption of foreign grown cotton increased 1,100,000 bales. In the following season 1930-31, consumption of American cotton declined another 2,000,000 bales, whereas consumption of foreign grown cotton remained stationary. During the past season, for the first time since the invention of the cotton gin (except for the civil war period), the consumption of foreign grown cotton has exceeded that of American cotton and by the substantial total of 566,000 bales (11,134,000 American vs. 11,700,000 foreign) and in spite of the depression, the consumption of foreign cotton (11,700,000 bales) was the highest figure ever known. In 1926-27 consumption of American exceeded that of foreign grown cotton by 6,000,000 bales; 1927-28 by 5,700,000 bales; 1928-29 by 4,600,000 bales.

There is now held by or under the control of the Federal Farm Board a market interest in excess of 3,000,000 bales of cotton. Every cotton mill, every cotton speculator, every large distributor of cotton goods, every cotton merchant in the whole world knows of this huge stock of cotton held under government control and they are all asking themselves the question: "When will it be sold?" Someone has said "when the government goes into business, the wise man goes out." Our government invaded the cotton business only to find that the enemy—the wicked cotton speculator—had evacuated, leaving
the government to hold the position in undisputed ruin. One of the stated objects of the Federal Agricultural Marketing Act was to "minimize speculation." In this it has succeeded far beyond the dreams of its authors. It has destroyed speculation.

This is another reason why cotton sells at 5 cents per pound on the farm.

The Federal Agricultural Marketing Act, conceived in deceit, and administered in ignorance (destroy every third row; corner May, July, etc., etc.), lives as a towering monument to our economic folly.

The losses to farmers, to merchants, to mills and to taxpayers in this grandiose scheme to set aside natural law will never be fully known, but it is a staggering total.

And then there's the question of union wages which the government has attempted to hold at the inflated levels established during and after the war, whereas the cotton farmer and wheat farmer (agricultural laborers) have had their wages cut to one fourth of such levels. How can the agricultural laborer go on buying the products of industrial labor on any such inequitable basis? Factories will continue to close, railroads will continue to lay off men until this condition is changed.

Most thoughtful men will agree that labor should and will in future receive a larger share of each dollar of production than in the past, but quite apart from the question of equity, it is impossible for the agricultural population, with its income cut 75% in the past three years, to go on supporting the urban population at the old rates of pay just as if nothing had happened.

How long will we go on depending on artificiality? How long will it take
us to recognize the wisdom of Macaulay, the great historian of a hundred
years ago who is so widely quoted today:

It is not by the intermeddling of the omniscient and
omnipotent state, but by the prudence and energy of the
people, that England has hitherto been carried forward in
civilization; and it is to the same prudence and the same
energy that we now look with comfort and good hope.

Our rulers will best promote the improvement of the
people by strictly confining themselves to their own legiti-
mate duties, by leaving capital to find its most lucrative
course, commodities their fair price, industry and intelli-
gence their natural reward, idleness and folly their natural
punishment—by maintaining peace, by defending property, by
diminishing the price of law, and by observing strict economy
in every department of the state.

Let the government do this—the people will assuredly do
the rest.

How long will it take our government to rise to its responsibilities
and call an international conference to substantially reduce war debts and
tariffs, and thereby cut the Gordian Knot which now binds the nations of
the earth in economic helplessness?

What are we waiting for?

Will we act in time?
A Statement on War Debts and Tariffs
October, 1931
Footnotes

Printed in the ACCO Press, October 1931, pp. 4-6.

1 A term used in commodity and security markets to indicate one who
has sold goods or property which he does not possess but expects to acquire
later for future delivery.
To Morris Sheppard

December 3, 1932

Dear Mr. Sheppard:

Anticipation of Congressional refusal to grant our foreign debtors any extension on war debts payments is driving down the price of sterling and along with it the price of cotton and other commodities of which we have an exportable surplus. The Egyptian Pound and the Indian Rupee are tied to the English Pound and follow it downward. This has the effect automatically of reducing the price in gold of Indian and Egyptian cotton. The price of silver drops in sympathy and this reduces the gold value of Chinese cotton.

All these growths are directly competitive with our cotton. Likewise the drop in these currencies reducing as it does the buying power in gold of approximately half the world's population is seriously affecting the demand for cotton goods.

To continue our present policy of demanding payment in full on day due is merely to attempt to run a corner in gold the ultimate result of which is certain to be disastrous.

I don't own one dollar worth of foreign securities but every dollar possessed by my partners and me is tied to the fortunes of cotton and I earnestly beseech you to give further very careful consideration to this question. These debts are not going to be paid under our present isolationist regime. Outright default must come eventually and this would entail grave consequences, the full effect of which no man can foresee.

Let's give our debtors a little breathing spell during which a reexamination of the matter can be made.
Of course what contributed chiefly to this impasse is our Tariff policy which makes gold the only payment we will accept. But that is water over the mill until or unless we have the courage to change the Tariff policy and meanwhile, we are faced with a situation demanding urgent decision whether we shall or shall not attempt to save the solvency of our debtors and customers a plain, practical business problem.

W. L. Clayton
To Morris Sheppard  
December 3, 1932  

Footnotes

T, CP, ACGO.

1U. S. Senator from Texas (1913-1941).
A Speech on Foreign Trade

Galveston, Texas
January 12, 1933

Texas and Foreign Trade

* * * * *

Can there be any doubt then that the very economic lifeblood of Texas, and particularly of Galveston and Houston, is dependent upon the maintenance of our foreign markets? How many of you have ever stopped to think what the effect would be if suddenly we should completely lose our foreign markets?

All of you have heard, of course, of the campaign which has been started by the Saturday Evening Post and the Hearst newspapers to "buy American." A typical sentence used in the spreading of this propaganda reads as follows: "Americans must buy American goods—the products of American labor and American capital—to the exclusion of any other goods, of any other products, of any other services, of any other labor—whatever part of the world they proceed from and at whatever price they are offered."

This sort of doctrine, carried to its logical conclusion, can mean only one thing and that is the complete surrender of our foreign trade because surely no one will believe that we can continue to "sell foreign" if we insist on "buying only American."

What, after all, is our foreign trade and of how much importance is
it to our national economy and well-being?

I have attempted to show that so far as Texas is concerned, and particularly as to Galveston and Houston, that we must either stand or fall with our foreign trade. I take it there will be no dissent from that view. But it may be of interest to examine, for a moment, the importance of our foreign trade to the country as a whole, and see what it is that these two journals are advocating be pitched out of the window.

In 1928 Mr. Hoover, then a candidate for the presidency, made the statement that our foreign trade gave employment to 2,400,000 American families—not persons but families. In 1929 the United States exported 55% of its cotton, 18% of its wheat, 41% of its tobacco, 36% of its copper, 21% of our locomotives, 25% of our sewing machines, 40% of our typewriters, one-fourth of our agricultural machinery, one-third of our lard, 14% of our passenger automobiles, and a host of other products too numerous to mention. What do the producers of all these things think of pitching that trade out of the window? Scrap our foreign trade, as we are being advised to do, and as indeed we have already substantially done, and a vast army of people are thrown out of work and this vicious circle once set in motion goes on and on and ends nobody knows quite where. The periods of greatest prosperity in our history have coincided with the greatest activity in our foreign trade, and it must always be so.

Our export and import trade for several years prior to this depression ran from eight to nine billion dollars per annum. Does anyone believe
there would have been any depression to speak of if this huge volume of trade could have been maintained? But we have lost two-thirds of it principally because we entertained a childish belief that we could "sell foreign" while "buying only American." The amazing thing about the "buy American" campaign is that its chief promoters are also the loudest in their demands that Europe pay the war debts. Pay with what? They give us very little enlightenment on this point!

Of course you know that such payment as we receive are being made in gold. Substantially speaking, we will take nothing else. In effect, this country is running a corner on gold. Our gold supply has increased over $600,000,000.00 in the past six months. We now hold more than 40% of all the monetary gold in the world. The price of anything being cornered rises while the corner is in process; so we find the value of gold enormously enhanced, which is just another way of saying that the price of everything else expressed in gold, has suffered a tremendous decline.

Many people say that the war debts could be paid if the debtor countries would only reduce their expenditures for armaments and apply the money thus saved in payment of their debts. This view ignores the difficulty of transfer of payments from one country to another. If England wishes to build a battleship, all the money spent for labor and materials in that connection is spent in England and stays in England. Now, if we would take battleships or submarines or airplanes of other army and navy
equipment, which we are purchasing to the extent of hundreds of millions of dollars a year, as payment on the war debts, the debts could probably be paid, because the debtor countries could supply these things to our government a good deal cheaper than our own shipyards and manufacturers can supply them, but does anybody believe we would do this?

If we continue our present policy of demanding payment of the war debts in full, while making no reduction in our tariff, and if it be conceivable that the peoples of the debtor countries will be willing to go to the extreme limit of sacrifice in order to pay, they may be able to continue payments for a few years longer, but the result of that policy would probably be to shift practically all of the gold in the world to this country, leaving us holding surpluses of cotton and wheat and other basic commodities mountains high, and valued at about one-half of present ridiculous low prices.

Why have we lost two-thirds of our foreign trade? The answer to this question is substantially the answer to the present world economic disorder. The key to the answer lies in the reversal of America's pre-war position of debtor nation to a post-war position of the world's greatest creditor nation and of our utter failure to grasp the enormous significance of this vast change. The war catapulted the United States out of the rank of international borrower into the position of the world's chief banker. It is doubtful if there has ever before been so sudden and so vast a change in the economic status of any nation. No nation,
in all history, was perhaps ever faced with opportunities and responsibilities so great as those which lay in our path at the close of the great war. Our capacity to produce had been enormously stimulated and expanded by demands of war. We were by far the richest nation in the world. We had the most efficient transportation system in the world. Lying about midway between Europe and Asia, and with the longest coastline of any nation in the world, we were most favorably situated for foreign trade. The Panama Canal had greatly shortened the distance, expressed in transportation costs, between our Atlantic and Pacific coasts and between those coasts and Europe and Asia. Finally we had demonstrated, beyond question, that we could lead the world in the combination of men and machinery for the mass production of goods.

The only question was, would we have the experience and restraint, the courage and vision, to meet wisely our new opportunities and responsibilities?

The world owed us vast sums of money, growing out of the war. We had so greatly speeded up our capacity to produce that markets had to be found for huge surpluses of peace-time products. Payment for these goods and for the interest on the debts due us involved intricate problems of international settlements and balances calling for the most careful and delicate adjustment.

For ten years the real problem was postponed and at the same time greatly accentuated by heavy investments made by American citizens in
Europe and other parts of the world. Obviously, this merely increased the annual interest charge which would eventually have to be paid to us.

By 1928 we had built up an enormous export trade amounting, in that year, to five billions of dollars, balanced by imported goods of four billions of dollars and by investments of American citizens abroad of one billion of dollars.

In 1929 our domestic financial situation put an end suddenly to any further investments of American money abroad. Then in 1930, during a special session of Congress called for farm relief, there was passed a new tariff law carrying the highest rates of duty on imported goods ever placed on our statute books. ²

Since that time we have been compelled to stand by and see practically every nation in the world take a slap at our foreign markets through high tariffs, import quotas, depreciated exchange, etc., until now we have lost over two-thirds of our foreign trade.

It is very elementary to say that trade is a reciprocal process of exchange of goods for goods, but it is something which we, as a nation, have yet to learn!

Of course, the United States can get along without foreign trade. We can close our ports and build a wall along the Canadian and Mexican borders and nail up a sign saying "Private—Keep-out." It is true we would have to find some other use for twenty million acres of cotton land and
ten million acres of wheat land and some millions of acres of land devoted to the production of tobacco and rye and other crops. Factories built for the manufacture and sale abroad of automobiles, agricultural machinery, typewriters, radios and a great host of other things would forever stand idle and their workmen would continue to stand in the bread lines or else go back to the land to dig their food out of the soil.

Someone has suggested that we could drink sarsaparilla for breakfast but maybe sarsaparilla like coffee also comes from some far corner of the world--who knows?

We only raise a small part of our requirements of sugar, despite a tariff of about 200%. What we would do for a substitute for rubber nobody knows! The automobile industry would have considerable difficulty getting along without it. Perhaps we might raise rubber and coffee in huge hot-houses, established on abandoned cotton and wheat land--another new industry for starting stock-market boom!

The vast development of these United States could never have been accomplished on any other basis than absolute free trade between the states. If this has been a mutually advantageous arrangement as between Texas and New York, for instance, why would it not work equally as well between Texas and Cuba, or Mexico, or China for that matter?

It has been said that two-thirds of the world's surface was made of water in order effectively to separate hostile peoples. Isn't it a nicer and more logical thought that the purpose was to make possible
a reasonable interchange of goods between peoples and nations separated 
by great distances? If the earth's surface were all land, it is very 
doubtful if any means of transportation would now exist by which any 
but the rich of this country could drink Brazilian coffee or ride on rubber 
from Sumatra or enjoy the great variety of products of foreign lands which 
we now use as a matter of course.

The great expanse of oceans which separate nations makes possible 
the movement of goods over vast distances at an extremely low cost. 
The cable and the wireless have provided an instantaneous means of communi-
cation. No country in the world is better situated than the United 
States and no state in the United States better situated than Texas 
to profit from a large and active foreign trade. But designing minds 
had other plans. We would sell to the foreigner but not buy from him. 
He would have to pay his debts to us, of course, but not in goods--never!--
never!

In consequence, we have been busy, during the past few years, drawing 
gold to our shores and storing it away in the subterranean vaults of the 
federal reserve banks and the treasury, while all around us lie huge 
unmarketable surpluses of cotton, of grain, of petroleum and of what not, 
valued at about one-third the 1929 market.

The further development of Texas waits on the restoration of normal 
markets. This restoration waits on the return to commercial sanity of 
a world gone "stark-mad" on protectionism.
The movement of international goods is drying up. There are far more idle merchant ships in the world today than at any previous time in history. The United States leads the world in idle tonnage, our harbors holding in excess of three million tons of ships which never move from their wharves and whose only crews consist of watchmen.

It is a curious and wholly erroneous idea of foreign trade which insists upon regarding every inbound cargo of goods as an assault upon our domestic industries, and a means of breaking down the wages and standard of living of our workingmen. Every dollars worth of goods which reach our shores from foreign lands is merely a remittance for goods which the rest of the world is buying from us or a payment of interest on debts due us by the rest of the world.

Our effort, on the one hand, to collect the war debts and to force all our surplus commodities on the markets of the world, while, on the other hand, we loudly and stupidly cry "buy only American" proves beyond doubt that we were utterly unprepared for our sudden transformation from one of the chief debtor countries to the chief creditor country of the world. Perhaps this is not to be wondered at because for a century and a half we have lived in a debtor country environment. The change has been so sudden and so vast that we do not yet grasp its significance. There is grave danger that we will lose both our foreign investments and our foreign markets unless we quickly awaken to a full understanding of our new opportunities and responsibilities.
Let us look at the record, as it affects the Houston and Galveston customs district. In 1928 there was exported through this district six hundred and eighty two millions of dollars worth of goods, whereas the imports through the same district for that year amounted to only thirty million dollars. For the year 1932 these exports had shrunk to about two hundred sixty five million of dollars and the imports had dwindled to ten millions of dollars. Think of it—our imports through this district amounted to less than 5% of our exports! That vast empire which stretches to the north and west of us, pouring its products through our ports for distribution to the four corners of the world should also be a great market for the goods of those countries which buy our goods. For each $100.00 worth of goods that go out through the Houston and Galveston customs district to foreign markets, only $5.00 worth of goods are brought back from those markets through the same gateway. Why is this? Why should we not bring back $100.00 of goods for each $100.00 worth we send out? Who has interfered with our inalienable right to buy what we require in the cheapest market, and why? Have you stopped to think what it would mean to the city of Galveston if instead of having ships come here empty for taking away our cotton and other products they would come loaded down with products from foreign lands for distribution through Texas and Oklahoma and Kansas and other states to the north and west? Think of the added employment to port facilities and port labor which this additional traffic would bring! And think too of the reduced
cost of living and the cheapened cost of production which these cheaper foreign goods would afford to our distressed cotton producers and others. But the biggest advantage of all would be the quickened demand for our own products which would come from the added ability to pay which our importation of these goods would give to the buyers of our cotton and wheat and oil and other things. If Texas were not prohibited by law from buying in the cheapest markets, which happen also to be the same markets in which she sells her own products, the growth and development of this state in the next ten years would be nothing short of phenomenal.

But they say we must keep the tariff high otherwise our country will be flooded with cheap foreign made goods and our workmen will be thrown out of employment and our high standard of living will be destroyed.

With the highest tariff in our history and with ten millions of our workmen already out of employment and with our so-called high standard of living largely a dream, one might be pardoned for questioning the correctness of the theory that a high tariff goes hand in hand with high wages and a high standard of living. As a matter of fact, it has long since been shown that high wages and a high standard of living are not the gift of a high tariff. Listen to the following words from Dr. Benjamin M. Anderson, economist of the Chase National Bank of New York, the biggest bank in the United States:

"The doctrine that high tariffs make high wages and high standard of living has no standing among professional economists. The law of
wages is something very different. Wages are high in countries where land and capital are abundant and where men are relatively scarce. Wages are low in countries where men are abundant and land and capital are relatively scarce."

Dr. Anderson might very well have added that the industries which pay the highest wages in the United States enjoy no tariff protection to speak of, such, for instance, as the manufacturers of automobiles, agricultural machinery, typewriters, etc., and that the industries which pay the lowest wages in the United States are those which enjoy the greatest protection such for instance as the steel industry and the textile industry.

But suppose we admit, for the sake of argument, that a high tariff is responsible for high wages in industry, can anyone name a good reason why the cotton farmer should contribute to the high wages of a steel worker in Pittsburgh, or a textile worker in Fall River, when by doing so he is compelled to reduce his own wages and his own standard of living to a level which has been proven to be no greater than the peasant peoples of eastern Europe?

I have seen people throw up their hands in horror at the threatened flood of our country with cheap foreign made goods. Why should we be so horror-struck at the idea of buying cheaper goods! The only way to flood this country with cheap foreign made goods is to flood the rest of the world with our own goods and at the same time collect
perhaps a portion of the debts that the rest of the world owe us,—
depts which otherwise will be a total loss!

Many American manufacturers are just beginning to realize that it
is of no use to them to have a monopoly of the domestic market if that
market is a busted market. The buying power of agriculture is destroyed
because of the principle which has been forced on the farmer of having
to buy his requirements in a protected market while selling the products
of his labor in a free world market, which principle has been extended
to such a ridiculous degree that he now has nothing left with which
to buy.

So long as the buying power of agriculture is practically all,
as it is at present, just so long will a substantial percentage of our
industrial machinery lie idle and millions of industrial workers walk
the streets looking for jobs.

Various artificial devices have been suggested for restoring the
buying power of the farmer. One great experiment with the Farm Board
was tried and failed miserably! Now the domestic allotment plan is
proposed. Listen to Walter Lippman's\textsuperscript{3} comment on this plan:

\begin{quote}
 As important as it is to realize the desperate character
of this measure, it is even more important to make the
effort to understand the desperate need which inspires
it. The introduction of this measure is a signal, like the tolling of a bell, that unless concerted measures are taken promptly to deal with the obstacles to recovery, unless the domestic and international readjustments which every reasonable person now knows are necessary, are courageously and decisively carried through, this country will enter one of the great political crises of its history.

Not only Mr. Lippman, but practically all of the great economists of this country, have agreed that the domestic and international readjustments, of which Mr. Lippman speaks, are a drastic cut in the cost of government, a drastic reduction in the tariff and a rearrangement of inter-governmental debts—all things now blocking the highways of international trade.

The only way to restore the buying power of the farmer is to raise the prices of the things which he has to sell and the only way to raise those prices is to restore the markets for his products, and the only way to restore those markets is to remove the barriers which now stand squarely across his road to market. "Buy only American" if you will, but when you do so, do it with your eyes open and with the knowledge that the full realization of that program will eventually introduce social and economic changes
in America of such vast and revolutionary nature as to set the hand of progress back in our country for perhaps half a century, and profoundly affect the lives of all Americans now living and of millions yet unborn.
A Speech on Foreign Trade
January 12, 1933
Footnotes

Speech, CP, ACCO

1Delivered before the Galveston, Texas, Chamber of Commerce on January 12, 1933.

2The Smoot-Hawley Tariff Act.

The government agricultural policies occasioned by the Depression were, as the previous documents indicate, offensive to Clayton's philosophy of free trade. Increased governmental interference in the cotton business eventually drove him, along with many other opponents of the New Deal, into the American Liberty League. His membership on the Executive Committee of the League dated from September 8, 1934, to June 6, 1935, during which time he labored diligently at increasing the League's membership.
To Jouett Shouse

Houston, Texas

November 12, 1934

Dear Mr. Shouse:

I am putting the following postscript on every letter I write:

"I am on the Executive Committee of the American Liberty League and am taking a great deal of interest in the affairs of the League. I enclose a little pamphlet stating the principles and purposes of the League. If you approve of same, as I am sure you will, perhaps you may want to fill in the membership blank on the back page and send it in to Washington."

Sincerely yours,

W. L. Clayton
To Jouett Shouse
November 12, 1934
Footnotes

L, CP, ACCO.
Although the modification of government cotton policies, dissatisfaction with the leadership of the Liberty League, and enunciation of Cordell Hull's Reciprocal Trade Agreements program allowed Clayton to return to the Democratic Party in 1936, he was still critical of national agricultural policies. Anderson, Clayton & Company, for instance, found in the thirties that it was facing increasingly heavy competition from cotton cooperatives. Government policies favorable to the cooperatives were a source of considerable concern to cotton merchants, and ACCO was no exception. In the following letter Clayton expresses his anxiety that further government favors to the cooperatives might result in the substantial destruction of privately owned cotton firms:
To Hon. Chester Davis¹

Houston, Texas

September 14, 1935

My dear Mr. Davis:

Having been abroad at the time the new cotton policy was decided upon, this is the first opportunity I have had of congratulating you and the Administration on the wisdom of dropping the loan value to 10 cents, compensating the farmer by a bounty, or subsidy.

I think the new plan is a great improvement over the old and I am very hopeful that it will enable the United States to export considerably more cotton during the present cotton season than in the season just finished.

You and Secretary Wallace² and your associates are entitled to great credit for your courageous action in this matter!

May I, however, call your attention to another very serious matter, of which I have just become aware, in connection with the marketing of the present crop?

I am informed that the Cotton Cooperatives will probably be accorded the right to act as Agents of the A. A. A. in adjusting and paying to their members the bounty due the producer under the new plan.

If this action should be taken, it would be almost equivalent to giving the Cooperatives a monopoly for the purchasing of the cotton produced by their members.

What is, perhaps, of greater significance, a principle would have been established, the logical extension of which would, in time, destroy what is
left of the private cotton trade in this country.

I am familiar with the statute authorizing the Secretary of Agriculture to confer this favor on the Cooperatives. The last sentence in subsection "(b) (1) of Section 10 of the Agricultural Adjustment Act, as amended, reads as follows:

"The Secretary, in the administration of this title, shall accord such recognition and encouragement to producer-owned and producer-controlled cooperative associations as will be in harmony with the policy toward cooperative associations set forth in existing Acts of Congress, and as will tend to promote efficient methods of marketing and distribution."

The underscoring is mine.

I do not think the Cooperatives, themselves, would deny that substantial destruction of the private cotton trade in this country, placing the distribution of the crop almost entirely in the hands of the Cooperatives would certainly not "tend to promote efficient methods of marketing and distribution," but that it would have the opposite effect.

This is not to be construed as a statement that the Cotton Cooperatives are inefficient in their business methods.

I merely want to say that such efficiency as the Cotton Cooperatives have achieved (and they have achieved much) is due largely to the influence upon
them of the highly competitive struggle which is constantly going on between the Cotton Cooperatives and the private cotton trade.

Bring the struggle to an end by destroying the private cotton trade and the Cooperatives will inevitably drop into wasteful and inefficient methods.

You are familiar with the problems involved in distributing crops like cotton and wheat and I am sure you will agree that the highly-efficient methods which have been developed and the very small toll which such service commands is due to the highly competitive nature of the business and once the competitive element is removed, even though the commodity should then be handled by a Government or by a Cooperative, the costs of distribution would certainly increase greatly.

I am sure it is unnecessary to remind you that the ranks of the cotton trade have been greatly thinned in the past three years. The fittest only have survived and in some cases even the fittest have felt compelled to give up the struggle rather than sit by and watch their capital dwindle away.

This last step, if it should be taken, of making the Cooperatives practically the exclusive Agents of the Government to distribute to Cooperative members Governmental favors, or benefit payments, will, in my opinion, so demoralize what is left of the private cotton trade that many of them will give up without a further struggle.

I beg of you to consider carefully the grave consequences which the proposed action would have.

Please believe me when I tell you that I am trying to look at this question
From the standpoint of the best interests of the South as a whole. Somehow I cannot get very excited as to the consequences to my own firm by the proposed action, but I do feel that the interests of the cotton producers, the cotton trade, including my firm, and even the Cooperatives, themselves, will be best served by keeping cotton merchandising activities on the present highly competitive basis, where success or failure, whether to a private firm or to a Cooperative, is dependent wholly upon quality of service.

Of course, you are familiar with the fact that, with one or two exceptions, the membership lists of the Cotton Cooperatives signify merely that the people named on that list have, from time to time, sold some of their cotton to the Cooperatives. Our original conception of a member of a Cooperative as a man who assumed an obligation to market all of his cotton through the Association, usually by placing the cotton in a marketing pool, no longer holds good. The typical member today sells to and not through the Association and he sells to us and to other people when in his interest to do so. In other words, he now is completely a "free lance," with one or two exceptions, and the Cooperatives and the A. C. C. A. have become merchants rather than Cooperatives in the old time sense of the word. I think it is fair to the Cooperatives to say, in this connection, that the one element of their original nature which still remains, is the fact, as I understand it, that if they make profits, these profits are distributed on a patronage basis to those from whom they have purchased their cotton.

I want you to know that I am sending a copy of this letter to my good
friend, Mr. E. F. Creekmore, Vice-President of the American Cotton Cooperative Association, for whom I have the greatest respect and admiration, as I would not want to write you on a subject of this kind without sending a copy to him.

Sincerely yours,

W. L. Clayton
To Hon. Chester Davis
September 14, 1935
Footnotes

LS, RG 145, DNA.

1 Administrator of the Agricultural Adjustment Administration (1933-1936).

2 Secretary of Agriculture Henry A. Wallace (1933-1940).
In a speech before the Harvard Business School on September 16, 1936, Clayton expounded his theory of capitalism.
A Speech on Capitalism

September 16, 1936

A Business Man Looks at Capitalism

Recent world social and political trends arouse much speculation regarding the future of capitalism. Even in this country one is often met with the statement that capitalism is on trial, or that capitalism has broken down. European happenings, of course, are common knowledge. But it may be seriously doubted if many of the persons who discuss the subject have thought very deeply concerning the elementary principles of capitalism. Even if the restatement of these principles should appear trite, it seems necessary to direct attention to some of them.

Capitalism in its broadest aspects is merely an economic instrument for salvaging from present enjoyment a part of the fruits of production for use in promoting human progress.

No modern nation can function without some form of capitalism.

All cultural and religious institutions, every means of transportation, communication and production are the product of capitalism.

Objection is often made that the profits which a capitalistic society takes from production lower correspondingly the standard of living of the workers.

Had man literally followed the slogan of this philosophy "Production for use," which is the antithesis of capitalism, he would still be living in caves, eating the uncooked flesh of wild animals and using their skins for clothing. Those who parade under this slogan may think they are loyal disciples of Lenin and Stalin, but they are mistaken. Russia is relentlessly capitalistic. The small group of overlords who direct the destinies of the Russian state see to it that a generous share of the production of Russian hands and of Russian
machines goes into capital goods for such use as the masters of the Russian people may decree. Indeed, it is probably true that Russia, under state capitalism, has diverted a larger share of her production to capital growth than has been possible in countries of private capitalism. If economic systems were to be judged solely by the degree of abstinence and frugality which they compel, important as that is, there can be little question that the Russian system would take first place. Under that system, the masters of the people can and do determine how much of the fruits of production may be consumed and how much shall be used by the state for purposes of capital. Resisters pay with their liberty or their life.

In countries of private capitalism, annual additions to capital come wholly from private savings.

Mr. Carl Snyder, of the New York Federal Reserve Bank, in an article entitled "Capital Supply and National Well-being," in the June American Economic Review, shows that the development of the United States from a group of struggling colonies, without capital resources, into the world's greatest industrial nation, with the highest real wages and the highest standard of living of any of the larger countries, has been due to a steady annual supply of new capital, coming very largely from industry itself and from the owners of industry. He further shows that there has been a constantly increasing product per capita, due principally to increase and improvement in mechanical equipment, for which an adequate supply of capital was indispensable; that constant industrial expansion has necessarily required a considerable body of workers, chiefly
employed in the construction of new plant, new machinery, the development of new industries, new processes and the like. It naturally follows that when there is depression and an arrest in the capital supply, there is unemployment, falling most heavily on workers in the capital goods industries. Since the publication of Mr. Snyder's paper, Federal Reserve statistics have been issued showing that although industrial production in the United States is now running 108 per cent of the period 1923-25, the sixth year of the present depression in this country finds construction contracts running only 58 per cent of that period. Other authorities conservatively estimate unemployment in the United States in July, 1926 at nine million persons.

It may be reasonably questioned whether the United States can show any net capital accretion in the past six years. The supply of sterile gold is larger, but real wealth as measured in goods, buildings and implements of production, transportation, and communication, considering obsolescence and depreciation, is probably less.

It seems abundantly clear that full employment in this country depends upon an amply annual supply of new capital invested in new buildings, new machinery, new plants, new processes, etc.

If, therefore, it be true that the cultural and material progress of society rests primarily upon man's willingness to submit to some method of lessening present enjoyment in order to provide the means of such progress, it remains only to be determined what form of capitalism is best suited to this purpose.

Two forms which our own times make familiar and which are separated by
the widest extremes of technique, are state capitalism as practiced in Russia and private capitalism as practiced, notably, in the United States and Great Britain. Between these two extremes are to be found sundry capitalistic systems, most of them embodying some of the characteristics both of state and of private capitalism.

The principles underlying Russian state capitalism are well known. In the beginning private businesses of all kinds were prohibited and the workers were paid in food, clothing and shelter instead of money. Today workers are paid in money and much of the retail distribution of goods is in private hands. The ownership and exploitation of all minerals, the ownership and operation of all means of transportation and practically of all manufacturing are in the hands of giant trusts owned and operated by the state. With all competition eliminated, it is a simple matter to so adjust prices as to insure large profits for use in the augmentation of productive facilities and for other capital purposes.

Under private capitalism, as has been shown, the necessary additions to capital are derived largely in the same way as under state capitalism, from the profits of industry. The difference is that under private capitalism such profits belong to and are reinvested by individuals and the corporations which they own.

The important point to bear in mind is that in both cases, the profit system supplies the means of compelling a degree of abstinence and frugality without which there would be no such thing as capitalism and consequently no such thing as progress.
Under private capitalism, the profits available for reinvestment are necessarily diminished to the extent of the personal expenditures of the capitalist. This, and not the profit itself, is the toll which society pays for administration of its productive and capital-gathering agencies. While in the aggregate this toll is perhaps not disproportionate to the service rendered, nevertheless, it is unfortunately true that in many individual cases it is exorbitant. The wasteful vanity-inspired expenditures of some rich people constitute a grave indictment of our system of private capitalism. A reasonable relationship between personal expenditures and large incomes is proper, nevertheless there is a limit beyond which luxurious gratification merely becomes vulgar and wilful waste, influencing the cost of living and exciting envy and resentment.

Under pure state capitalism there is no competition, and political and economic management proceed from a central brain. The foundations of such a system must rest on the complete surrender of individual liberty.

Under private capitalism, there is decentralization of decisions, and keen competition in every department of life, the theory being that the competitive process fits men and capital into those places where they serve best. In practice the system by no means operates perfectly but, unless too much interfered with, its failures are usually self-regulated before they have gone too far. Under private capitalism, commerce has a way of automatically purging itself of its own ills, if not too much bound and fettered by man's attempt to outwit natural laws.

Liberty of person, of speech and of press are possible only under a
system of private capitalism. Swings to the left may be steps away from liberty. When statutory equality comes through one door, liberty goes out another. As some one has said, "Equality and liberty can never be companions, for liberty accelerates differentiation." History abounds in examples of the complete obliteration of the shadowy line which separates political liberalism from political despotism.

In a material sense, state capitalism can never match private capitalism because of the inefficiency inherent in the centralization of power and decision.

It has been well said that nature failed to endow any man or group of men with sufficient wisdom to manage the economy of a large nation as well as it can be managed by the individuals themselves, and even if she had done so, the system would not breed their successors.

State capitalism smothers individualism, without which there can be no spiritual and little cultural progress. On this point Mr. John Maynard Keynes, the English economist, says: "But, above all, individualism, if it can be purged of its defects and abuses, is the best safeguard of personal liberty, in the sense that, compared with any other system, it greatly widens the field for the exercise of personal choice. It is also the best safeguard of the variety of life, which emerges precisely from this extended field of personal choice, and the loss of which is the greatest of all losses of the homogeneous or totalitarian state. For this variety preserves the traditions which embody the most secure and successful choices of former generations; it colors the present with the diversification of its fancy; and being the handmaid of
experiment as well as of tradition and of fancy, it is the most powerful instrument to better the future." But it is not sufficient for preservation of private capitalism that it be merely the best system. Every nation has the right to select the economic system under which it will live. Because of ignorance, or abuse, or both, the best system may not be the one in which the majority of a people believe, and may have to give way to something else.

Throughout the world private capitalism is today undoubtedly on the defensive.

Looking for the causes of this development we shall probably find one of the prime reasons to be deep resentment at the swollen profits arising out of the war. Even had the recipients of such profits conserved and wisely invested them, abstaining from an undue amount of personal consumption, which unfortunately was not generally the case, society should and doubtless will take measures to prevent profit from war. Capitalists will be wise to recognize and assist this movement. The next step should logically be a realistic study of the underlying causes of war and the prevention of war.

The present world depression and unemployment are popularly laid at the door of private capitalism. This could provoke endless discussion. If any two words in the English language tell the major cause of the depression they probably are: credit abuse. Its handmaiden, unbridled speculation, follows closely as a matter of course. Statutory measures have been taken calculated to prevent a recurrence of the latter, but if one wishes to avoid a shock it is not well to look too closely into credit trends during the depression. It
is within the power of the state to regulate both credit and speculation.

It seems unquestionably indicated that a highly industrialized society, used to amortization of machinery and plant, must now make provision for human obsolescence and for recurring periods of unemployment. It does not seem too much to hope that when this responsibility has been placed jointly upon capital and labor some means will be found of lessening the frequency and shortening the duration of periods of unemployment.

It is said that the wastes of competition condemn the system of private capitalism. Where the individual enjoys complete or almost complete liberty of choice, there will always be some obvious material waste. Where there is no liberty of choice, there is little obvious waste, but the material and spiritual waste hidden in the centralization of power and decision is infinitely greater. If man's course is to continue upward, he must retain his liberty of choice and its consequent burden of responsibility. To surrender these to an overlord is to halt human progress.

It is said that the power of large capital is used improperly to influence government. Too often this has been true. Tariff lobbies have written our tariff laws. Human nature remaining unchanged, they will probably continue to do so until the tariff is taken out of politics. When that is done, the way to peace, the world's most pressing problem, should appear less difficult. Meantime, let not our condemnation of business lobbies blind our eyes to the presence of numerous other minority pressure groups just as demoralizing and dangerous.

It is charged that the power of large capital is used to crush competition,
and to exploit labor and the consumer.

Unfortunately, at a former time, this charge had some basis, but if applied to the past quarter century little substance can be found in it. Today the larger the corporation, the more pitilessly does the searchlight of public opinion play upon it. There was a time when managers of large enterprises thought almost exclusively of the interests of stockholders, but the modern business administrator has a keen sense of responsibility toward competitors, labor and the public.

The possibilities of further improving the relations between capital and labor by stock ownership, profit sharing, decentralization of plant, closer contact, etc. are certain to be further explored by enlightened capital.

Agreements between competitors to curtail production or to fix prices, with or without government sanction, are to be condemned on economic grounds. What the world needs is more production at lower prices, bringing ever higher standards of living. Faulty distribution, due to clogged trade channels, arising from government tinkering throughout the world, and not overproduction is the thing that plagues us.

The private ownership of property is a permissive, not an inherent right. The right to bequeath property at death is of the same nature but hangs by a more slender thread. Both rights have been greatly abridged in the past few years.

If Congress should pass a valid law taxing all incomes and inheritances, above nominal amounts, at a rate of 100 per cent, the right of private property would be substantially at an end in this country. State capitalism would then
take the place of private capitalism and the state would henceforth be under the compulsion of providing the indispensable supplies of new capital, without which progress would cease and the nation surely drift backward. It is well to recognize that we have already gone some distance on this road. There is no intent here to do more than call attention to the implications involved in this method of taxation.

The income tax is a fruitful and politically popular source of revenue, but its effect is to diminish the supply of new capital. It could probably be so constituted as to penalize waste and encourage capital accumulation and investment by an upward gradation of rates related to a scale of the taxpayer's personal expenditures beyond a certain level. If a man with an income of one million dollars can be induced by preferential tax rates to hold his personal expenditures below $100,000, society benefits from the reinvestment of the remaining $900,000. There is no danger that capital will accumulate too rapidly. Additions to capital provide new and improved means of production, reducing costs and raising the standard of living. A rich man's income, usefully reinvested year by year, constitutes not a charge on society, but a service to it. The nominal owner is in fact only a managing trustee. His continuance as administrator of the trust depends upon the quality of his services. The system automatically eliminates the great majority of unworthy or incompetent trustees.

Estate and inheritance taxes as now treated also draw heavily on capital supply. This can and should be corrected by excluding all such taxes from normal government revenues, and using them only for retirement of the public debt.
Ignorance lies at the bottom of most of the attacks on the American economic system. Two things are essential to its preservation: the great majority of the American people must be made to understand the system, and its abuses must be recognized and substantially corrected.

This accomplished, there is no doubt that our capitalism of the future will be of a nature to preserve and develop further that individual initiative, courage, and instinct for cultural and material progress which have made our country great.
A Speech on Capitalism
September 16, 1936
Footnotes

Printed in the Bulletin of the Harvard Business School Alumni
Association, November 1936, pp. 51-56.

1Delivered before the Harvard Business School at its Tercentenary
Meetings, September 16, 1936.
Despite the fact that Clayton had left the Liberty League and was becoming well-known as a proponent of liberal trade policies, on many domestic issues he was still a conservative, as the following letters indicate:
To Hon. Tom Connally

Houston, Texas

July 8, 1937

My dear Senator Connally:

I enclose a memorandum which I have prepared on the Black-Connery Bill.¹ It is not for publication as I do not want to get into any public discussion of the matter but I have been giving it some careful thought and I believe the views expressed are correct.

As you probably know, my firm are not large employers of labor, so we have not the same interest in opposing this bill that large manufacturers would have. We do operate cotton gins, cotton compresses, and cottonseed oil mills, employing largely Negro and Mexican labor. All these industries are highly competitive, as you know, and any advance in wages paid by them, would most certainly come out of the pocket of the cotton farmer.

Governmental control of industrial wages (which must be followed by control of prices of industrial products), of agricultural production, including the so-called "Ever Normal Granary" (nothing but a price fixing measure) may, debatably, be suited to autarchy, but the South always has been, and probably always will be, a producer of surpluses for export—cotton, tobacco, rice, etc.

If we go on with this sort of legislation, nothing can prevent the almost complete loss, within a few years, of our export trade in raw cotton. From a normal consumption abroad of about 8-1/4 million bales of American cotton, we have now dropped to 5-1/4 million bales for the 1936/37 season, although world consumption of all kinds of cotton has increased greatly. The world during
To Hon. Tom Connally  
July 8, 1937  
Page 2

the present cotton season will consume at least 30-1/2 million bales of all kinds of cotton, whereas the record up to 1928/29 was 25-3/4 million bales.

Proponents of the Court Packing Bill say that the Supreme Court, as now constituted, blocks farm and labor legislation. Somebody ought to admit that this charge is true and show how, being true, the Constitution and the Court have merely done the thing for which they were created in saving us from the effects of half-baked schemes which would certainly have wrecked us economically, and probably have struck a fatal blow at liberty itself.

With kindest regards,

Sincerely yours,

W. L. Clayton
To Hon. Tom Connally
July 8, 1937
Footnotes

1 A wages and hours bill which was defeated in the House of Representatives.
To Hon. Tom Connally.

Houston, Texas
May 18, 1938

Dear Senator Connally:

According to the Department of Agriculture, the cultivation and harvesting of the approximately 27 million acres which we will have in cotton this year will mean the employment of nearly 1 million less men than a normal acreage of 41 million acres would employ.

In addition to the above, the reduced production will obviously cause serious unemployment in many related activities, such as transportation, ginning, cottonseed oil milling, compressing, cotton merchandising, cotton stevedoring, etc., etc.

Now, if in addition to this, we pass a wage and hours bill, which says, in effect, that minimum wages and maximum hours must be no different in the South than in the North, regardless of any and all conditions justifying a difference, you can see what the unemployment situation is going to be in the next few years south of the Mason-Dixon Line.

The South has nothing to gain and everything to lose from the passage of the wages and hours bill.

I hope you will do everything you can to defeat this legislation.

Sincerely yours,

W. L. Clayton
To Hon. Tom Connally
May 18, 1938
Footnotes

L, CP, ACCO.

The Fair Labor Standards Act (June 25, 1938) provided for a minimum wage of forty cents an hour and a maximum work week of forty hours (many occupations were exempted).
Clayton was critical of U. S. economic policies throughout the interwar period. In the following letter he scores American economic nationalism, charging it with responsibility for the rise of dictatorships in Europe:
To Leon O. Wolcott

Houston, Texas
October 26, 1939

Dear Mr. Wolcott:

Thank you very much for your letter of the 23rd inst. enclosing copy of a speech which Secretary Wallace is to make before the Commonwealth Club in San Francisco on Friday, October 27th.

I have read this speech very carefully.

You ask for my comments and I am going to give them to you frankly.

I think the Secretary is a little hard on the Old World and a little easy on the United States.

He says - "The rise of dictatorship is the result of Europe's failure to make its economic imperialism bring abundance to its masses, and order and stability to its trade."

In my opinion, the absence of abundance to the masses of Europe and the lack of order and stability in Europe's trade are due to a world-wide revolt against the free market and a world-wide embrace of the destructive principle of autarchie.

Unfortunately the United States has had a prominent place in this movement, if it has not actually lead it.

Our unique position in the world clothed us with enormous postwar responsibility.

Enlightened selfishness dictated that we should mobilize our great influence and our vast resources in an attempt to help the postwar world rehabilitate itself on the basis of economic sanity.
Instead we led the way in the direction of economic nationalism. Dictatorship in Europe was an inevitable consequence.

The Secretary hit some good licks for soil conservation. I agree with him 100% but I think we have to be careful not to confuse soil conservation and price fixing.

The Secretary apparently sees international trade in terms of imports which do not compete with things grown or manufactured in this country.

I disagree with this conception of international trade. I think it inevitably leads to a breakdown of the Democratic system of Government.

Please be assured that what I have said is with great respect and esteem for the Secretary and his opinions and is only offered because you have been good enough to invite my comments.

Sincerely yours,

W. L. Clayton
To Leon O. Wolcott
October 26, 1939
Footnotes

LS, RG 16, DNA.

\footnote{Assistant (1939-1940) to Secretary of Agriculture Henry A. Wallace.}
Clayton's belief that a free Western Europe was crucial to a rational world economy was to be a touchstone for the economic philosophy which would guide his actions during his State Department career. He was among the first to advocate American involvement in Europe in order to prevent a totalitarian triumph there. On May 27, 1940, Clayton was one of fifty Houston business and professional men who sent to various members of Congress a telegram which called for amendment of the Neutrality Act "to permit the granting of credits by our Government to the Allies for the purchase of agricultural, mineral and industrial products of the United States."\(^1\) In July 1940 he became associated with the Century Group, an informal organization of twenty-eight citizens dedicated to convincing the American people of the necessity of American intervention in Europe.\(^2\) The two letters which follow indicate that while Clayton felt the best interests of the United States to be so threatened by Germany that he refused to trade with the Axis powers of Europe, he did not feel the same concern about Japan in Asia:

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\(^1\) Will Clayton to Jesse Jones, May 27, 1940, CP, Rice.

To Sir Owen Chalkley

Houston, Texas

December 21, 1939

My dear Sir Owen:

Relying upon the friendly and cooperative spirit evidenced at
the recent conference of Cotton Shippers with you and your associates,
Messrs. Helm, Foster and others, I take the liberty of informing you
of certain incidents which have apparently aroused in the minds of
the Ministry of Economic Warfare in London some suspicion that my
firm has been trading with Germany since the beginning of the present
war.

* * * * *

My partners and I had to make a decision immediately on the out-
break of the war on September 3rd as to our policy regarding any further
business with Germany, because we found ourselves promptly in receipt
of definite proposals for the sale of substantial quantities of cotton
to Germany through intermediaries in neutral countries.

We had no hesitancy whatever in deciding for ourselves and all
of our subsidiaries in South America and other countries that for the
duration of the war we would, directly or indirectly, sell no more
cotton to Germany. This meant that we would not knowingly sell cotton
for shipment to any neutral country, the ultimate destination of which
was Germany.
To Sir Owen Chalkley  
December 21, 1939  
Page 2

This decision has been scrupulously observed throughout.

We had some cotton in Germany at the outbreak of the war and we had some 2000 bales in Poland. In addition, some shipments of our cotton which sailed before the outbreak of war arrived in Germany. The largest shipment of this kind was about 3000 bales on the German Steamer Welheim which sailed from the United States on August 26th for Liverpool. This ship was not heard of for several weeks but eventually, some time in October, arrived in Bremen. The cotton was taken over by the German Government and since it was our property they are paying us for same.

From time to time we have discussed these various matters with the British Consul in Houston, Mr. Slaymaker, to whom we have given a copy of this letter, and have offered to him and to the M.E.W. in London to show our books and records at any time this may be desired. I now wish to renew this offer to you. I do this because we know that War is War and that precautions have to be taken which would not be justified in normal times.

Nevertheless, I do feel that the standing of my firm in this country, coupled with the fact that we are by far the largest single suppliers of raw cotton to Great Britain and France; that we have for twenty years been members of an old and highly respected English firm; that we maintain branch offices in France, in Egypt and in Paris,
To Sir Owen Chalkley  
December 21, 1939  
Page 3

together with the fact that the distribution in Europe of the products of our extensive cottonseed oil milling interests is in the hands of Messrs. Henry Kendall & Sons of London, ought to go a long way in satisfying the M.E.W. of the good faith of our assurances.

Aside from our feelings about the war itself, we would be very shortsighted businessmen if we allowed for a moment the lure of some temporary profit in German business to cause us to jeopardize all these things.

Nevertheless, I must point out again, as I did in the Washington conference, that, in my opinion, adequate control of shipments of cotton to European neutrals can only be had in the countries of destination and not in the countries of origin.

I have presented this matter to you for the reason that I want you to have the facts in case any of these situations should come to your notice and for whatever use you may wish to make of the information and also because I feel that the purposes of your Government, Insofar as they touch any business of our firm, will be better served if we clearly understand what your Government wants and if your Government clearly understands who we are, what we are doing, what our policies are, and to what degree the good faith of our policies may be relied on.
To Sir Owen Chalkley
December 21, 1939
Page 4

Apologizing for the necessary length of this letter and with every
good wish, I remain,

Sincerely yours,

W. L. Clayton
To Sir Owen Chalkley
December 21, 1939
Footnotes

L, CP, Cossitt Library (Memphis, Tennessee).

1Commercial Counsellor of the British Embassy in Washington, D.C.
To Hon. Alben W. Barkley

Houston, Texas
February 23, 1940

Dear Senator Barkley:

Permit me to say that I feel decidedly that the situation arising from the abrogation of the Commercial Treaty between Japan and the United States should be dealt with through our State Department and not by legislation.

I am sure it is unnecessary to point out to you that American cotton would be the greatest sufferer from any serious interruption of trade between this country and Japan.

Sincerely yours,

W. L. Clayton
To Hon. Alben W. Barkley
February 23, 1940
Footnotes

L, CP, AGCO.

1U.S. Senator from Kentucky (1927-1949).
On the eve of his entry into government service, Clayton was already considering the effects of World War II on postwar international trade. The following three documents indicate his policy in regard to postwar Latin America:
A Speech on the World Cotton Situation

Waco, Texas

June 27, 1940

The World Cotton Situation

Throughout the world, catastrophic events have taken possession of men's minds.

The awful drama of total war, snuffing out empires and human life and human liberty on a brutal and colossal scale, dominates the daily thoughts and lives of people everywhere. With a kind of fascinated horror, they read and listen and wonder.

It seems petty to talk about the world cotton situation when the world itself has exploded and is on fire.

It is more appropriate tonight to talk about the world revolution, its meaning to the United States, and, incidentally, its effect on cotton.

Please, therefore, do not be surprised if I exercise generously the license usually permitted a speaker.

Anything which must be discussed in terms of world trade is obviously just now in an extremely difficult, even almost tragic, position.

The naked truth is that world trade, in any normal sense, lies prostrate.

Cotton, as the fibre from which about three-fourths of the world's clothing is made, is peculiarly an article of international trade.

In consequence, the cotton producer and every part of the great
raw cotton industry, wherever located, faces a dark and uncertain future.

The situation must, nevertheless, be studied in terms of today and tomorrow.

Yesterday's experience, with its successes, its failure and its mistakes, almost certainly holds no lamp for tomorrow's guidance.

The present situation, briefly, is this:

For the past five years the international trade in raw cotton of all growths has averaged about 12 1/2 million bales annually. Of this volume, the United States has furnished a little over 5 million bales.

Today, the war has effectively eliminated as importers of cotton practically the entire Continent of Europe, consuming about 5 millions of bales annually of all growths of cotton.

Those countries to which exports are still possible, such as Great Britain, Japan, China, etc., have in recent years taken an average of 7 1/2 millions of bales of all kinds of cotton, of which the United States has furnished 3 million bales. It is extremely doubtful if, with a continuation of the war, these countries will buy more than 2 to 2 1/2 million bales of our cotton. As you know, the exports of United States cotton normally averaged nearly 8 million bales, and for the past five years the average has been something over 5 million bales.

Thus, for cotton as well as for other agricultural commodities, we are rapidly approaching a realization of that catch slogan of the
isolationists—"The American market for the American farmer." What the isolationists have not understood or at any rate have not made clear is, that this really means—"Only the American market for the American farmer."

On that basis, of course, we have in the United States a surplus of at least 2 million farm families and 75 to 100 million acres of farm land.

So much for today! Now, who knows what kind of world we shall face tomorrow?

This much seems certain: If the dictators win this war, the United States must embark on a preparedness program of colossal proportions.

That means, among other things, an economic, and to some extent, a political revolution in the United States.

The awful shriek of the dive bomber, and the relentless march of the armored tank across Flanders and France brought to an end in the United States the so-called good old days when we became great and rich and complacent and a little soft.

The dictators built thousands of these instruments of destruction. We shall probably build them by the tens of thousands, bigger and still more destructive. And a two-ocean navy.

A new order which we hate, but a new order just the same. How many of us now realize what this means to our way of life? We hear
much about the fifth column and the Trojan horse. These are not first problems. We shall know how to deal with these things. Our first problem is to decide what our international policy is to be.

As to the Western Hemisphere, the decision is apparently already made that the Monroe Doctrine is to be literally and rigorously enforced.

Anything less than that would probably mean that before many years we would meet the same fate which has recently befallen half a dozen other democracies.

But to a layman the enforcement of the Monroe Doctrine throughout the Western Hemisphere, with Europe in the hands of the dictators, looks like much the biggest order we have ever undertaken.

It probably means military preparation sufficient to meet and overcome the combined offensive military resources of any three dictators in the world.

Our second problem is to obtain from competent authorities blueprints and specification of an integrated defense program.

Our third problem is to organize the job itself, and, what is of enormous importance, to study and plan the necessary re-adjustments in our domestic economy, and to some extent, of our political philosophy. Without such re-adjustment it will be impossible to carry out this gigantic enterprise.

It would be fatal for the American people to underestimate the sacrifices involved.
It has been said that Germany's preparation for war cost forty billion dollars.

If that is correct, the cost to us will be much more. Call it sixty billions of dollars, to be spent at the rate of 15 billions of dollars annually for four years.

This is a lot of money, but we have become used to billions in spending Government money.

The man in the street probably will say, "Well, it's a big price to pay, but I guess it's worth it, so let's get on with the job."

But does he realize that it is impossible to put any such sum of money into the building of such a colossal military machine without automatically and drastically lowering the standard of living for every one now enjoying a standard above the very minimum?

The labor, the materials, the shop room, the capital required in this huge undertaking cannot also be used to supply us with the luxuries to which we have become accustomed in recent years.

Fifteen billions of dollars exceeds all the wages and all the salaries paid out by all the manufacturing plants in the whole United States in any year of our history. It is twice the value of our entire agricultural production, employing about one-third of our population.

Taxes must be drastically increased not only for raising the money to pay the bill, but to forcibly take buying power away from the middle and upper income groups, so that they will be compelled to substantially lessen their demands on productive capacity, freeing it for use in the
vital preparedness program.

We cannot pass on much of the cost of this program to our children and grandchildren because we have already asked them to assume twenty-five billion dollars of new debt contracted during the past eight years. Modern children have a way of becoming disobedient when pressed too hard.

Public control needs to be exercised over new construction of all kinds so that no unessential demands will be made on the economy which may slow down or impede the preparedness program.

Labor must make its contribution in longer hours; the job cannot be done on a forty hour week. Strikes, either of capital or labor, cannot be tolerated.

Drastic economies must be effected in the administration of all non-military departments of the Government. Relief appropriations must be scaled down and finally discontinued; political distribution of P.W.A. and W.P.A. projects must cease, in fact these agencies must disappear entirely when the preparedness program gets under way.

There will be work for every one who can work, and local communities must take care of those who cannot.

In short, under the new order, legislation for and by minority pressure groups, thinking only of their own selfish interests, must cease if we do not want to go the way of the other democracies.

The emphasis for National endeavor must be taken off reform and
placed on production.

Leon Blum concentrated on reform and social progress in France to the point where he almost caused the ruin of his country long before the German army set foot on French soil; meantime, in Germany they were tightening their belts, working sixty hours a week and building the most colossal fighting machine the world has ever known. Hitler's victories were won in preparation for the battle, long before a gun was fired.

Do I hear someone say that's all very well, but this is the United States and we are not going to turn the clock back in this country in any such way as that? All right, but if the people of this country fail to realize, and quickly, that the old order has perished; that play-time is over; that we must work and economize as our forefathers did, then they are not worthy of the pioneers who subdued the savages, cleared the wilderness, and laid the foundations of our glorious country.

I do not mean to speak disparagingly of any group of men. Some of the finest patriots in this country are in Washington working fifteen to eighteen hours a day, but isn't it clear that the necessary decisions in this crisis cannot be made in time by a body of men, many of whom have their eyes and ears glued to the next election?

If we go on as we are now going, won't we repeat the tragic experience of France and England, finding ourselves pitifully unprepared and at a time when it is too late?
The only safe course is to recognize that although we are still at peace, the future is so menacing that we must act as if were already at war.

Our slow-acting democratic system of checks and balances is the best in the world for conditions of peace, but it cannot cope with the problems of modern warfare.

We would be much wiser to recognize now, rather than later, that we must make a temporary surrender of some of our cherished institutions if we wish to preserve any of them for future generations.

Now, turning from war to peace, such as it will be, let me give you a picture, as I see it, of the world trade situation if the dictators win this war, or even if it ends in a kind of stalemate.

Here it is:

A bankrupt totalitarian Europe, returning to peacetime industrial production at starvation wages and long hours, requiring vast quantities of foodstuffs, fibres and other raw materials.

Latin America, Africa, and Asia, warehouses bulging with raw materials, the sale of which was interrupted by war, requiring manufactured goods of all kinds.

The United States with practically all the gold in the world, a huge industrial plant, working at high wages and short hours, large stocks of cotton, wheat, and corn, and other raw materials, and a high protective tariff.

This picture may be over-simplified but it certainly suggests
A Speech on
The World Cotton Situation
June 27, 1940
Page 9

that South America, Africa, and Asia will swap their raw materials to Europe for cheap manufactured goods, and that the United States will be left holding its surpluses both of agricultural and industrial products.

This has for us both economic and political implications.

Not only are there strong ties of race, culture and language between South America and the old world, but the economy of the two areas is much more complementary than that of the United States and South America.

Europe needs all South American products; we need only a few.

Indeed, South America and the United States are competitors in the production for export of numerous commodities, principally cotton and grain.

Closer economic relations between Europe and South America will almost certainly be accompanied by closer political contact which will render more difficult our enforcement of the Monroe Doctrine.

On the other hand if South America, Africa and Asia preempt the European cotton market, for example, what are we going to do with our cotton surpluses?

These momentous questions are a ringing challenge to our realism, our vision and our ingenuity.

Nobody knows the answers, but the direction in which we should seek a solution of these problems may be suggested.
First, as to Latin America:

It is vital to the successful enforcement of the Monroe Doctrine that everything possible be done to draw closer the ties of trade and amity which already exist between Latin America and the United States.

There must be no waving of the big stick. We must play the commercial game fairly. We must stop subsidizing our trade where it comes into competition with theirs.

We should study the development of resources and commercial possibilities in Latin America with the view of bringing their economy into a more complementary relationship to ours, and we must be prepared to invest large sums of capital there to that end.

We must find ways and means of buying more Latin American goods, or risk redoubled totalitarian penetration there of an extremely dangerous character.

Now, as to our trade with Europe.

For years we have sold much more to Europe than we have bought from her.

When the war ends this trade unbalance will certainly be corrected. If this correction is accomplished by the simple process of shifting European purchases of raw materials from the United States to those countries willing to accept payment in goods, it will be a heavy blow to our entire domestic economy.

American cotton would naturally be the chief sufferer.
We cannot afford to surrender our European markets for cotton and other raw materials without exerting the utmost endeavors to hold them.

The only apparent way to hold these markets is to be realistic about the matter and be prepared to trade our goods for theirs, scrapping the tariff in the process. With so much of our industrial plant and labor diverted to military production, this suggestion may not be so difficult or radical as it may at first appear.

Bi-lateral, or barter, systems of international trade are cumbersome and destructive of trade itself. If any substantial part of world trade has to be done on that system, it will result in a serious contraction of world trade and a regrettable lowering in the standard of living. A lowering in the world standard of living is inevitable in any case, but it could be relatively short-lived with international trade conducted on a multi-lateral or free exchange--gold settlement basis.

With an Allied victory, international trade could be re-established at the end of the war, on a free exchange--gold settlement basis, using a portion of the huge gold holdings of the United States to get the system working.

A victory by the dictators appears definitely to bar any such solution, nevertheless it should not be excluded as one of the possibilities.

The United States has consistently stood for the principle of
multi-lateral trade as opposed to the so-called barter system, but if the rest of the world adopts totalitarian methods of trade, we will be compelled to conform if we wish to sell our surpluses. Barter means the swapping of goods for goods. Obviously, that can only be done in our case by setting aside the tariff in many particulars.

The alternative to this course is to so re-adjust our economy as to become almost entirely self-contained. This would involve such far-reaching and radical changes, accompanied by so severe a reduction in our standard of living that it is very doubtful if democracy would survive the shock. Just as one example, there would be the problem of the two million farm families in the United States whose production is normally required for export, not to mention the more direct and immediate effect on the South of the loss of our cotton exports.

Rather than undertake any such radical readjustment, would it not be much wiser to trade with the rest of the world in whatever way may be open to us, meanwhile working with every means in our power to restore international sanity as quickly as possible?

Fateful days lie ahead.

Days which will test our patriotism, our mettle, our ability to make sacrifices.

Every one of us, each according to his circumstances, will now have to make a contribution to the preservation of our way of life.

History must not say of us, "Too bad, but they couldn't take it!"

When the situation becomes somewhat clearer, doubtless the President
of the United States will tell us what we face and will give us a kind of blueprint of what we must do to stop this juggernaut of destruction before it reaches the western world.

The American people are entitled to the whole story, bad as it may be. That they can chin whatever program has to be followed, when they understand it, let no man for one moment doubt.
A Speech on
The World Cotton Situation
June 27, 1940
Footnotes


Delivered before the Cotton Research Congress at Waco, Texas, on June 27, 1940.
A Memorandum on Western Hemisphere - European Economic Relations

Washington, D. C.
July 3, 1940

When peace comes, it is expected that Europe will in effect present a solid economic front to the rest of the world, exporting and importing practically as one trading unit.

To meet this situation, it has been suggested that the western hemisphere put itself in position to do the same thing.

To this end it has been proposed that the United States Government organize a corporation with one billion dollars capital to be furnished by the United States for the purpose of buying up the principal western hemisphere exportable surpluses, so that their disposition may be negotiated non-competitively.

This suggestion presents numerous serious difficulties, among them:

(a) the difficulty of securing the cooperation of the Latin American Republics on a mutual basis.

(b) the certainty that the European totalitarian powers will look upon the move as a kind of economic warfare directed against them and will retaliate by seeking and developing competing sources of raw materials in Africa, Asia and elsewhere.

(c) the concentration of huge surpluses of raw materials in government hands tends inevitably to the creation of "frozen" stocks, depressing prices in the free markets and at the same time encouraging increased production in the expectation that the government will
pay a remunerative price.

(d) the complexity and magnitude of the problem of dealing with numerous nationalities in respect of a considerable variety of products would undoubtedly lead to serious misunderstandings and friction.

As an alternative, it is suggested that the matter be approached from the point of view of drawing closer the ties of trade and amity already existing between Latin America and the United States in order to build firm foundations of mutual interest and respect. This will be considered in very brief outline in two parts:

1. FRIENDLY RELATIONS: (a) subsidize travel between the United States and Latin America.
   (b) teach Spanish in our public schools.
   (c) set up a fund for the exchange of professors and students between this country and Latin America.

2. TRADE: 31% of Latin American exports already go to the United States, but this is concentrated largely in the area north of the equator, except for the one item of coffee.

   It is suggested that there be organized a government financed and operated "Pan-American Development Corporation," or corporation with similar name, with broad powers for the development of Latin American resources and commercial opportunities, to the end that the economy of Latin America shall be brought into more complementary
relationship to that of the United States. The following are a few examples:

Peru and North Brazil have a serious sugar problem. We should study the possibility of subsidizing out of production a portion of the very inefficient United States sugar growing industry, just as it was subsidized into production, and give a corresponding quota to Peru and North Brazil.

We are apparently concerned about our future supplies of rubber and tin.

There are possibilities of substantial rubber production in Brazil and elsewhere in Latin America, which should be studied and developed.

We should study the question of building tin smelters in the United States so that Bolivian tin can come directly to this country without having to pass through England for smelting.

A careful study should be made of the economy of each Latin American Republic with the view of assisting as far as practicable in the development of such natural resources and industries as will contribute to an expansion of trade with the United States.

There are many opportunities for road building, construction of bridges, and numerous development projects in Latin America, the financing of which offers some risks which private capital is unwilling to assume, but which on the average ought to work out without any sub-
stantial loss just as has been the case with the Reconstruction Finance Corporation in our domestic affairs.

It is further suggested as an inducement to private capital, that a portion or all income taxes might be waived by the United States government on all profits brought back to the United States from Latin American businesses or projects engaged in by United States citizens.
A Memorandum of Western Hemisphere - European Economic Relations
July 3, 1940
Footnotes

Memo, CP, Rice.
To Hon. Henry A. Wallace

Houston, Texas
August 1, 1940

My dear Mr. Secretary:

I do not think our ideas are as far apart on the Latin-American situation as our too brief discussion the other day may have seemed to indicate.

I favor giving Export-Import Bank\(^1\) money and power to:

1) Make loans on commodities at conservative values, treating each country and each proposal on its own merits. This relationship may incidentally give us some voice in the disposition of such commodities, but to attempt to make this a condition of the loan would be resented.

Opportunities may even occur to cartelize the production and disposition of specific commodities. This can only be determined after very careful study and negotiation.

2) Make loans for the development of Latin-American resources and opportunities. The aim should be as far as possible to develop activities which will contribute to inter-American trade, communication and travel, particularly between the United States and Latin America. Much of the necessary capital can and should be furnished in Latin America, particularly that portion expended for local materials and labor.

I believe the above corresponds to the economic accord reached at Havana. I am convinced that this program can be carried out on a sound
and cooperative basis. I would like to stress that it cannot be sound unless cooperative in the sense that the country which we are attempting to assist does its full part according to its circumstances.

In addition to the above, much can and should be done on the cultural side, such as an exchange of professors and students, the establishment of travel bureaus for stimulating inter-American travel, etc. Much can and should be done in the readjustment of tariffs to maintain or increase inter-American trade. Sugar and flaxseed are the first commodities which occur to me.

Possibly on my next trip to Washington you may be able to give me a little time to go into some of these matters with you.

Very sincerely yours,

Will Clayton
To Hon. Henry A. Wallace
August 1, 1940

Footnotes

LS, CP, Rice.

*Established February 2, 1934, to encourage foreign trade by financing exchange of goods through short- and long-term credits and loans.
The following proposal suggests that Clayton's dedication to the Allied war effort transcended personal economic considerations:
To Hon. Tom Connally

Houston, Texas
July 20, 1940

Dear Senator Connally:

If I understand your war time tax bill\(^1\) correctly, I think it should be passed and put into effect right now.

From an economic point of view, the defense program is almost equivalent to war time conditions.

If we are to avoid disastrous inflation, the middle and upper income groups must be drastically taxed in order to forcibly take buying power from them, thus lessening their demands upon productive capacity, freeing same for the vital preparedness program.

Labor should make its contribution by working longer hours at the present high wages, but at straight rates of pay without demanding time and a half beyond forty-two hours.

Sincerely yours,

W. L. Clayton
To Hon. Tom Connally  
July 20, 1940  
Footnotes

L, CP, AGCO.

The Connally Amendment to the Excess Profits Tax and Amortization Bill would have set up a steeply graduated schedule of personal and corporate income and excess profits taxes, effective immediately upon a declaration of war by Congress. The amendment was defeated in the House and dropped by the Conference Committee.
Chapter II

Government Service in Wartime (1940-1944)
On October 15, 1940, Clayton accepted appointment as Deputy Federal Loan Administrator, a position which entailed responsibility for numerous Reconstruction Finance Corporation subsidiaries. The three documents which follow are representative of the type of policy-making involved during his years with the RFC:
A Memorandum on Synthetic Rubber

Washington, D. C.

February 21, 1941

Referring to another memorandum which I am handing you today on the rubber situation:

Feeling confident that our existing supplies of new and "scrap" rubber now in the United States or on the way here are sufficient to carry us for two and a half to three years under war conditions even if our source of supply were cut off at once, I see no justification for our Government putting out money to experiment on the manufacture of synthetic rubber.

Synthetic rubber is still in the experimental stage in the United States except for a special product called "neoprene," now being manufactured by Dupont. "Neoprene" is at present too valuable a product to be used for tires. If we should get into war, however, we could build plants for a modified type of "neoprene" suitable for tires, and these plants could be constructed in time to take care of us before our existing supplies of rubber were exhausted.

The principal rubber companies -- Goodyear, Firestone, Goodrich and U. S. Rubber -- are all experimenting on the production of synthetic rubber and will continue to do so.

I am continuing to explore the matter -- talking with the principal rubber executives -- learning all I can. It may be that we would be justified in building one small plant, say of 5,000 tons
capacity or of putting up a few hundred thousand dollars to accelerate experimental operations with the view of greatly expanding production as soon as we know we are on safe ground, but I do not believe more than this is justified on any consideration.

W. L. Clayton
A Memorandum on Synthetic Rubber
February 21, 1941
Footnotes

Memo, RG 234 DNA.
Memorandum on the Strain on Overseas Shipping

Washington, D. C.
April 24, 1941

The attached memorandum shows 1941 estimated over-seas imports for Government and commercial purposes of the principal strategic materials. Only those materials which run into large tonnages have been listed.

Not only are our estimated 1941 requirements almost double our normal imports; but most of these materials must be transported over great distances -- the Far East, Africa, Australia, South America, etc.

Obviously, the strain on ocean shipping is very great.

We should now squarely face the question of priorities in shipping in order to stop the over-seas transportation of non-essentials.

A very important economy in shipping can be effected by compelling all ships from Australia, the Dutch East Indies, Straits Settlements, Philippines, China and Japan to load and unload at Pacific Coast ports instead of going through the Panama Canal to Gulf and Atlantic ports as most of them now do.

Another very important saving can be made by a discontinuance of inter-coastal ocean transportation.

A rough calculation indicates that if these two things are done, ships totaling about 1,000,000 dead weight tons could be released.

This would obviously throw a burden on rail transportation.
About 600,000 carloads are involved, but most of this tonnage already
involves a rail movement to the ports.

Measures to effect economies in the civilian consumption of these materials should also be undertaken.

W. L. Clayton
A Memorandum on the Strain on Overseas Shipping
April 24, 1941
Footnotes

Memo, RG 234, DNA.
To Hon. Jesse Jones

Washington, D. C.
February 24, 1942

More and more, certain South American countries are increasing their dollar balances in the United States. This is due to the fact that they are expanding production of strategic and critical materials which we are buying at high prices, and at the same time they are unable to spend their dollars here because of inability to secure the goods.

It is inevitable, I think, that this trend will continue while the war lasts.

I heard some time ago from a cotton man in Peru that they had been unable recently to sell dollars forward, say for April-May delivery. There were no buyers. Ordinarily, the Central Bank there affords a market for such transactions, but evidently is unable or unwilling to do so any longer, due to the fact that they have too many dollars.

One aspect of this situation is that these Latin American countries will have a very large buying power in the United States at the end of the war.

Another aspect of it may be that as time goes on and they are unable to spend the dollars here, they may commence to hold back on the sale of the things that we are buying.

W. L. Clayton
To Hon. Jesse Jones  
February 24, 1942  
Footnotes

Memo., RG 234, DNA.
An obsession with efficiency and economy resulted in great success for Clayton in the business world. His desire to transfer these qualities into government is nowhere better illustrated than in the following letter:
To Mrs. Marshall Ferguson

Washington, D. C.

March 23, 1942

My dear Mrs. Ferguson:

I understand another campaign will shortly be started to secure the adoption of the City Manager plan for Houston.

The City Manager plan should have been adopted for Houston years ago. Efficiency and economy demanded by our war effort make imperative its adoption now. War itself is so wasteful that waste must be eradicated from all our normal activities if we are to wage a successful war.

The City Manager plan is nothing but the application of business methods to Government. Houston needs it.

Sincerely yours,

W. L. Clayton
To Mrs. Marshall Ferguson
March 23, 1942
Footnotes

L, CP, TL.

¹President of the League of Women Voters of Houston, Texas.
In 1942 President Roosevelt bestowed on the Board of Economic Warfare, headed by Vice President Henry Wallace, the responsibility for acquiring and stockpiling strategic and critical materials, formerly a responsibility of the RFC. The RFC, however, was still paying for the purchases, with the result that ever-increasing friction between Wallace and Jesse Jones culminated in open feuding. Exasperated by this internal bickering, Roosevelt stripped both agencies of their authority in the field of strategic and critical materials and called on Leo Crowley to take charge of the disputed duties. The following documents relate to this inter-agency strife:
Memorandum of Conversation with Mr. Milo Perkins

Washington, D. C.
April 20, 1942

Mr. Perkins gave the following outline of his interpretation of the recent Executive Order:

He stated that he construed the Order as giving BEW administrative control over purchases abroad of strategic and critical materials, as well as all arrangements for increasing the production of same. That it is impossible to make any realistic separation between policy and operation.

To this end, Mr. Perkins made it clear that BEW wanted their people working alongside ours on all negotiations; that they wanted to do this on a partnership basis; that they would see to it that they assigned to us men who would be cooperative and do their best to help in negotiations.

I pointed out to Mr. Perkins that the business transacted by Metals Reserve, Rubber Reserve, and Defense Supplies Corporation is now of great volume; that numerous contracts of one kind or another are being negotiated all the time; that these negotiations are by conferences, correspondence, and telephone; that in order to keep current on all such negotiations, it would be necessary for BEW to have one of their representatives working almost constantly with each man in our three companies charged with the responsibility of conducting negotiations.

I further pointed out to Mr. Perkins that after the high points
in any contract are agreed upon, a memorandum covering such points goes to the lawyers who draw the legal contracts and that these lawyers themselves often negotiate points not covered in the original negotiation, and even sometimes negotiate changes in the original negotiations. Mr. Perkins stated that he felt BEW should also have their lawyers working alongside ours in order for the two agencies to come to an agreement on all such points.

Mr. Perkins stated that it was not their intention to form any new corporations under the Executive Order unless the existing corporations were not doing an adequate job.

Mr. Perkins stated that it was intended to have weekly meetings of the BEW.

I said to Mr. Perkins that I was only expressing my own personal view, but that my opinion is that following and checking the details of all our work here, as indicated by him would very substantially slow the work down. He indicated that if this should prove to be the case it would then be necessary for them to take over completely.

W. L. Clayton
Memo, CP, Rice.

1Executive director of the Board of Economic Warfare (1942-1943).
2Executive Order 9128, April 14, 1942, shifted control of stockpiling and acquisition of strategic and critical materials from the RFC to the BEW.
3Subsidiary corporations of the Reconstruction Finance Corporation.
To J. C. Nichols

Washington, D. C.
July 21, 1943

Dear Clyde:

I have your letter of the 17th and want to assure you how very much I appreciate your interest in the recent controversy here.

No doubt the war will end some day but the battle of Washington perhaps never. As you know, I came without any political ambitions and having acquired none during my three years stay, I can look all these fellows in the eye and tell them where to go.

Hoping you keep well and that everything is going as well with you as could be expected in these difficult times, I remain

Sincerely yours,

W. L. Clayton
To J. C. Nichols
July 21, 1943
Footnotes

L, CP, TL.

1President of Clyde Nichols Investment Company of Kansas City, Missouri.
To Hon. Jesse Jones

Washington, D. C.

July 24, 1943

Dear Mr. Jones:

During the three years I have been associated with you here, first as Deputy Federal Loan Administrator and then as Assistant Secretary of Commerce, my duties have been related principally to the importation of strategic and critical materials for the war.

Since, by the President's order, this work has now been completely transferred to another government agency, I see no need to remain longer.

Please, therefore, accept my resignation as Assistant Secretary of Commerce, Chairman of the United States Commercial Company and the Rubber Development Corporation, President of War Damage Corporation, Vice President and Trustee of the Export-Import Bank of Washington and Director of Defense Supplies Corporation.

If you or Mr. Crowley wish me to do so, I shall of course be glad to remain for a reasonable time to help work out the new arrangement relating to the importation of materials for the war.

I am deeply grateful for the opportunity you have given me of performing some slight service in the war and for the unfailing courtesy and consideration you and your associates in the Department of Commerce and the RFC and its subsidiaries have always shown me.

I leave with the greatest admiration for you and the RFC family.
To Hon. Jesse Jones
July 24, 1943
Page 2

Under your direction the RFC has demonstrated how efficiently a government agency can be operated.

With much appreciation and every good wish, I remain

Sincerely your friend,

Will Clayton
To Hon. Jesse Jones
July 24, 1943
Footnotes

LS, CP, Rice.
In December 1947 Clayton was interviewed by his daughter Ellen concerning his government work. The following excerpt from that interview records Clayton's recollections of his years in the RFC:
A Statement on Preclusive and Strategic Purchases

December 1947

You can't make hard steel without tungsten. The only place Germany could get it was in Portugal and Spain and the War and State Departments thought it was important to keep the Germans from getting it. We bid tungsten in Portugal up to $20,000 a ton so as to make it so high the Germans couldn't afford it. In Portugal we bought all the sardines they could pack just to keep Germans from buying them.

There were only 3 places where Germany could buy tungsten. They were Portugal, Spain, and Turkey. It was only in those places that we ran the price up high.

In the summer of 1940 when France fell Congress passed a law enlarging the powers of the RFC, authorizing it to act as purchasing agent for critical and strategical materials for defense. Under it were organized the Metal Reserves Corp., the Rubber Reserve Corp., Defense Supplies Corp. to buy everything the Metal and Rubber corporations didn't buy. I was in charge of the foreign operations of these corporations in their buying.

Then the BEW was organized with Henry Wallace at the head of it and we had an awful mess. BEW claimed Mr. Jones and I were too interested in making good trades and that we tried to buy too cheap, and the BEW didn't care what it paid. Then the BEW was authorized to do all the buying but it didn't have any money so we had to sign the contracts they negotiated. It was terrible!
The BEW was organized in 1943 partly for political reasons, in order to throw a sop to leftwingers by letting them use buying or purchases abroad for social and economic ideas they wanted to spread. Also Roosevelt hated to fire anybody so he put one agency over another to regulate it; he—instead of firing—just kicked 'em upstairs and gave them a bigger title. Roosevelt stepped on Hull's toes with Wallace in the BEW and Hull read the riot act and then Roosevelt had the BEW modified so that Wallace would not take over the duties of Secretary of State. If Jesse Jones had acted forthrightly he could have got the thing adjusted—the difficulties between BEW and Department of Commerce—at the time.

One quarrel was because the BEW raised a big hullabaloo because we didn't act promptly and carry out its crazy ideas about making rubber from cryptosecia plantations in Haiti. It's true the cryptosecia is a rubber bearing plant, but it never gave a ton of rubber so far as I know, for it didn't do well in Haiti.

Before we got into the war I was buying, in August, 1941, all sorts of stuff from the Philippines, Malay Straits, Dutch East Indies, Australia, North Caledonia. We couldn't get enough ships and the stuff was piling up out there. Rubber and tin were two very critical things—coming over the Pacific, going thru Panama Canal, going up East coast by ship. A pompous man (Harvard professor William Elliot)
at the War Production Board was working on me in August to get all this stuff in. We were sure to get into war with Japan any time and we had to get all this material in before. To do this we decided to have them unload the ships on the Pacific Coast which would save a 30 day trip but cost more. We then had to ship the West Coast by rail—rubber to Akron, tin to Pittsburgh. Then those West coast ports got blocked with these things, because the rail roads couldn't take them away fast enough. The next 6 months this transportation cost 30 to 50 million dollars extra. You see I had to change the routing of all those ships to get them to unload at Pacific ports. But we got these things into the U.S., and when war broke out we were caught up on practically everything from those sections.

Anything that was susceptible to handling by the couriers of the Underground in Switzerland, France, and Portugal we got out that way. For instance—those little jewelled watch movements from Switzerland during the war—they came by Underground, and we had a time with those; we did it through the Treasury.

The BEW made a contract with Sengier—the head of the Belgian "Minerva" living in N.Y. who was running the Belgian Congo Co., a monopoly in copper—to increase his production by 20,000 tons a year. Sengier had been selling all his copper to England. Mr. Bridgman, a mining engineer working with me in the Commerce Department (when I
was Assistant Sec. of Commerce then) said, "We can't sign that contract. I'm convinced we could make a better deal, because this will cost the government millions of dollars."

So I asked the BEW if they would mind if I tried to get Sengier to make a better deal. Sengier came over—the toughest fellow to get hold of in negotiation; he talked and talked. He came into my office and said, "Just what do you want, Mr. Clayton?" I started to tell him and he started to get up and he said, "You're wasting your time and mine, too."

"Evidently," I said. "I thought we could help your country and give it back its freedom. We need copper desperately. You won't lose anything and you might make some money."

He sat down again and I got him to make a deal which saved our government 2 or 3 million dollars. I went to New York later and saw him. His company had 5000 tons of copper stored at Lobito for the French Government, on its way to France from Chile when France fell to the Germans. Thinking the British would seize this copper, the French ship put the copper in a warehouse at Lobito. We tried to buy the copper from Vichy, but they wouldn't sell. We said, "You can't use it. We'll pay you the present market price." But they refused. "Let us have it and we'll try to replace it at the end of the war when you can use it." But they said they were going to keep it in the warehouse at Lobito.
Well, some of our smart boys got next to the warehouseman at Lobito, bought 5000 tons of zinc ores to be loaded at Lobito, and when the ship came they loaded her with the 5000 tons of copper instead. I didn't know it until a week before the ship was due to arrive in N.Y. These men then told me and said "We want you to break the news to Sengier, because he'll set up an awful howl and discharge his man. Tell him to take it philosophically and we'll give the copper back at the end of the war, or give them the price copper is selling for at the end of the war." I looked Sengier in the eye and told him. He didn't change his expression or bat an eye. "You stole it," he said.

We had to get graphite and mica in early 1941, to be ready in case of war. Mica is necessary to make radios, and they had to have so many of them, you know, on every plane—millions of them. And graphite is also a catalyst. Mica is found in India and Brazil, but graphite comes chiefly from Madagascar, which was ruled by the French.

At this time France was under the Pétain government, and the British—in the summer of 1941—had Madagascar under a tight blockade. There were half a dozen importers in N.Y. who had contracts for the purchase of mica and graphite from Madagascar, but because of the British blockade, they could not get the stuff. So these importers turned their contracts over to the government. The suppliers in
Madagascar were willing. Then we, the government, got in touch with the British.

I remember so well I had a bunch of men from the British Embassy in Washington for lunch at the Carlton Hotel and I told them the story of how we wanted to get out this graphite and mica from Madagascar. I asked them if they wouldn't let an American ship go in there and bring it out, and you know those fellows wouldn't say a word whether they would or wouldn't. They were mum. Stupid! Well, anyway they wouldn't talk. So I just said:

"All right, we're going to run a ship in there with the American flag and if you fire on us there's going to be war!"

You know what they did? They just smiled!

We had a time getting a ship—thought we were never going to get one. Finally we got a ship in N.Y. called "The Lone Star," a slow ship—10 knots. And we sent it in. But by the time she was loading in Madagascar, our government was having serious trouble with Vichy. Vichy was doing everything the Germans told them, you know. So in the midst of this loading, I had a call from Secretary Hull. He told me, "You'd better get that ship out of port. It looks like we might have war with Vichy!"

That put me on the spot in 2 ways—the ship was only half loaded and we didn't know how to get a message to her. If we sent it thru
regular channels we were afraid it would be intercepted and the govern-
ment in Madagascar wouldn't allow the ship to leave. So we went to the
Navy and got them to send the message for us. It went from ship to
ship. When the Captain of the Lone Star received it, he pulled out
without any formalities, any notice; just took up his anchor and slipped
out, and three Americans were left ashore.

Well, after that our relations with Vichy were smoothed out
somehow and we were told we could send in another ship to load.
Again we had a hard time getting one, but we finally got a ship, an
old one, called the Western Something, and she went in to load the
rest of the graphite and mica. She also picked up the 3 American
sailors that had been left behind. Oh yes there was a soldier of
fortune there at the time, a kind of roustabout, a ne'er-do-well.
He was a writer. At least he had been there writing but he'd about
had enough and he wanted like everything to come home. He begged the
Captain to take him, but the Captain told him it was impossible, he
wouldn't know what to charge him for his passage, besides he didn't
know when they'd get to N.Y.—it might take 90 days, they might not
got there at all. But the fellow kept begging him. He said he'd
pay a dollar a day, so the ship got along, going 10 knots, and finally
one engine gave out so she had to put into Capetown for repairs. While
she was there, we got into the war!
A Statement on Preclusive and Strategic Purchases  
December 1947  
Page 8  

We had a terrible time with that ship. The army was clamoring for the graphite and mica, had to have it right away, but the ship couldn't proceed by herself because the waters around there were infested with German submarines. We went to the Navy and asked them for a convoy—two destroyers, or whatever they could give us even two destroyers for that slow a ship. So finally we got 3 other ships—15 knot jobs—to go to the Western—and take off the cargo and bring it in. That's the way it finally got here!
A Statement on Preclusive and Strategic Purchases
December 1947
Footnotes

Interview with Ellen Clayton Garwood, December 1947.

1William Y. Elliot, Harvard professor of government, served in the Office of Production Management in 1941.

2G. Temple Bridgman, executive vice-president of the Metals Reserve Company (1941-1944) and deputy War Surplus Property Administrator (1944).

3Marshal Henri Petain, Premier of Unoccupied France (1940-1944).
Clayton foresaw that the end of the war would provide a great opportunity for liberalization of American trade policies, provided the American public could be properly educated. Consequently, in 1943 he turned his attentions to preparation for postwar economic policy planning, writing on July 26 that "the disastrous results of the policy we followed after the first world war are so fresh in the minds of people that I cannot help feeling we will avoid most of those mistakes, although doubtless making others." Clayton hoped to minimize the "other" mistakes by mature consideration of postwar economic alternatives before the war ended. He believed that international economic and financial relations were the key to America's postwar economy.

\[1\text{Will Clayton to Lamar Fleming, July 26, 1943, CP, TL.}\]
To Paul G. Hoffman

Washington, D. C.
May 14, 1943

Dear Paul:

I am so engrossed in numerous meetings, preparation of papers, etc. in connection with the Food Conference which convenes at Hot Springs on Tuesday, that I regret to say that it will be impossible for me to attend the CED meeting in New York tomorrow and Sunday. I appreciate very much the special invitation you were good enough to extend to me.

The more I think of the matter we discussed in New York, the more I feel convinced that the CED is making a mistake to relegate the question of post-war international economic and financial relations to a position of comparative unimportance.

In my opinion, post-war employment by private enterprise depends upon the adoption of adequate measures at the peace conference to provide for peace and for an expanding world economy.

So far as the United States is concerned, and the name of course applies to England, we are much more dependent than ever upon world markets.

In a recent speech you said that private enterprise must employ 56,000,000 people in the post-war period and produce 135 billion dollars worth of goods and services.

I agree with this statement.
It will be impossible to put so many people to work and produce such a huge volume of goods and services unless we employ substantially our total productive capacity.

This means that we will produce much more of many things than we can possibly consume.

At the end of this year we will be producing:

- 100,000 airplanes annually against 6,000 pre-war,
- 600,000,000 pounds of magnesium against 6,000,000 pre-war,
- 2,000,000,000 pounds of aluminum against 325,000,000 pre-war,

and many other things in the same or greater proportion.

We are all familiar with the fact that thousands of war plants will have to be converted to civilian production. Many of these plants are entirely new; some of them employ many thousands of people, for whom entire cities have been built, with homes, schools, churches, streets, sewerage, water, etc. Some way must be found to shift these plants to civilian production, otherwise they must be abandoned and their employees resettled elsewhere.

All of this means that we must find great new markets here and abroad to absorb our post-war production.

When peace comes, vast areas abroad must be reconstructed. . . . others should be developed in order to raise the standard of living,
which in itself creates new markets.

There will be many opportunities abroad for the investment of American capital. This capital will almost surely be in the form of goods, not money. Hence, every dollar of such capital will help put our people to work on peace time goods.

But the investment of American capital abroad would be wholly inconsistent with a policy of shutting out imports at home. If we are to invest and sell abroad, we must be prepared to buy abroad. Trade is a two way street, wherever you find it.

If approximately full employment can be maintained at good wages, our standard of living will certainly show a gratifying advance, particularly in the middle and lower brackets where most needed. In consequence, we should be able to absorb larger imports without serious injury to any single American industry and with great benefit to our economy as a whole. Such increased imports will contribute to a higher standard of living here and will establish the means of payment for the exportation of our own surplus production.

My conclusion is that the most careful and intelligent plans on a community or industry basis can easily prove to be of little if any help in providing a satisfactory level of employment if we make a mess of our international economic and financial relationships as we did in the last peace conference and during the inter-war period.
To Paul G. Hoffman  
May 14, 1943  
Page 4

At the last meeting in New York you spoke of the fact that it would take a long time to make the necessary investigation of this subject and would cost more money than the CED had to spend on it.

I don't think it would take very long and I don't think it would cost very much to make the necessary study; in fact, most of the work has already been done and the results are available.

I have had to dictate this in a great hurry in order to get it in Carroll Wilson's hands before he leaves in the next two hours.

I am not at all satisfied with it but was anxious to send you something.

With best wishes for a good meeting,

Sincerely yours,

W. L. Clayton
To Paul G. Hoffman
May 14, 1943
Footnotes

L, CP, TL.

1 President of the Studebaker Company of South Bend, Indiana and Chairman of the Committee for Economic Development.

2 Clayton was the U. S. delegate to the United Nations Conference on Food and Agriculture at Hot Springs, Virginia in May 1943.
To Hon. Jesse Jones

Washington, D. C.

September 27, 1943

I understand the meeting you are to attend this afternoon at 2:30 in Secretary Morgenthau’s office has to do with the question of the establishment of an international investment bank.

This matter has been under discussion for some time by an inter-departmental group with Harry White as chairman.

I have attended several of the meetings but Warren Pierson has, I think, followed the matter closer than I have. You will recall that it was first intended that he should be chairman of the committee.

The idea is to organize an international investment bank, the capital to be subscribed by the United Nations and their associates in proportions to be agreed upon.

The object of the bank is to make investments abroad for rehabilitation and for industrialization of backward countries. Great emphasis is laid on the point that the bank will give private investors the first opportunity to make these loans and investments, and only if the private market cannot supply the funds on reasonable rates will the bank do so.

I think the idea is worthy of further careful exploration.

W. L. Clayton
Memo, CP, Rice.

1 Secretary of the Treasury Henry Morgenthau, Jr. (1934-1945).
2 Assistant to the Secretary of the Treasury.
3 President of the Export-Import Bank (1936-1945).
A Speech on World Trade

New York, New York
October 25, 1943

America's Stake in World Trade

It may be interesting to speculate for a moment on what history will say about our part in this war.

Judging by the familiar criticisms which we hear on all sides, one might expect that much attention will be given to the mistakes, the extravagance, and the confusion here at home.

But since history has a way of measuring great events by objectives and results, it is probably safe to predict that these delinquencies, typical of every war, will play a very minor role in the story of this one.

Instead, heavy emphasis is almost certain to be laid on the wise timing of those early critical decisions which placed us in a position of semibelligerency; on the bold conception of the magnitude of our war production job, once we were in the war; and on our immense output of the implements of war.

Failure in any one of these crucial steps could have lost the war for us.

The production of goods and services in the United States promises to reach an annual rate of $200,000,000,000 by the end of this year. This is double the 1940 production.

Stated differently, we are now expending more energy exclusively in the prosecution of the war than was put forth 4 years ago to keep
It is perhaps natural that the popular conception of this collaboration centers in political and military arrangements.

But it is quite impossible to obtain collective security through military arrangements if economic warfare as it was waged throughout the world in the inter-war period is to continue.

As someone has well said: "The greater the economic significance of political frontiers, the greater the danger of war; and the greater the facility with which all nations may secure through commerce the basic necessities of national life, the greater the prospects of peace."

This expression finds full recognition in the declarations of the Atlantic Charter and the lend-lease agreements.

These documents unequivocally declare that the trade and raw materials of the world shall be accessible on equal terms to all states, great or small, victor or vanquished; that all forms of discriminatory treatment in international commerce shall be eliminated; and that tariffs and other trade barriers shall be reduced, to the end that improved labor standards, economic advancement, and social security may be had for all.

That this platform is essential to world peace and a rising standard of living no one can successfully deny; that it will be vigorously opposed by selfish minority pressure groups here and elsewhere is unfortunately certain.

The great danger to democracy now, as in the past, is in the
pressures of organized minorities.

To understand the broad over-all economic problem which will face the world at the end of this war it is necessary to examine the present situation.

The world today is passing through the greatest economic expansion of all times.

With the possible exception of certain Asiatic areas, employment and production are everywhere at an all-time high.

Throughout the British Empire everyone is working.

In Germany ten or twelve million foreign workers have been brought in.

The occupied countries in Europe must be working to capacity.

In Mexico, Central and South America, Africa, and the Middle East—areas which supply a great part of the exportable minerals and raw materials of the world—production and employment are at peak level.

In the United States we will soon have about 65,000,000 people employed, including the armed forces. This is 20,000,000 more than we employed in 1940.

Throughout the world millions of women are now working for the first time in factories and offices.

And still shortage of manpower is almost universal.

The output of the world's mines, factories and farms was never greater.
America's Stake in World Trade
October 25, 1943
Page 5

War devours all and calls for more.

In war only military frontiers obstruct the free movement of goods; mere political frontiers have little or no significance.

Will the coming of peace re-endow political frontiers with the same economic significance they held in 1939?

If the answer is "Yes," it probably means another war in the next generation; it certainly means that the world must expect, after a period of reconstruction and reconversion, a great shrinkage in economic activity, back to or below the 1939 levels.

In terms of our domestic economy this would give us an unemployment problem more serious than that of 10 years ago.

As has been pointed out by Paul Hoffman, chairman of the Committee for Economic Development, if we are to avoid serious unemployment in the post-war period, we must plan for a production of goods and services of at least $135,000,000,000, or, say 35 percent, over the 1940 rate.

To do this, we must operate our productive facilities at or near capacity. This will inevitably mean that we will produce a great deal more of some things than we can consume and a great deal less of other things than we require.

To dispose of this surplus production, great new markets must be developed abroad. To receive payment for our goods, we must import more than ever before, and must invest abroad more than ever before.

There is already a revival of the talk so prevalent at the end
the entire peacetime economy of the country going.

Our war production is already 50 percent greater than that of all the Axis countries combined, despite their many years of preparation.

This huge production, added to that of our allies, guarantees that the fighting forces of the United Nations will, in due course, completely overwhelm our enemies everywhere and dictate the terms of peace.

The conclusion of peace will find the United States in a world position of vast prestige and power, the full significance of which is perhaps better understood abroad than it is here.

One wonders what history will say of our part in the peace.

Will we be big enough to meet heavy responsibilities which only we can shoulder?

Impelled by the events of the last 4 years, a revolution has taken place in the thinking and understanding of the American people regarding the physical position of the United States in this shrinking world.

Most of us now recognize that the two oceans which have served as a basis for so much of our complacency no longer afford adequate protection in the modern world.

Popular polls show that we are now prepared to collaborate with neighbors who share our ideas regarding peace and the rights of others.
of the last war of the competition of foreign labor, working at starvation wages, and of the necessity of protecting our high standard of living.

Neither real wages nor the standard of living is raised by keeping goods out; both are improved by letting goods in as payment for other goods which labor and capital produce in surplus.

If a substantial part of the world's millions of new workers can be kept employed producing and distributing peacetime goods, a rising standard of living in the post-war period becomes automatic.

This is an attainable end to which all nations must work.

There will be much that must be done.

Great areas must be reconstructed. Other areas must be developed, opening up resources, raising living standards, and providing new markets.

This will call for substantial capital exports by the richer countries.

Unless we are prepared to take our proper part in this program, our own domestic employment problem will become acute.

No amount of post-war planning on a national level will provide productive employment in private undertakings for our millions of new workers if the rules surrounding the international exchange of goods continue so restrictive as to deny buyers the means of payment across political frontiers.
The world has now shrunk to a point where we can no longer sit in a small corner of it hugging our insularity and our riches to ourselves, unobserved and unmolested.

We have to decide now whether we will take our proper place in the world, politically and economically. The alternative is to turn our country into an armed camp, police the seven seas, tighten our belts, and live by ration books for the next century or so.

This is no preachment of imperialism; no one thinks any longer in terms of territorial aggrandizement.

It is simply a choice we cannot avoid--a choice made inevitable by the world revolution through which we are passing.

America's stake in world trade means much more for us than a great expansion in peacetime production and employment; it represents a great new hope of peace for America and the world.
Printed in the *Congressional Record*, Seventy-eighth Congress, first session, pp. A4620-A4621.

1 Delivered before the Thirtieth National Foreign Trade Convention in New York, October 25, 1943.
To Dr. Calvin Hoover

Washington, D. C.
November 27, 1943

Dear Dr. Hoover:

I am glad to see that you are undertaking for the Committee for Economic Development, of which I am a Trustee, a study of the importance of foreign trade in our post war employment problem.

I have made the point at meetings of the Trustees of the Committee that the best laid plans for employment on an industry, community and national basis may prove futile if the post war policies of the United Nations are such as to restrict or discourage the international exchange of goods.

Our own tariff-free domestic market is so large that we produce certain commodities on a scale which cannot be approached in any other part of the world. We have developed a peculiar genius for combining capital, management and labor in the mass production of goods. As a result, in spite of extremely high wages, we can produce many manufactured articles cheaper and better than anywhere else in the world.

It would be very short-sighted to narrow and limit our export opportunities in these industries by a policy which withholds from our prospective customers the opportunity to pay us for the products which they eagerly wish to purchase from us.

Nearly 20 billions of dollars have been put into Government war plants, most of which can be converted to peace time production. I have
seen some of these plants and they are magnificent --- a great improve-
ment over factory construction of 15 to 20 years ago.

If we take full advantage of our opportunity for the mass pro-
duction of goods in the post war period, it inevitably means that we will
turn out a great deal more of some things than our people can possibly
buy or consume. For markets for such surplus production we will have
to look abroad. The markets are certainly there if we have the intelli-
gence to develop them.

If we are to find work for some 56 or 57 million people in the
post war period, we must export more, import more and invest more
abroad than ever before in our history.

Within two or three years after the war we should be exporting
and importing 15 to 20 billion dollars worth of goods. Even the
imports give substantial employment to our people because more than
fifty cents out of each dollar paid by the consumer for imported
goods is spent in this country --- dock labor, transportation, handling,
overhead, rents, etc.

I take the liberty of presenting these random thoughts to you
for whatever they may be worth.

Sincerely yours,

W. L. Clayton
To Dr. Calvin Hoover
November 27, 1943
Footnotes

L, CP, TL.

1Professor of Economics and Dean of the Graduate School of Arts and Sciences at Duke University (1938-1948).
On February 19, 1944, the Surplus War Property Administration was established under the jurisdiction of the Office of War Mobilization; from February 21, 1944, to December 20, 1944, Will Clayton served as administrator of the new agency. "The primary purpose of the Clayton appointment was to have him set up a policy making organization which would coordinate and direct other agencies in the disposal problem."¹ Once his wife had agreed to stay on in Washington, Clayton turned his attention to organizing the SWPA:

ⁱ Fritchard, "Will Clayton," p. 177.
To Hon. Jesse Jones

Washington, D.C.

January 22, 1944

Dear Mr. Jones:

Justice Byrnes called me over to his office Thursday and told me that he did not want me to leave government service but was very anxious to have me take over the job of disposal of surplus government property, that he had discussed the matter with the President that morning who was also very anxious to have me do this, etc.

I told Justice Byrnes that I had promised my wife to go back home and that the matter would have to lie between the President and my wife. When I got home that night, Susie had received a very nice note from the President saying that he wanted to draft me, etc., as a result of which I appear to be drafted.

Justice Byrnes thinks we over here ought to have the job of disposing of government plants, equipment, machine tools, raw materials, etc., and he thinks that this should be done by a new corporation having only that specific job to do. He understands that we cannot organize any new corporations but thought that we could properly change the name, purposes, etc. of an existing corporation, and I confirmed to him that this could be done.

Justice Byrnes made the point that this country was caught unprepared for war and that we should not be caught unprepared for peace, with which I fully agree. This means that we ought to start
organizing things in order to be ready as there is a lot of preparatory work to be done especially with the plants, equipment and machine tools.

My idea is that we should have two executive vice presidents of the corporation, one in charge of plants, equipment and machine tools, and the other in charge of everything else.

I have in mind Tom McCabe\(^1\) as the best man for the first job and Temple Bridgman\(^2\) for the second job. I have already discussed the matter with Temple who is agreeable.

If you agree, I will get Tom down here and see if I can sell him the idea of coming in with us and handling the plants, equipment and machine tools.

I think we ought to have Hans Klagsbrunn\(^3\) as vice president and general counsel for the corporation. He strikes me as a very able man and of course is more familiar with the plants, equipment and machine tools than anyone else.

Sincerely yours,

W. L. Clayton
To Honorable Jesse H. Jones
January 22, 1944
Footnotes

L.S., CF, Rice.

1 President of Scott Paper Co. of Chester, Pa.

2 Executive vice-president of Metals Reserve Company (1941-1944).

3 Executive vice-president and general counsel of the Defense Plant Corporation (1940-1945); assistant general counsel of the Reconstruction Finance Corporation (1933-1945).
In his capacity as Surplus War Property Administrator, Clayton became even more fully convinced of the necessity for rationalization of the world economy through liberalized trade -- a prerequisite, Clayton argued, for world peace:
A Speech on the Economic Requirements of Peace

Washington, D. C.
April 30, 1944

It has been well said that we can't win the war on the assembly line, but that we could lose it there.

This is just another way of saying that modern wars are fought with machines.

Other things being equal, the nation which can out-produce its enemy will be victorious. We knew this in the tragic days of 1940 when France fell, and when everybody wondered how long England could stand alone against the Germans with their highly mechanized divisions.

At last, Pearl Harbor shocked us into a full realization of the grave peril which we faced, both from the East and from the West. We then determined that our war production plans would be pitched on a scale so vast that history could never accuse us of "too little, too late."

The result is nothing less than a miracle of production.

The fighting men who will win this war for us will be fully supplied with everything needed to do the job.

There are so many imponderables in war that if there is to be enough of everything at the time and place needed, there will inevitably be a great deal too much of some things. In the end, there will be too much of everything.

Surpluses had already commenced to appear in some volume several months ago; so much so that it was deemed wise to set up some machinery
for dealing with the entire surplus problem.

Accordingly, on February 19, the President issued an Executive Order establishing the Surplus War Property Administration, and providing for a Surplus War Property Policy Board to assist and advise the Administrator.

This new agency has the responsibility of the general direction and supervision over the handling and disposition of surplus war property.

It will not actually sell anything.

The Executive Order names the Reconstruction Finance Corporation as the disposal agency for capital goods, Procurement Division of the Treasury for consumers' goods, except food, the War Food Administration for food, and the Maritime Commission for ships and maritime property.

It will be the function of the Surplus War Property Administration to sit between the owning agencies on the one hand -- principally the War and Navy Departments -- and the disposal agencies on the other hand; to see that they work effectively together, and to fix the policies for the disposal of surplus war property.

A very intensive study was made of this whole problem by Mr. Bernard M. Baruch\(^2\) and Mr. John M. Hancock\(^2\) whose findings are set out in the Baruch-Hancock report.

The Executive Order establishing the Surplus War Property Administration was a consequence of that report.

For sound economics, realistic social philosophy, and good politics,
the Baruch-Hancock report is considered by many to be the best manual on post-war planning which has yet appeared. We intend to use it as a guide in the disposal of surplus war property.

Following its recommendations, we shall press for the declaration and disposal of surpluses while the war is on; we shall use the regular channels of trade as far as practicable, avoiding sales to speculators and promoters; we shall see that all businesses, great and small, have equal access to surpluses; and we shall avoid actions which will encourage the growth or maintenance of monopolies.

The general problem of surplus disposal separates itself, rather naturally, into two phases—the war period and the post-war period.

During the war, the markets are hungry for most kinds of goods and prompt disposal should not be difficult.

The avalanche of surpluses will come with peace.

Our current problems are very simple by comparison with the questions we must then face and the decisions we must then make.

The country's main post-war concern will be to find jobs in private activities for some 57 million workers, or about 12 million more than were employed in 1939.

Jobs depend upon markets for goods.

At present values and with present labor efficiency, 57 million workers should turn out 150 to 160 billion dollars worth of goods and services or, say, 50 to 60 percent more than the dollar volume of the
production of 1939.

Where will we find markets in peacetime for this huge volume of production?

But that is not the whole problem.

Although these surpluses about which we have been speaking are the product of past labor, we must also find markets for these goods, and without serious disruption to trade and employment.

Over 15 billion dollars have been invested by the Government in plants and equipment for this war. Other billions are invested in goods and materials of all kinds.

Certain of these facilities and materials will be retained as a post-war standby, but most of this huge inventory should eventually be declared as surplus, for disposal.

In many cases, prompt disposal of plants and materials will create new jobs, in others, forced sales might so seriously disrupt industry as to cause unemployment. The Government's interest in getting its money out of surplus property is certainly secondary to that of promoting and maintaining a sound domestic economy.

In considering the possibilities of marketing these surpluses in the post-war period, consistent with the re-establishment and maintenance of normal trade and employment, one is struck with the fact that our domestic markets cannot absorb the whole of them.

The world is a big place, but any careful reflection on world
markets and the exchangeability of goods and services therein is bound to give one the impression that man's commercial genius must have worked principally in the field of production.

Apparently, the theory was, if you produce a useful thing, distribution will be automatic, because man will always want to exchange one useful thing of which he has a surplus, for another useful thing, of which he has a need.

Indeed, this theory was sound and worked for awhile. Eventually, as production spread over the world, and competition commenced to pinch, man sought to divide the commercial world into water-tight compartments, so to speak, to prevent or restrict the flow of goods and services from one compartment or area to another.

In the past quarter century, man's genius operated so effectively in this field of restriction, freezing in each area the surplus goods produced therein, that the world's greatest depression found warehouses everywhere bulging with useful but unsaleable merchandise.

Will war uproot the foundations of this anomaly and give us a fresh start on the road to sanity?

Or will the peace be such that peoples will again, instinctively, withdraw behind national boundaries, absorbed in problems of their own economic and military security?

That kind of world is a world of fear, of restriction, of isolationism, of low living standards, and in the end, of war and destruc-
tion; in such atmosphere, markets wither and die.

It may be possible to gear our production pattern to our domestic markets and come out with full employment, but not under a democratic system of government.

If we are to preserve our democratic institutions, the post-war world must be organized to afford reasonable promise of freedom from attack, and economic barriers must be lowered so that all peoples may regard the world as their market.

Only in such a world can the genius of America in combining labor, capital, and management in the efficient mass production of goods find its full opportunity.

In a world so organized, there will be work for all, rising living standards for all, and freedom for all who have the desire to achieve it and the will to maintain it.

That kind of world is a big world, a rich world, but still a world of limitless needs, and in it that portion of our surplus property adaptable to civilian requirements should find a ready market.
Speech, Baruch Papers, Princeton University.

1Delivered before a meeting of Freedom House, April 30, 1944.

2Advisor to War Mobilization Director (1943-1945).

3Member of advisory unit, Office of War Mobilization for War and Post-War Adjustment Policies (1943-1944).
On June 22, 1944, an editorial entitled "Election Fraud" appeared in the Washington Post, stating that Jesse Jones and Will Clayton were "commonly reported in connection with the plot . . . to subvert the electoral votes of three Southern States by having these cast against the candidate whom the electors were chosen by the people of their state to support."

The editorial called on Jones and Clayton to deny their implication in the plot if they were not involved. Although Jones did reply with a denial, Clayton responded that the charges were libelous and that he would "not be thus coerced . . . into making a public statement regarding the Texas matter or any other matter . . . . When the Post makes a satisfactory retraction and apology, I will be glad to make a public statement and not before." A week after the "Election Fraud" editorial, a retraction appeared, and Clayton kept his end of the bargain:

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1 Washington Post, June 22, 1944, NA, RG 250.

2 Jesse Jones to Eugene Mayer, June 26, 1944, NA, RG 250.

3 Will Clayton to Wayne Coy, June 27, 1944, NA, RG 250.
To Eugene Meyer

Washington, D. C.
June 29, 1944

Dear Eugene:

The gracious expressions in your editorial "Texas Election" in this morning's Post are sincerely appreciated. Thank you!

I never take public notice of derogatory statements from irresponsible sources, such as the source that first publicly linked my name with the Texas election matter but, in view of your interest in the subject, I think I should now make a statement which you are at liberty to publish.

The following quotation from a written statement I made on June 12, 1944 to my chief, Justice Byrnes, about the Texas election matter should make clear my position:

"The linking of my name with recent political developments in Texas disturbs me because it may be embarrassing to you.

"I not only had no part in these proceedings, I knew nothing whatever about the matter until I read of it in the newspapers.

"Moreover, I do not approve of actions intended
to deny the qualified voters of any State an opportunity
to vote for the nominees of their party."

There is one statement in this morning's editorial which I feel
that I should correct. It is true that I completely dissociated myself
from Anderson, Clayton & Co. in the summer of 1940 when I entered
government service; in fact, I have not been in the State of Texas
since March 1941. I did not, however, liquidate my stock in the
Company; with your knowledge of the history and nature of its busi-
ness, you will understand why it was impossible for me to do so.

Sincerely yours,

W. L. Clayton
To Eugene Meyer
June 29, 1944
Footnotes

L, Baruch Papers, Princeton University.

*Editor of the Washington Post.*
The Surplus Property Act of 1944 was conceived as a means for disposing of surplus property which had resulted from reconversion to a peacetime economy. On June 16, 1944, Clayton told a joint hearing of four Congressional committees that "legislation of this character must be administratively workable, and we are convinced that this can only be achieved by vesting in the Administrator a very large area of discretion."1 When it became apparent that Congress had other intentions, he wrote the following letters, and then submitted his resignation on October 3, 1944, "effective at the time the majority of the new Board take office."2

1 Statement regarding the Surplus Property Act of 1944, June 16, 1944, RG 250, DNA.
2 Will Clayton to James Byrnes, October 3, 1944, RG 250, DNA.
To Hon. James F. Byrnes

Washington, D. C.

September 14, 1944

Dear Justice Byrnes:

I have seen a copy of the Surplus Property Act of 1944 (H.R. 5125) which I understand the conference committee has tentatively agreed to report. However, I am also informed that at a meeting which the committee will hold tomorrow morning, the conferees will still be free to make changes in the bill.

Whatever form the bill may finally take, I have come to the conclusion after mature consideration that I cannot accept appointment under it should such appointment be tendered me.

I hope, therefore, that the conferees, each of whom will receive a copy of this letter, will accept the views herein expressed as being completely disinterested.

My attempts at assisting in writing surplus property legislation were made at the urgent request of Congress. My only concern has been to get workable legislation drawn in the national interest.

My decision not to accept appointment under the bill springs from the conviction growing out of the Senate hearings and debates on the bill that the surplus property disposal program is no longer to be conducted in a businesslike manner. Under those circumstances, since all my experience has been in business, the responsibility for administering whatever bill may finally be passed belongs in other hands than mine.
The latest draft of the bill provides for a four man board and an administrator with no clear definition of their respective jurisdictions and with the votes of the board decided by the Director of War Mobilization.

No agency of this type with diffused responsibility among a number of appointees with equal authority working through an Administrator with conflicting powers could ever get the job done. It would be better to omit altogether any statutory provision for an administrator than to adopt this unworkable compromise.

Unless the bill is changed in this respect it not only will not work but its impracticability will be so obvious on its face that the task of getting good men to accept appointment under it may be impossible.

I have never advocated the granting of unfettered discretion to one man.

I myself suggested to the conferees that all regulations and all single sales of any property which cost the Government one million dollars or more should be subject to the approval of the Policy Board (consisting of government officials like the present Board functioning under Executive Order 9425).

One man rule is thus not the issue.

The issue is administrative workability.

There are so many other unworkable provisions in the bill which
appear to me to be contrary to the national interest that I will not attempt to comment on them.

My views on all such questions have been stated over and over in many hearings before committees of Congress, and are incorporated in the bill as it passed the House.

I only want to add that whatever the final form of the bill, the administrative agency for which it provides should be set up and begin to function without delay. Momentous decisions may have to be made at any time.

If desired, I shall of course be glad to help out unofficially in every way that I can until the new administration is functioning.

Sincerely yours,

W. L. Clayton
To Hon. James F. Byrnes
September 14, 1944
Footnotes

LS, RG 250, DNA.
To Life Magazine

Washington, D. C.

September 16, 1944

Sirs:

Robert Coughlan's "Reconversion" is an excellent and succinct summary. I was of course particularly interested in his treatment of the surplus disposal problem. Especially apt is his statement in connection with the pending legislation that the Left favored the Senate committee's eight-man board because it would be sure to have representation on it and could hope to dominate it, while the Right, seeking to attain sound national prosperity, saw a steadying influence in having a single administrator.

Though the issue is now decided, it is a significant sidelight on this question that the "Left" was enthusiastically joined by the United States Chamber of Commerce and the National Association of Manufacturers, though presumably the end objectives of these particular "Leftists" would not be the same as that of their associates in this enterprise. Surplus property makes strange, though successful, bedfellows.

I submit that Mr. Coughlan has correctly stated the true interest of the Right, but that in this instance their most vocal representatives let them down.

Sincerely yours,

W. L. Clayton
To *Life* Magazine
September 16, 1944
Footnotes

L, Baruch Papers, Princeton University.

1Robert Coughlan, "Reconversion to What?" *Life*, August 28, 1944, p. 23.
Clayton believed that "nearly all great wars have an economic origin" and that permanent world peace would become a reality only when all nations enjoyed equality of economic opportunity through the destruction of trade barriers.¹ In 1944, as in 1936, Clayton again supported President Roosevelt and the Democratic Party because he felt that they offered the best opportunity for liberalized international trade policies, a point he makes clear in the following speech:

¹Will Clayton to Ralph Flanders, December 12, 1944, CP, TL.
A Campaign Speech for Re-election of Roosevelt

Washington, D. C.

October 18, 1944

The war drags on, with unbelievable destruction.

Goebbels\textsuperscript{2} was almost right when he boasted that the Germans would conquer the world or, if they failed, they would slam the door so hard, as they went out, that it would jar the universe.

Is there anyone, anywhere, who does not begin to feel that jar?

Does anything matter much in the world today except bringing these mad-men to bay as quickly as possible, and then taking measures which will give us some reason to hope that they cannot get loose again?

If the answer is that nothing else does matter much, then we should not change Commanders while these vital life and death issues are still undecided.

At the end of this war the United States will be faced with responsibilities and opportunities so great as to challenge the best there is in us of vision, of courage, and of leadership.

We must not fail this time as we did before.

I am supporting President Roosevelt because I believe that he and his party are better equipped than Governor Dewey\textsuperscript{3} and his party to lead us to victory in war and in peace.

While both candidates and both parties have expressed themselves in favor of a world organization for future peace and security,
I think it is proper to examine the question as to which candidate and which party is the more competent to lead us in this field.

The maintenance of world peace is not merely a question of armies and navies and guns and of rules for their use.

Unless our day to day relations with our neighbors in this fast-shrinking world are such as to establish a climate friendly to world peace, the most elaborate military establishment will soon disintegrate.

While Governor Dewey and the Republican Party have spoken in favor of measures to establish military security, the record proves, I think, that they are unprepared, as they were at the end of the last war, to alter certain of their traditional policies to the extent necessary to establish those conditions of world economic peace, on which physical peace must rest.

Secretary Hull in a forthright letter dated September 2, 1938, to Mr. John Hamilton, then Chairman of the Republican National Committee, replying to Mr. Hamilton's blast against the Hull trade agreements program, asserted:

"That economic armaments result in a lowering of living standards throughout the entire world; foment internal strife; and offer constant temptation to use force, or threat of force, as a means of obtaining from other nations what could have been procured through the normal processes of trade."
"That the great fundamental approach to the problem of peace is the ordering of the economic life of the civilized world in a manner which will enable the masses of the people to work and live in reasonable comfort.

"That nations cannot produce on a level to sustain their populations in comfort and well-being unless there are reasonable opportunities to trade one with another.

"That this cannot happen in a world of extreme economic barriers and military hostility."

The Republican Party's position on extreme economic barriers for the past hundred years is well-known but it may be useful to review a little of that recent history and its consequences.

Following the first World War, every economic and logical reason dictated that we should establish a liberal peacetime policy governing our international economic relations.

But when the Republican Party obtained power in 1921, they immediately set this country on a course of extreme nationalism.

They raised the tariff three times between 1921 and 1930.

In 1929, Mr. Hoover, complying with his pre-election promise, called a special session of Congress to deal with the farm problem.

The ill-fated Federal Farm Board and the Smoot-Hawley Tariff Bill were the result.

These two measures were the Republican Party's answer to the
farmers' cry for relief. The farmer asked for bread and they gave him a stone.

Under the Smoot-Hawley Bill, by 1932, annual cash farm income in the United States had dropped six billion dollars, or sixty percent from 1929. It is not contended that this huge shrinkage was entirely due to the Smoot-Hawley Bill, but that Act widened and deepened and prolonged the depression and set in motion a series of international reprisals and hatreds which nourished and incited the gathering forces of war.

The newspapers of May 6, 1930 carried an article to the effect that one thousand American economists had signed and presented a statement opposing passage of the pending Smoot-Hawley Tariff Bill. They urged Congress to make no general upward revision of rates and in the event the bill was passed, urged President Hoover to veto it.

Among other things, the statement said:

"There are already many evidences that the enactment of this bill would inevitably provoke other countries to pay us back in kind by leveling retaliatory duties against our goods.

"America is now facing the problem of unemployment. The proponents of higher tariffs claim that an increase in rates will give work to the idle. This is not true.

"We cannot increase employment by restricting trade."
"Finally, we would urge our Government to consider the bitterness which a policy of higher tariffs would inevitably inject into our international relations. A tariff war does not furnish good soil for the growth of world peace."

The bill became a law of course and thirty-three countries promptly protested against it, most of them taking strong retaliatory measures. No other similar measure has ever before provoked so much international bitterness.

The same newspapers of May 6, 1930 also carried a dispatch from Philadelphia stating that the tariff battle was being fought all over again in Pennsylvania in Senator Joseph R. Grundy's fight to retain his seat in the Senate; that, alarmed over reports that Secretary of Labor Davis would win handily at the primaries May 20, Grundy and his friends were seeking to breathe new life into the tariff issue to curtail the Davis vote.

The article adds that Secretary Davis too was preaching a high tariff gospel and declaring that he was busy behind the scenes in the recent tariff fight. (Smoot-Hawley)

This is the same Senator Grundy who testified that in 1924 he raised $700,000 for the election of Mr. Coolidge, largely from people interested in the tariff and he added that he thought they had a right to get something for their money.

You may be sure that the Grundys and the Davises and others of
the old guard are still active behind the scenes.

It is true that one of the first statements made by Governor Dewey after his nomination at Chicago was that he believed in Secretary Hull's Reciprocal Trade Program and thought it should be continued.

But what does the Republican platform say on this subject? Here it is:

"We will always bear in mind that the domestic market is America's greatest market and that tariffs which protect it against foreign competition should be modified only by reciprocal bi-lateral trade agreements approved by Congress."

Now this statement embodies two principles which would utterly destroy the Hull Reciprocal Trade Agreements program, i.e., that the agreements should be bi-lateral and that they should be approved by Congress.

Bi-lateral agreements were the favorite trade mechanism of Nazi Germany; they separate the world into water-tight trade compartments, lower the standard of living, breed international bitterness and foment internal and external strife.

Congressional approval simply means that the agreements would be subjected to the same disgraceful log-rolling tactics which have characterized the passage of every tariff bill for the last hundred years and which have usually resulted in every selfish group getting the protection it wanted.
If Governor Dewey favors the Hull Reciprocal Trade program why didn't he see to it that the Republican platform was drafted accordingly?

The answer is that the real rulers of the Republican Party wrote that platform; Governor Dewey was powerless to change it then and he will be powerless to change it in future.

The Republican Party has always despised the Hull Reciprocal Trade Agreements program, and has done what it could to destroy it.

The Republican Party has always stood for economic nationalism, a philosophy which leads inevitably to international strife.

The reason the Republican old guard hated Wendell Wilkie is that he tried so hard to breathe a little of the spirit of economic liberalism into the party.

They now give lip service to his philosophy in order to ensnare liberal votes, but they do not intend to follow any such philosophy.

Perhaps the greatest fraud ever perpetrated upon the American people is the age-old Republican doctrine that tariff protection is responsible for our high standard of living. Any undue restriction upon trade cannot possibly fail to reduce the amount and variety of goods available to the people, and thus reduce the standard of living.

Next to the question of future peace and security our most important problem in the postwar period is the question of employment.

We now have employed, including the Armed Services, about 65
million people, which is almost 20 million more than were employed before the war.

Unless we can keep at least half of these additional 20 million people employed, postwar, we will face a very grave unemployment problem with all its social and economic consequences.

Our industrial plant has been greatly expanded during the past three or four years of war. The only way we can hope to keep 55 or 56 million people employed is to make use of this expanded industrial capacity.

To do this means inevitably that we will produce a great deal more of some things than our domestic population can possibly consume.

Therefore, foreign markets for our surplus production are absolutely essential if we are to have a satisfactory condition of employment.

Foreign markets will exist in unprecedented volume but the difficulty will be for foreign buyers to find the necessary dollars with which to make payment. In the end, these dollars can only be made available through our purchase of their goods and services.

For many years, we tried to make a one-way street out of international trade. Unless the declarations of the Atlantic Charter and of the Lend-Lease Agreements are but empty generalities, we must now act.
Barriers which serve to keep the goods of other countries **out**, serve just as effectively to keep our goods **in**, or to let them out only at unremunerative prices to our producers.

Following the last war, the Republican Party, as has been seen, erected barriers which made it impossible for foreigners to pay back the money we loaned them or to pay for the products of our farms, mines and factories which they wished to buy.

Who will say that they will not do the same thing at the end of this war, and thus help plant the seeds of another world war?

The world has now shrunk to a point where we can no longer sit in a small corner of it, hugging our riches and our insularity to ourselves, unobserved and unmolested.

We must now take our proper place in the world, meeting courageously the responsibilities of leadership and helping chart the course of future peace, or we will find ourselves in due course fighting another world war with who knows what coalition of nations arrayed against us.

In taking our proper place, as I believe we shall, our interests will be much better served in the capable hands of President Roosevelt and Secretary Hull than if transferred at this critical time to the hands of Governor Dewey, inexperienced as he is in international affairs.
A Campaign Speech for Re-election of Roosevelt
October 18, 1944
Footnotes

Speech, CP, TE.

1 Delivered before the Women's National Democratic Club, Washington, D. C., October 18, 1944.

2 Joseph P. Goebbels, German Minister for Propaganda (1933-1945).

3 Governor Thomas E. Dewey of New York, Republican candidate for President in 1944.

4 Secretary of State Cordell Hull (1933-1944).

5 Secretary of Labor James J. Davis (1923-1929).

6 Senator Joseph R. Grundy.
The following statement represents possibly the most succinct explication of Clayton's vision of a postwar world, the economic prosperity of which would be expanded through an increased flow of international trade resulting from reduced barriers to exchange of goods:
A Statement on Post-War Economic Policy and Planning

October 27, 1944
Washington, D. C.

I think that it is not only desirable that we increase our foreign trade post-war as compared to pre-war, but I think that it is absolutely essential that we do so if we are to achieve anything like a satisfactory state of employment in the post-war period.

When war started in Europe in 1939 we had about forty-six and one-half million people employed in the United States.

We now have a total of approximately 65,000,000 workers, including the men and women in the armed services.

It has been estimated by the Committee for Economic Development, I believe, that if we could keep employed post war one-half of those 20,000,000 additional workers over the prewar period, in other words, if we could have about 57,000,000 people employed post-war, that would be a satisfactory state of employment, any substantial number less than that of post-war workers would be an unsatisfactory state of employment.

Now, I think that to employ any such number of people post-war we would all agree it is necessary that we greatly expand our production post-war. If we do that it is going to be necessary to use a great many of the facilities we have created for war purposes.

As you know, during the war, there has been relatively little new private construction in industry but we have had about fifteen billion dollars worth of construction of plants and facilities by the Government during the war.

Many of those plants and facilities can easily be converted to peace-
time production, and, as I said a moment ago, I think it will be necessary to use those facilities if we are to employ 57,000,000 people after the war.

Now, if we use these facilities largely, we will inevitably produce a great deal more of some things than our domestic population can possibly use or consume; the result being that we will have to find markets abroad.

If we are to find markets abroad for the sale of these products we must buy more foreign goods as well, because in the end the only way these goods of ours can be paid for is by dollars which will be created by the sale to us of foreign goods and services; or as the gentleman who just preceded me said, by the expenditures of American tourists abroad.

How soon this tourist trade can be resumed, none of us know. It is admitted that in due time it will be a substantial sum.

But by and large the only way that foreigners can pay us is to sell goods to us. In other words, an exchange of goods.

I think what is necessary to be done to bring about an expanded foreign trade is fairly simple.

In the beginning until foreign countries can reconstruct and reconvert and get into position to produce and sell us a surplus of goods, it is going to be necessary to extend some credits.

As you know, at Bretton Woods a tentative agreement was reached between some 40 nations for the setting up of an international investment bank with a capital of about ten billions dollars, and that bank would be in a position to extend very substantial credit abroad for reconstruction and development.

Obviously, whatever credits are extended will provide a buying power for
our goods and for the goods of other industrial countries like Great Britain who are in a position to furnish goods.

It will most of it be capital goods, machinery, and equipment and things of that sort.

But, in my opinion, such loans would be very unwise—as loans made following the first war turned out to be extremely unwise—if our set-up is not such that in due time, as these countries get into production and increase their wealth and productivity and their exportable surpluses, we are in position to participate in the purchase of those goods and thereby create the dollars which will be used to amortize and retire these debts and to buy our goods.

Now, aside from the necessity of loans which I think is there in the post-war period, in order to create a condition precedent to a sound operation, I think it is going to be necessary to reduce our tariff to some extent.

As the gentleman who just preceded me said, our high standard of living is due largely to our technological progress and our mass production and our ability to combine men and capital and experience into the production of goods in mass quantities at low unit cost, and, stated in a little more general terms, as I think the economists all agree, it is due largely to the high proportion of land and capital to population that we have in this country.

All countries that have a large proportion of capital and land and wealth to the population have a higher standard of living, obviously, than the countries that have a small proportion of capital and land to
population.

So I think that while we would have to be careful in tariff revision to see that we did not take steps which would be so drastic as to greatly undermine any particular industries, with a careful study of the situation, we can find many instances in which substantial reductions can be made in order to greatly increase the flow of goods between our country and foreign countries.

I think the experience of the Hull trade agreements program has proven that, and I believe that same principle could be carried on in the post-war period so that we would have reciprocal reductions in tariffs and trade barriers between countries which would greatly enlarge our trade and help to enlarge the trade of the world, with a resultant increased standard of living in our country and elsewhere.

Following the war there is going to be a simply enormous demand for all kinds of goods which we produce, all over the world, principally capital goods, in order to reconstruct and develop backward countries and help repair the damage and destruction of war; and we can sell almost any amount that we can make if some way can be found for the buyers to pay for it; and, as I say, for a few years they will not be able to pay by shipment of their own goods, because they will not be able to get into production quick enough. Of course, a good many of them have gold and foreign exchange. There are many countries that have very large balances in this country, and they will be in position to buy immediately; and a good many countries have gold which, if they care to part with
that, will provide a buying power in the United States.

But if we want to build the foundations for a permanent expansion for our foreign trade, which I think is highly essential if we are to maintain a satisfactory condition of employment in this country, it will be necessary to effect some further reduction in our protective tariff, which is still very high even after the Hull trade agreement programs have brought it down about 25 percent.

I think, following the war, we ought to have, and we will have in all probability, investment of very large sums of American capital by American businesses, American corporations, abroad, in the construction of branch factories, branch offices, or branch businesses of one kind or another.

I think that is a very sound development and of itself will provide a certain amount of dollars for the purchase of our surplus production. And then—that takes in about the three principal categories of lending, say, of investing abroad—the investing by our private corporations in the way of building branch factories, and so on; investment by private capitalists in this country guaranteed by the United Nations Investment Bank; and the investments by that bank in the securities of governments abroad.

In those three ways we should reach a pretty high volume within 5 years after the war of foreign investment by this country, by citizens of this country and the two banks, which ought to give us the foundation
for very good export trade.

But I want to reemphasize that all of this will be extremely unsound unless our whole international economy picture is put on a basis where those people will in due course be able to repay us what they have borrowed. The United States industries, which have planted their branches abroad, will be able to receive dividends from the work of those industries—which also depends upon our willingness to buy foreign products.
Printed in Post-War Economic Policy and Planning. Hearings before the Subcommittee on foreign trade and shipping, Special Committee on post-war economic policy and planning, House of Representatives, Seventy-eighth Congress, second session, and Seventy-ninth Congress, first session, pursuant to H. Res. 408 and H. Res. 60. . . . Part 4. Oct. 27. . . .
In November 1944, Clayton attended a meeting of the Research Advisory Committee of the Committee for Economic Development at which one of the primary topics of discussion was a study of international trade and domestic employment prepared by Dean Calvin Hoover of Duke University.¹ In the following memorandum, Clayton takes issue with that study:

¹Will Clayton to James Byrnes, November 18, 1944, CP, TL.
Comment on Dean Hoover's Study of International Trade and Domestic Employment

Washington, D. C.
November 18, 1944

Dean Hoover's study, on the whole, is so good, that I reluctantly take issue with him on one important point.

Disagreeing strongly, however, with one of his conclusions, I respectfully ask careful consideration of the following:

Throughout Dr. Hoover's two papers, there runs a strong implication that the level of foreign trade has little or nothing to do with the level of employment.

One can even imagine that Dean Hoover believes that a contraction in our foreign trade would add to domestic employment.

In speaking of the "catastrophic unemployment of the great depression," he says:

"For, however unfortunate the effects of the import-export controls upon international trade, they did achieve a considerable degree of success in relieving domestic employment."

* * * * *

"To the degree that the lowering of our protective tariff was effective in increasing purchasing power for American goods in foreign markets, employment in industries producing for export would be increased. This might not, however, offset immediately the loss of employment in
industries less sheltered under the tariff than before."

* * * * *

"If strong measures are taken by our national Government whenever necessary to maintain domestic employment, foreign trade need not be feared as a cause of unemployment. On the other hand, expanding our foreign trade should not normally be considered a means of increasing domestic employment."

* * * * *

"The fundamental reason for the existence of international trade is not to increase employment but to increase national income and standards of living."

Although Dr. Hoover probably agrees with the CED statement in its Second Annual Report, that "a mere reconversion of industry to the level of activity which prevailed in 1940 would be disastrous, to the point of causing unemployment for perhaps as many as 15 million Americans," he apparently takes the view that this applies exclusively to industries engaged in domestic trade. Does he face with equanimity the possibility of a reconversion in our export industries from the present level of 15 billion dollars annually to the pre-war level of 3 billion dollars?

Dr. Hoover states that a high level of international trade adds to national income, raises the standard of living, "would be a major step towards the maintenance of a peaceful post-war world" and "would
manifestly provide a most favorable climate for all forms of peaceful international collaboration;" but in some strange way this is accomplished without adding to employment; indeed, employment might even be reduced.

The weight of distinguished academic opinion at the Chicago meeting supported this view:

"China, in the days of the Great Wall, had, or could have had, full employment;"

(5¢ a day and a bowl of rice!)

"The United States could abolish all foreign trade and in fifty years could readjust its economy to a condition of full employment;"

(Is CED overlooking a formula for achieving full employment)?

"Germany reduced unemployment by restricting imports."

(Slave labor, preparing feverishly for war, in a completely regimented economy, with a constant shrinkage in the standard of living).

"Russia achieved full employment with almost no foreign trade."

(Do we want to adopt the Russian system)?
Query No. 1: Will not an increase in national income, a rise in living standards, the promotion of a peaceful post-war world, inevitably result from, be accompanied by, or result in an expansion in productive employment?

Query No. 2: Is CED's objective merely employment, or is it employment at satisfactory wages in a free economy?

These two questions seem to answer themselves but to make sure, let us ask and try to answer another:

Query No. 3: If the present level of exports of 15 billion dollars annually can be substantially maintained, post-war, instead of dropping back to the pre-war level of 3 billions, will that contribute to the maintenance of post-war domestic employment at satisfactory wages in a free economy?

If I correctly understand Dean Hoover's position and the weight of academic opinion at Chicago, it is to the effect that since the only sound way we can be paid for these exports is by importing an equivalent value in goods and services, domestic employment is merely balanced in the process, with the probability that the imports may cause more unemployment than the exports provide.

I respectfully submit that this is a very superficial and inaccurate analysis of the subject.

If we are to achieve, post-war, a gross national product of goods and services of 150 billion dollars, employing about 56 million workers,
we can probably only do so by making substantial use of the entire productive facilities of the country.

This will mean inevitably that we will produce a great deal more of some things than our domestic economy can absorb. Markets for these surpluses must be found abroad, if we are to avoid serious unemployment.

The world, post-war, will need enormous quantities of capital and producers' goods, machinery, equipment of all kinds, technical "know how," as well as durable and non-durable consumers' goods.

Except for non-durable consumers' goods, the United States will for several years be almost the only market which can supply these things in large quantities. It will be practically the only market in position to sell on credit.

In the beginning, due to the great shortage of goods abroad and the disorganization of productive facilities, payment for the most part can be made only in two ways:

By gold and the use of existing dollar balances;

By credits.

Credits will undoubtedly be available in very substantial amounts by some instrumentality of the United States Government, or of the United Nations, or both.

When the debtor countries have reorganized their production, they will have a surplus of goods and services with which to pay the
interest on these loans and amortize the principal, although it is
doubted if, on balance, the creditors (principally the United States)
will wish to receive the principal. If we follow the policy pursued
by England, after the Napoleonic Wars, we will add to rather than subtract
from our investments abroad.

If, however, these credits are to be sound, and if our exports
are to continue, we must be prepared to accept payment in goods and
services, which means a reduction in our tariffs, abolition of im-
port embargoes, quotas, etc.

But the question here arises:

Will this not cancel out all the employment benefits derived from
the exports? The answer is definitely no, for the following reasons:

A. Payment to the extent of quite a few billions
will, undoubtedly, be effected by means of U. S. invest-
ments abroad of a permanent nature.

B. Imports themselves provide much employment (in
some cases more than exports). The American Manufacturers
Export Association found from a study of a large variety
of imported manufactured articles that on the average,
cut of each dollar paid by the U. S. consumer of such
articles only 30 cents went abroad, the remaining 70
cents having been spent in the United States for labor,
rent, taxes and profits, in handling, transportation,
and distribution within the United States.

C. Many of the imports would not compete with U.S. production, such as luxury goods, specialities of one kind and another, and goods not produced in the United States.

D. In a radio address made by Secretary Hull March 23, 1935, he said:

"A study made of 36 typical industries which are on an export basis or not aided by the tariff, and 36 industries whose products are highly protected, shows that in 1929 the average annual remuneration of wage earners in the unprotected industries was $1,704, while that in the highly protected industries was $1,109."

If in expanding pre-war exports we add a half million or so workers to the pay rolls of unprotected industries paying an annual wage rate of $1,704, we should not feel too badly if some of these workers come from highly protected industries with a wage rate of only $1,109.

E. With an expanded economy, an increased national income, and a higher standard of living, post-war, Americans will, within a very few years after the war, probably spend two or three times as much on foreign travel, as before
the war.

F. Post-war remittances by foreign-born American citizens and residents to relatives abroad, will probably be considerably greater than pre-war.

If the 10 or 15 billion dollars worth of goods which we can annually export, post-war, are not exported, these goods will for the most part not be produced. What then will we do with the displaced labor?

Theoretically we could, as has been suggested, reconstruct and readjust our economy to a much more simple way of life and take care of all of these people.

They could return to the farm, dig their food out of the ground, spin and weave their own clothing and walk to Church on Sunday. They certainly could not return to the farm on a wage basis, because agriculture is being mechanized so fast that we are now producing record crops with the smallest number of farm workers in history. It is believed that this trend will go forward rapidly, post-war.

Is it not clear that unless private industry can provide employment for people in pretty much the same kind of environment in which they have been living and working, the workers will look to the Government to do so?

Is it not also clear that if industry is to do this job, it needs
to mobilize markets for every possible dollar's worth of goods wherever those markets may be found?

Cannot industry face the future with much greater assurance of uninterrupted operation and full employment if it can look to the whole world as its market instead of merely the United States?

* * * * *

I have confined this discussion to the employment aspect of international trade.

I cannot, however, resist the temptation to add the following:

A great world creditor nation, as the United States is destined to be, must act like a creditor; otherwise, no Bretton Woods Monetary Fund will long prevent exchange control, import quotas, embargoes and other similar devices for regulating the balance of payment between nations, with inevitable resurgence of international strife and bitterness such as grew out of our economic policies following the first World War.

The most elaborate military establishment for the preservation of physical peace will soon disintegrate in an atmosphere of bitterness created by international economic warfare.

As the greatest military, economic, and financial power in the world, the United States faces colossal responsibilities and opportunities in an atmosphere of economic isolationism such as that created by our economic policies following the first World War, culminating
in the Smoot-Hawley Tariff Bill which practically destroyed our international trade and provoked retaliatory measures on the part of 31 nations.

Free enterprise will not survive another World War.

All of which has at least something to do with full employment at satisfactory wages, in a free economy.

Respectfully,

W. L. Clayton
Comment on Dean Hoover's Study of International Trade and Domestic Employment
November 11, 1948
Footnotes

Memo., RG 250, DNA.
Chapter III

Assistant Secretary of State (1944-1946)
From December 20, 1944, to August 18, 1946, Clayton served as Assistant Secretary of State for Economic Affairs. In his testimony before the Senate Foreign Relations Committee on December 12, 1944, he gave the following summary of his career and philosophy as a statement of his qualifications for the office of Assistant Secretary:
A Statement on His Nomination as Assistant Secretary of State

Washington, D. C.

December 12, 1944

In appearing before the Senate Committee on Foreign Relations for examination regarding my fitness to serve as Assistant Secretary of State for economic affairs, I wish to make a brief preliminary statement which may clear up some questions at once and save the committee's time.

I was one of the organizers of the cotton merchant firm of Anderson, Clayton & Co. in 1904 and, with the exception of a short period in the First World War, was continuously in that business until August 1940. At that time I resigned as chairman of the board of Anderson, Clayton & Co. to enter Government service, first with Nelson Rockefeller, Coordinator of Inter-American Affairs, then as Deputy Federal Loan Administrator, then as Assistant Secretary of Commerce, to which position I was appointed by the President and confirmed by the Senate.

I resigned as Assistant Secretary of Commerce in February 1944 to become Surplus War Property Administrator, under Executive Order 9425.

On October 3, 1944, I resigned as Surplus War Property Administrator, effective when the new Surplus Property Board takes office.

It has been suggested by some persons that I am a believer in cartels.
Nothing could be further from the truth.

My commercial experience has been confined to the cotton business. The merchandising of raw cotton is known to be one of the most highly competitive businesses in the world.

Webster defines a cartel as "a combination of separate firms to maintain prices above a competitive figure."

The nature of the cotton merchandising business excludes any such arrangements.

Numerous investigations by the Committee on Agriculture of the Senate and the Federal Trade Commission have failed to disclose collusive practices in the cotton-merchandising business.

That there are no such practices is further evidenced by the fact that net profits in the business over a long period of years have been only 1 to 1-1/2 percent of the dollar volume.

Having been brought up in this school of hard, keen competition, and liking it, I early formed a strong antipathy, in principle, to cartels.

I quote as follows from a speech I delivered at the Harvard Tercentenary Celebration in 1936:

Agreements between competitors to curtail production or fix prices, with or without Government sanction, are to be condemned on economic grounds.
There is a good deal of confusion in our thinking in this country on the subject of cartels.

We are inclined to denounce cartels on what we buy and favor them, although under a different name, on what we sell.

A cartel smells the same to me by whatever name it may be called or for whatever commercial purpose it may be organized.

If international agreements are entered into between governments in respect of some commodities in which burdensome surpluses have resulted from the war and other causes, the consuming countries should participate in the formation and administration of such agreements, the agreements should be temporary in character and should contemplate as their principal objective the shifting from inefficient to efficient production.

The committee may wish to know my views on other international economic questions.

For many years, I have been an ardent, outspoken, and consistent advocate of Cordell Hull's philosophy regarding international economic matters.

May I quote two paragraphs from a speech which Secretary Hull delivered on April 9, 1944:

Along with arrangements by which nations may be secure
and free must go arrangements by which men and women who
compose those nations may live and have the opportunity
through their efforts to improve their material condition.
We will fail indeed if we win a victory only to let the
free peoples of this world, through any absence of
action on our part, sink into weakness and despair.

The heart of the matter lies in action which will
stimulate and expand production in industry and agriculture
and free international commerce from excessive and un-
reasonable restrictions. These are the essential pre-
requisites to maintaining and improving the standard of
living in our own and in all countries. Production cannot
go forward without arrangements to provide investment
capital. Trade cannot be conducted without stable
currencies in which payments can be promised and made.
Trade cannot develop unless excessive barriers in the
form of tariffs, preferences, quotas, exchange controls,
monopolies, and subsidies, and others, are reduced or
eliminated. It needs also agreed arrangements under
which communication systems between nations and
transport by air and sea can develop. And much of
all this will miss its mark of satisfying human needs
unless we take agreed action for the improvement of labor standards and standards of health and nutrition.

I unreservedly subscribe to this thesis.

Now, may I say a word regarding the operations of Anderson, Clayton & Co. which have been mentioned in some quarters in connection with my nomination to be Assistant Secretary of State.

The capital, surplus, and undivided profits of Anderson, Clayton & Co. is now a little over $50,000,000, of which members of my family and I own approximately 40 percent.

My only connection with the company is as stockholder. I have not attended a stockholders meeting since resigning as chairman of the board in August 1940; in fact, have not been back to my home in Houston, Tex., since March 1941.

Anderson, Clayton & Co. has offices throughout the Cotton Belt and cotton-consuming centers of the United States, and maintains branch offices or agencies in the principal cotton-consuming countries of the world.

The company also operates, through subsidiaries, in the following foreign cotton-producing countries: Mexico, Peru, Argentina, Paraguay, Brazil, and Egypt. The present book value of the company's fixed assets in these countries is about $10,000,000.
Anderson, Clayton & Co. have never owned any fixed assets or investments of any kind in Japan or Germany, although for many years prior to the war the company maintained sales agencies in both countries. The company also for many years did a very large business with Russia; was one of the first American firms to establish business relations with the Soviet Government after the revolution, long before recognition of that Government by the United States Government, and one of the few firms in the world to extend them substantial credits in those early days.

At the outbreak of the war between Germany, France and England, about September 3, 1939, Anderson, Clayton & Co. discontinued business with Germany and so instructed all its foreign subsidiaries.

The company and its subsidiaries made no sales to Japan for some time prior to Pearl Harbor.

Some persons apparently fear that my business interests abroad may influence my opinions and actions in the economic affairs of the United States Government.

The only answer I know how to make to this is to say that if any Senator believes that my own foreign interests would prevent me from taking an objective and patriotic position with reference to the interests of my country, I would expect him to vote against my confirmation.
I merely want to add that I am glad this hearing is an open one and that I freely invite any question regarding my private or public acts which may have any bearing, even though remote, on my fitness to serve in the position to which I have been nominated by the President.
A Statement on His Nomination as
Assistant Secretary of State
December 12, 1944
Footnotes

Printed in Nominations-Department of State. Hearings before the
Committee on foreign relations, United States Senate, Seventy-eighth
Congress, second session, on the nominations of . . . W. L. Clayton, of
Texas, to be an Assistant Secretary of State. . . . December 12 and 13, 1944.
Secretary of the Treasury Henry Morgenthau wrote to President Roosevelt on January 1, 1945, suggesting that the United States extend comprehensive aid to Russia "during her reconstruction period."¹ Such aid would be tendered under the provisions of Section 3 (c) of the Lend-Lease Act which allowed the completion of aid agreements made before July 1, 1946.² Upon receiving a copy of Morgenthau's letter to the President, Secretary of State Edward Stettinius asked Clayton to "recommend to me the position which I should take on behalf of the Department on this matter."³


To Hon. Edward R. Stettinius, Jr.¹

January 20, 1945

Washington, D. C.

Mr. Secretary:

I feel that it would be helpful, in connection with any discussions you may have with the President or Secretary Morgenthau, to have the following comments on the proposals recently made by Mr. Morgenthau in regard to postwar trade with the Soviet Union:

Proposal 3 (c) supplementary agreement to the Master Lend-Lease Agreement.

1. In regard to the Treasury proposal that we should now offer the Soviet Government the proposed 3(c) agreement without interest charges, it is felt that, if at this time we should change our ground, it, in all probability, would cause definite repercussions in other political or economic negotiations we may have with the Soviet Government. In this connection, we told the Soviet negotiators, in full good faith and with definite Treasury concurrence, that the last 3(c) proposals we made to them were our final offer, and that because of legal and other grounds, we could not grant them any better terms. If we should now make the same proposals except for the exclusion of interest charges we could not help but give the impression to the Soviet authorities that what we said last summer was not true, and thus we might unwittingly kindle the fire of suspicion which they have had in the past as to our good faith. Moreover, by making this new proposal, we would definitely give the impression that we were most anxious, almost on any terms, to make available
postwar goods to the Soviet Union. While we are naturally desirous to increase our trade with the Soviet Union to the maximum, and it is in our interest to do so, it would be tactically harmful to deepen the impression they already have that no matter what happens we are going to have to sell goods to the Soviet Union in order to keep our own economy going.

2. Apparently one of the reasons motivating the Treasury suggestion that the 3(c) agreement should bear no interest rate is tied with certain suggested proposals which may be made to the British and French providing for delivery of certain types of goods on a deferred-payment basis with no interest charges. I understand that in the case of the British these proposals only involve food stuffs which may be in the "pipeline" after the termination of hostilities and therefore would not amount to a great deal, and that the deferred payments, in all probability, would cover a comparatively short period. Moreover, the British are paying for all capital goods now delivered under Lend-Lease including many items offered to the Soviet Government in Schedule 1 of the 3(c) agreement (locomotives, freight cars, machine tools, etc.). In regard to the French negotiations, it is understood that Mr. Monnet has suggested arrangements by which they would obligate themselves on a deferred-payment basis to compensate the United States for all capital goods furnished during hostilities as well as subsequently. It will be seen, therefore, that the propositions which may be suggested to the British and French are not comparable to the proposals made under the Soviet 3(c) agreement. In view of this, the French and British proposals would not appear to be precedents for the Soviet case.
For the above reasons, it is felt that we should accept Ambassador Harriman's suggestions that the Soviet government be informed again that the proposals made in our 3(c) agreement are final.

Postwar Credits.

In regard to Secretary Morgenthau's proposal to offer the Soviet Government at the present time ten billion dollars at two percent interest coupled with an option to the United States to receive in repayment strategic raw materials, it is believed that the following factors make it impossible at this moment to accept the suggestions:

1. Because of legislative restrictions, it is impossible to offer postwar credit to the Soviet Union until these restrictions have been lifted by Congress.

2. From a tactical point of view, it would seem harmful for us to offer such a large credit at this time and thus lose what appears to be the only concrete bargaining lever for use in connection with the many other political and economic problems which will arise between our two countries. Ambassador Harriman concurs in this opinion.

3. The Soviet Government itself has only proposed a credit of six billion dollars, and there is some question as to their ability to pay interest and amortization charges on a ten billion dollar loan as well as finance future trade after the initial purchases are made. Moreover, there is also some question as to the amount of surplus strategic materials which the Soviet Union
will have available for sale abroad, and whether they would be willing to bind themselves categorically to furnish these strategic materials over a long period. Before making any proposals of this kind, careful studies must be made to ascertain the probable amounts of such strategic materials as might be available.

W[illiam] L. C[layton]
To Edward R. Stettinius, Jr.
January 20, 1945
Footnotes


1Secretary of State (1944-1945).
From February 21, 1945, to March 8, 1945, the Inter-American Conference on War and Peace met in Mexico City to cement inter-American solidarity in the postwar world. As Ambassador to Mexico George Messersmith stated, one of the primary goals of the conference was "to consolidate the unity of the twenty Republics in the political and economic field."\textsuperscript{1} Political unity was achieved through the adoption of the Act of Chapultepec, which provided for reciprocal defense assistance among the American nations. Leading the struggle for economic unity was Will Clayton, head of the Economics Section of the U. S. delegation and "the most important man at the conference."\textsuperscript{2} In the following speech, he outlines the economic policies and goals which would guide American decision-making in the postwar years:

\footnotesize{
\textsuperscript{1}Quoted by Kolko, The Politics of War, p. 460.

\textsuperscript{2}Kolko, p. 460.}
A Statement on the Problems of War and Peace

Washington, D. C.
March 4, 1945

MR. CHAIRMAN: I am grateful for this opportunity to address the two economic committees of this conference, meeting in joint session.

On behalf of the United States Delegation, I wish to discuss with you some of the economic problems which are of great concern to the other American republics as well as to the Government and people of the United States.

As you will recall, the program of the United States Government for the procurement of strategic and critical materials, first for defense and later for war, was begun in the summer and fall of 1940.

As Deputy Federal Loan Administrator, I was then and for some time thereafter in charge of the foreign procurement programs of the Metals Reserve Company, the Defense Supplies Corporation, and the Rubber Reserve Company. I have a keen recollection of the negotiations and contracts which were entered into with the producers and the governments of the other American nations. These contracts involved a great variety of strategic and critical materials essential to the defense of my country and later to the prosecution of the war into which we were plunged by the Axis powers, intent upon world domination.

Looking back upon the negotiation of those early contracts, involving hundreds of millions of dollars, I take great pride and pleasure in saying that they were made without undue bargaining; that the prices
were fair and equitable; that the contracts were on the whole performed
with complete honesty and integrity; that every effort was made to
extend production to meet our needs; and that the spirit throughout,
in the negotiation and in the performance, was on the whole very fine
and very cooperative. I am reliably informed that the same may also
be said regarding later contracts and performance under them.

In the four and one-half years which have elapsed since those
first contracts were made, the United States has by private and Govern-
ment purchase bought more than five billion dollars worth of goods
from the other American republics.

This is a very large sum, and there are people in my country who
take a very narrow and one-sided view of these transactions. They
say: "Just look at the billions that we have poured out to these
people! They should be extremely grateful to us for supplying so
lucrative a market for their production." And you probably have people
in your country who say: "The United States might have lost the war
if we had not supplied them with millions of tons of essential materials,
and for this they are certainly under everlasting obligation to us."

Taken separately these views present a very distorted picture of
the situation; taken together they merely state the facts which are that
you and we have engaged in enormous transactions having a high degree
of mutuality of interest and benefit.
It should further be said that these transactions have been abnormal both in size and in character; that they were entered into with the purpose of defeating a powerful and ruthless enemy, intent upon the destruction of your liberty and ours; that wars always come to an end, and that when this one finally drags its bloody and destructive course to a conclusion it will open up to all of us an untried and an unknown road on which we must travel, in converting from a war economy to a peace economy. Despite the hardships, the risks, and the dangers which this journey may involve, there is no way to avoid traveling that road. Every consideration of enlightened self-interest, every circumstance and condition which have brought and held us together throughout this war dictate that you and we should travel that road together.

Now what are these grave post-war problems which you and we must face?

We understand that one of your first concerns is that the ending of the war will bring a sudden termination to these huge procurement contracts about which we have been talking and that the resulting shock may, before peacetime markets are restored, precipitate economic and social disturbances of a very grave character.

You realize, I am sure, that we in the United States have that problem also and in a highly magnified form.

But we will talk about your problem first.
Let us not forget in doing so that it is the unknown which frightens us and that horrible imaginings are seldom realized.

Let us go back again to the summer of 1940.

France had fallen; Italy had entered the war; practically the entire continent of Europe, always a major market for your products, was cut off. If your recollection of those dark days is as keen as mine, and I am sure it is, you will recall the deep concern which all of us felt for the effect which this situation might have on the economic and social structure of your countries.

It was agreed that something had to be done.

In September 1940 the capital of the Export-Import Bank was increased by 500 million dollars "to assist in the development of the resources, the stabilization of the economies, and the orderly marketing of the products of the countries of the Western Hemisphere."

Relatively little of this money was ever called for by you to assist in the orderly marketing of your products.

You didn't call for it because you didn't need it for the purpose. The United Nations took what you had for sale and called for more and more.

Almost five years have passed since those anxious days in 1940, and you and we are again deeply concerned regarding markets for your products, when war, like a huge maw, no longer feeds upon them.
That adjustments must then be made is obvious.

That there will be a breathing spell, within which peacetime demands will develop, as war requirements lessen, is probable.

No responsible person would be so rash as to predict when this war will end, but that it will end in Europe before it does in the Pacific seems highly probable. The transition period will begin with the end of the European war, but in all probability may not be marked by any large cut in war procurement.

We will continue as in the past to give appropriate notice of the curtailment or termination of procurement contracts. We will confer freely with you regarding such reductions and the necessary adjustments which they will involve. We will consider and cooperate with you in measures designed to effect these adjustments with the least possible shock to your economy. We recognize our responsibility in this field, and we propose to meet it, consistent with our laws, our public opinion and a due regard for your own economy.

There is some doubt whether we can legally stockpile materials which have no relation to our requirements for war.

Encouragement of production through stockpiling of materials for which there is no current or early prospective market is in any case a very dangerous procedure for the producers of such materials.

I am sure you will recognize that this statement is supported
by the very considerable experience which the United States and other countries have had in connection with such stockpiles during the period between the two wars.

Markets are extremely sensitive to the existence of large surpluses and until such surpluses are absorbed their presence inevitably acts as a depressing influence on prices, on initiative, and on enterprise.

In due course we expect that there will be legislation in the United States authorizing a post-war stockpile of strategic and critical materials to provide for our military security and for our contribution to the maintenance of security in the Western Hemisphere and in the world. It is impossible to predict at this time what these stockpiles will consist of, but in any case they will probably be frozen for security purposes. It is expected that these stockpiles will be constructed partly out of stocks in the hands of the United States Army and Navy and other Government agencies at the end of this war. To the extent that such stocks are so used they will not compete with new production in satisfying peacetime demands.

Now, when will these peacetime demands appear and in what volume?

With the war over in Europe, reconstruction and rehabilitation of the liberated areas will set in promptly. Orders for goods will commence to flow. Europe is starved for goods of all kinds.
But how can Europe pay before her productive capacity is restored? Europe will pay in two ways.

In the first place, the gold and dollar reserves of the world outside of the United States are about 20 billions of dollars, or roughly four times what they were at the end of the first World War. In the second place, credits will be available.

About two weeks ago the President of the United States sent a message to Congress requesting approval of the Bretton Woods proposal for the establishment of an International Monetary Fund and an International Bank for Reconstruction and Development. The former will have funds totaling about 9 billion dollars for the stabilization of the exchanges of the United Nations, and the latter will have a capital of about 9 billions for reconstruction and development loans. Of these sums the United States will furnish a total of nearly 6 billion dollars, assuming that the proposal is approved by the Congress, which is confidently expected. In addition, the Congress is being asked to provide for an increase in the capital of the Export-Import Bank, which will enable the Bank to continue its operations as in the past, but on a much larger scale.

Besides these means of payment, UNRRA has, as you know, funds immediately available for rehabilitation and relief.

There is, then, no cause for pessimism regarding the urgent and,
in many cases, desperate postwar need for useful goods of all kinds, or of the ability to provide the means of payment. Indeed, it is the expectation that within a few years after the end of the war the volume of international trade will expand to considerably higher than pre-war levels.

Your second serious concern, as you have expressed it to us, relates to the conservation and use of the very substantial dollar balances which you have accumulated during the period of the war by reason of the fact that you have sold considerably more goods during this period than you have been able to procure.

This problem has two aspects.

You have the very laudable ambition, as we understand it, to make use of these balances for the permanent improvement and development of your economies to the end that the levels of living in your respective countries may be substantially raised.

To this end you wish to prevent the draining off of these balances at the first opportunity through the purchase abroad of luxury goods.

Another aspect of this problem is your concern that the transitional and post-war demands upon the productive facilities of the United States for capital goods, tools, machinery and equipment, and technical knowledge will be so great as to make it difficult, if not impossible, for you to satisfy your requirements in this field.
We in the United States recognize that both aspects of this problem are difficult, and we are prepared to work actively with you to accomplish your objective.

We further recognize that our war-procurement transactions with you cannot really be considered completed until you have received from us or others an equivalent in goods and services, and that the dollars which lie at your credit in our country are of little use to you until they can be employed for that purpose.

It is obviously in our interest to furnish these goods and services at the earliest possible time.

It is also in our interest that you should, as you desire, use a very substantial portion of these dollars for the sound development of your industrial, agricultural, and mineral resources because in so doing you will raise the level of living of your peoples and thus furnish to us an enlarged market for our own production.

As you know, it is one of the principles of the post-war commercial policy of my country to avoid exchange controls. Indeed the International Monetary Fund about which we have already spoken is being set up for that purpose among others. It is recognized, however, that some reasonable controls may be unavoidable in the transition period, and this is provided for in the Bretton Woods proposal. We are prepared to consider with you the extent and manner to which such controls may
be necessary to accomplish the purpose you have in mind. Exchange or similar controls should not be used for other motives such as the imposition of hidden tariffs, quotas, etc., for the protection of domestic industries.

With reference to the availability in the United States of the capital goods, tools, machinery, and equipment which you require in implementing your post-war policy of economic development, it must be admitted right off that we face here an extremely difficult problem.

For five years now the insatiable demands of war have made it impossible for you to satisfy your requirements for goods of this kind, for keeping your industries and transportation systems in working order, and for new developments, so greatly needed.

Whereas before the war the markets of several great industrial nations were open to you for supplying such goods, you have had to rely principally upon the United States for the past five years.

We realize that our performance has fallen far short of meeting your needs, but the record is better than most people know. Here it is:

For the past five years, 1940 to 1944, inclusive, our total exports to the other American republics have exceeded 4 billion dollars in value. For the year 1944 they exceeded 1 billion dollars in value as against 800 million in 1943, 700 million in 1942, and 500 million
in a typical pre-war year. While there has been some increase in prices, pre-war volume has been well maintained.

These goods have been furnished at a time when we were fighting all over the world the greatest war in history, and at a time when we were furnishing our Allies with 35 billion dollars' worth of war materials and other vital goods for the prosecution of the war.

May I add that we in the United States have also had to do without equipment, tools, and machinery unless their need or use were directly related to the war. In consequence many of our plants which have been operating 24 hours daily are badly in need of repairs and new equipment. For some years now new construction of all kinds has been denied unless it had to do with the war.

As has been said, the demand for goods of all kinds in the post-war period is certain to be extremely heavy and particularly in the field of capital equipment for reconstruction, reconversion, and rehabilitation.

At the same time the productive facilities for goods of this character will have been substantially destroyed throughout the world except in two or three countries. In consequence, the load which will be placed on these two or three countries will be a very heavy one.

As you know, our facilities in the United States for the pro-
duction of capital goods have been greatly expanded and in some cases enormously expanded. For example, we have facilities for manufacturing twelve to fifteen times as many machine tools as in the pre-war period.

So long as the existing controls which have been set up in the United States continue, we have the means at hand for an equitable allocation of our production, and it is the intention to continue to make use of such means to see that you obtain a fair share of such production. Meantime, we will carefully investigate other methods of assuring you of a fair proportion of our capital goods when our present governmental controls expire. I have tried to tell fairly the story of the relations between the United States and the other American republics in respect of our procurement from you of strategic and critical materials for the war and in respect of your procurement from us of the goods required by you.

I would like now to mention briefly the relations between your countries and mine in another field.

I have already spoken of the Export-Import Bank and of the authority which was given to the Bank by Congress "to assist in the development of the resources, the stabilization of the economies, and the orderly marketing of the products of the countries of the Western Hemisphere."

When in September 1940 the capital of the Bank was increased
by 500 million dollars for these purposes, there were cynics in the United States and elsewhere who predicted that this money would be quickly borrowed, that additional sums would be requested and granted, and that the bulk of it would be wasted and never repaid.

Now, what are the facts?

Since its creation in 1934 the Export-Import Bank has made commitments to other American countries in excess of 800 million dollars but the borrowers have so far used only 263 million dollars or about one third of this commitment. Of this latter sum approximately one half has been repaid by the borrowers in accordance with the terms of the loan agreements so that at this time there are outstanding on the books of the Bank loans to other American countries of only 131 million dollars. No loan made by the Bank to countries of the Western Hemisphere is in default. All payments have been made as due.

This is a record of which you and the Bank may be justly proud. The Bank is ready now and later in the post-war period to consider applications for development loans of a sound nature.

The policy of the Bank does not permit it to make loans for the establishment of enterprises which can only make their way through government subsidies or excessive tariffs. I am sure you will recognize the correctness of this policy.

Now, may I also say a word regarding the post-war economic policy
of the United States. The Secretary of State in the second plenary session of this conference expressed our basic objectives in this field and it has been our privilege to propose to the conference an economic charter of the Americas which sets forth the policies we believe to be necessary for the realization of these objectives.

The United States Government is definitely committed to a post-war policy looking to a substantial expansion in world economy. We recognize the interdependence of nations in the political, military, and economic fields for the preservation of peace in the world and for the creation of those conditions which will promote higher levels of living through an expansion in production, distribution, and consumption of goods and services and through international cooperation in fostering the betterment of labor standards and health and social conditions in general. To this end it is our intention to work actively for international agreements to remove all discriminations in trade, to reduce tariffs and other barriers to trade, and for the approval of the Bretton Woods proposal and the adoption of every other sound measure which will quicken and expand production and the international exchange of goods and services.

We recognize that international commodity agreements may be necessary in exceptional cases of important primary commodities in which burdensome surpluses have developed or threaten to develop.
Both consuming and producing countries should have representation in such agreements, which should look to the expansion of consumption and the readjustment of production, with due regard to the requirements of an expanding world economy.

We do not believe that we can have a high level of employment and prosperity in our country if a substantial part of the world is suffering from depression, and we are quite sure that a satisfactory condition of employment and prosperity in the United States is a highly important factor in contributing to a like condition in other countries.

The United States is determined to remain strong economically and financially. Unless she does so, there is little chance that the rest of the world can prosper.

We recognize that the most elaborate arrangements for the preservation of peace will not long endure if economic warfare is to continue throughout the world in the way in which it was waged between the two world wars.

The United States Delegation, recognizing its responsibility to work for hemispheric and world security, peace, and progress, assures its American neighbors that it favors:

1. The promotion of equal and reciprocal opportunity for the nationals and goods of all the Americas in all markets.
2. Freedom, through adherence to principles of fair trade, from discrimination against smaller nations by stronger nations in hemispheric or world organization.

3. Establishment of such necessary hemispheric practices and agencies, consistent with the principles of the charter of the United Nations, when created, as will have the tendency and responsibility to foster the development of competitive enterprise, expansion of economic activity, and promotion of economic peace.

We are dedicated to the ways of economic peace in the world, in order that there may be created a favorable climate for the preservation of physical peace, and in order that the peoples of the world may be better fed, better clothed, and better housed.

As our President has said more than once, this generation has a rendezvous with destiny.
A Statement on the Problems of War and Peace
March 4, 1945
Footnotes

Printed in the Department of State Bulletin, XII (March 4, 1945), Pp. 334-338.

Delivered before a joint session of the economic committees of the Inter-American Conference on Problems of War and Peace in Mexico City.
A Statement on the Chapultepec Conference

December 1947

I was head of the Economics Section of the U.S. Delegation to this conference. Padilla was Foreign Minister of Mexico at the time and was the outstanding character at Chapultepec. He had lifted the delegates out of their chairs by his oratory at Rio de Janeiro in 1943, when he appealed to them for a patriotic cooperation between all the American countries for defense and development. He came and spoke for 45 minutes in the Chamber of Deputies in Mexico City, spoke without notes, was not flamboyant but was restrained, made a remarkable oration.

At the Chapultepec Conference the Latin American countries were worried about what would happen to their economies at the end of the war—one reason for calling the conference. They were afraid they would lose out on the sale of their raw materials and were afraid that their large dollar balances would be dissipated on non-essentials (automobiles especially) and they were anxious to import capital goods—machinery and tools to develop their industries. Many of these countries needed repair parts for their utilities and for railroads which had been built there by foreigners on whom they were dependent for spare parts. They were also afraid that their copper, tungsten, lead, zinc and coffee would stock up on them; and they wanted to be sure that when the war ended the U.S. would give them a fair share of capital goods.

Ed Stettinius headquartered the conference.
I had charge of the Economic part of the Conference and that was a big part. We said we would, on the question of the sale of their raw materials, be prepared to study the situation with them and make further loans through the Export-Import Bank to tide them over and that their sales probably would not drop off suddenly but would taper off, for the European war would probably end first, and the Pacific War later, and our drop in orders from them would be gradual. We said we'd give them a fair share of our peace time production of capital goods, and would set up effective control machinery for that purpose. Chile and Bolivia were chiefly worried—Mexico and Peru too—about their people wanting to buy mostly luxury; they took a good deal of our capital goods which we made available for them—by loosening our control of exports—but they let their people spend too much for luxury even though they wanted to prevent this.
Interview with Ellen Clayton Garwood, December 1947.

1 Ezequiel Padilla, Foreign Minister of Mexico (1940-1945).
2 Edward Stettinius, Secretary of State (1944-1945).
The Reciprocal Trade Agreements Act, first passed by Congress in 1934, granted to the executive branch the right to revise tariffs up to fifty per cent through the negotiation of bilateral, most-favored-nation agreements. Clayton early recognized this program as a step toward economic internationalism and supported the Act each time it came up for renewal. In 1940 he told the Senate Finance Committee that the principle of international division of labor was the best hope for the next world peace, and that "the trade-agreement program is a modest effort to keep alive that principle." In 1945 he gave the following statement to the House Ways and Means Committee:

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A Statement on the Reciprocal Trade Agreements Act

Washington, D. C.
April 18, 1945

The bill which is before this committee would accomplish the renewal and strengthening of an act of Congress which is now 11 years old.

The reciprocal trade-agreements program has become a part of the economic history of the United States.

Over the past decade there has grown up around this program a record of legislative debate, newspaper comment, books, pamphlets, magazine articles which must run into millions of words.

The administration of the Trade Agreements Act has been subjected to the most searching scrutiny; on the three previous occasions when this act came before the Congress for renewal, friends and foes alike have had a full opportunity to make their views known. As a result, the American people are remarkably well informed on the terms, purposes, and achievement of this act, and their views, pro or con, are largely crystallized. Most people, by now, know where they stand on the reciprocal-trade agreements question.

I wish that this were not so. I say this despite the belief, which I think is borne out by the record that the great majority of the American people are favorably inclined toward the trade-agreements program.

I believe that all of us would profit from an effort to look
at this bill, not in terms of what we thought about reciprocal trade agreements in 1934, 1937, 1940, and 1943 but as a new instrument for use in the world of tomorrow. For it is, in fact, a new instrument--made so not by new language but by a new world. Those who judge the trade-agreements program solely in the context of its pre-war operation are likely to miss the new and portentous meaning of this idea. Actually, the trade-agreements plan was born, in 1934, into a world that was even then headed toward war. The Japanese had struck at China three years before, and Hitler was firmly in power. Economic warfare had already turned the world economy into a jungle of excessive tariffs, quotas, embargoes, subsidies, licenses, exchange controls, clearing-agreements, barter deals, preferences and discriminations of all kinds.

The Reciprocal Trade Agreements Act was a bold and far-sighted effort to stem the tide of economic nationalism. Under the wise and patient leadership of Secretary Hull we were able, by using the bargaining authority granted in the act, to moderate many of the more extreme practices of trade restrictionism and to provide a strong stimulus to the growth of our foreign trade.

The record of achievements under the act was carefully studied by this Committee two years ago and is generally well known. Trade agreements have been negotiated with 28 countries, and hundreds of concessions have been obtained and given. Over 65 percent of our
normal foreign trade is carried on with trade-agreement countries. These countries have made concessions on 73 percent of their agricultural imports from us and on 48 percent of their non-agricultural imports from us. Between the years 1934-35 and 1938-39 our exports to non-trade-agreement countries rose by only 32 percent, while our exports to trade-agreement countries rose by 63 percent. Likewise, our imports from non-agreement countries rose by only 13 percent, while our imports from trade-agreement countries rose by 22 percent.

This is a remarkable record, but it is all the more remarkable in that it was accomplished in an era of world economic disintegration. It is a tribute to the trade-agreements program and to the men in the various departments of the Government who guided it that these impressive achievements were realized against such great adversity.

Thus in the years before the war the trade-agreements program was an instrument for defense against an epidemic of destructive and demoralizing trade warfare. Today, with the end of the great holocaust finally within sight, this same instrument is transformed into a powerful device for shaping a better world. This I believe is the new meaning of the trade-agreements program as it comes before the Congress for its fourth renewal.

The terrible events of the last six years have worked profound changes in the minds and spirits of people in every corner of the world. The people are sick of war and sick of the narrow economic
practices which undermine material well-being, generate international friction, and set the stage for war. Minds are being cleared of old prejudices and old suspicions; everywhere there is a yearning for a new age of peace and prosperity rooted in international friendship and cooperation. Perhaps never again in our lifetimes will there be a time so suspicious as now for helping to build a world in which men may have the opportunity to live out their lives, free from fear and free from want.

All eyes look to the United States for leadership in this task of world reconstruction. At this juncture in world history we find ourselves in a unique role which entails grave responsibilities. We have become so important to the world, both politically and economically, that no plan for the future is more than an architect's dream without the approval of the United States.

After the war we shall have over half of the world's industrial capacity; we shall be the greatest creditor nation; and the world will look to us for the capital goods necessary to repair the devastation of the war. We own the greater part of the world's stock of gold. We are the greatest producer and the greatest consumer. We are the world's largest exporter, and we are the source of much of the world's technological progress. Certainly there have been few turning points in history at which a nation has been so well-equipped for leadership as we are today.
Destiny has placed us in a position to lead, and we must know where we want to go. The United Nations Conference on International Organization, which will convene in San Francisco this month, is the culmination of several years of planning for a house of nations to safeguard the peace. Secretary Stettinius, in his speech in Chicago earlier this month, filled in the framework of our plan to erect a firm economic foundation for the maintenance of peace. The need for dealing with trade barriers stands in the very center of that plan, for the creation of a healthy world economy cannot succeed in an atmosphere of exaggerated and repressive barriers to international trade.

Our purpose in the commercial-policy sphere is to move toward the goal of expanding world trade open to private enterprise, on a competitive and non-discriminatory basis.

We know of no better way than this to serve the economic interests of all peoples and to create the economic conditions which are conducive to the preservation of peace. The task will not be easy. The economic destruction and dislocation of war have raised new and serious economic problems and have put many barriers in the way of the general acceptance of the liberal trade principles we advocate. But the worst mistake of all would be to underestimate the great force of our moral leadership and to sell short the influence of the United States in world affairs.
The Reciprocal Trade Agreements Act
April 18, 1945
Page 6

The great strength of the reciprocal-trade-agreements idea is the implicit recognition that international trade, like all trade, is a two-way affair. No trader can sell without buying; no nation can sell abroad without buying abroad. A manufacturer or trader profits because his selling price exceeds his total costs; a nation profits because it secures better or cheaper goods abroad than at home, and pays for them with other goods, produced in excess of home requirements.

During the 11 years of the Reciprocal Trade Agreements Act this program has paid off in dollars and cents to the American farmer, businessman, and consumer.

We produce many things more efficiently than foreign countries, which we can sell to their consumers if they will permit us to do so by relaxing their governmental restriction against imports from us. They in turn produce many things more cheaply than we, raw materials, finished foodstuffs, and highly specialized manufactures—which they can sell to our consumers if we will permit them to do so by relaxing the governmental restrictions we maintain against our imports from them. The trade-agreements program is simply a means by which we and foreign countries agree to the reciprocal relaxation of governmental restrictions on both sides, to promote trade in both directions to the benefit of producers and consumers in both countries. This expanded two-way trade results in a net gain in production and consumption
for both countries, thus creating more jobs, raising the national income and standard of living.

Such an expansion of world trade must be organized after the war if we are to solve successfully the serious economic problems which face this and other countries. We, on one hand, have created during the war an enormous capacity to produce certain industrial materials, machinery, and equipment far in excess of what we shall be able to use ourselves in peacetime. On the other hand, the reconstruction needs of those countries which have been devastated by war and the development needs of those countries whose economic progress has been retarded by war will require great quantities of capital goods and industrial materials from us. These countries will not be able to finance such purchases, however, unless we are prepared to buy from them in larger volume the goods that they produce. Through the continued use of trade agreements, foreign countries will earn the dollars to buy the products of our efficient high-wage capital-goods industries and thus assist in keeping them operating at a high level of activity.

If the Trade Agreements Act is to play its rightful role in the great work of economic reconstruction, it requires not only renewal but strengthening. In recommending to the Congress that the act be continued, President Roosevelt, shortly before his death, asked that the authority to reduce tariffs by 50 percent be strengthened by
making it apply to the tariff which we maintain today rather than to the tariff which we had 10 years ago. The bill now before this Committee embodies this proposal.

The Trade Agreements Act must be strengthened if this Government is to be empowered to work for the liberalization of world trade. The proposal for increased authority, which would permit this country to reduce its existing tariffs, in exchange for reductions in the existing trade barriers of other countries, is merely another way of proposing that the program and policy of negotiating reciprocal trade agreements be continued. Simple renewal of the act, without the increased authority, would mean in effect that no important trade agreements of substantial benefit to this country could be negotiated with those foreign countries which are the principal outlets for American exports.

A few figures will illustrate this point. The authority under the present act, to reduce duties by not more than 50 percent of 1934 rates, has been fully exhausted in respect of 42 percent of our total dutiable imports from all countries, on the basis of 1939 import values. The authority has been partially exhausted, and in many cases almost fully exhausted, in respect of an additional 20 percent of our total dutiable imports from all countries. Of the authority which has not been used at all, which applies to 37 percent of our dutiable imports from all countries, a considerable part relates to a type
of goods formerly supplied by Axis countries, some of which authority may be unusable, because to use it would require the negotiation of trade agreements with the Axis countries.

The situation with regard to those countries which are the biggest outlets for American exports is as follows: In the case of the United Kingdom, rates of duty have been reduced, under the trade-agreements program as a whole, on about 90 percent, by value, of our total dutiable imports from that country in 1939. In the case of Canada, the figure is about 92 percent. The United Kingdom and Canada are our two largest customers. These two countries accounted for 31 percent of our total export trade in 1939. In the case of France, Sweden, and Mexico, other important peacetime buyers of American exports, rates of duty have been reduced about 70 percent, 60 percent, and 90 percent, respectively, on our total dutiable imports from those countries.

The conclusion is clear, and is particularly unsatisfactory to me as a business man: Under the act as it stands today, we are unable to negotiate to the extent required new and mutually advantageous business with our best customers. As a public servant, I would consider the failure to remedy such a situation unwise in the extreme. Only by relating the Trade Agreements Act to our present situation can we make it a fully effective device for the expansion of world trade.

The question might be asked: If the United States has largely used up the 50-percent authority in the Trade Agreements Act in
reciprocal agreements with other countries, doesn't this mean that world trade barriers have now been brought down to moderate levels and therefore no further action is needed?

Even if the war had not intervened to create new and critical trade problems for us in the future, the answer to the question would be plain. The fact is that in 1934, when the trade-agreements procedure was established, world trade had been all but extinguished by the jungle of trade restrictions, of every conceivable kind, then in force. The United States had on its books the Hawley-Smoot tariff of 1930, in which rates of duty had been raised to the highest levels in our history. Other countries partly in retaliation for this disastrous blow at their export trade, and partly for reasons arising out of the great depression, resorted to higher tariffs and all the other paraphernalia of trade restriction which we associate with the economic chaos of the 1930's.

The authority of the Trade Agreements Act, related as it was to the nearly impassable trade barriers of 1934, was, as we have seen, not sufficient to do more than ameliorate some of the excesses of the most virulent case of trade restrictionism the world has ever experienced. As a defensive weapon, the Trade Agreements Act did its job well; but our pride in our past accomplishments should not be allowed to obscure the fact that the existing network of barriers to world commerce is still so formidable as to be utterly inconsistent with the achievement
of those high levels of production and consumption to which we are all devoting our best energies.

If we were living in a stationary world, if the underlying factors affecting each nation's foreign trade remained stable, it might be possible, even without pressing forward with our trade-agreements program, to hold the gains we have already made. The post-war world, however, will not be at rest. Entirely apart from the legacy of trade restrictions which we inherit from the pre-war period, there are new and critical trade problems which have arisen as a by-product of the war and which must be resolved in one way or another.

Many nations, surveying their post-war trade prospects, anticipate serious deficits in their international balance of payments. Such deficits are remedied either by increasing exports or reducing imports. If we stand still, these countries cannot. If we fail to take strong action to make possible a solution by expansion, we shall force them to choose a solution by contraction. If these countries have no choice but to curtail their imports, the reduction of their orders from us will be felt in fields and factories in every corner of America.

That is why our existing trade agreements are in danger, and why increased authority under the Trade Agreements Act is necessary to preserve through the further relaxation of trade barriers, the nations may be forced by the pressure of their economic circumstances to free
themselves from trade-agreements obligations in order to take the actions they deem necessary to protect their economies.

What we have achieved in our existing trade agreements is a kind of truce, between this country and individual foreign countries, that in respect of the products covered by the agreements, neither of us will resort to the extreme trade measures which, before 1934, we employed in a futile effort to better ourselves at each other's expense.

If these agreements should be terminated, as almost all of them can be on short notice, this truce would be broken, and these excessive restrictions would, of course, automatically come back into operation.

There is now grave danger that this truce may be broken. Unless the United States is prepared to assume the responsibility for world leadership commensurate with its power and influence in world economic affairs, our existing trade-agreements structure may give way under the stress and strain of war's aftermath. If this should happen we may witness a resurgence of trade restrictions and international economic warfare far surpassing anything in our previous experience.

The additional authority to make new reciprocal trade agreements, which would be granted by the Congress if this bill is enacted into law, imposes serious new responsibilities upon those who would be called upon to exercise it. The power to reduce tariffs is an important power, not to be treated lightly by those who grant it or those
who exercise it. The act wisely requires that no agreement be concluded before all interested persons are given an opportunity to present their views, and it also requires that information and advice be sought before the conclusion of an agreement from the government agencies most directly concerned.

Rash and ill-considered administration can turn any good law into a bad one. In my new position as Assistant Secretary of State for economic affairs, I shall have the principal responsibility for the State Department's share in the administration of this law. That is why I welcome the opportunity to discuss the administrative machinery which has been established pursuant to the act. It is important that the Congress be satisfied that the machinery for the construction of these trade agreements is designed to eliminate every foreseeable source of error and to reduce to the absolute minimum the chance that an agreement may work an injustice on some American producing or consuming group.

I believe that it is so designed. This committee in its previous hearings has examined carefully the procedures which have been devised for the administration of the trade-agreements program. Under the conscientious and fairminded direction of Secretary Hull, an administrative machine has been perfected which I believe to be the most equitable and scientific system for tariff determination that our country has ever known, and I strongly suspect that there is no
better in the world.

Three things have impressed me most about the procedures that have been established. First, the technical machinery has very wisely been built entirely on an interdepartmental basis. Representatives of all the departments mentioned in the Trade Agreements Act sit on the top committee, which is known as the Interdepartmental Trade Agreements Committee, and on the numerous working subcommittees of this body. Thus, for example, with the Department of Agriculture participating intimately in all the work, there is no chance that the interests of the American farmer will be overlooked.

Second, a high-level committee, under the chairmanship of the vice chairman of the Tariff Commission, has been established to hear all parties interested in a proposed trade agreement. The functions of this body, the Committee for Reciprocity Information, are rightly regarded as one of the most important elements in the trade-agreements procedure. The late A. Manuel Fox, formerly a member of the Tariff Commission, told this committee in 1940 that "Nobody ever appears, files a brief, or sends a letter to [the Committee for Reciprocity Information] in regard to any trade agreement matter without the information so submitted being summarized and put before the people who are going to have anything at all to do with the trade agreements." That statement remains true today.

Third, a perfectly astonishing volume of information is collected
and analyzed by experts before an agreement is concluded. In the case of the Belgian agreement, to take an example, the analytical data on the commodities involved filled 15 large volumes, each the size of a large telephone book. In that case, studies were made of 165 commodities on which we might have granted concessions to Belgium. The analytical information was carefully weighed and concessions were in fact granted on 47 of those commodities. This is the kind of careful, conscientious, impartial administration which inspires public confidence.

I do not wish to impose on the time of this committee with further procedural details. I do, however, wish to convey to the committee my complete satisfaction with the existing machinery of administration, which we have taken over intact from Secretary Hull. I shall be happy to work with it, for I believe that it is designed to provide every necessary safeguard to avoid injustice, and to assure that the final decisions in each case are in accord with the weight of the evidence.

We are very fortunate to have at hand, at a time when we are uniquely endowed with all the power and influence necessary to lead the world toward economic reconstruction, an instrument which has been tested and improved over the years, and in which the American people have great confidence. It has been used with caution and with wisdom, and it will continue to be used that way. It is a powerful instrument, for behind it lies the richest market in the world and
an incomparable productive machine. The business men of other countries want the products of that economic machine, and they will buy them just as fast as they are permitted to earn the dollars to pay for them.

If we allow them to earn the dollars, we shall be backing up with the strongest kind of positive action our allegiance to the principles of economic liberalism and private enterprise. These principles are in the balance today, and words alone will not save them. They will survive just so long as they are able to satisfy the honest aspirations of the people of the world for economic well-being. Expanding world trade is capable of bringing a greater volume and a greater variety of goods to the people of all countries. Our way of bringing about an expansion of trade is the way of economic liberalism and private enterprise, both of which principles are embodied in the trade-agreements idea.

If this way fails—and it cannot succeed without the vigorous participation of the United States—there are other ways. There is the way of economic blocs, in which a group of nations which cannot solve their problems by letting the rest of the world in, try to solve them by shutting the rest of the world out. There is also the way of governmental barter, in which governments take over the foreign-trade function and reduce it to the most primitive terms of direct two-way exchange of goods for goods. These are two of the ways most likely to be chosen to handle international trade if the
liberal, free-enterprise system fails. Both tend in the long run to contract and restrict rather than expand international trade, and both are contrary to our deepest convictions about the kind of economic order which is most conducive to the preservation of peace.

The extension and strengthening of the Reciprocal Trade Agreements Act would, I believe, give confidence and courage to our friends throughout the world who share our economic creed. It would be a signal for all to hear that the United States is not only the greatest advocate of expanding world trade based on free enterprise, fair competition, and non-discriminatory treatment, but is also determined to take the steps necessary to make such a system work.
Printed in the Department of State Bulletin, XII (April 22, 1945),
Pp. 752-757.

1Delivered before the House Ways and Means Committee, April 18, 1945.
At the request of Secretary of War Henry Stimson, President Truman appointed an interim committee in 1945 to consider the plethora of military, social, and political problems attaching themselves to the development and use of atomic weapons. Clayton was among the members of that committee, as he recalls in a letter to Richard Hewlett. Subsequent correspondence with his daughter indicated his faith in the efficacy of the nuclear deterrent, but in 1963 he wrote a letter to Senator John Tower of Texas calling for ratification of the nuclear test ban treaty as the only alternative to an armaments race which would result in either war or "galloping inflation".  

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1 Will Clayton to Ellen Clayton Garwood, November 10, 1959, CP, TL.  
2 Will Clayton to John Tower, September 4, 1963, CP, ACCO.
To Richard G. Hewlett

December 16, 1958

Dear Mr. Hewlett:

I am glad to give you such information as I can, as requested in your letter of December 9.

So far as I can remember, the question as to whether the Atomic Bomb should be dropped on the Japanese was never voted on or seriously discussed by the Interim Committee, in any meeting of the Committee that I attended. The Bomb was developed as an instrument of war. I think it was just accepted as settled policy that it would be dropped on the Japanese. Whether this came to the Committee as a decision already made, I do not recall. I do recall that there were discussions by the Committee to the effect that the Bomb should be dropped at some place in Japan which represented a maximum possibility of destruction of military installations, such as ordnance depots, airplane factories, etc., and with a minimum loss of life or injury to the civilian population.

You say that a number of writers suggest that the target of the Bomb was not so much Japan as Russia. I know of no basis for this suggestion. There certainly was none in any discussions of the Committee at any meetings that I attended so far as I can recall.

Please bear in mind, however, that my official duties took me out of Washington a good deal and especially at the time of the dropping
of the Bomb in New Mexico and on Japan. I left Washington about July 8, 1945, for Potsdam to attend the Potsdam Conference, which lasted about three weeks. The President and Secretary Byrnes were, of course, there also. I left Potsdam in the early days of August and flew to London where I was kept on official business until around the 15th or 20th of August, 1945. It was while we were in Potsdam that the test bomb was dropped in New Mexico. The dropping of the Bomb on Hiroshima and on Nagasaki occurred while I was in London.

As I recall it, most of our discussions in the Interim Committee related to the dropping of the experimental bomb in New Mexico and the text of a statement that the President of the United States would make when this happened as well as the text of statements he would make when the Bomb was dropped on Japan. There was considerable fear that the dropping of the bomb in New Mexico might cause civilian damage, possibly loss of life, despite the fact that it was being dropped in a location twenty-five miles away from the nearest town.

If there are any other points which you would like to develop, please let me know and I will do the best I can.

Sincerely yours,

W. L. Clayton
To Richard G. Hewlett
December 16, 1958
Footnotes

L, CP, ACCO.

¹Historian of the U. S. Atomic Energy Commission.
In a speech before the Economic Club of Detroit, Michigan, Clayton gave the following summary of State Department motives and goals in formulating foreign economic policy:
A Speech on Foreign Economic Policy

Detroit, Michigan
May 21, 1945

The Foreign Economic Policy of the State Department

The tragic drama now gripping the world is more than a World War, it is a world revolution.

There is at issue something far more elemental than any mere political, social or economic problem could ever be.

That issue is simply this:

Nations must learn to live together cooperatively for their mutual security and prosperity; otherwise, civilization will be utterly destroyed and man will return to the dark ages.

This is the law of the machine.

Man created the machine to lessen his burden in supplying the necessities of life.

In doing this, the machine has enormously multiplied man's wants.

These ever-increasing wants make man more and more dependent upon other men, and nations more and more dependent upon all other nations.

One machine calls for another machine and another, and so it will be until the end of time.

Under the impact of the machine, the world continues to shrink rapidly; there is no such thing as isolation, and man now easily destroys in a few days what it took him centuries to build. What new hellish instrument of destruction tomorrow may bring forth no man knows.
The machine can set us free; or, uncontrolled, it can and will destroy us.

To control the machine, we must first learn to control ourselves.

Man lived in isolation and independence over such great reaches of time that it is with the greatest difficulty that his mental and spiritual concepts are adjusted to the condition of dependence which the machine and modern civilization impose.

Out in San Francisco, we are trying to set up the framework of an Organization^2 within which rules may be written to guide men in their cooperative efforts to build a new world on the foundations of peace and prosperity.

The delegates there and the peoples for whom they speak know that victory in this war will not bring enduring peace but only the opportunity to work for enduring peace. They know, too, as their predecessors of twenty-five years ago failed to realize, that the most elaborate arrangements for the maintenance of political and military peace will soon disintegrate if the world again engages in the type of economic warfare it waged between the two World Wars.

Nations which act as enemies in the marketplace cannot long be friends at the council table.

The peace structure has to be seen as a great arch supported by two strong columns, one political and the other economic.

If either column gives way, the whole structure falls.
While the delegates of 49 countries at San Francisco work to set up this organization, a struggle is going on in Washington to prevent our own country from re-tracking the same tragic path of economic nationalism which we followed after the first World War with such disastrous results.

There are two, and only two, roads open to us in shaping our economic policies in the post-war world.

We can follow the path of economic liberalism, in keeping with our democratic principles and traditions, and without which no peace structure will long stand, or we can take that same road we followed in the 1920's - the road to economic nationalism, restrictionism and regimentation, leading inevitably to international irritations and retaliation, and the creation of an atmosphere in which the seeds of conflict are sown.

It is impossible to stand still, even if we wished: the world is moving much too fast for that now.

In the State Department, we have planted our feet firmly on the road of economic liberalism and that's the road we propose to follow.

Our foreign economic policy revolves around the conception of an expanded world economy -- free and equal access for all nations to the trade and raw materials of the world, increased production, much greater exchange of goods and services between nations, increased consumption and higher levels of living for all peoples everywhere.
Now, there is not one single element of the "Santa Claus" philosophy in this policy.

On the contrary, quite aside from the question of future peace, the United States will be one of its principal beneficiaries.

Next to this problem of future peace and security, the post-war problem which concerns the greatest number of people in the United States is the problem of employment.

As you know so well here in this great industrial City of Detroit, we have enormously increased our productive capacity during the war, especially in capital and producers' goods — machinery, equipment, tools and technical knowledge. This productive capacity is now far beyond our domestic requirements.

If we are to reach a satisfactory level of post-war employment, we must find markets abroad for this surplus production.

The markets are there all right in almost unlimited volume.

Many nations require enormous quantities of goods of this character in order to repair their war devastated areas.

Other nations require the same type of goods in order to develop their resources.

It is definitely in our interest to assist these countries to reconstruct and develop because we cannot long expect to have a high level of employment and prosperity in our own country if the rest of the world is in the throes of unemployment and depression.
Moreover, we should not forget that our best markets are in the industrially developed countries of the world because it is in such countries that we find the highest standard of living and the greatest buying power.

To sum up: we have the goods for sale, and there are buyers who must have these goods, the problem is to find the dollars with which to make payment.

In the final analysis, our customers must pay in their own goods and services but this will not be possible for several years for the obvious reason that they will first have to restore and develop their productive facilities before they can produce a surplus over and beyond their own requirements.

One means of payment will be provided through the facilities of the International Bank for Reconstruction and Development. I would like to tell you something about this institution and the International Monetary Fund.

A Bill is now before the Congress to authorize our Government to join in the formation of these two institutions.

As you know, proposals for the Bank and the Fund were agreed upon at Bretton Woods last summer by delegates from all of the forty-four United and Associated nations.

The International Monetary Fund is designed to prevent a recurrence of one of the worst forms of international economic warfare so generally
practiced in the period between the two world wars.

I refer to the manipulation of currencies, exchange discriminations and restrictions and competitive devaluation of exchanges in an effort to gain an unfair advantage in international trade.

The International Monetary Fund is designed to prevent this type of economic warfare.

Members of the Fund agree to define their money in terms of gold, and to keep their money within one percent of its defined value. They also agree to avoid exchange restrictions and to consult with the Fund whenever they consider a change in the value of their currency necessary.

This agreement forms the basic elements of stability and provides the rules of the game. Countries which join the Fund agree that they will abide by the rules and will act together for the common good.

The agreement provides that each member shall pay into the Fund a certain amount of its own currency and a smaller amount of gold. A member of the Fund is enabled to purchase from the Fund with its own currency the currency of another member.

In essence, the Fund is a common effort by the nations which subscribe to it to put aside practices which are destructive of others and of the common good of all, and to provide the means which make that possible. No nation has more to gain from such a result than our own.
The International Monetary Fund promotes collective security because it seeks to establish order in the financial and economic fields, and order in those fields cannot be divorced from order elsewhere.

The second institution proposed at Bretton Woods is the International Bank for Reconstruction and Development. The Bank will facilitate investments and productive enterprises where they are needed. This does not mean that the Bank will supersede private lending.

In the normal case, a country will borrow from private bankers, but where private banks, because of the risk, cannot make the loan upon terms which are possible for the borrower, both borrower and lender may need the assistance of the International Bank.

The Bank's function will be to investigate the soundness of the projects for which capital is desired and, provided they are sound, it will guarantee the loans made by private banks. It will also require the Government of the country in which the money is to be used to guarantee the loan.

There are other means, such as the Export-Import Bank, of financing our excess of exports over imports which it is estimated may reach very large totals in the first five or six years after the war.

In all probability our total investments abroad, Government and private, may easily reach 15 to 20 billions of dollars in the
first few years after the war, assuming always that we are successful in building an organization for the preservation of peace which will give us reasonable hope to expect that the peace of the world will not again be broken, at least for many years to come.

In order to make it possible for the debtor countries to pay the interest and dividends on so large a sum, it is absolutely essential that trade discriminations be eliminated and excessive barriers to the international movement of goods such as tariffs, quotas, etc. be substantially lowered.

Indeed the Bretton Woods proposals make no sense unless this necessary action is taken so that our foreign debtors will be allowed to service their obligations to us.

Surely, we do not wish to repeat the course we followed after the first World War. We had somewhat the same problem then that we have now. The way we met that problem was to provide lavishly the necessary credits which foreign countries needed for buying our goods but we accompanied that with three separate advances in the tariff just to make sure that our foreign debtors would be unable to pay us no matter how much they wished to do so. Everybody remembers the tragic consequences of that policy. We not only lost our money but we created much international bad feeling as well. Thirty-two nations promptly retaliated by erecting all kinds of barriers against our trade, and from that time until the passage of the Hull Reciprocal
Trade Agreements Act in 1934, there ensued a mad race between Nations to see which could do the most to destroy international trade. The resulting damage was so great that it could not quickly be repaired.

Through the authority given in the Hull Reciprocal Trade Agreements Act, the Government is authorized to make agreement with foreign countries whereby concessions in our import duties on goods we purchase from them are traded for reductions in their duties on goods they buy from us.

This Act has been in effect for eleven years with highly beneficial results and there is now pending before the Congress a bill to extend the Act for another three years and to give to the Government additional bargaining powers under the Act.

As you know, this bill made its first hurdle a few days ago when the House Ways and Means Committee approved it by a vote of 14 to 11. But it is being bitterly fought and the battle is not yet won.

Governments are not alone in setting up barriers to an expanding world trade. Private cartels have developed enormously in the last 25 years and through the control of production, prices and markets also act to restrict the international exchange of goods. We in the State Department are opposed to such arrangements.

The whole basis of the Bretton Woods proposals and of the Trade Agreements Act and of our anti-cartels program is the promotion of an expanding economy and collective security through common action.
As has already been announced by the Secretary of State, an International Conference to consider questions of trade and employment will probably be called in the next nine or ten months.

Unless we achieve a great expansion in world economy and an increase in the levels of living of all peoples, a solution of the vast problems before all the nations may well be rendered impossible.

Most wars originate in economic causes.

The bounties of nature are distributed unequally over the earth.

Some countries are rich in one resource and some in another; still others possess almost no sub-soil resources.

Hence equality of opportunity for development in the modern world is only possible if all nations have free and equal access to the trade and raw materials of the world.

The belief entertained by many that our high wages and high standard of living are the product of a high tariff is of course an economic fallacy of the first order.

Wages and living standards are high in those countries where the proportion of land and productive facilities is high to that of the population and low in countries where the opposite is true.

Before the first World War the country in Western Europe enjoying the highest standard of living had the lowest tariff and the country in Western Europe with the lowest standard of living had the highest
A few years ago Mr. Hull had a survey made which showed that 34 tariff protected industries in this country paid its workers an average wage of about $1100 a year whereas 34 industries having little or no tariff protection and requiring none, paid its workers an average of about $1800 a year.

The United States has the most efficient industrial plant in the world and there are very few industries in this country which cannot hold their own in the world market in competition with the industries of other countries.

We lead the world in the art of combining capital, management and labor in the mass production of goods.

Lying about equally between Europe and Asia, with thousands of miles of seacoast on the Atlantic, the Gulf and the Pacific, with the best systems of transportation and communication in the world, with great natural resources and a great reservoir of capital, we are in an incomparable position to take advantage of the unprecedented opportunities which lie ahead of us.

What are we afraid of?

The only thing we should be afraid of is another World War.

Let us never forget that world peace will always be gravely jeopardized by the kind of international economic warfare which was so bitterly waged between the two World Wars.
Democracy and free enterprise will not survive another World War.

For the second time in this generation, our country is faced with the responsibilities and opportunities of participation in world leadership.

At the end of the first World War, we stepped aside and the mantle fell to the ground. This time, the mantle is already around our shoulders, and a devastated and terrified world is hopefully looking to us to help them back to peace and life.

We can do this, but only if our wisdom and vision are equal to our power and influence.
Speech, CP, ACCO.

1 Delivered before the Economic Club of Detroit, Michigan, May 21, 1945.

2 The United Nations.
On June 25, 1945, Clayton addressed the War Mobilization Subcommittee of the Senate Military Affairs Committee, calling its attention to State Department efforts aimed at thwarting the remilitarization of postwar Germany.
A Statement of Policy Toward Postwar Germany

June 25, 1945
Washington, D. C.

In all questions affecting the treatment of Germany, the Department of State has one paramount objective—security against a renewed German aggression. And security can be assured only so long as there is agreement with our Allies on the basic principles of the treatment of Germany.

We have reached that agreement as far as the basic objectives of the occupation of Germany are concerned. The late President Roosevelt, Prime Minister Churchill and Premier Stalin jointly announced in the communiqué from Yalta:

"We have agreed on common policies and plans for enforcing the unconditional surrender terms which we shall impose together on Nazi Germany....

"It is our inflexible purpose to destroy German militarism and Nazism and to ensure that Germany will never again be able to disturb the peace of the world. We are determined to disarm and disband all German armed forces; break up for all time the German General Staff that has repeatedly contrived the resurgence of German militarism; remove or destroy all German military equipment; eliminate or control all German industry that could be used for military production; bring all war criminals to just and swift punishment and exact reparation in kind for the destruction wrought by the Germans; wipe out the Nazi Party, Nazi laws, organizations and institutions, remove all Nazi and militarist
influences from public office and from the cultural and economic life of the German people; and take in harmony such other measures in Germany as may be necessary to the future peace and safety of the world."

The task of destroying the economic basis of German aggression is one that requires vigorous, simultaneous action along a number of lines. I am very glad to discuss this morning those three aspects of this problem, on which your committee has asked me to report. These are, first, the serious problem of Axis economic penetration in Latin-America; second, the problem of tracking down and frustrating German efforts to hide abroad a stake for another gamble of aggression; and third, the question of the treatment of German cartels, combines, and technology.

The earliest phase of our continuing efforts to destroy the economic basis of German aggression was related to the problem of Axis economic penetration in Latin America. Not only was German economic power in the other American Republics alarmingly great, but it was all too frequently used to support antidemocratic political and propaganda activities which jeopardized the unity of this hemisphere and directly threatened the security interests of the United States.

The great German combines were the spearheads of Axis economic penetration in the other American Republics. In the field of drugs and pharmaceuticals the Bayer, Merck and Schering companies enjoyed a virtual monopoly. I. G. Farben subsidiaries had a firm hold on the dye and chemical market. German
enterprises such as Tubos Mannesmann, Ferrostaal, A.E.G. and Siemens-Schuckert played a dominant role in the construction, electrical and engineering field. Shipping companies and, in some areas, German airlines, were well entrenched. In addition, other strong pro-German firms were engaged in miscellaneous types of business, some of which were partly or wholly owned from Germany and some of which were wholly owned by persons of German origin who, without changing their basic allegiance, had acquired citizenship in one of the American republics.

This Government soon determined that German enterprises could not be permitted to survive as hostile centers of Axis influence in this hemisphere. The Replacement Program was accordingly evolved as a means of bringing about the elimination of German enterprises and of German interests.

The obstacles to the achievement of the goals of this program were numerous. In some countries German capital represented a large portion of the total business investment, and in some important industries there were no non-German companies to serve the essential requirements of the local economy. In those countries which took steps short of war against Germany, the constitutional authority of the administration to proceed with an elimination program was open to serious question. In the case of some enterprises, it was claimed that the beneficial ownership was not German, which made it necessary laboriously to trace ownership through a maze of dummies and holding companies. Furthermore, the relatively large numbers of citizens of German descent in some Latin-American countries were sometimes a political obstacle to the adoption of a satisfactory elimination program.

The Department of State throughout this period has had to take full account
of the many factors which make the eradication of Axis influence in this hemisphere a difficult and arduous job. It was necessary to avoid putting the United States in the position of the whip-cracking "colossus of the North". More has been achieved by means of cooperation and an honest attempt to understand the problems of other governments than could have been achieved by dictation; and our long-range objective of good-neighborly relations has not been imperiled.

Moreover, in those countries which lacked substitutes for Axis enterprises, we have tried to work with the local governments in building up new enterprises, and we have tried to make sure that the successor enterprises remain in the hands of local nationals. We have been careful, furthermore, to avoid actions which would afford the slightest justification for an accusation that the United States used economic warfare controls to further the economic interests of its nationals.

In obtaining information about the scope and character of German economic activity in this hemisphere, we received invaluable cooperation from the other American republics, as well as from our British allies. For example, an agency of the government of Uruguay seized the books and record of the Banco Aleman. The findings of that agency are summarized in a report which is contained in Exhibit 1. This report shows clearly the extent of the participation of spearhead firms in the Nazi plan, the value of their contribution to that plan, and the insidious nature of their operations.

Through the cooperation of our British allies, we obtained access to a large cache of mail from the Bayer subsidiary in Argentina to I. G. Farben-
industrie, Leverkusen, Germany, which was intercepted in 1943 at Gibraltar. Of particular interest are two letters from the Argentine subsidiary which summarize the position of the important Bayer companies as of mid-1943. English translations of the entire text of these two letters are available in Exhibit 2.

The basis for cooperation in the elimination of Axis-dominated companies was laid in the Rio de Janeiro Conference of January 1942. A resolution of that conference recommends the elimination of all commercial and financial intercourse between the Western Hemisphere and the Axis, and contemplated the elimination of "all other financial and commercial activities prejudicial to the welfare and security of the American republics". At the conference held in Washington in June and July of 1942, it was recommended that the business of any persons who were acting against the political and economic independence or security of the American republics should be the object of blocking, occupation, intervention, forced transfer, or total liquidation.

The adoption of these recommendations was not empty phrase-making. The resolutions were followed by action in almost all of the other American republics. Some of the legislation which was drafted in these other countries was based upon United States legislation in the field or was drafted with the assistance of United States experts. The legislation adopted in most countries was extremely effective and thorough-going.

Our missions in Latin America have, of course, worked energetically and zealously in following the progress made under this legislation, in discussing individual cases with the commissions, and working out with them particular
methods of eliminating spearhead companies. In general, the policy has been to liquidate those spearhead firms whose disappearance would not injuriously affect the local economy. Whenever the enterprise was essential to the local economy, the procedure has usually been either to vest the business with all its assets in much the same way that the Alien Property Custodian has moved against enemy property in this country, or to force the undesirable owner to sell to satisfactory purchasers.

A very good idea of what our goal has been and what has actually been accomplished can be gained from a list of the enterprises in the other American republics which are regarded as spearhead in character and the progress which has been made toward their total and permanent elimination. Such a list, compiled on a country-to-country basis, has been offered as Exhibit 7.

An examination of this document will, I believe, support the conclusion that encouraging results have been realized in the job of eliminating Axis spearhead firms in Latin-America. We naturally expect to continue to press for the elimination of such firms in those countries where the task is not already substantially accomplished.

The Department of State has, of course, given much thought to the possibility that some of these Axis spearheads will survive the program which I have described; and to the related possibility that some of the former German owners may find ways to regain their control over enterprises from which they have been ousted. Steps have been taken to guard against these possibilities by the addition of paragraphs in the various national laws on the subject to the effect that the assets in question may be transferred only to a national
of the country concerned; or to the effect that such assets may not be transferred to German nationals. Assurances have been received from various American republics that the return of these properties to their former owners will not be allowed, and that the replacement program will continue unabated.

Moreover, the Department of State has followed, on a case-by-case basis, the transfer of all Axis spearheads, as well as other Proclaimed List properties, to make sure that the transfer was bona fide in each case. No man can look too far in the future. It seems a safe prediction, however, to say that German economic and political penetration in this hemisphere has, for the most part, been dealt a blow from which it will probably not recover; and that the prospects are reasonably bright for the substantial elimination of Axis spearhead firms even in the areas where they still survive.

The second matter I should like to discuss relates to the current and urgent problem of frustrating German attempts to hide abroad a stake for another gamble at world domination.

The Department of State has abundant evidence that the Nazis, in anticipation of military defeat, made careful plans to carry on in foreign countries a wide range of activities necessary to support an eventual resurgence of German power. For this purpose plans were made, and carried out in part, to transfer abroad sufficient funds and specially trained personnel to carry on Pan-German activities, even while the Allied armies were in occupation of Germany.

The success of German efforts to carry on in foreign countries activities inimical to the United Nations must depend on their ability to mobilize funds
to support the execution of their plans. Consequently, they have made strenuous efforts to move abroad assets of all kinds, which can be converted into funds for the financing of hostile activities.

Our Safehaven Program is a combined effort of the Department of State, the Treasury Department and the Foreign Economic Administration to deny to Germany, in the interests of justice and future security, the economic power arising from (a) the organized looting of occupied countries, (b) the flight of German capital in anticipation of defeat, and (c) the German capital investment already located abroad when the war began.

Our investigations have yielded a considerable amount of information which indicates the schemes and devices which the Germans planned to use in order to safeguard their foreign holdings and transfer additional property abroad. In many cases they have concealed their interests in foreign properties through holding companies and cloaks. In other cases they have abandoned formal voting control but retained a firm grip on manufacturing concerns through domination of technical processes. They have transformed their holdings into bearer shares in order to take advantage of the fact that the title to such shares can be traced only with extreme difficulty. Moreover, the Germans have also taken advantage in some countries of administrative inefficiency and corruption. The extent to which this can be said in every neutral country to have been the fault of private individuals alone is problematical.

The Germans systematically looted all manner of valuable property, not only to satisfy the aesthetic sensibilities of such celebrated collectors as Goering, but to acquire wealth cheaply for concealment abroad. Looting
reached its all-time low when gold was picked from the teeth of gas chamber victims. A more subtle form of looting was outright "purchase" with occupation currency from fearful sellers.

Since the flight of Axis capital is the most recent and covert phase of German efforts to achieve safe haven, you will understand that a great many cases are presently under active investigation, both in Germany and elsewhere, and that I must exercise care in mentioning names or localities. I should like, however, to illustrate some of the techniques used to foster the flight of German economic power to neutral countries.

1. In some countries, such as Switzerland, a bank account may be kept by number rather than by name, and heavy penalties face the banker who violates the secrecy rule and discloses the identity of the owner of the account. Transfers from a numbered account in one country to a numbered account in another country are extremely confusing, especially in view of the fact that the persons who are listed as the owners of the numbered accounts may themselves be only cloaks for others.

2. Germans have also achieved foreign haven for flight capital by preventing the normal repatriation of German foreign earnings. For example, the Deutsche Bank and Deutsche Orient Bank (Dresdner Bank) branches located in Istanbul, Turkey, followed the policy of accumulating in Turkey rather than transmitting to their parent company in Germany their annual profits during their last eight years of operation.

3. Another device for achieving the same result was that of building up credits for Germans in neutral countries by deferring the payment for German
exports. We have reports that Germans have dumped goods in neutral countries, granting very liberal credit terms. Lest this be too obvious, a two-price system was used, whereby lower fictitious prices would be paid through the clearing at the time of importation and sale, while the difference between the fake price and the real price would remain a postwar credit in favor of the German shipper.

4. During the war years, German investment in neutral countries showed itself particularly disposed to enter concerns in which there was a substantial increment of neutral capital. It seems fairly obvious that one reason for this was the expectation that in case of German disaster the neutral governments would be more reluctant to take measures against such concerns than against those in which neutral interests were less involved.

5. German liquid balances in neutral countries, particularly the earnings of Germans located in those countries, were frequently invested in income-producing real estate. This, again, is symptomatic, for neutral reluctance to interfere with existing title to land at the instance of foreign states is based on inferences from the concept of sovereignty itself. Moreover, land cannot easily be frozen in a blocked account.

6. Finally, a very simple evasive tactic, time-tested by the last war, rests upon the short memory of man and his soon tiring of controlling Germany and Germans. The scheme was simply to dispose of property by a written instrument, absolute on its face, but delivered on a secret, oral understanding that it would become void in five years or so. Our reports indicate that the Germans as a general rule thought that five years was enough time for this
A few concrete cases will illustrate the devices which the Germans have used. In a certain neutral country, the German electrical company, Telefunken, bought a plant in the summer of 1943. The plant was immediately modernized and enlarged. It now has complete facilities for testing the most intricate short wave radio equipment, and magnificently equipped laboratories for research in the ultra short wave and tone frequency field. As late as April of this year negotiations were in progress for the importation of skilled German technicians to work in this plant.

In another neutral country, the government was eager to encourage the growth of manufacturing in the national economy. A semi-official German organization presented a proposal to the government of this neutral country for the equipment and establishment of a technical school system. A representative of an Allied government has seen the five-volume dossier containing the German offers. The Germans proposed to supply a very large quantity of machinery and equipment for purposes of production, research, and teaching. In addition, they proposed to construct a fully equipped plant for the production of machine tools.

The acceptance of this offer by the neutral government would have necessitated the employment of a large number of German teachers and technicians. The offer certainly did not arise out of simple commercial motives, for the Germans were willing to guarantee delivery within three months at the very time when German war industry was losing the battle of production. It seems clear that the plan was intended to establish a nucleus of German personnel and
equipment beyond the reach of the Allies.

Aircraft repair establishments in the same neutral country ordered certain specialized machines from German suppliers in 1941. They were unable to obtain delivery until late in 1943, at which time they received, not the amount of equipment that they ordered, but five times as much. Much of this machinery, adaptable to the large-scale manufacture of aircraft, rests today in this neutral country, still uncrated.

Germans in foreign countries, who have now been cut off from their connections with German industry, may be expected to attempt to turn to United Nations trade as a means of preserving their position. They did this after the last war, and they have had some experience along these lines in this war.

In one neutral country, Germans actually managed to derive large profits from the popularity and strong drawing power of American motion pictures. Their scheme was ingenious, and too long for recital here. They managed to conceal their dealings from the American producers through a series of cloaks, and managed to get control of the exhibition rights of American films. The arrangement was broken up by a vigilant American diplomatic mission, which used its control over the importation and distribution of American raw film stock to forestall the dubbing and copying of films whose exhibition rights the Germans had secured.

The United Nations have been alive to German Safehaven efforts throughout the war. As early as January 1943, we put the world on notice that we would not recognize the validity of property transfers in enemy occupied Europe based upon Axis acts of spoilage. This declaration was subsequently broad-
ened in the Gold Declaration of February 1944, and in resolutions of the Bretton Woods Conference and the Mexico City Conference.

As the German position deteriorated, it became possible to bring greater pressure to bear on neutral countries. Our Safehaven objectives were linked with our supply-purchase negotiations with neutral countries.

I have introduced as Exhibit 15 a model note addressed to a neutral country regarding our Safehaven objectives. In general, the neutral governments were called upon to subscribe to the principles of the declarations and resolutions mentioned heretofore and were requested to take the following implementing measures: (1) to freeze all German assets; (2) to investigate transactions since 1939 between persons subject to the laws of the particular country and persons in Axis or Axis-controlled territory; (3) to make the results of these investigations available to the United States Government; (4) to conduct a census to determine the extent of German ownership of assets located in the neutral country; and (5) to provide the United States with full information regarding persons of Axis nationality who entered the neutral country since 1939 and who are still there.

So far our negotiations with the neutrals have resulted in the enactment of a Swiss law providing for the blocking of German accounts and a census of German property; in the issuance of a Spanish decree providing, among other things, for a general freezing control over the assets in Spain of the nationals of Axis or Axis-dominated countries; and in the enactment of a Portuguese decree similar to the Spanish but applicable only to German nationals. We are informed by our Legation in Stockholm that negotiations with Sweden are proceeding satisfactorily.
With German assets now frozen in the European neutral countries and Allied investigating teams scouring Germany for evidence of the German side of Safehaven transactions, it is expected that rapid and substantial progress will be made in isolating Germans from the economic power they have sought to maintain through illegal movements in neutral countries.

A great deal, however, remains to be done. The Foreign Service abroad, and the Department of State and other interested agencies in Washington, will continue their efforts to obtain information outside of Germany regarding the nature and extent of German holdings, to press for neutral controls which will immobilize German interests without prejudicing their ultimate disposition, and to formulate and study the principles which should govern the final settlement, to the end of assuring that Germany may never again be able to mobilize external assets for aggressive purposes.

I should like to turn now to the question of German participation in international cartels. The development of an effective policy on this question requires parallel action with respect to German domestic cartels and combines, international combines in which German nationals have an interest, and the treatment of German technological information.

Our policy toward German participation in international cartels is governed by two considerations. The first arises from our general opposition to cartels as devices for the regulation of world trade. The second follows from our knowledge of the special uses to which Germany has put the international cartel system.

Testimony previously presented to this Committee and to other Congressional
committees has shown that the prewar cartel system was used by Germany as an instrument of political and economic aggression. In our view the disarmament of Germany and the promotion of effective measures to prevent future military aggression by Germany requires that German participation in international cartels be promptly and effectively terminated, and that any future attempts to establish such relationships be prevented.

To put this policy into effect, we are proposing immediate action along several lines.

First, we propose to terminate German participation in all cartel contracts which fall within certain broadly-defined classes. Secondly, we plan to require the registration of all international cartel agreements in effect in Germany at any time and for any period after January 1, 1933. Thirdly, we intend to press for the establishment of a system under which all international business communications to and from Germany would come under military government surveillance.

The failure to adopt such precautions would not only jeopardize the success of our security policy, but would also enable German firms to effect concealed transfers of foreign property to cartel partners or affiliated interests abroad in order to frustrate seizure.

It is a common observation that one country's domination of an international cartel is facilitated when all of the producers within that country act in unison. Such united action may be, and usually is,
a consequence of the rigid cartelization of the domestic economy, or of the ownership by combines of all or predominant parts of the production facilities of major industries.

Consequently, the internal unification of the German economy will always entail the threat that German economic strength may be wielded as a weapon of coercive power in international markets. Moreover, the concentration of business control in Germany would preserve the great economic and political power which rests in the hands of those same industrialists who financed Hitler and supported him until it became clear that he had lost his great gamble.

These considerations have led us to the conclusion that German domestic cartels, and other related German associations which have the character of cartels, such as Economic Groups, should be dissolved by the military government authorities.

As I have already suggested, Germany's position in international cartels, and the organization of her domestic economy through cartels and cartel-like organizations, is closely related to the existence within Germany of large business aggregates such as combines, communities of interest, and trusts. It would be unrealistic for us to advance a policy calling for a prohibition on German participation in international cartels, and dissolution of German domestic cartels, unless we were also prepared to deal with these other forms of business centralization. This problem is receiving our serious attention, to the end
that decisive action may be taken to eliminate the dangers of German corporate combination.

Although this aspect of the problem has been inadequately publicized, it has seemed to many of us that Germany's successful penetration of foreign economic systems has been achieved through the control of international corporate combines as often as through participation in international cartels. It is our view that continued German participation in such combines involves the same dangers to future security as does German participation in international cartels, and we take the view that equally firm defensive action is necessary in this field.

The first steps toward the dissolution of German international combines have already been taken. The various nations at war with Germany have vested or reduced to their control German interests in properties within their jurisdiction. Furthermore, we have reason to anticipate that properties in which German nationals have an interest and which are located in countries not at war with Germany will be claimed by the appropriate Allied powers either in the name of the Allied Control Council or the Allied Reparations Commission. Thus, the financial and corporate interests of German nationals located outside of Germany either have been seized or will be subject to seizure.

I should like now to turn to certain questions related to German technological information and scientific research. If we are prepared to acknowledge that German research and scientific development have
been important in the past, we must also be prepared to draw the obvious conclusion that the exclusive possession or control of certain kinds of advanced technology by German nationals involves a possible danger to our security and provides German nationals with important assets which in the past have induced other parties to join them in international cartel arrangements.

Our intentions with respect to German research and scientific information may be summarized as follows:

1. We intend to secure the full disclosure of all existing German technology and invention for the benefit of the United Nations.

2. Through seizure by the Governments of the United Nations of German-owned patent rights on inventions developed before and during the war, we shall be able to withhold from German nationals the usual technological assets which have proved to be the main inducements for other parties to join the Germans in international cartel arrangements.

3. We intend to allow organized research and invention in Germany during the period of military occupation only when we are fully satisfied that such research will not contribute to Germany's future war potential.

The foregoing discussion summarizes our view of the problems raised by German cartels, combines, and technology, and indicates in
broad terms the action we are taking and which we propose to take. We are, I believe, alive to the importance of these questions as they affect our national defense, and the protective measures to which we are committed have an important place in our broader program to checkmate German plans for a rebirth of German economic and military power.
A Statement on Policy toward Postwar Germany
June 25, 1945
Footnotes

Statement, CP, ACCO.

1 Delivered before the Subcommittee on War Mobilization of the Senate Committee on Military Affairs, June 25, 1945.
The Papers of Will Clayton

by

Fredrick John Dobney

Volume II
Churchill, Truman, and Stalin met at Potsdam, Germany, between July 17 and August 2, 1945, to discuss implementation of the Yalta agreements and to settle a number of European problems, such as German reparations and the drafting of peace treaties. Clayton was in charge of the Reparations Committee of the American delegation at Potsdam.
To Hon. James F. Byrnes

July 29, 1945
Babelsberg, Germany

Memorandum

This memorandum is in confirmation of my statement to you this morning on reparations and is written merely for the purpose of placing my views on record and not for the purpose of prolonging the discussion.

1. I think enough has been said at Yalta and at Moscow to justify the Russians in feeling that they have a right to 50% of whatever reparations in kind can be got out of Germany.

2. The only practicable method of apportionment between the different claimant countries is on a zonal basis so far as Russia is concerned.

3. If the Russian zone contained 50% of the movable industrial capital equipment of Germany of the kind which the Russians seek, the problem would be simple.

4. The most reliable information we have is that the Russian Zone contains only 40% of the movable industrial capital equipment of Germany and that this equipment consists predominantly of the light industries (textiles, printing, apparel, saw mills, etc.) and contains relatively little of the heavy industrial type which the Russians want.

5. I suggest, therefore, that we should be prepared to trade with the Russians on the following basis:
(a) Reparations claims of Russia and Poland to be satisfied from the Russian Zone plus 25% of such industrial capital equipment as we decide should be removed from the Ruhr (estimated roughly at 1/2 of such equipment) on condition that an additional like amount of such equipment would be exchanged for an equivalent value in food, coal, zinc, potash, timber and oil to be made available to us by the Russians from their zone.

(b) All other claimants for reparations (U. S., U. K., France, et al.) to be satisfied out of the Western Zone.

6. German merchant fleet not considered in the above but to be covered by a separate arrangement.

7. United Nations property in Germany and satellite countries, if taken for reparations, to be safeguarded or compensated for in accordance with memoranda of the U. S. Delegation of July 25.

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Since the Russians must bow to the U. K. and U. S. decision regarding their right to receive reparations from the Western Zone, I feel that any decision to exclude them from any participation in the distribution of the heavy equipment in the Ruhr as reparation, would be considered by the Russians as a reversal of the Yalta and Moscow position, since no Allied understanding would be necessary to enable them to get reparations from their own zone. Furthermore, we are committed to the substantial de-industrialization of the Ruhr, and it is doubtful if other claimant nations for reparations will be able to
use all the equipment which will be removed from that area. In other words, to give a reasonable percentage of such equipment to the Russians will cost nothing.

W L C[layton]
To Hon. James F. Byrnes
July 29, 1945
Footnotes

A Statement on the Potsdam Conference

December 1947

Most of the trouble there was of two natures: Russia's insistence on putting the Western Boundary of Poland on the Oder-Niesse line, west of the pre-war boundary, and Russia's demand for $10,000,000,000 reparations from Germany.

I worked on the second problem. At Yalta Roosevelt had agreed the Soviet Union could have 50% of whatever reparations should be exacted from Germany. The Russians, at Potsdam, stressed a claim for $10 billion and wanted to take it in factories and other goods. I was on the Commission which decided which plants should be dismantled. The Soviet was to have 25%, 15% free, 10% to be compensated for by shipment of raw materials—food, coal—from their zone to West Germany.

I had to talk to Vishinsky and Maisky, who had been Soviet Ambassador to England for 11 years. The interpreter for Vishinsky showed him to be a very aggressive, disagreeable kind of fellow. We were going over the memorandum which we had drawn up, which said the factories should be dismantled and furnished within a period of two years, and that, in the case of the 10% that were to be compensated for by the Soviet sending in raw materials from their zone, these factories were to be furnished to the Soviets "as soon as possible". I agreed to put that in. Then in the same period the raw materials came in. Vishinsky asked that we add here the words "to be furnished as soon as possible".
I agreed to put that in. Then he saw on the 2nd page something he
wanted me to change. I said he'd have to agree to the 2nd page as
it was if he wanted me to add on the 1st page "as soon as possible."
He swore and sputtered, then finally said, "Well, strike out 'as
soon as possible, then!'"

One day Vishinsky was late at a meeting where I was Chairman.
He always talked like a blue streak, and that day he came in talking
and kept on talking as he sat down. I said 'Mr. Vishinsky, before
you came in we were discussing a suggestion by the British member.
If you like, we can explain it to you.' He kept talking. I repeated.
Then he said, 'We aren't children. We don't need so much talking
to explain!' That's the way we parted.

We had had a big argument with the Russians for a week. They
wanted reparations to be the first change on exports out of Germany.
We said 'No. We have to bring much into Germany—food, raw materials—
to get factories going again for peacetime production and we must get
paid for this before anything goes for reparations. They said, 'We
can never get the Russian people who have sacrificed so much to under-
stand why the Wall Street bankers have to be paid before they are!'
I tried to explain to them. 'This is like the receivership of a big
corporation. If a railroad company can't pay its debts, the receiver
keeps the road going, issues receivers' certificates which take prece-
dent over all creditors, for otherwise the creditors would get nothing.'
This was about 2 A.M. I was arguing with Dr. Arutinian, a little shrewd Armenian Russian professor, with beady, cold, black eyes. "Now, Dr. Arutinian for the 10th time I tell you we won't do it." He said, 'You did it in the First World War.' 'Yes,' I said, 'and that was a mistake and we'll never do it again.' We could never agree on reparations!

Stalin is broad guaged, dignified, knows how to give in when it suits him; speaks clearly, briefly without notes, well-ordered mind—things stored there in proper sequence and order. He always spoke with no show of feeling. In one meeting Churchill spoke for 20 minutes, telling how badly the British Ambassador to Yugoslavia had been treated, how he had been shadowed and followed by the Soviet police, etc. Finally Stalin said, "Daydreams, daydreams all." Stalin is smaller than Truman and is pasty looking.

One day we came out of the Cecilienhof Palace late, about 1:45 P.M. and we saw in the palace park 3 autos, creeping one behind the other, with men walking in front. We started to pass. As we got up to them we saw Molotov and friends walking, and on both sides the woods were full of Soviet soldiers sticking bayonets in bushes, looking behind every bush and tree."
A Statement on the Potsdam Conference
December 1947
Footnotes

Interview with Ellen Clayton Garwood in December 1947.

1Andrey Y. Vyshinsky, Deputy Minister of Foreign Affairs (1940-1949),

2Ivan Maisky, former Ambassador of the U.S.S.R. in Great Britain
(1932-1943).

3Amazasp A. Arutyunyan, head of the Economic Department on the Russian
As the United States delegate to the United Nations Relief and Rehabilitation Council Clayton was in charge of UNRRA affairs for the State Department. A consistent defender of UNRRA in its early days, he made the following statement before the House Foreign Affairs Committee:
A Statement on UNRRA¹

Washington, D. C.
November 18, 1945

The commencement of these hearings on a new authorization by Congress for United States participation in the work of UNRRA is a reminder to me of the support and cooperation which we have received from this Committee in attempting to solve this whole vast problem of relief and rehabilitation in the war-devastated areas. I was very gratified when the Chairman informed me last July that your Subcommittee would participate in the UNRRA Council deliberations. While the members of this group were in London during August I think they were able to gain for themselves some impression of the magnitude of the problems facing the national delegations to the Third Council Session, and the UNRRA Administration itself. Other members of this Committee had an opportunity during the summer to see UNRRA at work in the field as an international relief operation. Therefore, most of us are approaching these deliberations with a sense of the urgency and the importance of the continuance of this country's support for UNRRA.

My own introduction to UNRRA and its problems really occurred in the course of the Council meeting in London. I had been asked by the President to assume the Council membership in June because my responsibilities in the Department for economic affairs made it logical for me to replace Mr. Acheson.² Preparation for, and attendance at the Potsdam conference, made it practically impossible for me to
familiarize myself in any detail with the UNRRA organization, its past progress, or its future plans until I arrived in London late in July. I then had an opportunity to survey all of the operations of UNRRA up to that time and to form an independent judgment of its significance, its performance, and its future.

UNRRA had been subject to considerable criticism for delay and administrative bungling in getting started. It had been competing unsuccessfully with military operations and other wartime activities for competent personnel and for the supplies and facilities which were necessary to do its job effectively. So long as total war continued in the Pacific, I knew UNRRA would have to face a continuation of these difficulties. These obstacles, however, were largely removed by the surrender of Japan which occurred in the course of the Council's deliberations.

The end of hostilities in Europe three months prior to the Council meeting had already burdened UNRRA with many other problems of relief and rehabilitation. Our armies and those of our Allies, which had been carrying the major burden of civilian supply to western Europe and the Mediterranean countries, were quite rightfully eager to shift that responsibility as soon as possible. A similar situation developed in eastern Europe where all supply and transport were necessarily under the control of the Soviet military command until victory over Germany was achieved. Then and then only could civilian governments and agencies
begin to undertake their share of the work. We therefore realized that UNRRA, in the course of the summer, was entering upon the period of full-scale operations. It was the only functioning relief organization able to take over from the military and the only instrument through which all the European countries, as well as the other United Nations, could concert their common interests in helping to restore some semblance of economic order to that continent.

The urgency of the relief and rehabilitation problem in the Far East was equally apparent. The abrupt end of the war with Japan posed the immediate problem of relief for occupied China, a world responsibility for which no agency was sufficiently prepared except UNRRA. Although UNRRA of course had not anticipated beginning notice, it had established many months previously a mission in China which was working closely with the Chinese National Relief and Rehabilitation Agency. Not only had the plans for relief distribution been tentatively agreed upon but also preliminary screening of a target program for China had been completed and was before the Council for consideration. The fact that UNRRA's plans and personnel were so well prepared to assume immediate operating responsibilities made it easy for the Council to agree provisionally on the scope of UNRRA activities and expenditures in China, pending a further review when the mission on the spot could make reports of actual conditions.

The United States Delegation to the Council meeting, on which
I was fortunate in having broad and competent representation from all the interested agencies of this Government, as well as from the Congress, reached early agreement on several objectives. We decided that the needs of all the liberated areas which were not to be under the continuing control of the military and which had insufficient foreign-exchange resources to purchase essential relief supplies abroad could best be met through a single channel. The use of any agency other than UNRRA for these new responsibilities would have meant creating a competing unilateral relief organization, which would have immediately indicated to the world that we doubted the feasibility of international cooperation. We therefore agreed to seek extension of UNRRA operations to Italy and Austria in Europe, and to Korea and Formosa in the Far East.

I would also like to mention in this connection the limited program of relief and rehabilitation assistance through UNRRA to the two Soviet republics of the Ukraine and White Russia. Any invaded country is entitled to seek UNRRA assistance provided that the established procedures and policies for such assistance, as agreed upon among the member nations and embodied in the UNRRA resolutions, are observed. The Soviet Union had made an application for UNRRA aid shortly in advance of the Council meeting in the amount of $700,000,000, which was only enough to cover a part of the minimum supplies essential to relieve their civilian population on terms similar to those of ad-
A Statement on UNRRA
November 18, 1945
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In the course of discussing this application with the Soviet Delegation, I emphasized that I did not see how such a program could be included in the UNRRA budget without serious penalty to other receiving countries. I also felt the people of America, as well as those of other contributing countries, would not sympathize with relief assistance of this magnitude to a country which had some foreign-exchange resources at the expense of countries which had none, though admittedly the Russian resources were inadequate to meet the necessary rehabilitation and reconstruction supplies with the U. S. S. R. would have to secure from abroad. The Soviet Delegation ultimately accepted our point of view and agreed to substitute for their original application one for $250,000,000, to be used exclusively for food and certain other relief articles in White Russia and the Ukraine, the two most devastated Soviet areas. It was understood that UNRRA operations should be carried forward in these two republics just as in any other country receiving UNRRA assistance, with an UNRRA mission establishing the validity of requirements on the spot and observing distribution. This application for limited relief and rehabilitation assistance has already been reviewed under the regular UNRRA procedure for certification of ability to pay, and the two Russian republics have been determined by five UNRRA member governments, including the United States, to require the limited assistance requested.
The Delegation was also aware of the concern in many quarters that UNRRA might be undertaking rehabilitation responsibilities for a longer term than that originally envisaged. We concluded that if a cut-off date for UNRRA operations were established, the receiving countries would have a greater incentive to maximize their indigenous production of relief supplies. The Delegation therefore agreed to recommend a stoppage of UNRRA shipments to Europe not later than the end of 1946, and a similar stoppage of shipments to the Far East not later than three months thereafter.

In reviewing the criticisms which had been leveled at UNRRA in the past and the corrective measures that might be taken to improve participation in UNRRA activities by member nations, the United States Delegation felt that the governments concerned should take a more active interest in furnishing supplies, services, and competent personnel to UNRRA. We also decided that it would be desirable for the Director General to have the assistance and advice of the Council, through the Central Committee, in determining equitable distribution of UNRRA's resources among the various receiving countries.

Lastly, my advisers were aware that there remained many unsettled policy questions with regard to UNRRA displaced-persons operations. We knew that several Council members did not feel UNRRA should give any assistance to displaced persons without the consent of the government of origin. Such a restriction would not be acceptable to the American public, and UNRRA would face an impossible task administratively
if it could not undertake the care of all categories of displaced persons for which it was responsible without reference to repatriability, or to race, creed, and political belief. Also, in scaling UNRRA demands down to a minimum, we recognized that the administration should not have to advance the cost of supplies needed for the care of displaced persons in enemy territory when such charges were ultimately to be borne by the enemy country itself. The Delegation therefore determined to recommend that the occupying authorities should furnish these supplies and be responsible for recovering their cost later from enemy assets.

As the record will show, and as most of you are aware, we succeeded in attaining all of our objectives at the Council meeting in London. In many instances, agreement was not reached with the member nations without considerable debate and in some instances only after major differences of opinion had been resolved. Nevertheless, agreement was reached on a basis which I believe was in the interests of the United States and also in the interests of UNRRA and all member nations. The very fact that such a meeting of the minds was achieved is a most encouraging sign that international cooperation on matters of common concern is possible.

I feel that the recommendations of the London Council meeting, which are financially embodied in the new legislation being considered by this Committee, represent a program which is in our best interests. I
believe this Committee's examination of the problem before us will justify my sincere conviction that we are asking Congress to do what is right and necessary as our share of world relief and rehabilitation.

This Committee must reach conclusions on the two major aspects of the relief and rehabilitation problems which the world now faces—the need and the method. I have no doubt of your conclusion as to the need on the basis of the facts which are available and which will be laid before you. Nor have I any doubt as to your acceptance of the urgency and the necessity that this Government take the promptest possible action to announce to the world by legislative action our willingness to play our part in this great task. I hope also that this Committee will reaffirm that in UNRRA we have the proper method of furnishing relief and rehabilitation assistance.

I have recently heard criticisms to the effect that UNRRA is a cumbersome and ineffective mechanism, and that we should substitute for it a national relief agency. I am convinced that such ideas are held by relatively few of our citizens and arise chiefly from a failure to consider all aspects of the problem.

We, as a nation, have committed ourselves to international cooperation and collaboration. UNRRA is the first operating experiment in the implementation of this policy. I have recognized difficulties and weaknesses in the UNRRA administration, which are also recognized by the Director General, Governor Lehman, and I will do all in my power
as this Government's representative on the Council to help overcome or correct them. Any alternative method for giving relief and rehabilitation assistance to countries without sufficient foreign-exchange and credit resources to meet the problem themselves is, to my mind, unthinkable and impractical.
A Statement on UNRRA
November 18, 1945
Footnotes

Printed in the Department of State Bulletin, XIII (November 18, 1945),
pp. 809-812.

1 Delivered before the House Foreign Affairs Committee, November 14,
1945.

2 Dean G. Acheson, Undersecretary of State (1945-1947) and Secretary of State (1949-1953).
The following documents illustrate Clayton's early advocacy of postwar aid to Great Britain and indicate the importance he attached to commercial policy concessions from the British in return for such aid:
To Hon. Fred Vinson

Washington, D. C.

June 25, 1945

The British financial problem is admittedly the greatest present barrier to rapid progress towards free multilateral payments and relaxation of barriers to trade. It threatens not only delay but, indeed, the ultimate success of our economic foreign program. It is, therefore, definitely to our interest to give Britain the financial help required to bridge the transition to peacetime equilibrium.

It would be quite unwise, however, to consider making Britain an outright gift of the required several billion dollars, as has been recently suggested by certain critics of Bretton Woods. It would be unwise even to supply the funds as a credit without laying down conditions that would insure a sound advance towards our post-war objectives.

On the other hand, it will be difficult to persuade the British to accept dollar credits rather than work out their financial problems within the Sterling Area by the devices of blocked balances, exchange control, exchange pooling, bilateral clearing arrangements and forced exports in liquidation of sterling balances. Hence the terms of the credit we offer Britain and the conditions we lay down for granting it must be devised very carefully, with a view to Britain's position as well as to ours.

I believe we should offer Britain a dollar credit of as much as $2 or $3 billion as required, repayable over 30 years, but with an option
on the part of the British to make prepayments at earlier dates. The amount granted must be sufficient to meet Britain's adverse dollar balance under multilateral current payments, as laid out in the section on conditions below.

In view of British reluctance to borrow, and the fact that they are able to finance themselves to a very substantial extent by blocked sterling at a fraction of 1 percent, we must be prepared to grant them credit at the lowest possible rates. A rate of 2 3/8 percent, such as we have used on 3c Agreements under Lend-Lease would, in my judgment, be high enough, and possibly we should go as low as 2 percent. The British will want even lower rates. Interest charges would, of course, apply only on balances actually outstanding.

British reluctance to incur dollar indebtedness could be appreciably reduced, and possible stifling effects of service and repayment at later times be avoided, by provisions that if, because of a slump in world demand, Britain's balance of payments became unfavorable, Britain would not be considered in default. The possibility of the U. S. accepting limited amounts of sterling as repayments under certain circumstances might be considered.

I would propose the following conditions for the granting of the above financial aid:
1. Upon the granting of the credit, the Sterling Area dollar pool arrangement is to be terminated and sterling proceeds thereafter acquired on current overseas account by non-residents of the United Kingdom are to be made convertible into dollars, at the option of the holder, for current transactions.

2. A substantial funding of the abnormal sterling balances which have arisen from the war should be required. In the case of India, Egypt and certain other areas, substantial writing down of these balances is justified and to the best interest of all concerned. European and Latin American balances should, on the other hand be funded, and Britain might be left free to repay agreed portions thereof by exports during the transition years, so long as sterling proceeds of current trade are kept convertible into dollars.

3. Elimination of Empire preferences, probably as one term in a new reciprocal trade agreement reached under the strengthened act or as part of a multilateral trade convention. The British will resist this most strenuously. Perhaps a substantial reduction of preference is all we can hope.

4. Britain must continue domestic import controls over
non-essentials to reduce the transitional strain upon her balance of payments and hence the amount of financial aid required. She will undoubtedly wish to do this in any case.

5. Canada, and perhaps other countries whose international financial position will be strong at the end of the war, should also grant transitional financial aid to Britain. India, for example, might be asked to make her contribution in the form of sharp reduction of her sterling balances.

The above proposals will be recognized as a compromise between full-fledged freedom of payments and the strict wartime controls. Aside from the elimination of Empire preferences, their main effect would be to secure substantial compliance with conditions laid down in the Bretton Woods Agreements very shortly after the war rather than at the end of a transition period of five years or more. It is nevertheless of the utmost importance to accelerate Britain's reconversion to multilateralism in this way, both because of the danger that bilateralism and restrictionism might otherwise become firmly imbedded in British policy during the transition, and because the American business public will demand early evidence that Britain is going to go along with us in our post-war trade policy if they are to continue to support it.

W. L. Clayton
To Hon. Fred Vinson
June 25, 1945
Footnotes

Printed in Foreign Relations, 1945, vol. VI, pp. 54-56.

1Director of the Office of War Mobilization and Reconversion (1945).
To Hon. James Byrnes

London, England
August 18, 1945

8390. For the Secretary and Acheson from Clayton. I have now had a number of talks which I have separately reported with British officials both before and after the fall of Japan regarding immediate transitional and long-range financial and trade policies and programs and the wind-up and settlement of lend-lease.

The British position is undoubtedly very serious and the moving forward of V-J means that the British will have accomplished much less reversion for import than they had hoped and planned. The same situation, of course, applies in some measure in the US. Keynes and the other British officials find it difficult to discuss financial and trade policy because the new Cabinet until Wednesday was entirely occupied with the preparation of the King's speech on the opening of the Houses of Parliament. Keynes hopes that in a few weeks he will be able to get sufficient clearance for further discussions with us but insists that if as a result of our pressure he urges early decisions they are likely to be the wrong decisions.

In this situation Keynes, Eady\(^1\) and the other officials urge a breathing spell continuation of nonmunitons lend-lease as I have reported elsewhere; broad discussions in Washington early in September on the whole range of lend-lease wind-up, clean-up, and settlement supplemented by at least fairly concrete immediate financial discussions relating to the
To Hon. James Byrnes  
August 18, 1945  
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deficits anticipated by the British balance of payments during the next 3 years. The British recognize that we will insist on discussion of commercial, cartel and commodity policy in connection with such financial discussions but are trying to maneuver us into discussing finance without requiring full trade discussions at the same time. Keynes would probably readily agree that problems of exchange convertibility and the sterling dollar pool would have to be discussed at once but Empire preferences, reduction of tariffs and other trade barriers, cartel policy and commodity policy he would like to put off into next year as much as possible.

I have indicated that it is essential that we discuss both finance and trade simultaneously; that it will be necessary for us to come to a broad understanding as to postwar trading methods and policy before we can ask the Congress for any large scale financial aid to British. I have also pointed out that the clean-up and settlement of lend-lease which Keynes so strongly urges must be associated with article VII arrangements. It was finally left that I without waiting to return home and report more fully to you and the President would take up with you steps for further discussion.

I have been informed that you will probably not arrive in London for the Council of Foreign Ministers before September 10. My recommendations as to further procedure with respect to more formal discussions of the British problem are based on the assumption that you will be in London for some period following September 10 but would return to Washington before
any conversations with a British delegation would be nearing their conclusion. On these assumptions I would recommend the following course:

(1) That I return to Washington 2 or 3 days after the conclusion of the UNRRA council meeting after an appointment which I have tentatively planned with the Chancellor of the Exchequer and certain aviation discussions which the British have requested. I should arrive in Washington if the UNRRA meeting goes well by the 27th. This would give me a full 2 weeks in which to report in detail to you and go over with you and other appropriate officials the main lines of policy which we would take in discussions with Keynes and his British colleagues.

(2) That without awaiting my oral report you consider requesting the President to agree to the British sending the sort of delegates which Keynes has suggested for discussions beginning early in September.

(3) That after full discussion with you prior to your departure for London we with the collaboration of the various agencies involved lay the groundwork with the British for final discussions after your return hearing the British presentation of the detailed facts
of their position and in particular attempting to work out with FEA details of lend-lease wind-up and clean-up.

(4) That we attempt to arrive at basic understandings with the British on Lend-Lease, financial assistance, and trade policy in October after you have returned.

If you approve and the President so decides I should like to inform the British when I have my meeting with Dalton\(^3\) that we agree to their coming to Washington early in September. This will give the British some time in which to go into these matters adequately with Ministers and to formulate their own views.

In connection with my talk with Dalton I should greatly appreciate an indication of the decisions which have been taken on the lend-lease issues to which I referred in my earlier telegrams and if possible a specific statement of policy from you which I might transmit to Dalton.

In reviewing my communications to you I am a little afraid that I may have sounded to discouraged about the British attitude. I am not. I believe that the discussions ahead will be difficult but I am certain that we can and will get forward with them. [Clayton]

WINANT\(^4\)
To Hon. James Byrnes
August 18, 1945
Footnotes


1Sir Wilfrid Eady, Joint Second Secretary of the British Treasury (1945).

2First session of the Council of Foreign Ministers, September 11-
   October 2, 1945.


4John Winant, Ambassador to Great Britain (1941-1946).
On July 14, 1946, President Truman signed the Anglo-American Financial Agreement into law. As one of the principal negotiators of the agreement, Clayton was largely responsible for its final form. He felt that the agreement offered an excellent opportunity to force British postwar economic policy into liberal channels. On November 17, 1945, he wrote to General R. E. Wood, "If we make the loan, one of the principal purposes will be to enable the British people to open up their commerce to the United States and all other countries instead of confining it to the British Empire as they would largely be compelled to do if they were not able to obtain the necessary assistance to get their trade back on a multilateral basis."¹ Without the loan, Britain would be "driven to the only alternative which she has, i.e., further strengthening of the Empire Preference system."² In the following documents Clayton stresses the benefits which would accrue to the United States if the agreement were to be adopted:

¹Will Clayton to General R. E. Wood, November 17, 1945, CP, TL.
²Will Clayton to Alben Barkley, January 28, 1946, CP, ACGO.
A Speech on the Anglo-American Agreement

Des Moines, Iowa
February 15, 1946

I am very grateful to the National Farm Institute for this opportunity to discuss with you the Anglo-American Agreement which was recently negotiated, involving, among other things, the extension by the United States Government of a 4 billion, 400 million dollar credit to Great Britain. 650 million dollars of this amount covers Lend-Lease and surplus property which we are transferring to Britain and the remaining 3 3/4 billion dollars is new money.

Time does not permit of a discussion of the detailed terms of the credit such as the rate of interest, the maturity, and other similar conditions. I doubt if you would be particularly interested in such details. The terms of the credit were agreed upon after long and careful negotiation and, despite the feeling of some of our British friends that we drove too hard a bargain with them, I believe that these terms are fair to both countries.

The question is asked by many people as to why Britain needs this money and what she will do with it.

That is a proper question and deserves a proper answer.

Perhaps we might start by naming some of the things for which Britain will not use this money. She will not use it for nationalizing British industries and she will use very little of it for physical reconstruction, reconversion and modernization of her industries.
It should be obvious to anyone that Britain requires no dollars for socializing British industries. She bought the Bank of England with sterling bonds. Sterling will buy anything in Britain. It is only for purchases abroad that some other kind of money is necessary.

In order to be able to understand the British economic and financial position, two important points must be kept constantly in mind. The first is that Britain lives by imports, which is just another way of saying that she lives by exports, because, obviously, her imports have to be paid for by exports.

The second point to keep in mind is that Britain mobilized for this war both in material and human resources to a considerably greater degree than we did in the United States. That she should mobilize to the limit was obviously in our interest.

In doing so, she sacrificed substantially her export trade. That also was in our interest because it meant the maximum use of her resources and her productive capacity for fighting the war. At the end of the war, Britain was exporting only 30% of her prewar volume.

During the war, the United States and Canada supplied British import requirements through Lend-Lease, but this arrangement ended with the close of the war.

The 3 3/4 billions of dollars of new money which the proposed agreement would make available to the British is, therefore, for the purpose of enabling her to pay for a part of her necessary imports
of food and raw materials until her industries can be reconverted to peacetime production and her export trade restored.

The British estimate that not until 1949 will their exports of goods and services be sufficient to cover their essential imports, even though such imports are on a considerably reduced volume as compared with prewar. Meantime, she faces an inevitable deficit in her accounts with the United States and the rest of the world of something like 5 billions of dollars. This proposed U.S. credit, plus other credits that Britain expects to obtain from Canada and elsewhere, will be used to meet that deficit.

The next question which arises in most peoples' minds is "Why should the United States lend this money to Britain and what advantage or benefit will we receive from so doing?"

That also is a proper question and deserves a proper reply. All of this money will be spent directly or indirectly in the United States. Our farmers, our industries and our workers will obviously benefit from that, but that alone, important as it is, is not sufficient consideration to us to make this loan.

I believe we can get a better understanding of the benefits which the United States will derive from this credit by considering, for a moment, what Britain's course will be if the Congress should refuse to ratify this agreement. In that event, Britain would be compelled to find some other means of paying for her essential imports
during her period of reconversion. Britain does have an alternative course, a course which was strongly urged by a very powerful and vocal minority group in Britain which vigorously opposed the approval of this agreement in the British Parliament.

Lacking dollars with which to buy in the United States, Britain would be compelled to tighten her belt still further and to secure her major import requirements of food; cotton, and other raw materials in countries willing to take payment in sterling and wait until such time as Britain would be prepared to pay in British manufactures. This would mean that Britain would, of necessity, have to confine most of her trade to British Empire countries and other countries willing to enter into trade agreements of this character.

Stated differently, Britain would be compelled further to tighten and cement the economic ties which bind the British Empire; she would strengthen the sterling area dollar pool arrangements; she would extend and expand the Empire Preference System which grew out of our high tariff policy following the first World War; she would be compelled to continue in force those import and exchange controls which discriminate against U. S. goods; she would, of necessity, confine the bulk of her purchases to those countries agreeing to take payment in British goods.

If Congress should fail to approve this credit, Britain could, in the alternative course indicated, provide for her necessary imports
during the reconversion period. At the end of that three or four-year period you may be sure that this whole, vast complicated system of government-controlled trade would have fastened itself so firmly on the British economy, that it would be practically impossible to change it. Moreover, the many countries whose trade is linked closely with that of Britain would almost certainly follow Britain in this direction.

Under such a system, one can no longer buy in the cheapest market and sell in the dearest; he buys and sells where governments direct, regardless of prices or other commercial considerations.

Under such a system, the total of international trade is materially reduced, production and consumption are curtailed and the standard of living declines.

Under such a system, economic power, in time, becomes linked to political power, and economic blocs become political blocs, to disturb the peace of the world.

The British know the harmful effects of this bilateral barter system of trade as well as we do. The British Empire was built on a multilateral system of world trade in which every country was free to trade with every other country on equal terms. Now that the war is over, Britain would like to return to that system. Unfortunately, her economy has been so greatly weakened by six years of total warfare that she will be unable to do so unless she can obtain a loan of the
necessary dollars to enable her to shift back to normal peacetime methods.

With the aid of this credit, Britain agrees to abolish the sterling area dollar pool arrangement within one year from the effective date of the agreement. She further agrees that within one year whatever sterling is earned in Britain by anyone, anywhere in the world, will no longer be treated as frozen balance to be paid only with British or sterling area goods, but will be convertible into dollars or any other currency for buying in any part of the world. When you remember that Britain has always been our best customer, you can get some idea of the value of this pledge to us.

Of even greater long-term importance is the fact that Britain is enabled by this credit to join with the United States in full partnership in supporting our Proposals for the Expansion of World Trade and in our Government since the spring of 1943. They have now been delivered to the other countries of the world. They are to be considered in the World Trade Conference that we expect will be called by the United Nations Organization for the latter part of 1946. We have discussed and considered these proposals with the British in great detail and our two countries are in substantial agreement on them. These proposals deal with tariffs, preferences, cartels, quota arrangements, discriminations, etc. If we can achieve the objectives outlined therein, we will pull the world out of the
nationalistic form of trade which has developed so insidiously and extensively during the last 30 years and get it back on a multilateral trade system such as existed prior to the first World War wherein every country is free to trade with every other country on equal terms. This would open the markets of the world to the United States. This is of enormous importance to all of us, and particularly, it seems to me, to agriculture.

Let us see what it means to our agricultural interests to have British markets open to us, not to speak of world markets. In normal times, we sell more farm products to Britain than to any other country. More than a third of our total agricultural exports went to Britain in 1938, the last prewar year. Our exports of agricultural products to Britain averaged around a quarter of a billion dollars annually in the years before the war. Prior to the first World War, the volume of these exports was still larger. If we should suffer the permanent loss of this business, it would hurt.

In the last year before the war, Britain bought 18 percent of our raw cotton exports; 21 percent of our corn exports; 31 percent of our wheat exports; 62 percent of our lard exports; 72 percent of our tobacco exports; 84 percent of our exports of canned fruits; and 85 percent of our exports of hams and shoulders.

This is the story of our agricultural exports to Britain in the recent past. But if world trade is freed of the unreasonable
restrictions and impediments which now plague it, we have reason to believe that Britain will become an even better customer for our farm products in the future.

Just before the war, we negotiated a reciprocal trade agreement with Britain in which we obtained many concessions of direct benefit to American farmers. We secured the removal of the British import duties on non-Empire wheat and lard, and an increase in the quota for U. S. hams. In addition, we obtained duty reductions on rice, many fresh, dried and canned fruits, and canned vegetables. Altogether, we obtained import duty concessions from the British (including guarantees that certain duties would not be increased) on farm products which constituted about five-sixths of Britain's total agricultural imports from us.

These reductions in duty took effect too soon before the outbreak of war to have much effect on our prewar exports of farm products to Britain. How much effect they will have on our exports to Britain in the years ahead will depend very largely on whether Britain has the dollars to pay for an increased volume of agricultural imports from us. That, in turn, depends very largely on whether world trade is conducted on an open or a closed basis.

Demand for farm products is now at a high level, and many agricultural commodities are in short supply. It would be foolhardy, however, to conclude that the problem of farm surpluses has been permanently
solved, and that foreign markets are no longer important to us. I remember, and many of you remember, what happened after the first World War: The value of our agricultural exports fell by nearly 50 percent from 1919 to 1921, and our cash income from the sale of farms products fell by more than 40 percent over the same two-year period. The collapse of the foreign market was unquestionably one of the main causes of the sharp decline in our farm income.

The British need our agricultural products, and need them desperately. Other countries need them, too. Before many months have passed, we will again need the British market as our chief foreign outlet for the products of our farms. We want to sell the goods that Britain wants to buy; but because of the financial dislocations resulting from the war, the British temporarily lack the means of payment. The proposed loan to Britain is a businesslike solution of this problem. Under the loan, we would carry our best customer on credit, thereby maintaining an outlet for our goods, until he is able to reestablish his earning power and pay his own way.

Without the loan, it is perfectly clear what path Britain would take, and how our farmers would be affected. The British would have to conserve their dollar resources very carefully, and spend them only for essential products which cannot be produced in Britain or bought elsewhere in the world. They would have to subsidize even further the expansion of inefficient British agriculture. They would have to
obtain more and more of their agricultural imports from the countries of the sterling area, with whom they have special trading relationships. They would have to resort to primitive barter arrangements, obtaining agricultural products from countries which would be willing to accept an equal value of British goods in return. All of these things would tend to freeze the American farmer out of the British market, to pile up farm surpluses in the United States, and to depress the prices of our farm products.

It is said that Britain defaulted on her first World War debt and that this credit will suffer a similar fate. I do not agree.

The first World War debt was incurred for things which Britain had to have in order to fight the war—her war and our war. This time we knew better. Tanks were furnished Britain on Lend-Lease. Last time we insisted on payment for these things plus a high rate of interest; this time we do not propose to charge for food which was consumed, or ammunition which was shot away at the enemy, or airplanes which were used to bomb his war plants—all in a common effort to preserve the liberties of the English-speaking peoples and of our allies.

To keep the record straight, we should remember that Britain did pay over two billion dollars of the first World War debt, 1 1/2 billion of which was for interest alone. For each four dollars she paid, only one dollar went for reduction of principal. She even made
token payments after the moratorium of 1931. This is hardly a record of intentional default. Another important aspect of this matter is the fact that following the first World War we raised our tariffs three different times and made it impossible for Britain to sell us sufficient goods to earn the dollars with which to pay her debt to us. This time we don’t propose to raise tariffs.

It is also urged by some that the British credit will add to the dangers of inflation.

Inflation is undoubtedly a serious threat to our domestic economy. It is very unlikely, however, that the granting of this credit would aggravate the danger of inflation, for the following reasons:

The British line of credit will be available over a period of five years and will undoubtedly be spent gradually.

Only a portion of it will be spent directly by Britain in the United States. That portion will be used largely for the purchase of food and raw materials, some of which we already have in surplus as, for example, cotton and tobacco. Wheat and corn may also be in surplus after the next crop or so. Our capacity to produce all of these things and many others besides is far greater than domestic requirements. If we can again open up the markets of the world to our products, the problem of surpluses will lose its threat.

The remaining part of the credit will be spent by Britain in South America and other parts of the world for the purchase of raw
materials which she cannot obtain to advantage in the United States. Such other countries will, in turn, spend these dollars in the United States for the most part for capital goods, equipment, machinery, engineering services, etc. for the development of their resources and their economy. The United States has a great surplus capacity, created during the war, for the production of such things and we should welcome orders to keep these plants running. A prosperous manufacturing industry moreover will afford a better domestic market for the products of American agriculture.

It is also urged that the credit to Britain will serve as a pattern for other large loans and for that reason should not be made.

Upon examination, it will be seen that this is not an impressive objection.

The British agreement is unique. The commitments undertaken by Britain are of a character which no other country can match.

The British Empire accounts for one-third of the international trade of the world. Due to the elimination of Germany and Japan, in the world market, it is more likely that three-fourths of the international trade of the world will, in the next few years, be transacted in dollars and pounds sterling. Under these circumstances, Britain’s partnership with us in putting world trade on the right track and keeping it there is of the highest importance. There is no other country whose support is so essential for the success of our world
trade program.

Due to the unique character of the British Agreement, the commitments which it contains, and the size of the credit which it involves it is necessary to refer the matter to Congress for approval. The credit is not for reconstruction or reconversion but is for working capital until Britain can sufficiently recover her export trade to pay her own way.

The International Bank, to be organized under the Bretton Woods Agreements, should be ready for business within a year. This Bank is being organized for the purpose of making loans for reconstruction and development. This is the institution that will care for long-run credit needs of this character. Meantime, the Export-Import Bank has made some loans of this character and doubtless will give consideration to other applications to take care of essential needs pending the time when the International Bank will be ready.

Now that World War II is over, there are only two economic courses open to the countries of the world. They can continue on a nationalistic bilateral barter system, patterned along the lines developed so intensively by Nazi-Germany, or they can go back to the multilateral basis where every country is free to trade with every other country with a minimum of restrictions and discriminations. The former system gives rise to the formation of economic blocs. Under it we would certainly start out in the postwar world with three
powerful economic blocs - a sterling bloc, a dollar bloc and a Russian or rouble bloc. There would be pulling and hauling between these blocs in their struggles for more power and more trade territory.

An economic bloc means the regimentation of international commerce. Lincoln said, "This Nation cannot exist half slave and half free." This applies to commerce as well as to human beings. If we have regimentation in our foreign trade, how long do you think free enterprise can continue in our domestic commerce?

No doubt you will agree that peace is hardly possible in the world without the collaboration and cooperation of the United States, the Soviet Union and Great Britain. I leave you to judge as to whether these countries would be likely long to continue to work together harmoniously for the preservation of peace in the world if they were at the same time carrying on the bitterest kind of economic warfare.

World wars contribute greatly to economic nationalism. Nations at war find it necessary or expedient to put themselves in an economic straight jacket. Such artificial and unnatural trading systems throttle competition and force trade into the narrow, restricted channels dictated by governments. Moreover, they build up vested interests which find protection and profit in their continuance.

On the other hand, the multilateral system of trade opens up the markets of the world to all countries on equal terms; economic blocs become impossible; the trade of the world develops and expands
under a system of natural competition; production and consumption expand and the standard of living rises for all peoples everywhere. Surely it must be evident that this is the system best calculated to promote peace and plenty in the world.

The main prize of the victory of the United Nations in this war is a limited and temporary power to establish the kind of world we want to live in. I want to emphasize that this power is both limited and temporary.

The fundamental choice is whether countries will struggle against each other for wealth and power or work together for security and mutual advantage. That choice was made in principle at San Francisco and has since been ratified by the overwhelming majority of the Governments concerned. The question now is whether we in the United States will seize this present opportunity to give leadership to the high enterprise of starting the postwar world off on the right track economically, or whether we will stand aside and let the world drift with the tide into dangerous waters of nationalism and restrictionism of all kinds.

Britain can only join with us in this high enterprise if she obtains the necessary assistance to enable her to make a revolutionary shift herself from the closed to the open multilateral system of world trade. With the help of Britain, leader of the greatest international trading area in the world, there is strong reason to believe that we
can be successful in charting the right course—without her help we can hardly hope to succeed. We must choose now!
A Speech Before the National Farm Institute
February 15, 1946
Footnotes

Speech, CP, ACCO.

1 Delivered before the National Farm Institute, Des Moines, Iowa,
February 15, 1946.
A Statement on the British Loan and Lord Keynes

[ca. 1958]

Early in the war Keynes, Lionel Robbins, and Lord Brand and other British economists came over here. At one of the international conferences they were discussing how to weather inflation. They thought they could do it by manipulating money—they once had a scheme to stabilize commodities. Keynes thought the Allies should stabilize commodities, not from point of view of deflation—he would let prices fluctuate—but within a wider range. When product got so low that the owner would have to sacrifice it or have to sell it to stay solvent at that point you would freeze the price—at the extinguishing point. I went to bat with them on that one and they finally dropped it. I asked them how you ever determined the "extinguishing point." The answer is you can't.

I told them "We had a depression in this country from 1929 until World War II. In that time cotton sold for 25¢ a pound and the Farm Credit Board made a law it shouldn't go below 16¢ a pound and they put up $500,000,000 to help the cooperatives. Finally they just gave them 16¢ a pound for their cotton and then it fell to 5¢. Now, I asked, at what point in that fall from 25¢ to 5¢ would you have put a floor under the price and they couldn't answer."

Later at the FAO Conference at Hot Springs right after the war—one of the first international conferences. Sir John Orr, a Scotchman—such a nice fellow—brought up the idea again of stabilizing commodities.
I went to bat again with them and they dropped it.

Keynes thought you could spend away during depressions and in prosperous times pay back the debt. The trouble is the debt always gets bigger, for you never pay it back. We're prosperous now but not paying off our debt. The National Credit is beginning to be strained. Soon it will be hard to sell people government bonds. That means the government will sell to the banks more. When a bank buys $1,000,000 worth of bonds the government spends the money and someone who is paid it puts the paper money in the bank which creates more money, more inflation.

I was very impressed by what some economist once wrote. He wrote that the extravagance of the rich creates a rise of prices for the poor. A rich man, say, spends $100,000 to buy luxuries for his family; this, in turn, causes the man on a small income to have to pay more for things. I believe we should have consumption taxes instead of production taxes.

Lord Catto, Director of the Bank of England, told me once that Keynes came into him one day (you know Keynes had been a Governor of the Bank of England for years) with some brilliant scheme he was sure would solve all the problems of the day at once.

Catto said, "But Maynard, you came in last week with a scheme just the opposite to this."

Keynes said, "Yes I know, but that was last week."

* * * * *
A Statement on the British Loan
And Lord Keynes
[ca. 1958]
Page 3

I felt that the British had not gone about the convertibility clause of the loan with a great deal of care or intelligence. As a result of the war the British owed about 4 billion pounds to India, Egypt and other parts of the British Empire which had delivered goods to them that they couldn't pay for; they had been dependent on these goods for all their factories were busy producing war materials. But the British had troops stationed in India and Egypt for which India and Egypt had charged them; I insisted much of their debt to those countries should be written off and that what was left should be at an extremely low rate of interest. We tried to provide in the British Loan Agreement that during the pendency of the Loan the British be limited as to how much they should pay on their old debts.

When the British did open up the doors of the Bank of London to free convertibility of the pound, a great deal of these old war debts pounds were cashed. I think that at the time a lot of these countries got these old war debts paid off instead of just current transactions. If the banks had only cashed current transactions they could have weathered it better.

For the first six months this year the British exports have exceeded imports without counting shipping services and tourists, for the first time in this century. It's remarkable!
A Statement on the British Loan and Lord Keynes
[ca. 1958]
Footnotes

Interview with Ellen Clayton Garwood, 1958.

1 Lord John Maynard Keynes, English economist and author.

2 Lionel Robbins, English economist and Director of the Economics Section of Offices of the War Cabinet (1941-1945).

3 Lord Robert Brand, head of the British Food Mission to the United States (1941-1944); representative to the United States for the British Treasury (1944-1946).

4 Sir John Orr, Professor of Agriculture at the University of Aberdeen (1942-1945) and author; Director-General of the United Nations Food and Agricultural Organization (1946-1947).

5 Lord Thomas Catto, financial adviser to the British Treasury (1940-1944).
Memorandum for Bernard Baruch

Washington, D. C.
April 26, 1946

Dear Mr. Baruch:

Please excuse me for delay in replying to your memorandum of the 17th. I have been going at a pretty hard clip lately.

We always knew that the British would nationalize banking, railroads, aviation and coal. As a matter of fact, aviation was nationalized before the war and railroads partially so. The laws regarding the employment of labor in the coal mines practically nationalized coal before the war.

There was always some doubt about steel, but now the British have nationalized that, as you say.

Bulk buying of cotton and other raw materials is one of the unfortunate legacies of the war, not only in England but in France and other countries. We are continuing quite a bit of bulk buying by the Government in this country. Copper is one example.

We don't like bulk buying, and we are doing everything we can to discourage it, but we recognize that it cannot be abolished overnight. In some countries, five or six years of war has destroyed merchandising machinery so that government is compelled to do the buying for some time, in any case.

Bulk buying by foreign countries does not mean that we must have one seller of the commodity in the United States. We had bulk buying by the Russians for a number of years before the war in cotton
and everything else.

Our agreement with the British, if ratified by Congress, will help to slow up or prevent further nationalization of industry and commerce by Britain. If Britain doesn't get the loan from us, she will be compelled to adopt all sorts of restrictive measures in order to make "buckle and tongue" meet, and complete nationalization of her foreign trade will be inevitable. Under our agreement this will be avoided, because Britain will go on a multilateral basis. Under the agreement, Britain also agrees that any bulk buying will be done on an economic, non-discriminatory, and not a political, basis.

Equal access to raw materials means, I think, that all countries may purchase such materials on equal terms. It certainly does not mean that each country gets raw materials according to its needs.

Equal access has certainly not been the rule in the past. Colonial powers have often so arranged matters that they had a preferred position. The cinchona bark of Java is one example that comes to my mind. Java, before the war, was almost the only producer of this commodity, and the Dutch so arranged matters that they had a quinine monopoly, because they didn't let anybody else buy the bark. This persisted up to and, indeed, into the war in spite of American Government efforts to the contrary.

There are many other examples. I will write you further on this subject in the next few days.
Moreover, if a country possessing large deposits of essential raw materials pushes its import tariffs so high that the ability of other countries to acquire and pay for such materials is greatly restricted, this may be equivalent to denial of equal access. This point is not generally understood, but I am sure it will be clear to you on a moment's thought.

Our task in restoring the world to a multilateral trade basis is an extremely difficult one, and we don't expect immediate success, but we are convinced that we must succeed if UNO is to have a fair chance of preserving the peace.

Suppose Massachusetts should say to Texas: "We buy 15 million dollars of cotton from you a year, but you buy your shoes in St. Louis instead of in Boston. Now, we will continue to buy cotton from you to this amount provided you buy our product -- shoes. In other words, you must take your payment in shoes." And suppose other states in the Union should take the same position and all our trade was, in this way, converted to a bilateral basis. Of course the supposition is a ridiculous one, but it is a fair way to illustrate just what is taking place between nations when they conduct their trade on a bilateral basis.

The only way Britain can convert her foreign trade to a multilateral basis is through the assistance that she will get in this financial agreement in order to help her over the next three or four
years of reconversion from war to peace.

You may be interested in the enclosed clipping from this morning's New York Times on "World Trade Aims Encounter Snags."

Sincerely yours,

W. L. Clayton
Memorandum for Bernard Baruch
April 26, 1946
Footnotes

L, CP, ACCO.
The following discussion of UNRRA aid reflects Clayton's pre-Cold-War desire for Soviet-American cooperation in rehabilitating the world economy:
To Hon. Kenneth McKellar

Washington, D. C.

July 3, 1946

My Dear Senator McKellar:

Since the fundamental objective of our foreign policy is to create conditions in the world under which we can live in friendship and peace with all nations, I am gravely concerned about the action recently taken in the House of Representatives in adopting the so-called Dirksen Amendment to the Third Deficiency Appropriation Bill.²

This Amendment, as you know, would deny use of the U.S. contribution to UNRRA for aid to any country which refused to agree not to censor the reports of American press representatives concerning the distribution and use of UNRRA supplies. As the record of the debate in the House of Representatives will show, this Amendment was directed at the Soviet Union. This action was taken in consequence of a reply received from the Soviet Government, in answer to a request by the President that that Government undertake to permit reporting, with respect to UNRRA operations, free of the censorship rules which have been established in Soviet territories. The President made his request pursuant to the direction of Congress as expressed in Public Laws 259 and 262, 79th Congress.

I should like to take this opportunity to give you my views on this matter. At the outset let me say that I believe no one is more
firmly convinced than the Secretary and I that the free interchange of information between the peoples and countries of the world is essential to the creation of a secure peace. We in the Department of State are constantly seeking to achieve this objective. My concern about the Dirksen Amendment therefore is not because I do not seek the freedom of information which I feel certain the House had in mind when it approved this Amendment, but because I feel that its passage would achieve precisely the opposite result.

The facts are these: While Russia, in its reply to the President's request, has not agreed to remove established general rules of censorship with respect to despatches from our correspondents on the use of UNRRA supplies, we have abundant evidence that no attempt has in fact been made to restrain the free flow of information regarding the distribution of UNRRA supplies.

Recently a group of correspondents, including representatives of the New York Times, Newsweek and the Associated Press have made an extensive tour of the Ukraine and White Russia—the Soviet Republics in which UNRRA is furnishing relief—and have been permitted to report freely and fully on the use which is being made of UNRRA supplies. In addition, UNRRA itself has missions in each of these two areas, both headed by Americans of unquestioned courage, integrity and high standing, and these missions have had complete freedom to travel about the country, to observe anything they wished to see and to report without
interference of any sort. Both the UNRRA missions and our news correspondents report that these areas of Russia have suffered destruction greater than we had imagined, that the conditions are pitiful and the need most urgent, and finally that UNRRA supplies are being distributed with scrupulous attention to the principles which guide UNRRA's operations in all areas. In addition, there are reliable reports that the common people of these areas are not only fully aware that the supplies are coming from UNRRA, but are inclined to give the whole credit for UNRRA's activities to the United States. As a result, the good will being created for our country by the UNRRA programs is so great as to astonish the Americans who are there with the UNRRA missions.

One of the reasons why we are so concerned to promote the free interchange of information between countries is that only by such a process will the common people of all countries come to know and appreciate the achievements and points of view of each other. I believe from all I can discover that the UNRRA program in the two Soviet Republics is serving most effectively to promote the accomplishment of these objectives.

I am convinced that the adoption of the Dirksen Amendment would set us back immeasurably in this respect. I think I can indicate why I feel this way by examining the effect its adoption would have upon the Russian people. Undoubtedly, the Soviet Government and the people who are in such dire need and who are now receiving some relief through
the UNRRA program would say, and I fear, with considerable justification, "We are scrupulously living up to the UNRRA principles of distribution; there has never been any attempt here to cover up what is being done with these supplies which are being sent in; there has, in fact, been complete freedom to American press representatives and to the Americans on the UNRRA missions to report anything they wish to report. What, then, is the reason the relief has stopped? Even if we should agree under pressure that we will never apply our rules of censorship to reports about UNRRA, it would not change the situation at all because we have never applied that censorship and we don't intend to. However, we are not going to have anyone dictate to us. We would rather suffer without help than bow to a threat of this kind."

I am sure you will agree with me that any proud people would react this way. As a result, we shall, if we insist on this point, merely give those who may be working against friendship and free interchange of information, a real basis for making the charge that we are using relief for political purposes and that we are making threats to achieve our objectives. We may very well, by such action, wipe out the gains we have already made toward this friendship and interchange of information through the activities of UNRRA in these areas.

This whole issue, of course, has a far wider significance than its effect on the UNRRA program. I feel sure that adoption of the Amendment would seriously complicate all our relations with the Soviet Union
To Hon. Kenneth McKellar
July 3, 1946
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and would, without achieving any tangible benefit for us, make far more
difficult negotiations on many other issues.

I should like to assure you that if there were not in fact freedom
of observation for the UNRRA missions and for our correspondents to
report on the use of UNRRA supplies in these two Soviet Republics, I
should strongly advocate that the furnishing of supplies cease. In
such a case there would be a real matter of principle involved, for
we and other contributing nations to have the right to full informa-
tion concerning the use of UNRRA supplies. Director General LaGuardia
feels just as strongly on this point as we do.

I would like to point out further, that all of the members of
UNRRA, in approving the UNRRA agreement, subscribed to the policies
and regulations governing its operations which had been set up by
mutual agreement. If each of the contributing members should now by
its own unilateral action attempt to establish new and special conditions,
the operation of UNRRA would become impossible. There is no question
but that the UNRRA Council and the UNRRA Administration have taken
steps to assure adequate observation and complete reporting without
censorship by UNRRA missions and by press representatives with respect
to all matters of concern to UNRRA in the two Soviet Republics.

There is one other point which seems to me of great significance.
One of our important concerns today is to demonstrate that international
organizations can succeed in dealing with matters which affect the interests of all nations. This is not an easy task, as recent experience clearly proves, and we have made less progress at it than we had hoped for. Every success we do have, however, by showing that success can be achieved, tends to develop confidence in international organizations generally, and thus promotes success in other cases. Conversely every failure has the opposite effect. With all the difficulties which have beset UNRRA and with all the differences of opinion that have developed from time to time, nevertheless it cannot be denied that it is one of the international organizations that has succeeded, on the whole, in accomplishing the objectives for which it was designed. It has effectively brought relief to millions of people in the war-devastated areas, it has produced vast good will for this country and for the other contributing countries, it has increased contacts between citizens of all nations and promoted knowledge and understanding of each other among peoples throughout the world. It has demonstrated the fact that men of many different nations can work together successfully to solve a worldwide problem. It would be a tragic thing, in this critical period in international affairs, with UNRRA so close to the end of its period of operations, to destroy in large part the effect which UNRRA has had in promoting confidence and understanding between nations and to turn its success as an operating international organization into failure during the last months of its existence. I should very much regret
To Hon. Kenneth McKellar  
July 3, 1946  
Page 7

to see such an outcome of an international effort which, otherwise,  
has such bright prospects of confounding those who doubt that any  
attempt at cooperation by nations in a common cause is possible.

I apologize for having burdened you with such a long discussion  
of this subject, but it is, in my opinion, of such vital importance  
in the whole field of our foreign relations that I must put before you  
fully the considerations which I believe would make the adoption of  
the Dirksen Amendment a very grave mistake.

Sincerely yours,

W. L. Clayton  
Assistant Secretary
To Hon. Kenneth McKellar
July 3, 1946
Footnotes

Printed in the Department of State Bulletin, XV (July 7, 1946), pp. 35-37.

1 U. S. Senator Kenneth McKellar of Tennessee (1917-1953).

2 The Dirksen Amendment was rewritten in the Senate to meet Clayton's objections on July 12, 1946.
On July 29, 1946, delegates from twenty-one nations convened for the Paris Peace Conference. Clayton accompanied Secretary of State Byrnes as his aide and, on August 4, made the following radio broadcast from Paris to the American people:
Here we are in Paris where for the second time in one generation a delegation from the United States is meeting with delegations from other countries to try to make peace after a great world war. Altogether there are 21 nations represented here -- countries which fought the war together against Axis aggression in Europe.

We have got so used to the radio in the last few years that some of my listeners may have forgotten that it was not possible during the drafting of the Versailles Treaty some 27 years ago to talk from Paris to the United States as I am now doing.

In the speech of Secretary Byrnes at the opening of the Paris Peace Conference, we find words which I want to use as my text this evening.

He said: "We want to plant the seeds of future peace and not the seeds of future wars."

The Department of State, where I work, has the responsibility, in conjunction with the President and the Congress of fixing the foreign policy of the United States Government. My own responsibility relates to the economic aspects of such policy.

The foreign economic policy of the United States is simple. Here it is:
The United States is committed to the support of all sound measures which will contribute to an increase in the production and consumption of goods throughout the world to the end that people everywhere will have more to eat, more to wear, and better homes in which to live.

We do not contend that higher living standards will of itself guarantee the peace but we do believe that it will create a climate conducive to the preservation of peace in the world.

In order to achieve our objective of a rising standard of living throughout the world, we are committed to the reduction of barriers to the international movement of goods and to the elimination of discriminatory practices in international trade. Such barriers and discriminations sprang up rapidly following the first world war.

The United States Congress has given the President ample authority to deal with these matters through the extension and enlargement of the Hull Reciprocal Trade Agreements Act.

Not only must barriers be lowered and discriminations eliminated if trade is to revive and flourish, but positive action must also be taken for the reconstruction of devastated areas and for the further development of the world's resources.

The Congress of the United States has also acted promptly and adequately in this field through a substantial increase in the lending power of the Export-Import Bank, by ratification of the Bretton Woods
agreements, by a contribution of $2,700,000,000 to UNRRA for relief and rehabilitation purposes and by ratification of the credit to Britain. Add to this the foreign credits extended for the purpose of taking over Lend-Lease inventories and pipe lines, and sales made or to be made to foreign countries on credit of surplus property and we reach a grand total of nearly 20 billions of dollars invested by the United States Government since the ending of the war in its effort to assist in the restoration of economic life abroad.

All of which should be sufficient proof of our deep and substantial interest in the economic aspects of the peace treaties now being written here in Paris.

In the economic field, these peace treaties must provide workable settlements of the issues arising out of the war. They must likewise lay a basis for the resumption of normal economic relations between the former enemy states and the United Nations. But many of these problems give rise to conflicting views and interest.

Take, for example, the question of reparations. It is natural that the countries which suffered from aggression should demand reparations from the aggressor but we must take into account the aggressor's ability to pay. It would do much more harm than good to exact so much of the former enemy that his economic and social structure would be so seriously weakened, as to endanger not only
his own stability but that of his neighbors as well. We must not repeat the mistakes of the Versailles Treaty.

The peace treaties must deal with a variety of other complicated economic subjects. The most obvious are the claims arising out of the war. In modern warfare all the numerous and complicated relations existing between warring nations in finance, trade, transport, and other fields of economic activity are severed. These relations must be reestablished. The legal position of business enterprises affected by the disruption of relations must be defined. Methods must be provided for the settlement of disputes regarding property relations, patents, shipping and many other items.

The United States wishes to see these and other war problems settled fairly and promptly. International business relations cannot be restored if there is to be a long period of uncertainty and if assets are to be tied up in protracted litigation for claims procedures. It took many years after the last war to settle many of these problems. The present treaties should provide for speedy settlements so that the former enemy states may promptly resume normal economic relations with the United Nations.

The draft treaties also include provisions of a temporary character governing trade and other economic relations between the former enemies and the United Nations. These provisions, which would assure non-
discriminatory treatment, are designed to bridge the gap until new economic agreements can be concluded between the former enemy states and the United Nations. Unlike the provisions of the 1919 treaties on these subjects, which imposed unilateral obligations on the enemy states, the clauses proposed by the council of Foreign Ministers are reciprocal. The Allies will be entitled under these proposals to fair treatment of their trade and business enterprises only if they in turn grant similar treatment to the enemy states. Agreement on any other basis could not long endure.

Indeed there are many differences between the 1919 treaties and the drafts which are now being considered at this peace conference. We have really learned something from experience. One striking difference is in the length of the treaty provisions. In the first world war treaties the economic clauses contain a vast amount of detail and added together make up a book of substantial size. The drafts prepared by the Council of Foreign Ministers are short in comparison. Principles are laid down within the framework of which details can be worked out with the enemy states on a fair basis.

In attempting to deal with future economic relations, the clauses are brief and directed only toward the problems of the first year or so in the post-war period. Many of the rather lengthy and complicated provisions regarding trade, transport and other matters found in the
1919 treaties are avoided. After the present treaties are concluded, the enemy states will be eligible to apply for admission into the United Nations and into the various international organizations which the United Nations have already created in the economic fields, such as the International Bank, the monetary fund, food and agricultural organization and numerous others.

There are certain economic questions on which the Council of Foreign Ministers did not reach agreement or which the Council felt could be settled only after study and recommendations by the peace conference. These questions include certain aspects of the reparation problem, the status of regarding property relations. Some involve issues of principle. Others involve problems primarily of a technical character. The appropriate commissions of the conference will doubtless discuss these matters fully and will make recommendations which will facilitate the task of the Council of Foreign Ministers in drawing up the final treaty texts.

The economic provisions of the Versailles peace treaties were full of faults; the economic policies of the nations of the world, ours included, following the first world war were tragically wrong; we broke just about all the rules. No one can say with certainty just how much all of this contributed to the second world war. We do know that it was a powerful factor in the creation of conditions
making for war.

In drafting the present treaties we have constantly striven to avoid the mistakes of the past, in the hope that wise economic provisions might help plant the seeds of future peace and not the seeds of future wars.
A Speech on U.S. Foreign Economic Policy and Goals at the Paris Peace Conference
August 5, 1946
Footnotes

Speech, CP, ACCO.

¹Delivered over the facilities of the National Broadcasting Company,
August 3, 1946.
In 1946 Clayton was once again subjected to attack on the editorial page of the *Washington Post*. In the following letter to the editor he defends his conception of UNRRA as a temporary emergency relief organization:
To the Editor of the Washington Post

Washington, D. C.
August 15, 1946

Dear Sir:

On my return from Europe, my attention has been called to your August 1st. editorial entitled "Gravy Train". In that editorial you say that my use of the expression "gravy train" in connection with UNRRA was exceedingly inept; you criticize my promise to Congress that the State Department would not ask for a third contribution to UNRRA and you say that there will still be need for relief in 1947 and that UNRRA is the logical organization through which to extend such relief.

1. Your authority for asserting that I used the expression "gravy train" in connection with UNRRA may derive from an article by James Reston in the New York Times of July 27 in which he says: "'The gravy train is going round for the last time,' Assistant Secretary of State W. L. Clayton told representatives of several other nations at the State Department this week."

The meeting to which Mr. Reston refers was a small, informal off-the-record meeting to discuss the future of UNRRA. Only six people were present besides myself. Three of the six are now abroad and cannot be conveniently consulted. I have conferred with the other three, two of whom say categorically that I made no such statement at the meeting, the third says that he has no recollection that I
made any such statement. I myself do not recall making this statement; if I had made it, I think I would remember it.

As your attribution of this statement to me is without any qualification whatever, perhaps you will be good enough to give me your source of information.

2. Now, as to your criticism of my promise to Congress that the State Department would not request a third contribution to UNRRA in addition to the total of $2,700,000,000 appropriated by the Congress to UNRRA in the first and second installments, I have this to say:

This promise was made when I appeared before the Congress in support of our request for a second authorization for appropriations of $1,350,000,000 to UNRRA.

I made the promise for these two reasons:

First, I felt strongly that UNRRA, organized as it was to do an emergency job, would have finished that job by December 31, 1946, and should come to an end at that time, in accordance with a resolution previously adopted at the UNRRA Council meeting in London in August 1945. Second, the request for the second authorization of $1,350,000,000 encountered such vigorous opposition that I believed it was necessary to make the promise in order to obtain favorable action.

3. As to your statement that there will still be need for relief in 1947 and that UNRRA is the logical organization through which to extend such relief, I have the following to say:
UNRRA was created as an emergency organization to do two things in particular for the liberated countries:

First: to supply foreign exchange to furnish supplies to those countries which themselves lacked the means to pay for needed supplies.

Second: to provide an organization to procure, to ship and to deliver such supplies.

It is now quite evident that with one or two possible exceptions all the liberated countries are in a position to perform for themselves the service of procurement, shipping and delivery of supplies. No doubt you will agree that the sooner they take over the complete responsibility for their own buying and shipping, the better it will be for them and for everybody concerned. When a country can do these things for itself, it can usually do them much better and much more cheaply than any international organization which may be set up for that purpose. To insist on continuing to do for them what they can do for themselves is to treat them like public charges.

Thus, the problem becomes one exclusively of the mean of payment; in other words, it is no longer an emergency relief problem, brought about by the breakdown of administrative and transportation machinery. It is a balance of payments problem. UNRRA was not organized to meet the general balance of payments problems of countries. You do not need a great expensive international relief organization employing
thousands of people to meet this problem. Other institutions were created to assist in the solution of that problem.

Moreover, a moment's reflection should convince anyone that there has also been a vast improvement in the foreign exchange position of the liberated countries. Most of these countries are gradually regaining their export trade. It is true that so far the export of their goods is of modest proportions as compared with prewar levels, but it is confidently expected that the volume of such exports will increase rapidly since there is and will be for some time a great unsatisfied demand for all sorts of goods all over the world.

In addition to this normal method of providing foreign exchange, the United States and other countries have, by loans and otherwise, added enormously to the foreign exchange resources of the world.

The United States Government alone has supplied foreign exchange in the following important particulars: Three billions of dollars through loans by the Export-Import Bank, 3 3/4 billions of dollars credit to the British Government which will be spent all over the world, 6 billions of dollars as the United States contribution to the International Bank for Reconstruction and Development and to the International Monetary Fund, several billions of dollars credit for financing lend lease inventories and pipelines and the sale abroad of surplus property on credit. Thus, including contributions to UNRRA, the United States Government has made available a total of
nearly 20 billions of dollars to assist in restoring and stabilizing the economies of other countries.

Many other countries have contributed to the capital of the International Bank for Reconstruction and Development and to the International Monetary Fund. Indeed, these two institutions will have at their disposal some 15 billions of dollars with which to give assistance to United Nations countries having need of such assistance for reconstruction, development and the stabilization of their currencies. These two international financial institutions have now been organized and will soon be ready for operation. The International Bank has already made a call on the member countries for the first contributions to its capital and is now receiving applications for loans.

It will thus be seen that measures have been definitely taken for the provision of a total of nearly 30 billion dollars of foreign exchange to countries which need it.

It is not contended that the availability of this enormous amount of foreign exchange will be equally distributed over the world. But the point is that the buying power which these vast funds will generate will circulate around the world and will be a very great contribution to economic recovery everywhere. I would remind you, however, in any case, that nearly all the United Nations either are, or have a right to be, members of the International Bank for Reconstruction and Development and the International Monetary Fund. To
the extent that these or other institutions such as the Export-Import Bank meet the reconstruction or other needs of countries having difficulties with the balance of payments problem, the other normal foreign exchange resources of such countries arising from their exports or otherwise are released for the purchase of food.

For example, the Export-Import Bank has recently made available to Poland a credit of 40 million dollars which will be used largely in the purchase of railway equipment for the movement of coal. Poland is now exporting about 120 million dollars worth of coal a year, half to Russia and the other half to Western Europe, and I was told last week by responsible Polish officials that this would increase to 260 million dollars as soon as the new equipment can be received and put into use.

Isn't it clear, therefore, that this 40 million dollar loan not only relieves the Polish Government from the necessity of using any of their foreign exchange for the purchase of essential railway equipment, thus freeing such exchange for the purchase of food, etc., but that it makes possible, soon, a great addition to such foreign exchange resources?

On numerous occasions I have fought UNRRA's battle before Congressional committees and elsewhere.

Looking back upon the original idea of the creation of a great international organization for emergency relief and rehabilitation.
To the Editor of the Washington Post
August 15, 1946
Page 7

I have the highest admiration and praise for the man who first con-
ceived it and whose leadership and energies brought it into being.
It was an act of real statesmanship. The work of UNRRA will certainly
go down in history as the greatest organized humanitarian achievement
of all times.

But UNRRA's job was of a temporary and emergency character.
The original UNRRA agreement and many of its resolutions amply attest
to this. Indeed, in the beginning it was confidently believed that
1% contribution of national income of all the contributing countries
would produce enough money to complete the job. This was implied
in the hearings before our Congress on the bills to appropriate this
1%. The original 1% was expected to yield nearly 2 billion dollars
and it was felt then that this huge sum would be sufficient to cover
the emergency needs of the liberated countries until these countries
were able to provide for themselves or until other means could be
devised.

But it was quite evident at the London Council meeting a year
ago that the job could not be done on 1% and it was decided to call
for another 1%. The United States delegation, of which I was the
head, took the lead in sponsoring this action. At the same meeting
it was agreed that UNRRA would complete its programs for Europe by
the end of this year and for the Far East by the end of the first
quarter of 1947.
It is easy to start a great organization like UNRRA with billions to spend but it is not easy to stop it. The receiving countries would naturally like to continue it because they have found it easy to obtain very substantial assistance in this way. There are numerous receiving countries, each of which has a vote in the distribution of relief. Three countries furnish about 93% of the funds and each has one vote. The United States furnishes 72% of the funds and has one vote.

The United States is not a limitless reservoir of wealth and goods. We have some serious problems of our own. It cost us the blood and lives of hundreds of thousands of our boys and over 400 billion dollars to win the war. Our national debt is nearly 300 billion dollars and is difficult to manage from the point of view of the control of inflationary trends.

We don't want to see the people of any country suffer for the lack of food and have never turned a deaf ear to such people and I don't think we ever will. At the same time, now that the great emergency needs of other countries have either been provided for or institutions have been created for the purpose of providing for them, we must keep a careful watch over our own resources and our own liabilities.

Perhaps the most important economic consideration in the world today is that the United States should not repeat the experience of the '20's and early '30's -- an experience of "boom and bust" --
To the Editor of the Washington Post
August 15, 1945
Page 9

because if that should happen to us again the consequences would be
disastrous, not alone to us but to the rest of the world as well.

Sincerely yours,

W. L. Clayton
To the Editor of the Washington Post
August 15, 1945
Footnotes

L, CP, TL.
Chapter IV

Undersecretary of State (1946-1947)
During World War I, Will Clayton was a member of the Cotton Distribution Committee of Bernard Baruch's War Industries Board. In the years after the war, the two men maintained a correspondence on a wide range of subjects, in which Clayton was generally deferential to Baruch's opinions. They found themselves in complete disagreement, however, on the desirability of the British Loan:
To Bernard Baruch

Washington, D. C.
December 16, 1946

My dear Mr. Baruch:

Please excuse me for delay in replying to your letter of November 23rd. The UN, the CFM and various international conferences have played havoc with our staff here.

I did say to you that I thought the British would socialize only three industries -- coal, transportation and steel --.

Up to date, I believe they have socialized only coal. Transportation is now under consideration for socialization. So far as I know, the idea of socializing steel has been shelved for the present.

The Cotton Board was set up to handle importations of raw cotton. The British Government has announced that it will not socialize the cotton textile industry.

I do not consider such things as banking, insurance, cotton merchandizing as industries in the sense in which I discussed this matter with you. I think I told you at the time that it was the intention of the British to continue government bulk buying of cotton which was established during the war.

The United States Government still retains the import monopoly on numerous commodities, for example, tin, rubber, quinine, antimony, etc. The United States Government continues to contract for the Cuban sugar crop and monopolizes the importation of same into the
United States.

I believe the British will eventually turn back to private people the importation of cotton and other commodities.

Meantime, we have an understanding with the British that these governmental bulk purchasing programs shall be conducted on an absolutely non-discriminatory basis. On that understanding, the cotton South is no worse off with respect to the sale of American cotton to Britain than it was under the old system.

We loaded the British loan negotiations with all the conditions that the traffic would bear.

I don't know of anything that we could or should do to prevent England or other countries from socializing certain of their industries if that is the policy they wish to follow. To attempt to force such countries to adopt policies with respect to their domestic economies contrary to their wishes would, in my opinion, be an unwarranted interference in their domestic affairs.

Your statement that the policy of trying to lend other people money to buy things in short supply here is the height of absurdity is quite another matter. So far as I am concerned we are not trying to lend money to anybody.

You and I have differed about the British Loan. I respect your views. But I will stick to mine!
To Bernard Baruch
December 16, 1946
Page 3

With kindest regards and every good wish, I remain,

Sincerely yours,

W. L. Clayton
To Bernard Baruch
December 16, 1946
Footnotes

LS, Baruch Papers, Princeton University.

Clayton's dedication to liberal trade policies was premised on a healthy European economy. When it became apparent that UNRRA aid would not restore European countries to an acceptable level of economic prosperity, Clayton made the following statement in support of President Truman's request for $350 million relief for Europe and China:
A Statement on Post UNRRA Relief

Washington, D. C.
February 25, 1947

The purpose of the Resolution now under consideration by this Committee is to provide relief to millions of persons in war devastated countries who are still dependent upon outside assistance for food and other essentials of life.

Through UNRRA and the military programs several billions of dollars have been made available to the peoples of the liberated areas for food, clothing, medicine and other essential supplies. Great progress has been made in these countries in their struggle to return to a normal life. The United States can be justly proud of the part it has played in helping these millions of unfortunate people to get back on their feet. Yet the task is not quite finished. The assistance still required is small relative to that already given, but without it many of these people will perish by starvation and millions will be seriously under-nourished. We cannot hope to achieve permanent security and prosperity in a world where such conditions exist. Even with the minimum of assistance which has been planned, the peoples involved will still have barely enough to eat.

The UNRRA pipelines soon will run dry. The great bulk of UNRRA supplies will have been shipped to Europe by the end of March and shipments will practically cease during April.
The Committee is, I am sure, aware of the position taken by the Department of State and the President regarding post-UNRRA relief. It has not seemed wise or proper to meet the remaining needs through an international agency. Instead it is believed that the problem which remains can best be handled directly between the individual contributing countries and the recipient countries. The Secretariat of the United Nations will be useful as a clearing point for the exchange of relevant information.

One of the major arguments advanced by the United States representatives in making clear this position regarding relief in 1947 was that the problem, although of utmost urgency and seriousness, was not of the magnitude of past years and could be handled more efficiently and expeditiously without the cumbersome mechanism of an international relief agency.

That argument is still valid. Some of the UNRRA countries no longer require free assistance; others, not as fortunate, need relatively small amounts of additional assistance to carry them through another year. Thereafter, it is expected that they will be able to stand on their own feet. In addition we feel that we can more effectively adapt our program to meet changing needs and can maintain better supervision over the use of our funds and supplies by dealing directly with the countries needing assistance.

The State Department estimates that the minimum relief requirements
for the calendar year 1947 of needy countries amount to about $610 million exclusive of remaining UNRRA shipments. The following European countries appear to have need of outside assistance: Austria, Greece, Hungary, Italy and Poland. It is anticipated also that China may have emergency needs for food imports to prevent suffering and starvation in certain areas and that some financial assistance may be required for this purpose.

Relief needs have been calculated as that part of a country's minimum import needs which cannot be financed out of its own resources, including current earnings of foreign exchange and existing and anticipated foreign loans and credits. The minimum import needs have been determined on the basis of the definition proposed by the United States Representative and adopted by the General Assembly of the United Nations, namely: "imports required to provide the basic essentials of life and to prevent economic retrogression which threatens the supply of these basic essentials". In making our estimates we have included food imports which, together with the quantity locally produced, would give urban consumers a diet of an average of from 2,000 to 2,200 calories per day. This compares with 3,400 calories in the United States. Imports of raw materials, fuel and industrial supplies, in amounts sufficient to maintain the production of essential goods and to prevent economic retrogression from approximately present levels, have also been included in the calculations. To the extent that food and other relief supplies are furnished by the United States and other contributors the foreign exchange resources of the needy countries will be freed for the procurement of other imports included in the list of minimum needs.
The need for assistance in food imports is particularly acute, in most of the areas involved, during the Spring and early Summer months prior to the harvests, and suffering and a serious economic setback will occur if help is delayed. On the other hand if sufficient assistance is provided promptly there is every reason for anticipating that, with the possible exception of Austria, these countries will not need further free relief after 1947. In the case of Austria some further help, although on a reduced scale, will probably be needed during the calendar year 1948.

The President has recommended that the Congress appropriate $350 million as the United States contribution to help meet these needs. This sum represents in our opinion, our fair share of the total requirement, bearing in mind our capacity in relation to that of other supplying countries. It is 57 percent of the estimated need, compared with our UNRRA proportion of 72 percent. The British Government has already announced a program for assistance to Austria, amounting to $40 million and is currently considering what assistance can be rendered to other countries. Other governments are likewise studying the matter at this time. We are hopeful that through the efforts of all governments which are in a position to help, the minimum needs will be met.

I should like to emphasize at this point what we consider to be a fundamental principle—that is, that the total amount we would allocate to any country not be determined finally at this time. We should avoid a situation where any country might assume that it had a vested interest or right to a particular amount of money. We found in the case of UNRRA that whenever an amount was allocated even on a tentative basis to a recipient country, any
attempt to reduce it in order to take account of changing needs caused resentment and consequent embarrassment. In making estimates of relief requirements we must necessarily make assumptions regarding future crop and weather conditions, export possibilities, the probability of credits and loans from private or public banking institutions and many other factors which are not susceptible of definite determination at this time. Emergencies may arise requiring an increase in present estimates for some countries whereas in others recovery may occur at a more rapid rate than we now anticipate. Furthermore, the assistance which will be provided to each of the countries by other contributors must be considered in determining how our funds should be allocated. We are not now fully informed in regard to this matter and should be in a position to adjust our program in collaboration with other contributors to prevent duplication of effort.

The Resolution under consideration provides that the control of the program remain firmly in American hands and that this control be exercised to the end that these supplies be shipped where they are needed and that they are used within the receiving countries in a manner consistent with the purposes of the Resolution. We would also take steps to assure that the people of the countries receiving our help would be fully informed as to our interest in their welfare and the extent and nature of our contribution. It is our intention to limit the items which would be procured with our funds to a few basic essentials,
primarily food, medical supplies, seeds and fertilizers. We might also find it necessary in some cases to include such things as clothing or raw materials for the production of clothing, fuel and similar basic supplies. We would not attempt to provide machinery and equipment for rehabilitation purposes. UNRRA has already imported those items of this nature which were needed for the resumption of basic economic activities after the dislocation and destruction caused by the war. Further reconstruction and development of the productive and transport facilities of these countries should be provided through loans from the International Bank and other sources.

If this program is approved by the Congress we plan to reach an agreement with each recipient government regarding all necessary aspects of the operation. Such an agreement would cover the methods of procuring, shipping and accounting for supplies, the right of observation by our representatives in the country, and freedom to report (without censorship) by the press and radio. We would also require guarantees that not only our supplies but all similar supplies produced locally or imported from other sources will be used to meet the needs of the people without discrimination on political or racial grounds. The agreement would also prescribe conditions governing the use to be made of local funds arising from the sale of supplies to those people who can afford to pay for them.

After conclusion of such an agreement we would approve from time to time target programs covering the type and amount of commodities.
which could be procured over say a two or three month period. The
recipient government would then be authorized to procure these goods
either through commercial channels or the appropriate government pro-
curement agency, and to arrange for their shipment. Full reports,
including copies of contracts, invoices and shipping documents would
be made available to us. As funds are needed to meet accruing obligations
we would transfer cash to the recipient government to be set up in
a special account.

We would maintain a small staff in the State Department which would
make the necessary arrangements with the recipient government, would
keep closely informed in regard to all procurement and shipping activities
and would receive and analyze reports from our missions in the recipient
countries regarding current relief needs and compliance with the agreements.
We also plan to attach to the United States Embassy in each of the
recipient countries a small well-qualified staff. These persons would
supplement the work of the Embassy staff in maintaining controls in
the country, observing the relief program and reporting to the Ambassador
and the Department in regard to the progress of the distribution of
our supplies and others of similar types in the country, the extent
and nature of relief needs and the effective utilization of locally
produced supplies.

I have already pointed out that the immediate problem is to
maintain the flow of relief supplies. To stop that flow would be disastrous;
to interrupt it would be almost equally disastrous. If we fail to provide the relief now when it is needed, much of the humanitarian work heretofore done by our Government and others will be undermined, much suffering and economic deterioration will undoubtedly occur, with political and economic consequences to the rest of the world, ourselves included, not pleasant to contemplate. The President stated the problem clearly, when he said in transmitting this request to the Congress --

The United States, in keeping with our traditions of immediate and whole-hearted response to human need, has stood in the forefront of those who have checked the forces of starvation, disease, suffering and chaos which threatened to engulf the world in the wake of the war. The task is nearly finished. I urge the Congress to act promptly to insure that we do not stop short of the goal; that we do not endanger the permanence of the gains we have so largely helped to achieve.
A Statement on Post UNRRA Relief
February 25, 1947
Footnotes

Statement, CP, ACCO.

Delivered before the Foreign Affairs Committee of the House of Representatives, February 25, 1947.
On February 24, 1947, the British Ambassador in Washington informed the United States government that Great Britain could no longer protect the eastern Mediterranean area against Communist expansion, and would, in fact, soon withdraw from Greece completely. This communication provoked the enunciation of the Truman Doctrine, but long before Britain's announcement Clayton and other statesmen had seen Greece and Turkey as potential crisis areas.
To Hon. James Byrnes

Washington, D. C.

September 12, 1946

My Dear Mr. Secretary:

I am enclosing herewith a copy of a letter dated August 28, 1946 from the Secretary of the Navy and Secretary of War, to which is attached a memorandum of the Joint Chiefs of Staff dated August 23, 1946 from the Secretary of the Navy and Secretary of War, to which is attached a memorandum of the Joint Chiefs of Staff dated August 23, 1946, entitled "Military Implications of the Current Turkish Situation." You will observe that the JCS memorandum contains certain suggestions for improving the military situation of Turkey, including the granting of permission for Turkey to purchase from the United States certain arms and military equipment as outlined in SWMCC 202/2 and the giving of consideration to the advisability of supplying selected United States technicians including officers for the purpose of assisting the Turks.

This communication brings us face to face with a problem which we appear to have been approaching for some time. That problem is whether in view of the policy which the Soviet Union appears to be pursuing of endeavoring to undermine the stability and to obtain control of the countries in the Near and Middle East such as Greece, Turkey and Iran, we should make certain changes in our general policies, including those relating to the sale of combat equipment, to an extent which might enable us to strengthen the will
and ability of the various Near and Middle Eastern countries under Soviet pressure to resist that pressure.

You will recall that on February 5, 1946, the Staff Committee recommended that certain restrictions be imposed upon the sale of military-type surplus equipment to foreign countries. A copy of the Summary of Action of the Committee on that date is attached hereto for your convenience (Enclosure 2). You will observe that this recommendation excludes the sale of such equipment to any countries of the Near and Middle East. Insofar as can be ascertained, no formal blanket decision at a high level has been made with regard to the sale abroad of military-type equipment other than surplus equipment, and the Department has consequently pursued no fixed policy regarding the matter, but has handled each request on an ad hoc basis. Sales to the Near and Middle East by private American suppliers have been limited to commercial aircraft, sporting equipment or small arms for personal protection.

You will also recall that on February 5, 1946 Mr. Acheson, in testifying before the Mead Committee, explained why the Department had decided to sell certain quantities of military-type surplus equipment to a number of selected countries and that the members of that Committee were inclined to be critical of our action in that respect. Although Mr. Acheson made no pledges to the Committee with regard to the future policies of the Department of State with respect to the sale to foreign countries of military-
type surplus equipment, he made it clear that we had no intention of selling this type of equipment to countries other than those contained in the list, which did not include any Near or Middle Eastern countries. Mr. Acheson did not discuss with the Mead Committee what our policies might be with regard to new non-surplus military-type equipment. The Mead Committee has no jurisdiction over transactions involving sale of equipment which is not Government-owned. Shortly after the hearings in which Mr. Acheson participated, a sale of surplus airplanes was made inadvertently to Sweden by an ELC Representative and the matter was explained to the Mead Committee. The members of that Committee, while accepting the explanation, indicated that they reserved the right to criticize the transaction.

Mr. Acheson, however, did not consider that his action in offering an explanation of the Swedish sale to the Mead Committee established a precedent which would require consultation with the Committee on each subsequent proposal to sell military equipment. His explanation was given for the purpose of making it clear to the Mead Committee that he had acted in good faith in explaining our policy to that Committee on February 5 and that he did not know at that time that a sale to Sweden was under contemplation.

On March 21 the State-War-Navy Coordinating Committee made a decision (SWNCC 202/2) in which it was suggested that "In accordance with the United States' firm political policy of aiding the countries of the Near and
Middle East to maintain their independence and develop sufficient strength to preserve law and order within their boundaries, it is consistent with United States policy to make available additional military supplies, in reasonable quantities, to those countries." This decision also applied only to surplus and Lend-Lease equipment. It will be noted that it is not on all fours with the State Department Staff recommendations. At least one of these documents, therefore, must be changed.

During the period of more than six months which has elapsed since the formulation of the policies outlined above, there have been certain profound changes in the world situation. The Soviet Union has shown itself determined to continue to adhere to, and to pursue unswervingly, its policies of endeavoring to create instability in certain of the Near and Middle East countries contiguous to it or to its satellites and to endeavor to obtain hegemony over these countries.

In northern Iran the Soviet Union has equipped and trained a puppet Azerbaijan army said to number more than 20,000 men and is continuing to endeavor through this army and by other means to weaken and eventually gain control of the Central Iranian Government. It has made formal demands upon Turkey which, if accepted by the Turkish Government, would inevitably result in Turkey becoming a Soviet puppet.

It has aided its satellites, Bulgaria, Yugoslavia and Albania, in creating strong armed forces and is using these forces as a means of pressure
upon Greece. Soviet agents are undoubtedly responsible for the smuggling of arms to, and for the strengthening of, groups in Greece which are endeavoring by force to set up in Greece a government which would be subservient to the Soviet Union.

This Government, as you are aware, has already decided that the establishment of a Soviet puppet government in Turkey would constitute a serious threat to the security of the United States and that we should endeavor to strengthen the will and ability of Turkey to defend Turkish independence and territorial integrity.

On a number of occasions we have informed both Greece and Iran of our deep interest in the maintenance of Greek and Iranian independence.

The Central Government of Iran has sent to the United States a Military Purchasing Commission to buy certain military-type equipment for the purpose of improving the quality of the Iranian army and strengthening the ability of the Iranian Government to maintain its authority throughout the whole country.

The Turkish Government has already indicated its desire to buy certain military-type equipment from us in order to strengthen its defenses.

Although Greece apparently has not approached us with a request to buy military-type equipment it is reasonable to expect, in view of the situation in which that country finds itself, that the Greek Government will eventually seek to make some military purchases in this country.
If we should categorically refuse to sell to these countries any military-type equipment, even though it be clearly demonstrated that such equipment is urgently needed in order to preserve internal order or to protect frontiers, the governments and people of these countries may well obtain the impression that our interest in the maintenance of their independence is not deep and they cannot expect any concrete support from us in their efforts to preserve their independence. If such an impression should be created there is a danger that the governments and people of these countries will gradually become discouraged and that their will to resist Soviet pressure will be greatly weakened.

All of us working on the problem, including General Hilldring,² believe, in the light of the Dardanelles decision³ (See Department's telegram to Paris 4122 of August 15.) that the time has now come for us to review existing policies with regard to the sale abroad of military-type equipment, both surplus and non-surplus. We believe it is clear that this review will demonstrate the necessity that changes be made in the recommendations of the Staff Committee of February 5, 1946 (SC/R-184). These changes could be effected in one of two ways. You may issue a statement of policy which would supplant the Staff Committee policy (SC/R-184) or, if you wish, the Staff Committee could issue a new statement in accordance with suggestions made by you. The advantage of the changes being effected by you personally would be that they would be known to a smaller circle in the Department
and that the danger of a leak would be correspondingly reduced. It seems to us that in any event the new statement of policy should be broader than that set forth in SC/R-184, which covers only surplus property. It should cover the transfer or sale of all military-type equipment of United States origin, regardless of whether Government-owned or privately owned.

We are preparing a draft of a statement of a type which in our opinion will enable us to meet the situation which has developed since last spring and we are planning to send it to you under cover of another letter. We are couching this statement in most general terms in order that it will permit of a considerable degree of flexibility in application.

You will, of course, understand that it is not our idea that we should begin to sell military-type equipment immediately in large quantities to various countries subject to external pressure. We feel, however, that the new policy should enable us, with the discretion and restraint required by the circumstances, to supply military-type equipment to countries such as those in the Near and Middle East, the maintenance and integrity of which are considered to be of important interest to the United States.

In view of the national importance of this matter, you may care to discuss it informally with the members of the Foreign Affairs Committee of the Senate who are with you in Paris. You will, of course, desire that a new policy, in case you approve it, should receive the approval of the President before it is put into force.
To Hon. James Byrnes  
September 12, 1946  
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We have grave doubt that it would be advisable at the present time for the United States to send a military mission to Turkey. We understand that Turkey has not as yet asked for such a mission. We believe that it might be preferable not to endeavor to make a decision with regard to this matter at the present time. In case, at a later date, Turkey should request some kind of American military mission, we could make our decision at that time after taking into consideration the type of mission desired, the world situation and other factors involved.

Insofar as we are aware, no action has been taken so far as the Soviet is concerned, to implement that section of the memorandum contained in our telegram 4122 of August 15 to Paris which reads: "The implementation of this policy * * * will require in the first instance frank discussions with the principal nations involved." We have assumed that you will probably care to talk this over with Molotov at such time, and in such manner, as you may consider appropriate. Although we consider the maintenance of integrity and independence of Iran and Greece also to be extremely important to the United States, we have not undertaken the preparation of a memorandum relating to them similar to that regarding Turkey since the Soviet Union has made no formal demands upon them as it has upon Turkey. It seems to us important, however, that in emphasizing to the Soviet Union our interest in the maintenance of Turkish independence and integrity the impression should not be left with the Soviet Union that we are not also interested in the independence and territorial integrity of Greece and Iran.
To Hon. James Byrnes
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I have read this letter to the Secretary of War and to the Under Secretary of Navy and both of them have given it their full approval.

Sincerely yours,

William L. Clayton
To Hon. James Byrnes
September 12, 1946
Footnotes


1 U. S. Senator James Mead of New York (1938-1947), chairman of the Special Committee to Investigate the National Defense Program.

2 Major General John Hilldring, Assistant Secretary of State for Occupied Areas (1946-1947).

3 A statement from the State Department expressing opposition to any Russian bases in the Dardanelles because "the primary objective of the Soviet Union is to obtain control of Turkey." See *Foreign Relations*, 1946, vol. VII, pp. 840-842.
On March 12, 1947, President Truman expressed the determination of the United States to aid Greece and Turkey against aggression, whether overt or ideological, and to extend similar aid to any other threatened European nations. As head of economic affairs in the State Department Clayton was intimately involved in the formulation of the Truman Doctrine and was consequently called on by the House Committee on Foreign Affairs to explain the economic situation in Greece:
A Statement on the Economic Situation in Greece

Washington, D. C.
March 24, 1947

The general political situation in Greece has already been outlined by Mr. Acheson. I should like to explore with you the economic position of the country and the events which have brought the Greek economy to a state of near collapse.

Even before the war, Greece was a poor country. Her per capita income was one of the lowest in Europe; labor productivity was low in both agriculture and industry; population pressed on limited resources; and there was a constant deficit in the balance of trade.

Greece entered the war on the side of the United Nations relatively early in the conflict. By April 1941, Greece was completely occupied by enemy forces and remained under occupation until late in 1944. During this period, the Greek economy was operated almost entirely by and for the enemy war machine. Through such devices as issue of occupation currency, drafts on the Greek Government, clearing arrangements which gave exports to the enemy without recompense, requisitions, confiscations and the like, the Greek economy was systematically and progressively stripped and at the same time billions of drachma were pumped into circulation.

One of the first acts of the German occupation authorities was to requisition existing stocks of Greek food, already seriously depleted. Agricultural products were regularly requisitioned in various areas
and sometimes the Germans themselves harvested crops to keep them from
the local population. Clothing was requisitioned in Crete and other
Greek areas. The Germans seized transport, machinery and raw materials
to whatever extent was required by the German armed forces and the
Germany economy. Greek industry was used to meet the conqueror's
needs at home and to supply the necessary spare parts and repairs for
his damaged equipment. Machinery in factories that could have supplied
Greek civilian requirements was removed and replaced by machinery de-
signed especially to maintain German war equipment.

As the enemy forces withdrew, they put into effect a policy of
systematic destruction calculated to wreck the Greek economy to such
an extent that a liberated Greece would have slight prospect of normal
recovery in the foreseeable future. The physical damage inflicted on
the country was sufficient to result in almost complete paralysis.
Means of communication were destroyed, port facilities wrecked, and
bridges demolished. Livestock was carried off, villages burned, rail-
ways torn up and the Corinth Canal dynamited.

The following figures will serve to highlight the heavy material
losses suffered by Greece from the war. Of 55 passenger ships in 1939
only 5 remained. Less than one quarter of the cargo vessels were still
afloat. The Greek State Railways had lost over 80 percent of their
rolling stock and nearly 90 percent of their locomotives. Half of
the highway system was unusable and half the bridges were out. A large proportion of the livestock and draft animals had disappeared. Industrial production was only a small fraction of that in 1939. Agricultural production had not suffered as much but was still substantially below pre-war levels.

In addition to the visible damage sustained by Greece, the Greek economy fell prey to progressive inflation, which stemmed largely from the heavy occupation costs levied by the enemy. At one point in the summer of 1942, occupation cost payments reached 30 billion drachma monthly. It may be estimated from Greek Government figures that occupation costs totaled over $431 million 1938 dollars. In addition, Greece incurred heavy drachma expenses for products exported to the Axis during the occupation under the clearing arrangements with Germany and Italy. Both clearings at the end of occupation reflected net unpaid exports by Greece totaling about $534 million 1938 dollars. By liberation such fantastic amounts of drachma were in circulation that the currency system was on the verge of complete collapse.

In fact the Greek Government in exile was compelled almost immediately upon its return to Greece to abandon the old currency and establish a new one. Conversion was effected in November 1944 at the rate of 50 billion old to 1 new drachma. This had the effect of wiping out bank deposits and destroying the value of Greek Government bonds and other obligations.
The fiscal position of the Greek Government on liberation was also appalling. The machinery of government was disorganized. The pre-war tax structure had completely collapsed during the occupation on the municipal as well as on the national level. At the same time the financial burdens of the Government were greatly increased. Hospitals, schools and many other essential services had to be financed from the national treasury since the municipalities were bankrupt. The Greek's brave fight to preserve their independence against impossible odds and the subsequent occupation had greatly increased the number of widows, orphans and maimed entitled to pension. Moreover unsettled world conditions imposed a further heavy burden on the Greek budget for military needs even though the British Government made a substantial contribution in this respect.

Ever since liberation the Greek Government has been faced with a mounting budget deficit. Unfortunately, however, the lack of confidence in the currency and credit of the Government engendered by the inflationary experiences through which the Greek people have just passed has meant that the Government has been unable to float any internal bond issues since the drastic currency conversion of November 1944. Lack of confidence in the currency is also reflected in the absence of any appreciable savings in the form of bank deposits. This in turn has limited the ability of Greek banks to supply essential credits to the
Government or to business and industry to finance rehabilitation and reconstruction. As a result, reconstruction has been greatly retarded and the Government has been forced to cover the deficit in effect by currency issues.

These currency issues have inevitably added to the inflation in Greece exerting upward pressures on prices and the exchange rate. The over-all cost of living is now more than 100 times as high as in 1939. Wages have increased but not proportionately with the result that there has been a drastic decline in real wages. The exchange rate has had to be adjusted from 150 per dollar established at liberation to 5,000 per dollar fixed in January 1946. Even this rate has been consistently below black market rates which are now in the neighborhood of 8,000 to the dollar. The rate for gold is even higher amounting to approximately 16,000 drachmas per dollar.

In these circumstances the Greek Government has made efforts to attain stability by the expedient of selling gold sovereigns at premium rates. While this practice may have had some effect in stabilizing the value of the drachma it has also reduced the gold and foreign exchange reserves of the Government to a dangerously low point.

Greece finds herself today with virtually no gold or dollar resources left, with relatively little reconstruction accomplished, and with an economy which threatens to collapse at the onset of almost any serious adverse development. The shock to confidence from
the inflationary experience of recent years was itself enough seriously
to disrupt the normal functioning of the economy. This added to the
destruction wrought by the war, the political uncertainties facing
the nation, and the guerilla activities imperiling life and property
in the interior, has meant virtual paralysis of the normal economic
processes by which Greece might otherwise have been able to work out
her own salvation.

The assistance heretofore provided by UNRRA and the British
has succeeded in preventing actual starvation. It has been far from
sufficient to restore Greece to a position where she could become
self-supporting. With the imminent cessation of the help provided
by UNRRA and the British, Greece needs substantial outside assistance
if suffering and political turmoil are to be avoided. Such assistance
can only come from the United States in the time and in the amount
required.

I shall endeavor to outline the program of assistance which
is proposed. The Congress has already been advised that with the
termination of UNRRA shipments Greece will require minimum relief aid
of $50 million if serious malnutrition and further retrogression in
the minimum operation of the economy are to be prevented. This sum
will be provided under the post-UNRRA Bill if this is approved by the
Congress.
Provision of relief aid in this amount will not, however, be sufficient to restore domestic security or provide the minimum reconstruction and stability which are necessary if Greece is again to take her place among the self-supporting democratic nations of the world.

For this purpose it is believed that approximately $300 million will be necessary. Of this approximately half would be devoted to making available to the Greek armed forces the arms, ammunitions, clothing, rations, and equipment necessary to deal effectively with the guerrillas. The political and military reasons for strengthening the Greek Army have been discussed by others, but I should like to emphasize that the establishment of military security is an essential prerequisite to economic stability. The economic difficulties of Greece have been seriously complicated by a general lack of confidence in the future of Greece as an independent state. Establishment of military security will enable the Greek Government and people to concentrate their efforts upon the solution of their economic problems, and renewed hope and confidence will encourage Greek private enterprise to undertake a larger share of the tasks of reconstruction.

The civilian program envisaged will cost approximately $150 million. I would like to indicate very briefly the nature of this program, in particular the import or foreign exchange elements involved.
A Statement on the Economic Situation in Greece
March 24, 1947
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We have estimated that imported equipment and materials for reconstruction until June 30, 1948 will cost approximately $50 million. The first priority in reconstruction must be given to the restoration of transport and public utilities. Internal transportation in Greece is a serious bottleneck to further recovery. Until the railroad network is fully restored and sufficient rolling stock provided, the present excessive diversion of traffic to trucks will have to be continued with attendant high costs which hamper internal distribution and exports.

Greek roads have deteriorated very seriously and are in such unbelievably bad condition that the life of vehicles is only a fraction or normal and operating costs are excessively high. The two principal Greek ports, Piraeus and Salonica, were very badly damaged and have been restored on only a provisional basis.

In order to make progress toward the restoration of the Greek transport system, it will be necessary to import considerable quantities of rolling-stock, rails, structural steel and bridge building material, road machinery and earth moving equipment, some vehicles and the services of the United States contractors and technicians.

Restoration of damaged and destroyed electric utilities and communications systems must also be given a high priority. Substantial imports of electrical machinery and communications equipment will be required.
Agriculture, which is the basis of the Greek economy, depends heavily upon the various flood control, irrigation and water control facilities. During the war these facilities were neglected by the invaders and the equipment necessary to keep them in good condition was either destroyed or removed. The dams, dikes, canals and ditches have, as a result, deteriorated very seriously, and unless they can be reclaimed very soon, further deterioration and loss of agricultural output is inevitable. For example, the Thessalonica Plains project which drains and irrigates an area of roughly 460 square miles along the Axios River in north central Greece has been virtually without maintenance since the beginning of the war. In order to reclaim this vital project, such pieces of equipment as hydraulic dredges, drag lines, bull dozers and tractors are needed as well as maintenance equipment for these items. Such equipment will have to be imported.

During the war much industrial plant in Greece was idle and the Nazis removed and destroyed considerable industrial equipment. Mines suffered very seriously. Imports of industrial equipment will be required to permit Greek production to return to pre-war levels.

Any visitor to rural Greece is impressed by the wanton destruction of rural dwellings, of which over 100,000 were destroyed and 50,000 badly damaged. The foreign exchange costs of beginning the restoration of this tremendous loss are a small but vital element in the job.

Aside from the problem of basic reconstruction, Greece urgently
needs further assistance in the rehabilitation of agriculture. UNRRA has made a start by the importation of some livestock, farm machinery, food processing equipment and the like. This program includes $20 million for this important task.

This $20 million and the $50 million for reconstruction are to cover the cost of foreign goods and services entering directly into these programs. But in order to carry out the reconstruction program it will also be necessary to employ local labor and materials. Greek labor and raw material producers will be paid in drachmas. However, the Greek laborer or raw material producer cannot be expected to make available his services or products unless he can convert the drachma he receives into the goods and services required by himself and his family.

Even with the additional supplies of food and clothing to be provided for abroad under the direct relief program the total supply of goods and services available for purchase will be barely sufficient to permit holders of drachmas to convert them into the necessities of life. Large drachma payments must be made in connection with the proposed reconstruction program, and such increased drachma purchasing power will exert a tremendous pressure upon the limited supply of goods. In such circumstances, each new drachma recipient would bid against his neighbor for available supplies, and the result would be a rapid rise in prices. Wage earners and raw material producers would
soon find that their drachma receipts were inadequate to produce the necessities of life, and they would demand increased payment for their labor and products. If the basic shortage of goods were not remedied, increased wages and prices to producers would not enable them to procure the goods they require, but would only lead to more frantic competitive bidding and further price rises. Price controls and rationing are only temporary palliatives under such circumstances, and experience has shown that the effective operation of controls of this nature cannot be expected in Greece under such circumstances.

It is our firm opinion that the reconstruction program in Greece cannot be carried out successfully unless consumers' goods are made available from abroad, roughly equivalent in value to the drachma expenditures in connection therewith. The best available estimate of these expenditures is $80 million. Greece itself is the cheapest source of the labor and of much of the raw materials required for the reconstruction program, and of course such labor and materials should be utilized to the utmost. The precise method of carrying out an integrated program of reconstruction, including the procurement and distribution of the necessary consumers' goods should, I believe, be left for determination by the American Mission, which it is proposed to send to Greece.

To summarize: the $150 million civilian program for Greece consists of the $20 million agricultural rehabilitation program, and a reconstruction
program which includes $50 million for foreign exchange costs and
$80 million for internal costs.

I should like to emphasize that all the estimates I have given
you are necessarily rough approximations, and that it is essential
that flexibility be maintained, so that adjustments between various
portions of the program can be made in the light of experience and
developments which cannot now be anticipated in detail.

The funds made available under this program must, of course,
be utilized to best advantage so that our objectives may be achieved
efficiently and economically. It will be necessary to send a civilian
mission to Greece to administer this Government's interest in the program.
We cannot now say what the size of such a mission would be, or how
it would be organized; these questions are still under study.

It is clear that we should not make any expenditures for the
Greek program until specific plans have been developed, and have been
approved by us. The mission in Greece would be in a position to
carry a large part of the responsibility for this activity. It is
also clear that the expenditure in Greece of funds that may be made
available to the Greek Government must be subject to control by our
mission there.

Furthermore, it is my considered opinion that in the United
States any purchases with these funds should be made through the
procurement agencies of this Government, or, if made otherwise, should
be subject to careful supervision and strict control.

Finally, we must see to it that competent persons are sent to Greece to ensure the development of controls at key points and to supervise their application. Time is so short, and the expenditures involved so great, that we must be assured that sound policies will be adopted and effectively administered in matters such as the following: fiscal methods; a modern tax structure; strict husbanding and control of the foreign exchange earnings of the Greek people; conservation of remaining gold resources; a restriction on unessential imports; and the expansion of Greece's exports. These measures, no less than the financial advances we are proposing, are necessary to put Greece back on her feet.

I have stressed the economic situation in Greece because it is one of crisis. General economic conditions in Turkey are more favorable than those in Greece. In fact the latest information available indicates that Turkey has sufficient resources to finance the essential requirements of her civilian economy. It also appears that Turkey should in due time be able to procure through existing credit channels part of the additional resources required for a program of general economic development. However, Turkey urgently needs military and other capital equipment which she herself cannot at present procure without seriously impairing her general economic position. The necessity for assisting
Turkey in bearing the burdens of her military defense is very real and an immediate beginning should be made. The $100 million recommended for Turkey will be devoted to equipment for the Turkish armed forces and for projects such as the rehabilitation of the Turkish railroad system, which will contribute most directly to the maintenance of security in Turkey.

The bill now before you provides that the President shall determine the terms upon which assistance will be furnished to Greece and Turkey from the appropriations authorized. These terms may be loans, credits, grants or otherwise. In view of the unusual conditions confronting us in this situation, I do not believe that it would be wise or practical to specify now what these terms might be.

Any set of financial relationships, to be sound, must be related to the realities and objectives of the case. I believe that assistance for military purposes, being essential to our own security, and not in itself creating the wherewithal to repay, should be made as a clear grant.

Financial assistance for civilian purposes would appear to fall in a somewhat different category. Repayment could be sought when the direct effect of the financial aid was to create the ability on the part of the receiving country to meet such obligations in foreign exchange. However, I do not believe that we should create financial obligations for which there is no reasonable prospect of repayment.
A Statement on the Economic Situation in Greece
March 24, 1947
Footnotes

On April 22, 1947, President Truman appointed Will Clayton the United States representative on the Economic Commission for Europe, which had been established by the Economic and Social Council of the United Nations. Clayton's evaluation of the purpose and potential of this new organization follows:
A Speech on the Economic Commission for Europe

May 2, 1947

The Economic Commission for Europe: Toward Beneficial Employment of Human and Material Resources

The first meeting of the Economic Commission for Europe has for its purpose the creation of an organization designed to promote the most effective employment of the human and material resources of Europe to the benefit of all. If this objective can be measurably achieved an important step will have been taken on that road to world peace and world prosperity which we all seek. All states represented here bear in varying degrees the scars of war, some visible and some not. All have a common interest in hastening the restoration of economic health in Europe. All can make a contribution to that end; as separate countries are a part of Europe, so Europe is a part of the larger world. It is appropriate therefore that this Commission, within the framework of which its members may join their common efforts, should be an integral part of the United Nations.

In creating this Commission the Economic and Social Council recognized that the problems with which it is expected to deal can be most effectively handled on an European basis. It is the responsibility of the Council to fit securely into the world picture the European phase of economic revival; the organizational relationship between the Commission and the Council insures that this will be done. The United States is vitally concerned in the economic revival of
Europe. This is true because we are an occupying power and because we know full well that world peace and prosperity are impossible without European economic revival.

The success of this Commission will be measured by its ability to find prompt solutions to certain vital and urgent problems which stand in the way of European recovery. Fortunately we are not without experience in dealing with some of these problems. The Emergency Economic Committee for Europe, the European Central Inland Transport Organization, and the European Coal Organization have dealt for some time now with the urgent problems in their respective fields which faced post-war Europe. The terms of reference of the Economic Commission for Europe provide that the highly important functions of these organizations shall be taken over by the Commission. The experience of these three organizations goes far to prove that nations can indeed work effectively together for their common good.

The European Coal Organization is an outstanding example. Through common agreement it has brought about an equitable sharing of an inadequate supply of coal among countries, each of which desperately needed more coal than it got. The successful operation of the European Coal Organization has been an added spur to us in the United States to expand to the utmost our shipments of coal to Europe. What the
existing bodies have accomplished in their limited fields can be done in the larger field of this Commission.

The problems of each country seem to it the most pressing, but if experience teaches anything it is that no country can solve its economic problems in isolated economic actions which appear to relieve pressures at home while creating pressure abroad and by opening up a whole Pandora's box of troubles for all of us. It is just as if the whole world had an economic nerve center receiving and giving out for good or bad the economic impulses set in motion by individual action. Anywhere an understanding of the delicate adjustment of the economy of the modern world shows that unilateral action which may harm one's neighbors must in the end result in harm to all. There are no panaceas or easy remedies for the problems with which this Commission will deal. The last war dealt the world a staggering blow, the force of which is only just now beginning to be fully understood. Reconstruction can only be achieved through hard teamwork pulling together, not separately.

The Preparatory Commission on Trade and Employment now meeting here in Geneva is working out a broad pattern of international trade relations designed to bring about an expansion in world economy to the end that all people, everywhere, may enjoy higher living standards. The Economic Commission for Europe is a complementary body to deal
with urgent problems arising from the dislocations of war. As Secretary Marshall recently said, "European recovery has proceeded at a slower pace than anticipated." This fact gives a special urgency to the task before us here. Let us get on with the job in hand as quickly as possible.
The Economic Commission for Europe: Toward Beneficial Employment of Human and Material Resources
May 2, 1947
Footnotes


1Delivered before the initial meeting of the new Economic Commission for Europe, Geneva, Switzerland, May 2, 1947.
As a direct result of his involvement in the development of the Truman Doctrine, Clayton composed a memorandum outlining a plan to strengthen European resistance to Communist expansion. "I felt that something akin to the Marshall Plan would have to be developed by our country in order to save Western Europe," he later recalled. This document is the earliest known articulation of the principles underlying the Marshall Plan, though it was never given to Secretary Marshall since he had left for Moscow shortly after Clayton returned to Washington. Clayton wrote "Dr. Robert Ferrell in 1964 that long before he went to Geneva for the GATT Conference, he "had been thinking very seriously of the situation in Western Europe and the fact that these countries would require financial assistance from the United States in enormous amounts, otherwise some of them would undoubtedly succumb to Communist threats and offers of material help."  

\[1\] Oral History, p. 193.

\[2\] Will Clayton to Robert H. Ferrell, October 28, 1964, CP, ACCO.
Memorandum on the Creation of a National Council of Defense

March 5, 1947

I am deeply disturbed by the present world picture, and its implications for our country.

The reins of world leadership are fast slipping from Britain's competent but now very weak hands.

These reins will be picked up either by the United States or by Russia. If by Russia, there will almost certainly be war in the next decade or so, with the odds against us. If by the United States, war can almost certainly be prevented.

The United States must take world leadership and quickly, to avert world disaster.

But the United States will not take world leadership, effectively, unless the people of the United States are shocked into doing so.

To shock them, it is only necessary for the President and the Secretary of State to tell them the truth and the whole truth.

The truth is to be found in the cables which daily arrive at the State Department from all over the world.

In every country in the Eastern Hemisphere and most of the countries of the Western Hemisphere, Russia is boring from within.

This is a new technique with which we have not yet learned how to cope.

We must cope with it and quickly or face the greatest peril of our history.
Several nations whose integrity and independence are vital to our interests and to our security are on the very brink and may be pushed over at any time; others are gravely threatened.

If Greece and then Turkey succumb the whole Middle East will be lost.

France may then capitulate to the Communists.

As France goes, all Western Europe and North Africa will go. These things must not happen.

They need not happen.

The Secretary of State is leaving now for Moscow.

The odds are heavily against any constructive results there. The Secretary will probably be back in Washington before May 1st.

Meantime, we have discussed with the Congressional leaders a program to help Greece maintain her independence. This goes only part of the way; it tells only part of the truth.

We must go all out in this world game or we'd better stay at home and devote our brains and energies to preparation for the Third World War.

Assuming an unsatisfactory outcome of the Moscow conference, I think on return of the Secretary of State, a joint statement should be made by the President and the Secretary to the Congress and to the American people.
Such a statement should say:

1. The United States is determined on the preservation of world peace by all honorable means.

2. The United States does not covet the lands or possessions of any other peoples.

3. The preservation of world peace depends first of all upon the preservation of the integrity and independence of sovereign nations.

4. Nations can lose their integrity and independence by attacks either from the outside or the inside.

5. The United Nations is organized to deal with attacks from the outside but not from the inside.

6. The evidence is indisputable that a systematic campaign is now being waged to destroy from within the integrity and independence of many nations.

7. Feeding on hunger, economic misery and frustration, these attacks have already been successful in some of the liberated countries and there is now grave danger that they may be successful in others.

8. The security and interests of the United States and of the world demand that the United States take prompt and effective action to assist certain of these gravely threatened countries.
9. This assistance should take the form not only of financial aid, but of technical and administrative assistance as well. The United States does not wish to interfere in the domestic affairs of any country, but countries to which it extends financial aid must put their internal affairs in proper order so that such aid may be permanently beneficial.

10. Congress is asked to create a Council of National Defense, composed of the President, the Secretary of State, the Secretaries of War and Navy, and the Chairmen of the Foreign Affairs Committee of the House and the Foreign Relations Committee of the Senate.

11. The Congress is further asked to appropriate the sum of Five Billions of Dollars, for use by the Council of National Defense, either as grants or as loans, for the purpose of assisting sovereign countries to preserve their integrity and independence, where such action is considered by said Council to be in the vital interests of the United States.

12. It had been expected that the International Bank for Reconstruction and Development would be able to furnish all requisite financial assistance to war devastated countries, but it is now clear that this institution is not organized to render the kind of assistance which is required in the circumstances
herein described. The facilities of the Bank will nevertheless be needed for worthy projects of reconstruction and development.

13. Two objections will be made to the program here proposed: one political and the other economic.

14. It will be said that this will involve us in the affairs of foreign countries and lead us eventually to war. The answer to this is that if we do not actively interest ourselves in the affairs of foreign countries, we will find that such affairs will become so hopeless that the seeds of World War III will inevitably be sown.

15. It will be said that our National Budget will not permit of this large expenditure.

The war cost us over three hundred billions of dollars and the blood of hundreds of thousands of our young men. We are now appropriating around ten billions of dollars annually for the maintenance of our armed services. We are seriously talking of reducing taxes at a time when our people are enjoying the highest standard of living in their history, when our Corporations and farmers enjoy the biggest earnings, after taxes, which they have ever known in peace time, and when our gross National product of goods and services has a greater dollar value than has ever been known in war or peace.

W. L. Clayton
Memorandum on the Creation of a National Council of Defense
March 5, 1947
Footnotes

Memo., CP, TL.
While engaged in negotiations in Geneva, Switzerland, for multilateral reduction of trade barriers, Clayton was informed that Congress had passed a wool tariff bill which threatened to wreck the Geneva negotiations. He immediately flew to Washington and persuaded President Truman to veto the bill. En route from Europe on May 19, 1947, Clayton wrote down his thoughts on the European economic crisis. Upon his arrival, he immediately circulated this memorandum among his colleagues in the State Department and on May 27 presented it to Secretary Marshall. As he later wrote his daughter, this document was the basis of the Marshall Plan.\textsuperscript{1} A substantial portion of Marshall's famous Harvard speech on June 5, 1947, was taken directly from Clayton's memorandum.

\textsuperscript{1}Will Clayton to Ellen Garwood, January 7, 1950, CP, TL.
Memorandum on the European Crisis

May 27, 1947

The European Crisis

1. It is now obvious that we grossly underestimated the destruction to the European economy by the war. We understood the physical destruction, but we failed to take fully into account the effects of economic dislocation on production -- nationalization of industries, drastic land reform, severance of long-standing commercial ties, disappearance of private commercial firms through death or loss of capital, etc., etc.

2. Europe is steadily deteriorating. The political position reflects the economic. One political crisis after another merely denotes the existence of grave economic distress. Millions of people in the cities are slowly starving. More consumer's goods and restored confidence in the local currency are absolutely essential if the peasant is again to supply food in normal quantities to the cities. (French grain acreage running 20--25% under pre-war, collection of production very unsatisfactory -- much of the grain is fed to cattle. The modern system of division of labor has almost broken down in Europe).

3. Europe's current annual balance of payments deficit:

   UK. . . . . . . . . . . . . . . . . 2 1/4 billions
France. ............... 1 3/4 billions
Italy. ............... 1/2 "
Us--UK Zone Germany. .............. 1/2 "

$5 billions

not to mention the smaller countries.

The above represents an absolute minimum standard of living.
If it should be lowered, there will be revolution.

Only until the end of this year can England and France meet
the above deficits out of their fast dwindling reserves of gold and
dollars. Italy can't go that long.

4. Some of the principal items in these deficits:

From the U. S. : Coal, 30 million tons.......... $600 million
  "  "  " : Bread grains, 12 million tons 1,400 "
  "  "  " : Shipping services at very high
  rates on imports and exports -- xxxxx "

Before the war, Europe was self-sufficient in coal and imported
very little bread grains from the United States.

Europe must again become self-sufficient in coal (the U. S. must
take over management of Ruhr coal production) and her agricultural
production must be restored to normal levels. (Note: No inefficient
or forced production through exorbitant tariffs, subsidies, etc.,
is here contemplated).
Europe must again be equipped to perform her own shipping services. The United States should sell surplus ships to France, Italy and other maritime nations to restore their merchant marine to at least prewar levels.

5. Without further prompt and substantial aid from the United States, economic, social and political disintegration will overwhelm Europe.

Aside from the awful implication which this would have for the future peace and security of the world, the immediate effects on our domestic economy would be disastrous; markets for our surplus production gone, unemployment, depression, a heavily unbalanced budget on the background of a mountainous war debt.

**These things must not happen.**

How can they be avoided?

6. Mr. Baruch asks for the appointment of a Commission to study and report on our national assets and liabilities in order to determine our ability to assist Europe.

This is wholly unnecessary.

The facts are well known.

Our resources and our productive capacity are ample to provide all the help necessary.

The problem is to organize our fiscal policy and our own consumption
so that sufficient surpluses of the necessary goods are made available out of our enormous production, and so that these surpluses are paid for out of taxation and not by addition to debt.

This problem can be met only if the American people are taken into the complete confidence of the Administration and told all the facts and only if a sound and workable plan is presented.

7. It will be necessary for the President and the Secretary of State to make a strong spiritual appeal to the American people to sacrifice a little themselves, to draw in their own belts just a little in order to save Europe from starvation and chaos (not from the Russians) and, at the same time, to preserve for ourselves and our children the glorious heritage of a free America.

8. Europe must have from us, as a grant, 6 or 7 billion dollars worth of goods a year for three years. With this help, the operations of the International Bank and Fund should enable European reconstruction to get under way at a rapid pace. Our grant could take the form principally of coal, food, cotton, tobacco, shipping services and similar things — all now produced in the United States in surplus, except cotton. The probabilities are that cotton will be surplus in another one or two years. Food shipments should be stepped up despite the enormous total (15 million tons) of bread grains exported from the United States during the present crop year. We are wasting
and over-consuming food in the United States to such an extent that
a reasonable measure of conservation would make at least another million
tons available for export with no harm whatever to the health and
efficiency of the American people.

9. This three-year grant to Europe should be based on a European
plan which the principal European nations, headed by the UK, France
and Italy, should work out. Such a plan should be based on a European
economic federation on the order of the Belgium-Netherlands-Luxembourg
Customs Union. Europe cannot recover from this war and again become
independent if her economy continues to be divided into many small
watertight compartments as it is today.

10. Obviously, the above is only the broad outline of a problem
which will require much study and preparation before any move can
be made.

Canada, Argentina, Brazil, Australia, New Zealand, Union of
South Africa could all help with their surplus food and raw materials,
but we must avoid getting into another UNRRA. The United States
must run this show.

W. L. Clayton
Memo., CP, Rice.
Clayton possibly influenced the conception, formation and consummation of the Marshall Plan more than any other single individual. In the following reminiscences he recalls the events and circumstances of the fateful spring and summer of 1947:
A Statement on the Geneva ITO Conference

December 1947

One of the hardest things I had to do was in connection with the wool tariff. I was at Geneva when it came up, you know—had been there for weeks negotiating for the reciprocal trade agreements, and when this wool tariff came up I had to fly back to Washington. And you know I got sick.

The day before I was to take the plane I caught a terrible cold. I had to be vaccinated, because there was smallpox in N.Y. and they weren't letting anyone in without a vaccination. When the doctor in Geneva came to scratch my arm, I told him. He examined my chest and found I had a deep bronchial infection. Gave me some medicine but it didn't do much good. We were 30 hrs. on that plane before it got to Washington—and you know that's a stretch that even young men tell me it takes 2 days to recuperate from! Right in the middle of the wool tariff I had to go to bed! I had called Dr. Myers and he'd said it was touch and go whether I'd have pneumonia.

It was terrible—I couldn't go before Congress! They passed that wool tariff while I was flat on my back! When I got up I went to see President Truman. Clinton Anderson, you know, the Secretary of Agriculture, was fighting me; he had told the President that if he vetoed the bill it would cost him 8 Western states in the next election. The President was courageous. I said to him, "If you don't veto this tariff, Mr. President, it will cost the U.S.A. a complete loss of
standing in the world and it will wreck the Trade Conference and set us back a century." He said he couldn't let that happen. And he vetoed it. And then he gave authority, besides, to cut the wool tariffs 25%.

On the way back to Geneva I had to go by London where they were starting negotiations for the Marshall Plan and spend a week there. They'd held up the Conference about a month waiting for me. It took a long time—all this business.

You see the Geneva Conference had two aspects. It was a review conference for the tentative International Trade Charter drawn up previously in London, and at the same time, it was an agreement between the 23 participating nations for mutual tariff cuts. We completed 122 agreements.

But to get back to the wool situation. They'd waited a long time for me so when I reached Geneva I sat right down with the Australian envoys. And my they were tough! That's a hardheaded bunch; nice as they can be, but ornery! They had a member of their cabinet there, a Mr. Dedman—an awfully nice fellow, and I told him quietly the story of what had happened in Washington. The fellow said "A 25% reduction!" You see they had wanted 50%. "Why," he said, "we can't even discuss it on that basis!" Then I told him and I gave it to him straight.

"All right," I said, "if that's your attitude. But let me tell
you that, by it, you will have wrecked this conference, and don't think I'm not going to say you have. After all our administration has been through, after all the sacrifices it has made politically, if you can't even discuss our proposition, then I wouldn't be surprised if Congress clamped the full tariff back on wool, and I wouldn't blame us and I wouldn't even care. In fact they will probably 'up' the tariff 50%. They almost did it anyway!"

Dedman then said he'd fly back to Australia and discuss it with the Cabinet there. He flew back 10,000 miles the next day. After the meeting the boys who were with me from our organization said, "I guess if he were wondering whether that was your last word you didn't leave him in any doubt!"

You see the whole question was so important because the British and all their dominions were holding out on the negotiation until this tariff was settled. We had 23 countries participating, with 1/2 the trade of the world involved, and negotiations for tariff reductions on 2/3 of the trade of those countries. We had to succeed!

Well, about 10 days later I was at the Embassy in Paris, and Dedman sent his card in. When he came in to see me he was a changed man. He's really a fine person. He was as affable and courteous as he could be. He had received permission from the Australian Cabinet to accept the 25% reduction!
A Statement on the Geneva ITO
Conference
December 1947
Footnotes

Interview with Ellen Clayton Garwood, December 1947.

1John J. Dedman, Australian Minister for Post-War Reconstruction
(1945-1949).
A Statement on the Marshall Plan

[ca. 1956]

The Marshall Plan was like one of those inventions that several people come up with at the same time. (The cotton gin was an exception, but shortly after Eli Whitney a Mr. Morton developed one a great deal better).

Still I was in a position to get the information that would naturally make me the person to start the Marshall Plan. I was in Geneva—working on the GATT negotiations—and I was working as the head of our delegation on the Committee for ECE (Economic Cooperation for Europe) for two weeks, and all the Europeans came to me. Jean Monnet, for instance, said France had scraped the bottom of the barrel, and had had short crops and was forced to import wheat but couldn't pay for it.
A Statement on the Marshall Plan
[ca.1956]
Footnotes

Statement, CP, Rice.
A Statement on Negotiations with France

December 1947

I had conferences with the French about the Ruhr in summer of 1947. The U.S. established, in conjunction with the British, French and Russians, the level of industry permitted the Ruhr, stipulated the maximum steel production: so many tons--7,500,000, average production not to be over 5,200,000. The U.S. was considering raising that figure and the French objected. Before the war Germany had 20,000,000 tons steel capacity. In my conference with the French we hoped to find a formula for controlling the disposition of the steel products which would satisfy them. I talked to M. Bidault, Minister for Foreign Affairs.

In France I went to see Blum who had come to Washington as head of the French delegation to negotiate a loan to France and for the settlement of economic, financial questions relating to the war and lend-lease, questions relating to the army and all questions of that kind. Blum told us that the French were in accord with the principles of the expansion of world trade and employment which the British had agreed to in 1946. In 1947 at the Geneva conference on reductions in tariffs, the French raised their tariffs. Most tariffs in Latin countries are specific and not ad valorem so that due to inflation those specific duties were no longer protective for prices had gone up so much. France wanted to revise her tariffs to give the same protections as before, wanted to alter the specific rates to ad valorem and put
her ad valorem rates on the same basis of protection as her tariff had been before inflation. In French style, however, they did more than that, and that we violently objected to. In this view Blum agreed with us; while he was in Washington I went to see him and found him sympathetic. In our conversations in the subsequent weeks, after much pulling and hauling, we got their tariff in proper shape. I went to see him where he was living on a small farm outside of Paris, in a modest, little cottage. It was summer but a cold day. This cottage had formerly been a stable; it was a rainy day, late in the afternoon, and Blum was in an old dressing gown, hard at work in his library. He spoke French so clearly and slowly that I could understand him perfectly. He assured us he was in agreement and that France would cooperate with us in reducing her tariffs; that he would look into the matter. He had no official position at that time; he was head of the Radical Socialists.

The thing that impressed me was the intensity with which the French people—as evidenced by the attitude of their political leaders—regarded the possibility of an attack by Germany again. It was understandable, for in the recollection of some people Germany had attacked 3 times; in the lifetime of millions others she had attacked twice. It was a phobia with them and it came out in the talks on the Ruhr; mixed in it was the wish to keep Germany down as an economic competitor.
One night I had M. Bidault and Jean Monnet, Lew Douglas and Caffery to dinner at my apartment in the Meurice Hotel. Caffery was quite a connoisseur of liqueurs and likes to drink. I think I had cocktails first and wine with dinner and Caffery said to me "The Minister likes a liqueur and you'd better order it." I called the waiter and he brought it in and served it in small glasses to the others and went out. Bidault was not interested in it. Caffery said "get some more." Lew Douglas gave him his. Caffery was tight as a knot on a log! It's a shame to have a fellow like that, putting on such a show. I had an office in the American Embassy when I was in Paris and when I'd ask Caffery to come see me about something he would send in his Military Guard to me ahead of him to announce that he was coming, although we were in the same building! Also he always kept two or three minions who'd salute you at the front door as you came into the Embassy—one at the office door, two other lackeys at a little desk in an office in the hall so that when he came out of his office one would hand him his hat and the other his cane and when he went downstairs they went through a big ceremony to put him in his car—one going ahead of him and the other two behind, like a military guard, the one ahead opening the door for him while the others stood at attention! His residence was something out of this world—six lackeys clicking their heels at his orders, 4 butlers for 6 people at lunch, and for dinner a butler behind each guest's chair! If
anything went on in Caffery's head you'd never know what it was, all he does is nod acquiescence, never has any ideas, never get anything constructive out of him.

I respect a fellow like Lew Douglas who has ideas of his own and who's not just a lackey. Some fellows think that as long as they don't stick their necks out they're all right in the diplomatic service.

Ramadier—President of France—was a simple old man, genuine. You didn't see any "gold lace" about him, none of that sort of thing.
A Statement on Negotiations with France
December 1947
Footnotes

Interview with Ellen Clayton Garwood, December 1947.

1Georges Bidault, French Minister of Foreign Affairs (1947-1948).
2Leon Blum, French Ambassador Extraordinary (1946); Prime Minister and Foreign Minister of the French Provisional Government (1946-1947).
3Jean Monnet, French economist; General Commissioner for Reconstruction of France (1946-1950).
6Paul Ramadier, French Prime Minister (January-November 1947).
To Herbert Elliston

January 26, 1953

Dear Herbert:

I have your letter asking for information regarding the beginnings of the Marshall Plan and will be glad to give you what I can from memory. I have never kept a diary and keep practically no memoranda.

I went to Geneva in April, 1947, as head of the U. S. delegation to the International Trade Conference. This Conference lasted about five months and during that time the first meeting of the E. C. E. (Economic Commission for Europe) was held in Geneva. I also represented the United States at that meeting.

These two international conferences gave me an opportunity to talk with key men from the Treasury and Foreign Offices of European countries.

I very soon saw that Western Europe was rapidly approaching a great financial, economic and political crisis.

This was particularly true of France and Italy where there had been two years of very poor crops and where they were beginning to scrape the bottom of the barrel for dollars with which to pay for essential wheat imports.

I naturally kept the Department of State informed of this situation.

You will recall that the Truman Doctrine which saved Greece and Turkey from communist domination had been adopted in 1946.
To Herbert Elliston
January 26, 1953
Page 2

About May 20, 1947, I flew back to Washington to try to prevent the passage by Congress of a bill, the intent of which was to raise the tariff on wool about one-third.

On the way to Washington I prepared a memorandum outlining the desperate state of affairs in Italy and France and the urgent necessity of financial assistance to those two countries particularly, to avoid their being taken over from the inside by a communist coup.

This memorandum was typed on my arrival in Washington, was handed to Secretary Marshall and discussed with him, and I believe became the basis of his now-famous Harvard Speech.

We should not overlook in this connection that Dean Acheson made a speech in Mississippi around the latter part of April or early May, 1947, in which he stated that it would probably be necessary for the United States to set up a program of financial assistance to Western Europe of very great proportions. I believe this speech was the first official suggestion of a program which later became known as the Marshall Plan.

You ask about George Kennan's connection with the Marshall Plan. As I recall, a few months prior to my departure for Geneva, George Kennan had been made the chief of a small policy group which was organized within the Department of State. In that position he naturally had much to do with the beginnings of the Marshall Plan and with the preparation of Secretary Marshall's Harvard Speech.
I flew back to Geneva about June 20 with instructions from the Secretary of State to visit London, Paris and Rome and acquaint the heads of governments in those three countries, and any others that I had an opportunity to see, with our thinking regarding the Marshall Plan. Obviously, at that early stage of the enterprise, almost none of the details had been worked out.

I spent nearly a week in London during which time Ambassador Douglas and I had numerous conferences with Mr. Attlee and his Cabinet. We drew up an "Aide Memoir" which was initialed by both sides and was thereafter used as a kind of "Bible" on the subject.

Mr. Bevin flew to Paris from these conferences and had a two or three day meeting with Mr. Molotov and his Russians, which as you will recall, resulted in the Russians denouncing the Marshall Plan and later on forcing Czechoslovakia to withdraw their announced intention of taking part in it.

One of the prime conditions which Ambassador Douglas and I laid down was that the European countries coming into the Marshall Plan must set up an organization charged with the duty of working out a plan for submission to the United States and that this organization must be a permanent one with which the United States could deal throughout the life of the Marshall Plan.

It was this condition of permanence which seriously threatened to wreck the whole project.
To understand this you must remember that many countries at that
time were almost frightened to death of the Russians, and the Russians
were making a great effort to prevent the consummation of the Marshall
Plan within the pattern that we had laid down.

You will probably recall that the Russians said that they had
no objection to the Marshall Plan if the United States would deal
with each country separately, let that country make out its bill with
particulars of what it needed, and then let the United States sign
a check to cover the total. The Russians made it very clear that what
they objected to in the Plan was the idea of the formation of an
organization of the European countries, as required by the United
States.

The European countries did set up an organization -- O. E. E. C.
(Office of European Economic Cooperation) and did finally agree to make
that organization permanent throughout the life of the Marshall Plan
after Douglas and I had told them that it was impossible for us to
go forward with the enterprise on any other basis.

Sir Oliver Franks' was the first head of the O. E. E. C. and he
did a magnificent job.

I want to make it plain that throughout our negotiations with
the O. E. E. C., we took the position that it was the job of the
O. E. E. C. to work out their own plan of cooperation together with
an estimate of the dollar requirements of each country. Naturally the
first estimate was much too large and had to be whittled down substantially.
To Herbert Elliston
January 26, 1953
Page 5

During our (i.e.: Ambassador Douglas, Ambassador Caffery and I) negotiations with the O. E. E. C., a group came over from the State Department headed by George Kennan and they sat in with us and assisted us for several days.

I am afraid the above only gives you sort of a general outline of what you want but if you will ask questions regarding any particular aspects of the matter, I will try to answer them.

Obviously, what I have written herein is not for publication or quotation but is for your own use.

With regards and every good wish to you and my good friend, Eugene Meyer, I remain

Sincerely yours,

W. L. Clayton
To Herbert Elliston
January 26, 1953
Footnotes

L, CP, ACCO.

1Editor of the Washington Post.

2Speech before the Delta Council in Cleveland, Mississippi, May 8, 1947.


4Clement Attlee, Prime Minister of England (1945-1951).

5Ernest Bevin, British Secretary of State for Foreign Affairs (1945-1951).


7Sir Oliver Franks, Provost of Queens College, Oxford (1946-1948); British Ambassador to the United States (1948-1952).
An Article on GATT, the Marshall Plan and OECD

December 1963

My reason for choosing the above title is that these three organizations have many aspects of interdependence in origin and, to some extent, in operation. I am sure I would have had difficulty in writing about any one of them exclusively.

One day in March, 1947, I walked into President Truman's office with a big book under my arm. The book contained lists of thousands of commodities on which hearings had been held (or offered to be held) in order to give interested parties an opportunity of presenting their reasons against a reduction in import duties. The book also indicated the extent to which the Department of State felt reductions in duties could be made in the forthcoming tariff negotiations in Geneva.

The President spent some time inquestioning me about different commodities; then he initialed a memorandum approving the purpose and use of the book. This was our authority for the multi-lateral negotiations at Geneva, resulting in an agreement known as the General Agreement on Tariffs and Trade, commonly referred to as GATT. Fifty nations now belong to GATT, and in the fifteen years of its existence, it has greatly contributed to almost doubling international trade to the present total of about $125 billion annually.

When I presented the book to the President for his approval, I said that we had not included wool, as we were hoping to leave wool out of the negotiations at Geneva. I often wonder now how I ever could
have thought that this would be possible.

When Mrs. Clayton and I stepped off the Queen Elizabeth at Southampton on our way to Geneva, one of the Secretaries from our Embassy in London met us. One of the first things he handed me was a dispatch from Washington to the effect that a bill relating to the wool tariff had been introduced in Congress, and if this bill became a law, it almost certainly would result in an advance in the tariff on wool.

It soon was quite apparent, after the Geneva Conference opened on April 11, 1947, that the success of our tariff negotiations there depended on our ability to offer a substantial concession in the U. S. tariff on wool. The principal country interested in the export of wool was Australia, and, of course, Britain backed up Australia in this stand with all the power she could exert.

I was fortunate in having Dr. Clair Wilcox, Chief of the Office of International Trade Policy, assisted by Mr. Winthrop Brown, Chief of the Division for Commercial Policy, in active charge, under me, of negotiations.

I spent most of my time, especially at dinner and in the evenings, with representatives of other countries, many of whom I had met at other international conferences—FAO, UNRRA, and the meetings of the governors of the International Bank and International Monetary Fund.

In my meetings with these representatives of other nations, we not only talked about tariff negotiations and the Charter for an International Trade Organization (which was also on the Agenda of
the Geneva Conference), but I took this occasion to inquire as to
economic, financial, and food conditions in their respective countries.
I was surprised and in some cases shocked regarding conditions in the
countries of Western Europe, particularly as to the serious food
situation which most of them faced.

Crops were short, not only because the growing season had been
unusually adverse, but because the whole economic situation was such
as to discourage the farmers from putting in a normal acreage of grain.
In most cases, the farmers knew that their surplus grain, if carried
to market and sold, would yield only paper money, in which farmers
had no confidence. The things that the farmer desperately needed--
farming implements, clothing and manufactures of various kinds--were
mostly unobtainable, because industry had not got back into full pro-
duction of such items. Under these circumstances, farmers not only
curtailed their acreage but in many cases grazed their cattle on the
grain instead of harvesting it. Thus, the division of labor, on which
modern peacetime society rested, had almost broken down in these
countries.

This made it necessary for the governments of the countries thus
affected, particularly France and Italy, to import grain from the
United States, Canada, and other countries, and this meant that the
gold and dollar reserves of such countries, slender as they were,
became dangerously depleted.
This situation weighed heavily on my mind, and I longed for an opportunity to present it personally to Secretary Marshall, and to Under Secretary Acheson. The latter had made a speech on May 8, 1947, at Cleveland, Mississippi, in which he referred to the very serious conditions in Western Europe and said that the United States might have a rescue job to do there.

The opportunity to present this matter to Messrs. Marshall and Acheson came sooner than I expected.

It was agreed that I should return to Washington to see if I could help prevent the passage of the wool bill, to which I have referred. Mr. Acheson and I had acquired some reputation of success with Congress. I have been informed that during the Eisenhower Administration a complaint was made to Sam Rayburn that the State Department could not get anything through Congress. Rayburn replied: "You ought to do like Acheson and Clayton used to do. They would start at opposite ends of the corridors of the House Office Buildings, and those that one could not convince, the other would take on. They made the lives of the Congressmen so miserable that they had to agree to their project!"

So Mrs. Clayton and I boarded an airplane May 18, 1947, for New York. Flying was not so good in those days as now, so we were more than twenty-four hours en route, which did not help a very bad cold, which I had contracted a few days before leaving Geneva.
we arrived in Washington, I had some fever, went to a doctor, and was told that I had a touch of bronchial pneumonia and that I should go to bed at once. I did this, and, meantime, the Congress passed the wool bill. I am quite sure they would have done this anyway, regardless of any efforts I might have been able to make.

On my arrival in Washington, I found the Planning Committee of the Department of State, under the chairmanship of George Kennan, actively considering the Western European situation because of the receipt of cables from our various Embassies and from me calling attention to the seriousness of this situation and the fact that it was deteriorating rapidly.

I had made notes on the plane of a memorandum, which I wanted to hand Secretary Marshall, regarding the economic, political and food situation in Western Europe.

On account of my illness, this memorandum was not completed and handed to Secretary Marshall until May 27, 1947.

This memorandum, plus my several talks with Secretary Marshall, between May 27, 1947, and up to the time he left to make his speech at Harvard on June 5, 1947, merely confirmed the information that many of our Embassies and I had been cabling to the Department of State.

Since the wool bill had been passed by the Congress, our only chance of preventing it from becoming law was to induce President Truman to veto the bill. The Department of State gave me the job of submitting to him the arguments why this should be done, but it was suggested that I should arrange for a certain official, having an opposite point of view,
to accompany me and present his reasons why the bill should become a law. This was all arranged, and, in due course, this official and I presented ourselves at President Truman's office and made our arguments. The principal argument of the other official was political. My principal argument for the veto was that if this bill became law, the U.S. Delegation at Geneva might as well pack their bags and come home, because the success of the Geneva Conference depended upon the United States' ability to make some concession in the wool tariff, and the bill that we were talking about undoubtedly would cause an advance in the wool tariff.

The President listened attentively to our arguments but reserved his decision. Several days later, I learned that President Truman had vetoed the bill. I then asked for another appointment with him and told him, as I had before, that unless we were in a position to make some concession in the wool tariff, the Geneva Conference would be a failure. He indicated that he understood this. I had a little typed memorandum, giving us authority to make a concession in the wool tariff of 25 per cent. I put this memorandum before him, and he did not hesitate to initial it.

This action of the President, following his veto of a bill which would have resulted in increasing the wool tariff, was the greatest act of political courage that I have ever witnessed.

With this, I flew to Geneva, via London and Paris.

Secretary Marshall asked me to talk with the principal Western European governments regarding certain points that we would have to insist upon in connection with our assistance to them.
There were two main points which Secretary Marshall and the Department of State insisted upon:

1. That the recipients of Marshall Plan aid should organize themselves into a committee of cooperation, not only for the life of the Marshall Plan but even after Marshall Plan aid should end.

2. Furthermore, that this committee, composed of recipients of Marshall Plan aid, should work out the measure and mechanics of this aid and present it to the United States as an agreed plan.

Such a committee indeed was informally set up under the chairmanship of Sir Oliver Franks (now Lord Franks).

I arrived in London June 22, 1947, and immediately reported to the United States Ambassador, the Honorable Lewis W. Douglas.

Thereafter, Ambassador Douglas and U.S. Ambassador Caffery in Paris and I worked as a team of three on the Marshall Plan. We attended many meetings in Paris of Sir Oliver Franks' committee, which was called Committee for European Economic Cooperation (CEEC).


At that time, Mr. Ernest Bevin, British Minister of Foreign Affairs, was preparing for a trip to Paris on about June 27 for a meeting with Mr. Bidault, French Minister of Foreign Affairs, and Mr. Molotov, Russian Minister of Foreign Affairs.
At that time, the road was open for Russia and her satellite countries to be included in the Marshall Plan.

The meeting between Messrs. Bevin, Bidault and Molotov was for the purpose of trying to reach an agreement, which these three would present to all the other recipients of Marshall Plan aid as to the mechanics of setting up the enterprise.

I stayed in London for several days, and we had no difficulty in agreeing with the British regarding the Marshall Plan, all of which was set down in a memorandum which was called an "Aide-Memoire." I do not here quote this memorandum, because I have no copy of it.

Regarding the Paris meeting of Messrs. Bevin, Bidault and Molotov, it should be stated that Poland and Czechoslovakia already had cabled direct to Washington that they wished to be included among Marshall Plan recipients, but Moscow had caused both countries to withdraw this agreement.

At the Paris meeting, the Russians insisted upon each country acting on its own, just making out a list of its requirements, presenting it to the United States, and letting the United States fill the bill.

The Russians would not agree to any kind of a Western European organization or insitution having to do with Marshall Plan aid.

After two or three days, it was clear to Molotov and his delegation that the English and the French were determined to agree to Washington's condition in this matter, so Molotov and his group just walked out of the meeting.
I not only had the wise counsel of Ambassadors Douglas and Gaffery in dealing with Sir Oliver Frank's committee, but I conferred often with Jean Monnet who came several times to Geneva to see me, and whom I saw often in Paris.

Soon after I was made Assistant Secretary of State for Economic Affairs in December, 1944, I had met Jean Monnet in Washington and, as he represented the Treasury Department of the French Government, had numerous dealings with him.

I have always believed that tariffs and other impediments to international trade were set up for the short-term, special benefit of politically powerful minority groups and were against the national and international interest.

As shown by Paragraph 9 of my memorandum of May 27, 1947, I felt that the Marshall Plan presented an opportunity to introduce the principle of regional free trade in Western Europe.

I discussed this matter frequently with Jean Monnet who convinced me that Western Europe was too weak in 1947 to accept conditions of regional free trade. I recognized then that Monnet was correct in this viewpoint. Europe had to get a good deal more flesh on its bones before setting up a common market.

However, the object which Secretary Marshall and the Department of State had in mind in insisting upon the formation of a Western European Committee of Cooperation was to get these countries working
together, so that the effects of Marshall Plan aid would cause Western European countries to follow policies conducive to benefits for the entire section rather than for individual countries.

European countries did not customarily work together in matters of this kind, and representatives of several countries took the position that they could not agree to the continuation, after Marshall Plan aid ceased, of any organization that they might set up.

Ambassadors Douglas and Caffery and I were meeting from day to day with Sir Oliver Franks and his group (a total of sixteen countries), and when the representative of one of these sixteen countries made the statement that European countries were not in the habit of looking over the back fence of their neighbors to see what they were doing, I stated that perhaps we were all pursuing a will-o' the-wisp and might as well forget about it.

The whole situation got very tense. It was quite clear that representatives of at least three countries were prepared to vote against the idea of the continuation of such an organization after Marshall Plan aid ceased, so the suggestion was made one Thursday or Friday that we should adjourn to the following week in order to give time for the representatives of these three countries to go back home and talk with the heads of their governments. This was done, and when we met again the following week, the representatives of these three countries said that their governments had agreed to the continuation
of the organization, even after Marshall Plan aid had ceased.

The committee, informally organized into Committee for European Economic Cooperation under the chairmanship of Sir Oliver Franks was then set up formally, in the Spring of 1948, under the title of Organization for European Economic Cooperation (OEEC). This organization fully justified the faith of Secretary Marshall and his advisors, because it managed to secure the removal of many of the restrictions on imports between European countries. In time, the United States and Canada became associate members of this organization; still later, it was changed to Organization for Economic Cooperation and Development (OECD), which is its present name.

I opened this paper with a reflection upon the interdependence of GATT, the Marshall Plan and OECD. I feel impelled to conclude with another reflection of a different character. It is that without the courageous and resolute political leadership of the kind exhibited by President Truman in the instances I have cited, the needs I describe could well have met with responses unpleasant to contemplate.
An Article on GATT, the Marshall Plan and OECD
December 1963
Footnotes


1 See memorandum above, May 27, 1947.
2 One of these countries was Norway (Clayton interview with Ellen Clayton Garwood, December 1947).
Bowing to pressure from his wife, Clayton reluctantly submitted his resignation from the State Department even before his authorship of the May 27 Marshall Plan memorandum. He did remain in the Department, however, until October 16, at which time President Truman finally accepted his resignation. Clayton later revealed that upon his return to Washington late in the summer of 1947, Truman had offered him the position of Administrator of the Economic Cooperative Administration. He explained to Alfred Clason that he "was unable to accept it and indeed resigned my position as Under Secretary of State for Economic Affairs to devote more time to Mrs. Clayton."\(^1\)

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\(^1\)Will Clayton to Alfred Clason, November 16, 1953, CP, ACCO.
To Hon. Harry S. Truman

Geneva, Switzerland
May 14, 1947

My dear Mr. President:

As you know I have been trying for some time to leave Government service because Sue is not well and needs my undivided attention for six months or a year in an effort to restore her health.

I have remained because there never seemed to be a very convenient time to leave. The end of the Trade Conference in Geneva about August 1 should, it seems to me, be such a time.

I am returning home Monday, the 19th, for a week or ten days and will, at that time, present a formal letter of resignation to Secretary Marshall to be handed to you.

If desired I will, of course, remain on duty until the Geneva Conference has been concluded, but wish to be relieved entirely by September 1.

It will make Sue happy if you will be good enough to give me a prompt acceptance of my resignation.

While in Washington on this short trip, I hope I may have an opportunity to see you for a few minutes to express, in person, my deep appreciation of your confidence in me. It has been a pleasure and an honor to serve under you.

Respectfully yours,

Will Clayton
To Hon. Harry S. Truman
May 14, 1947
Footnotes

L, CP, AGCO.

1Clayton's wife, Sue Vaughan Clayton.
Before his return from Europe on October 2, 1947, Clayton presented his ideas for the final organization of the Marshall Plan in a memorandum dated September 19, 1947:
Memorandum on the Marshall Plan

September 19, 1947

Before leaving within a few hours I would like to jot down quickly a few notes on some aspects of the Marshall Plan on which it has been difficult for us to determine our policy here:

1. I do not favor asking the Paris Conference to reconvene and I believe it has been decided not to do so. It will be impossible I think to avoid some modifications in the Plan, to conform to views of the Administration and the Congress; in fact I think it is really desirable that this should happen. No matter what is done the Communists are sure to charge that it is a United States imperialist plan. I don't think we should let this worry us.

2. I think $16 billion is the maximum amount of aid we should consider to meet balance of payments deficit of the 16 countries plus Western Germany for the 4 year period 1948-1951. Another $2 billion might be considered as a loan to bolster the monetary reserves of these countries.

The $16 billion could be divided:

1948 -- 6 1/2 billion
1949 -- 5 billion
1950 -- 3 billion
1951 -- 1 1/2 billion
Total 16 billion
Those figures are from my general knowledge of the situation and without very much reference to the general report.

For example I think we know that the following should represent maximum balance of payments deficits of the different countries for 1948:

<table>
<thead>
<tr>
<th>Country</th>
<th>Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>U. K.</td>
<td>2,500,000,000</td>
</tr>
<tr>
<td>France</td>
<td>1,300,000,000</td>
</tr>
<tr>
<td>Italy</td>
<td>850,000,000</td>
</tr>
<tr>
<td>Western Germany</td>
<td>1,150,000,000</td>
</tr>
<tr>
<td>All other Countries</td>
<td>700,000,000</td>
</tr>
</tbody>
</table>

\[
\$6,500,000,000
\]

Of course some of them would like to have more but the above will be sufficient to enable them to continue to eat and work unless prices advance materially. If we compare this with the balance of payments deficits of these same countries in 1946 we will find that it considerably exceeds those figures.

We can also get a check against the above figure of 16 billion by taking the figures in the general report:

Grand total balance of payments deficit with
Western Hemisphere. . . . . . . . . . . . . 22.44 billions
less capital goods. . . . . . . . . . . . . 3.13 "
nets. . . . . . . . . . . . . . . 19.31 billions

Less balance of payments surplus which the
16 countries expect to have with soft
currency countries. . . . . . . . . 2.81 "
nets. . . . . . . . . . . . . . . . . . . . . . 16.50.

We can still deduct from this at least 750 millions for the ship-
building program (we should sell or charter our own ships to them)
and another 750 millions for various types of capital goods still in
the program.

3. In my opinion the bulk of this money can never be repaid and
we would only be fooling ourselves if we took notes and included them
in our assets. The U.K., France, Italy, and Germany can never repay,
particularly when we consider the dollar obligations which these countries
already have outstanding and which they must hereafter incur with the
International Bank and other credit agencies for purposes of reconstruc-
tion, development and modernization. All the sums advanced to these
countries should therefore be in the form of grants. Some of the other
countries can repay and will doubtless wish to do so.

4. The above amounts contemplate of course procurement of materials
in short supply outside of the United States. We should take the
position immediately that we will ask the Congress to do this, other-
wise in my opinion the program will be a failure. The United States
cannot furnish all the food and other raw materials required and such supplies cannot be obtained in other countries unless we put up the bulk of the money.

We can probably get some help in the program from Canada, Brazil and Argentina. I understand Canada expects to have a surplus of exports over imports with these countries of about 850 millions annually. If we could pay out dollars for half this amount she might be able to furnish the remaining one-half on grant. Argentina ought to put up 100 millions annually of food and raw materials and Brazil 50 millions. Cuba might furnish 50 millions worth of sugar annually. Venezuela might do something. I doubt if any other Latin American country would be able to do much.

5. I think the local currency counterpart of our aid should be deposited with trustees (perhaps the International Bank) in each country under very definite conditions as to use. In no case should any of these funds go into the budget. Such funds can probably be used to best advantage in paying the local expenditures (wages, materials, etc.) in reconstruction and development projects by the terms of the trust instrument. It should be so drawn as to make it possible to prevent any such capital expenditures from unduly competing for labor and materials with the production of good, coal and goods for export.
Administration.

I believe we must be reconciled to the setting up of an independent agency for the administration of the program. Of course State, Treasury, Commerce and Agriculture should be represented on this agency. Furthermore, the questions of foreign policy, negotiation of agreements with foreign countries, and all relations with foreign countries in connection with their commitments should be left exclusively in the Department of State.

I suggest the Department of State have a representative making his headquarters in Geneva to visit and keep in touch with our missions in the capitals of the 16 countries to check up constantly on the performance of these countries of their commitments to be set out in the bilateral agreements with them which of course will include their mutual undertakings in the proposed multilateral agreement. It will probably be necessary to have one or two well selected men attached to our missions in the principal capitals -- London, Paris, Rome -- handling this aspect of the matter with the heads of the missions. Obviously the representative at Geneva should work only through our established missions.

This Geneva representative would pretty well correspond to the Harriman Mission in London in connection with Lend-Lease during the war and it would be very desirable if he had the status of an ambassador
at large. There would be little or no danger that the right kind of
man would in any way trespass upon the responsibilities or functions
of the heads of mission in the various countries.
Memo., CP, TL.
In the following documents, Clayton differentiates between Western Europe and Latin America with regard to the applicability of the Marshall Plan:
To Norman Armour

Washington, D. C.
December 2, 1947

I understand there is considerable talk of a Marshall Plan for Latin America to be proposed and discussed at the forthcoming Bogota Conference.

A few evenings ago the Chiefs of the Brazilian, Chilean and Colombian Delegations to the Havana Conference had dinner with Clair Wilcox, Harry Hawkins, Ambassador Nufeld and me.

We spent most of our time discussing the Charter. Later in the evening, however, the Colombian said to me: "Mr. Clayton, there is a good deal of talk now about a Marshall Plan for Latin America. What is your position on that?"

I replied that the Marshall Plan was not at all applicable to the Latin American situation for the following reasons:

1. The purpose of the Marshall Plan is to enable Western Europe to continue to eat and work until they can get back into production.

2. Accordingly, we have insisted that all capital items, except agricultural equipment and a certain amount of mining equipment be eliminated from the list of requirements of Western Europe under the Marshall Plan and this has been done. We have explained that the European countries must look to the International Bank and private sources for such credits as may be necessary for reconstruction and
development.

3. Some Latin American countries have balance of payments problems but they are manageable problems because they do not arise from the necessary heavy importations of food and raw materials as is the case with Western Europe. What Latin America needs is capital goods — equipment, machinery, tools, engineering services, et cetera, for the development of their resources and for industrialization. The Export-Import Bank has made some sizeable loans to Latin America for this purpose, as witness the case of the Brazilian Steel Mill, the Chilean Steel Mill and other development loans. Their main dependence must, however, be the International Bank for which Congress has already provided capital. We could not think of asking Congress to duplicate this by grants for development purposes.

I explained that the International Bank was just getting started and that I understood there was considerable dissatisfaction by Latin American Countries because no loan has as yet been made for development purposes to any Latin American country. I pointed out that the Bank was proceeding cautiously in view of the extreme instability in Europe but in my opinion if the Marshall Plan should be adopted, as I believed it would be, this would put a firm economic foundation under Europe and would give courage to the International Bank to go ahead. I further explained that I had brought up this subject with
Jack McCloy at the London meeting of the Bank and had pointed out to him that it would be necessary to make a start with Latin America soon, and that I intended to have another talk with him on the same subject in the next few days.

Finally I would like to say that I believe we should do everything we can to make it clear to our Latin American friends that the Marshall Plan is wholly inapplicable to the Latin American situation and that we cannot consider extending it to that area.

W. L. Clayton
Memo, CP, ACCO.

1 Retired U.S. diplomat. Former Ambassador to Chile, Argentina, and Spain.


5 President of the World Bank (1947-1949).
A Speech on the Marshall Plan

New York, New York
December 18, 1947

In discussing the European Recovery Program, commonly known as the Marshall Plan, one enters a highly competitive field.

Newspapers, magazines, the radio, the Congressional Record, all are full of the Marshall Plan.

The very excess of presentation and argument has served to confuse some of the issues.

Many thoughtful citizens are wondering what course the United States should follow in this matter.

At first, there was scepticism regarding Europe's need for so much help; and there was doubt as to our ability to provide it without serious injury to our own economy.

These questions have been thoroughly studied in the last few months. Committees of distinguished and competent citizens have examined both questions with the greatest care.

The reports of these Committees, together with other available evidence should be convincing that Europe does require this aid and that the United States is able to furnish it without serious injury to itself. Most unbiased persons are now satisfied on both these points.

It hardly seems necessary to further labor this aspect of the matter. Suffice it to say that Europe's desperate need arises from
the fact that two world wars struck a more shattering blow at her highly industrialized economy than any one realized until recently. And our ability to help arises from the fact that, to play our part in winning World War II, we expanded our own economy to almost double the pre-war volume. The real question is whether we will keep all these goods for ourselves or use a very small portion of our vast production to help Western Europe stand on its feet until it can stand alone. An annual average of 2 to 2-1/2% of our gross national product for 4 years should do the job. We can supply this and continue to live better than we did before the war. Adequate protection against inflationary impacts can be had through the imposition of limited controls and the adoption of wise fiscal policies.

There are still two vital questions which have not been so much discussed and to which answers do not as readily come as they do to the two questions we have just mentioned. Nevertheless satisfactory and conclusive answers are there if we will but dig for them.

These questions are:

Will the Marshall Plan work? And, is it in our interest?

These are pertinent and proper questions, deserving thoughtful and considerate attention.

We are a practical people and if the Plan won't work we want none of it.

The Marshall Plan is not a relief program; it is a recovery
program for Western Europe. Hence our interests rather than our humanitarian instincts should be mainly considered, although the problem is certainly not lacking in humanitarian aspects.

The purpose of the Marshall Plan is to help these people help themselves to restore and strengthen their economy to the point where Western Europe can stand on its own feet by 1952 without special outside assistance.

All of you know why we are dealing with Western Europe instead of Europe as a whole.

That decision was made in Europe and not in the United States. It has been reinforced by recent events in London.

Now, will the Marshall Plan work?

Europe is a very sick Continent. Facts and figures to prove this, or the why of it are unnecessary. All informed and intelligent persons know that it is so and why.

Production is still lagging; in some countries confidence in money has been destroyed; The area to a great extent is still separated into small, tight economic compartments just as if the world had stood still these past hundred years.

Restoration of confidence in money is almost the number one MUST.

One hears people say: Of course I am willing to help but not
until Europe goes back to work.

My observation during five months in Europe this year convinced me that Europeans are still just as hard working and serious as we are in the United States. They will always work if they have something to work with and if they can get paid for their work.

If you or I were a farmer or a factory worker in Europe, we might hesitate to exchange our labor for paper money which would not buy the things we needed because of shortages. We might wonder what the future buying power of the paper money would be or whether the things we needed could be had, and would probably end up by not working quite so hard, or by diverting our labor into something we could consume ourselves.

And still restoration of production in Europe has made remarkable progress, everything considered.

Coal and food are the principal laggards.

In recent weeks there has been a significant increase in coal output in England and the Ruhr, which proves that it can be done.

The Paris Conference for European Recovery organized itself into a Committee of European Economic Cooperation.

The report of this Committee presents an economic recovery program for Western Europe based on these major points:

A strong production effort by each of the participating countries,
with stated goals for food, coal, steel and other essentials,

Creation of internal financial stability,

Lowering of trade barriers between the participating countries and with the rest of the world,

Development in partnership of common resources.

The participating countries are dependent on heavy imports of food and raw materials. Normally these were paid for by exports, mostly manufactured goods, by services or by income from investments abroad. The war dealt this system a heavy blow, and despite post war progress this complicated economic machine still limps along. Without adequate outside help it will soon break down.

In Secretary Marshall's Harvard speech, he said: "The truth of the matter is that Europe's requirements for the next three or four years of foreign food and other essential products -- principally from America -- are so much greater than her present ability to pay that she must have substantial additional help, or face economic, social and political deterioration of a very grave character."

To put it very simply, the Marshall Plan proposes to make it possible for Western Europe to continue to eat and work until she can get her economic machine going again.

We are not planning to send only food and coal. There will be no recovery in Europe if there are no raw materials for the fac-
tories, even though the people do not starve or freeze. People out of work, walking the streets, with factories closed, cannot recon-
struct their shattered economies.

Europe can recover under the Marshall Plan if the following steps are taken:

The European recipient countries should make definite commitments to carry out the programs already formulated, particularly the following:

- Restore production to, and in some cases above, pre-war levels, with stated annual goals,
- Make money sound again,
- Lower trade barriers,
- Execute a multilateral agreement with mutual commitments on the above. Provide for a continuing organization to periodically check performance against such commitments, and to publish the results of such checking. The only sanction such organization need hold is the powerful one of public opinion.

The United States should make bilateral agreements with the recipient countries, tying in the multilateral agreement just referred to, as a part of same. This bilateral agreement should clearly set forth all the conditions under which aid is given, relating principally to production, sound money and lowering of trade barriers. Periodic checks should be made of performance under the agreement.
We will hold in our hands at all times, the powerful sanction of discontinuance of aid if, contrary to our expectation, any country fails to live up to its agreement.

We must not only render adequate material assistance, but we must hold out a helping hand in other ways; we must give spiritual and moral help and encouragement; we must make technical and administrative assistance available; we must understand Europe's problems and help solve them. Europe does not want our sympathy, but she does crave understanding and a helping hand.

The United States Government should keep a small, highly competent, carefully selected organization in Europe, working through our Embassies, for the purpose of carefully following European progress under the Marshall Plan, checking performance against commitments and extending a helping hand in every proper way.

If these steps are followed by Europe and the United States, the Marshall Plan can and should work.

It is freely admitted that our participation in the European Recovery Program is not without risk, but our decision must be made in the light of the alternatives.

And this brings us to the question, Is the Marshall Plan in our National interest?

This question has two aspects, economic and political. They are
so closely related that they may be considered together.

The heart of the foreign policy of the United States centers in the determination to preserve peace in the world by every reasonable and honorable means.

The Marshall Plan and our Trade Agreements program, the latter now linked with the proposed International Trade Organization of the United Nations are the economic keystones of our foreign policy. The Marshall Plan is to deal with the emergency needs of one part of the world. The I.T.O. will be concerned with the long term trade and economic problems of the entire world.

The United States does not covet the territory or possessions of any country. At the height of our financial, industrial and military power we set the Philippines free and sent a Commission to participate in the act of lowering the American flag and raising the flag of the new Philippine Republic. If this is Yankee imperialism or dollar diplomacy, let those who shout that silly charge make the most of it.

People all over the world desperately want peace; but all Governments do not follow the paths of peace.

Historically, one of the most fruitful breeders of war has been the destruction of the independence of small countries by some international bully.
Throughout Europe today there is deep fear. Many of you have seen it at close range. Country after country is struggling desperately to maintain its independence and integrity.

If an enemy were pounding at their gates, we would understand perfectly well what is going on.

But that's the old fashioned way. The new technique is to bore from within in the hope that this will not particularly disturb the rest of the world and will not bring in powerful allies to help.

The whole world sees the intended victim writhing in the grasp of a great power bent upon subjection and control, but because armies are not on the march and bombers on the wing, most of us cross to the other side of the street and go about our business.

Western Europe is made up of our kind of people. Many of our forefathers came from there. Those people hate Communism but if they must resist it under conditions of economic frustration, cold and hunger, they will lose the fight.

The Communists are waging a desperate battle to prevent the adoption of the Marshall Plan.

If it is adopted, they will wage a desperate battle to prevent its success.

If we should say that we will not supply the necessary help without which there can be no European recovery within the foreseeable
future, it is almost certain that every country in Continental Europe
would lose the battle to maintain its integrity and independence.

The Iron Curtain would then move Westward at least to the English
Channel.

Consider what this would mean to us in economic terms alone.
A blackout of the European market would compel radical readjustments
in our entire economic structure -- changes which could hardly be
made under our democratic free enterprise system.

The picture is still more frightening in terms of peace.
A Communist-dominated Europe, with an active campaign to bring
Latin America under the same wing, will not contribute to the peace
of the world.

One hears the view expressed that we're already too late. This
is a defeatist attitude with which we should have little patience.
It is alien to our character and experience.

This is what Hitler hoped we would believe in 1940 and 1941.
It is what the Communists hope today that we will believe.

If we had listened to these same voices in the dark days of
40 and 41, Hitler and his gangsters would now be sitting astride a
good part of the world.

If we act now with courage and intelligence, to assist in the
efforts of the countries of Western Europe to restore their economies,
the independence and integrity of these countries can still be preserved.

That is in our National interest and is the surest road to peace. It is the road which I believe we're going to follow.
Speech on the Marshall Plan
December 18, 1947

Speech, CP, Rice.

Chapter V

The Continuing Fight for Free Trade
As far as Will Clayton was concerned, the Marshall Plan would not have a lasting effect on the European economy. The surest way to promote permanent prosperity for that economy was through the liberalization of trade policies, a goal toward which the Geneva Agreement on Tariffs and Trade and the proposed charter for an International Trade Organization were giant strides. In the following documents, Clayton discusses the fruitful results of the Geneva International Trade Conference, attended by twenty-three nations between April 11 and October 30, 1947:
A Speech on the ITO Charter

September 10, 1947

Geneva Draft of ITO Sets a Practical Pattern for World Trade

It is a pleasure to have this opportunity to tell my friends in America something about the new charter for world trade. This charter, as you know, was completed by a committee of 17 nations in Geneva last month and will be considered by 50 or 60 nations at a world conference that will meet in Habana in November. In the meantime, the countries at Geneva are continuing to work out a definite agreement to lower barriers to trade among themselves. This agreement will cover more countries, more products, and more trade than any previous agreement in the history of the world, and its completion should go far toward getting the Habana conference off to a good start.

When the United States made its first proposals for a charter setting up an international trade organization, it faced a world in which the normal patterns of trade had been disrupted by the war. Production was cut down, business was dislocated, and the economic and political future was filled with uncertainty. In such a situation we might have decided to postpone our proposals until things got back to normal, but we knew if we did so that nations might set up a whole series of new restrictions that the world might never succeed in breaking down; so we went ahead, and I think that the results already
achieved at Geneva have demonstrated that we chose the wiser course.

The question is often asked whether the present financial difficulties of some of the countries in Europe and the plans they are drawing up in response to the proposal made by Secretary Marshall do not mean that our trade program has lost its importance for the time being. The answer is emphatically no. The plans now being drawn up relate to the emergency needs of one part of the world. The trade program has to do with the long-run needs of the whole world. The two are interdependent. Neither can be wholly successful without the other. Both are part of a common policy. If we cannot ease the burdens of Europe in this emergency, our chances of reducing the barriers to trade will not be good. But the reverse of this statement is just as true. If we cannot reduce the barriers to world trade and thus make possible a great expansion in the production, distribution, and consumption of goods throughout the world, there is little hope that any aid we may extend under the Marshall proposal will accomplish its purpose or be more than a stopgap measure.

As the United States approached the problem of postwar trade policy there were three courses it might have pursued. First, it might have concluded that the rest of the world was so committed to restrictionism that the attempt to tear down the barriers to trade was hopeless. It might have washed its hands of the whole job and tried to live to itself. But we must remember that we are part of
an interdependent world. Prosperity and peace for us depend on prosperity and peace for everybody else. Economic isolation is clearly impossible. Second, the United States might have sought to lay down a simple set of idealistic principles to govern world trade and tried to persuade the other nations of the world to accept it. But trade is a complicated business and the times in which we live are full of difficulty. Other nations have their own problems and their own policies. No simple set of rules could be accepted. No rigid set of rules would work. If we are to be realistic we must be practical, and if we are to be practical I am afraid that we must deal with details. If we are to have a world trade charter it must be a charter that will fit the facts. Third and last, we could have sought a realistic document, one that would meet the practical problems of the real world. Such a charter would set forth fundamental principles on which all nations could agree, but it would also make such detailed provisions as might be required to meet emergencies and to fit diverse national economies into a common pattern of world trade. This is the only kind of a charter that would actually work. It is the only kind that would provide us with a real alternative to anarchy and chaos in the commerce of the world. It is the kind of a charter that the United States has always sought and it is the kind that was adopted in Geneva last month. This charter sets up an international trade organization to
support and strengthen the International Bank for Reconstruction and Development and the International Monetary Fund, but it does more than that. For the first time in history it asks all nations to commit themselves in a single document to a policy of nondiscrimination in their customs charges and requirements and in their internal taxation and regulation.

Under such a policy each country will impose the same duties and requirements at its customs houses to the goods that come from every other country, and it will impose the same internal taxes and regulations on its own goods that it imposes on goods that come from abroad. The charter asks the members of the new trade organization to do away with all other forms of discrimination. It asks them to reduce tariffs and other barriers to trade and it lays down detailed rules to insure that the freedom that is gained by reducing visible tariffs shall not be lost by building up invisible tariffs.

It also lays down rules under which import and export quotas (the most serious of all forms of trade restrictions) can be limited, controlled, and eventually abandoned.

The charter makes the first attempt in history to apply uniform principles of fair dealing to the international trade of private enterprise and public enterprise.

It makes the first attempt through intergovernmental action to
eliminate the abuses arising from the operations of international monopolies and cartels.

It spells out for the first time a code of principles to govern the formation and operation of intergovernmental commodity agreements. It marks the first recognition in an international instrument of the interdependence of national programs for the stabilization of production and international programs for the liberation of trade.

It recognizes the interdependence of international private investment and the economic development of backward areas and emphasizes the importance of such development to the well-being of all the peoples of the world.

Back of these general purposes and principles there are many details, and the delegates at Geneva have been spending most of their time on these details. It will be remembered in this connection that our Government took the earlier draft of the charter to the American people in public hearings in seven cities in February and March of this year and asked them for their criticisms and suggestions. Almost all of the points which were raised at these hearings were incorporated in amendments which were introduced by the American Delegation at Geneva, and I am now glad to report that we were successful in obtaining all of these changes in the final draft. The present charter should therefore be closer than the preceding versions to the desires of business, agriculture, and labor in the United States.
There are four criticisms that have been made by people who have examined the charter, and I should like to say a word in conclusion about each of them.

First, it is said that the charter is idealistic. In one sense this is true. In another sense it is not. The charter is idealistic in that it establishes objectives toward which all countries can agree to work. It draws on the experience of the past, but it does not direct itself to the problems of the past. It sets up goals for the future, but it does not limit itself to provisions that can only work in normal times. It is concerned with the actual problems of the work-a-day world, and in this sense its idealism is tempered with a realism that is clearly practical.

Second, it is said that the charter contains a great many exceptions, and this is true. But these exceptions are carefully defined. Many of them are temporary; all of them are limited in extent; and no nation will be able to use any of them unless it satisfies the conditions upon which all nations have agreed. If it were not for the exceptions, the charter would not be practical, and it is because it is practical that it can be expected to work.

Third, it is said that the charter is a compromise. So it is, and so is almost every law that was ever passed by Congress or by the legislature of any state. So is every treaty between any two powers.
So are the Charter of the United Nations and the constitutions of every international agency that has been established since the war. Compromise is a virtue, not a defect. It means that the charter will not be imposed by force, that it will not be rejected because it is one-sided but that it can be voluntarily accepted because it meets the needs of every country in the world.

And finally, it is said that the charter is long and complicated, and this is true. It contains nine chapters, one hundred articles, and several thousand words. It is probably shorter than some acts of Congress; it is certainly simpler than the income tax law; but it is still long and complicated. It is complicated because it is realistic and practical, but the multitude of technical detail in the document serves only to emphasize the solid basis of agreement that has been achieved.

The important thing that we should recognize is this: the conference now drawing to a close in Geneva is a landmark in the history of international economic relations. It has covered the longest period in diplomatic history of intensive collaboration on a single document. This committee of 17 nations started its work in London in October and November last year, carried it forward in New York in January and February, and completed it in Geneva by working continuously from April to the end of August. It has demonstrated that nations, when
they have the will to do so, can work together peacefully and productively for common ends.

This conference, moreover, has covered a wider range of problems than has ever been tackled by any other economic conference in the history of international affairs. It has produced and written into single document not one agreement but six—-one on trade policy, one on employment, one on economic development and international private investment, one on cartels, one on commodity arrangements, and the constitution of a new United Nations agency in the field of international trade. The successful completion of any one of these agreements would have been an occasion for congratulation. The completion of all six of them in the troubled times in which we live is little short of a miracle.

The work on the world trade charter is not yet done; it goes to the conference at Habana in November; it goes to parliaments and to Congress in the United States next year. In the meantime, I hope that the American people will study it, analyze it, criticize it, and decide that they will give it their support.
A Speech on the ITO Charter
September 10, 1947
Footnotes


1 International Trade Organization.

2 Delivered over the facilities of the Columbia Broadcasting System, September 10, 1947.
A Statement on The Geneva Agreement on Tariffs and Trade

[ca. 1948]

The Geneva Agreement on Tariffs and Trade

The year just past was marked by one of the most significant and far reaching events that has ever taken place in the history of international trade. This was the signature by the representatives of 23 countries at Geneva, Switzerland, on November 18th, of the General Agreement on Tariffs and Trade. The agreement represents the most comprehensive action ever undertaken for the reduction of barriers to trade. The signatory countries carried on three quarters of the world's trade before the war, and the agreement covers two-thirds of the trade among these countries. It included more than 45,000 individual items on which duty reductions, bindings of low rates, or other significant concessions have been made.

The principal significance of the agreement is that it is the first major step to be taken by important nations acting together to reverse the trend toward trade restriction and economic isolation which has persisted since the First World War. For the United States it represents the substantial attainment of a goal toward which this Government has been working for more than 12 years under the Trade Agreements Act of 1934.

The Trade Agreements Act has been the economic cornerstone of United States foreign policy ever since 1934. Its enactment was a recognition of the fact that trade, in order to move at all, must move in both directions, and that United States tariff duties and
trade barriers of other countries were unduly restricting our imports and exports and therefore were harming our own and the world's economy. Under the Act pre-war agreements were concluded by bilateral negotiation with 28 countries involving the mutual reduction of excessive trade barriers. The agreements helped to expand United States foreign trade, to increase employment, and to foster friendly relations between the United States and other countries.

While the method of negotiating trade agreements bilaterally with individual countries accomplished outstanding results, there was a strong need for a more comprehensive course of action under present conditions. The world has been growing smaller at an extremely rapid rate, while the necessary arrangements for the conduct of trade and exchange have become increasingly complex. The economies of the nations of the world are interlocking, and trade and financial problems usually have implications and repercussions for many countries. Furthermore, World War II left the world economic and financial situation in a chaotic condition. The industrial plants and agricultural resources of many of the nations most important in the United States foreign trade were devastated. Their economies were converted wholesale to war purposes. Their capital structures were seriously damaged, their manpower was reduced, and their assets abroad were depleted or liquidated. All these factors impaired the ability of the nations to resume their pre-war export trade and to earn exchange to pay for their very
greatly increased import requirements. Consequently, there has been a tremendous growth of arbitrary and discriminatory controls over international economic transactions, particularly quota and licensing controls over imports, and foreign exchange control over international payments.

This is a general situation calling for general treatment. No single country can deal with it by itself. Some countries which have tried to avoid raising new trade barriers have found uncontrolled trade leading to the exhaustion of their supplies of convertible currencies while they acquired non-convertible currencies which they could not spend. Also, each country is hampered by its uncertainty as to the policies of other countries. No European country, for example, can plan very far ahead because it does not know what its neighbors will do.

It appeared, therefore, that the post-war economic situation required action on a many-nation basis, and the post-war economic program of the United States was based on this premise. The many-nation trade program had its inception in November 1945, when the United States published its Proposals for the Expansion of World Trade and Employment which suggested the establishment of an International Trade Organization and the adoption of a Charter or code of principles under which international commerce could expand multilaterally and on a non-discriminatory basis with the fewest possible restrictions and with resulting increases in employment and production and higher living
standards throughout the world. The Geneva meeting, which opened
April 10, 1947, and closed on November 17, accomplished the writing
of a semi-final draft of the Charter which will govern a large part
of the economic relations of member nations, as well as conclusion
of the General Agreement on Tariffs and Trade.

The General Agreement consists of (1) schedules of tariff con-
cessions, and (2) general provisions dealing with such matters as
quotas, internal controls, customs regulations, state trading and sub-
sidies. Each country applying the agreement undertakes to grant to
the other parties to the agreement the reductions or bindings of
tariff treatment specified in the schedules of tariff concessions and
to observe the rules laid down in the general provisions in its commer-
cial relations with them. The general provisions are not limited to
the items in the schedules, but cover the whole of the trade between
the parties to the agreement. They therefore establish for the first
time a generally accepted international code of fair treatment in commer-
cial relations.

The tariff concessions made by the United States were formulated
within the limits and according to the procedures specified by the
As required by the latter, the General Agreement provides that if, through
unforeseen developments, a particular tariff reduction should increase
imports so sharply as to cause or threaten serious injury to domestic
producers, the country granting the concessions may withdraw or modify it in whole or in part. If a concession is so modified or withdrawn, other interested countries may then withdraw or substantially modify equivalent concessions.

The concessions obtained by the United States from the other countries with respect to products of which the United States was their principal supplier had a total value (in terms of 1939 trade) of $1,192,364,000. In addition to these concessions, the United States is interested in concessions granted by the other countries on a substantial range of other products of which the United States is only a secondary supplier. The value of United States trade in such products is estimated at more than $200,000,000.

One of the most important features of the General Agreement is its treatment of tariff preferences. Preferences affecting a significant part of United States trade with countries in the British Commonwealth have been substantially reduced and preferences on a considerable list of products which the United States exports to the various countries of the Commonwealth have been eliminated entirely. In addition, it was agreed that no new preferences may be created, and no existing preferences may be increased whether or not on products listed in the schedules of the Agreement.

The negotiation of this Agreement is therefore impressive and encouraging. Unfortunately, however, no claim can be made that the
commitments and professions made in it will produce a trade millenium this year or next. The prevailing economic difficulties mentioned above continue to require many countries of the world to maintain the network of licenses, quotas, exchange controls and bilateral clearing and barter agreements which are interfering with trade everywhere. In fact, these devices are being renewed and multiplied, instead of disappearing, and in the General Agreement (as well as in the draft Charter for an International Trade Organization) it has been necessary to include exceptions which will permit restrictionism and discrimination to continue. The most important of these exceptions are temporary, and they are surrounded by careful safeguards. But they offer no assurance that the conditions that govern world trade will shortly be set to rights. Indeed, before these conditions get better it is even possible they may take a turn for the worse.

The underlying basis for the striking contrast between desirable principles as evidenced in the General Agreement and actual practice is the basic imbalance of the world's trade. On the one hand, there is an extraordinary demand for America's goods. On the other hand there is the inability of other nations to produce and ship to us in payment the goods we are ready and willing to receive. The consequence is a drain on foreign reserves of gold and dollars that would spell bankruptcy if it were not limited by import controls and other restrictions.
What is the solution to this problem? The first and most obvious step is the promotion of reconstruction and recovery in Western Europe. As these countries get back on their feet, as production is resumed and goods once more become available in relatively large supply, the need for restrictionism and bilateralism and discrimination will disappear. The second step is the application in full force of the provisions of the General Agreement, the proposed Charter for an International Trade Organization, and the International Monetary Fund Agreement. For it is only by subjecting them to international control that we can really be assured that these practices, even if rendered unnecessary, will not in fact continue to impede world trade.

This will be a slow process. It is not to be expected, for instance, that the General Agreement will immediately result in an overall increase in United States exports. Such an increase would but exaggerate the already serious dollar-shortage problem. It is not to be anticipated, either, that the agreement will immediately bring into the United States a volume of imports so large that the existing imbalance in the world's trade will be rectified. The agreement should help, but our trade can hardly be brought into better balance until foreign production is restored.

The significance of the Geneva agreement is to be found, then, not in an immediate shift in exports or imports, but in its long-run influence on the policies of the principal trading nations of the
world. Current practice is determined by the disturbed conditions of economies disrupted by war, the reconstruction of which is only beginning. It is of incalculable importance that under these conditions the world's trading nations have accepted sound principles to govern international commerce as they work their way back to stability, prosperity and peace. Only the general acceptance of these principles now holds forth the hope that at the end of the transitional reconstruction period it will be feasible to break down the restrictions and reverse the trend toward economic isolation which the war and its aftermath have fostered.
A Statement on
The Geneva Agreement on Tariffs
and Trade
[ca. 1948]
Footnotes

Statement, CP, ACCO.
To Hon. Alben W. Barkley

Washington, D. C.
April 21, 1948

My dear Senator Barkley:

I have reference to our recent conversation in which we discussed the signature by Czechoslovakia of the Protocol of Provisional Application of the General Agreement on Tariffs and Trade, and the implications of this action for the United States in the light of the events surrounding the governmental changes of last February in Czechoslovakia. This matter has been given the most careful study both within the Department of State and in meetings of the President's Cabinet.

The President today has decided to issue a proclamation putting into effect the provisions of the General Agreement on Tariffs and Trade with respect to Czechoslovakia, thereby implementing an obligation entered into by this Government more than five months ago, on October 30, 1947, when the General Agreement was concluded at Geneva, and prior to the Communist coup of February, 1948. Since Czechoslovakia has now placed the General Agreement in effect with respect to the United States and the other contracting parties, this country as well as the other contracting parties is obligated to apply the agreement to Czechoslovakia. This Government's attitude towards the events of last February in Czechoslovakia has not changed from that indicated in the joint statement of February 26, 1948 by the
Secretary of State of this Government and by the Foreign Ministers of the Governments of the United Kingdom and France. These events, however, do not directly affect the legal status of the reciprocal obligations under the General Agreement.

The General Agreement is a comprehensive trade agreement among twenty-three countries. It is part of a world-wide program, sponsored by the United Nations and actively participated in by the United States, designed to reduce trade barriers and to restore international trade to an orderly and stable basis. It is clearly to the interest of such a program to include the fullest possible participation by any countries which are willing to undertake the necessary obligations.

Concern has been expressed by a number of persons that making effective the General Agreement as between the United States and Czechoslovakia will give undue assistance, without receiving adequate reciprocal advantage in return, to a country subject to the influence of the Soviet Union, while depriving the American economy of the goods which are necessary to maintain our defensive strength. I would like to emphasize in particular that should Czechoslovakia or any other contracting party fail to fulfill the obligations of the Agreement or adopt any policy which impairs or nullifies the tariff concessions, the application by the United States to that country of such obligations or concessions under the Agreement as may be
appropriate in the circumstances may be suspended. In addition, if, as a result of unforeseen circumstances, any of the concessions extended in the Agreement should result in such increased imports from Czechoslovakia as to cause or threaten serious injury to domestic producers in this country, the United States is free to withdraw or modify the concessions to the extent necessary to prevent or remedy the injury.

In addition to this safeguard with respect to imports, the United States also exercises export controls to protect the American economy generally, to promote the objectives of foreign policy, and to safeguard national security. Since March 1, 1948, no shipments to European destinations, including Czechoslovakia, can be made without appropriate license. These export controls prevent shipment of goods contrary to the national interests of the United States.

There is enclosed a statement being issued to the press today which contains some of the considerations discussed in this letter and outlines the pertinent facts relating to the reciprocal concessions included in the General Agreement on the part of the United States and Czechoslovakia. It should be noted that the entry into force of these concessions granted by the United States on products of special interest to Czechoslovakia, will also benefit certain other countries which signed the General Agreement in Geneva and which
are participating in the European recovery program.

Sincerely yours,
W. L. Clayton
Advisor to the Secretary of State
To Hon. Alben W. Barkley
April 21, 1948
Footnotes

L, CP, AGCO.
Clayton expressed the following thoughts on Russia's postwar boundaries in Eastern Europe:
To Lamar Fleming, Jr.

Washington, D. C.

May 18, 1948

Dear Lamar:

I must apologize for the delay in acknowledging your letter of March 19th with the memorandum from Mr. Simmons. The truth of the matter is, in my flying around from one place to another, principally Havana, this letter got misplaced and did not have attention.

Mr. Simmons complains that we withdrew our armies from Europe instead of leaving them there for the purpose of "establishing the lines of Europe where they should be established."

Mr. Simmons apparently has forgotten the demands of the American people at that time to "bring the boys home." In spite of everything that was done we couldn't get them home fast enough.

There was a general feeling then that the Russians would behave. I think the people of the country believed this more than it was believed in the Department of State.

The U.N. had just been established and people reposed great hope and faith in its ability to work things out.

Any government which assumed that Russia did not intend to play ball and acting on that assumption tried to keep a U. S. Army in Europe big enough to make them play ball instead of trying to work
these differences out through U.N. would in my opinion have been impeached in Congress.

Sincerely yours,

William L. Clayton
To Lamar Fleming, Jr.
May 18, 1948

Footnotes

L, CP, ACCO.

1E.P. Simmons, President of Sanger Bros. of Dallas, Texas.
To John Kenneth Galbraith

Washington, D. C.
October 21, 1948

Dear Ken:

Briefly, my idea on the matter we discussed in New York last Friday is as follows:

1. Until Russia retires to her pre-War boundaries, there will probably be no real peace in the world in the foreseeable future.

2. Russia will retire to her pre-War boundaries only if she should be vanquished in another world war or if the forces of democracy should be sufficiently organized to cause her to lose the cold war.

   Both sides will be careful to avoid any act which might precipitate World War III. The continuing struggle then presents itself as a gigantic cold war between the Russian World and the Western World.

3. To win any kind of war with Russia, the West must be much more closely knit than at present. Western Europe must federate or unionize, politically, economically and militarily.

4. In these circumstances, the United States faces enormous responsibilities as leader of the Western World.
in its struggle for the preservation of its freedom. Spiritual, military and economic leadership must be available as required. Civilian and military goods must be furnished as needed, on practically a lend-lease basis. If war must come, our European allies should be prepared to stop and hold the Russian armies short of the Atlantic and the Mediterranean until we can go to their assistance.

5. The United States itself must rearm and prepare.

6. What is the spiritual, economic and social capacity of the United States to meet the great responsibilities which this leadership will impose on us? Are our people prepared to make the necessary adjustments and sacrifices? What are these adjustments and sacrifices?

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Obviously, this is only a brief outline of the proposed study.

Sincerely yours,

William L. Clayton
To John Kenneth Galbraith
October 21, 1948
Footnotes

I., GP, ACCO.

"Economist, author, member of board of editors of Fortune magazine."
The Havana Conference convened on November 21, 1948, to negotiate a charter for the proposed International Trade Organization which had been discussed earlier by the participants at the Geneva Conference. When the Havana meeting adjourned on March 24, 1948, fifty-three of the fifty-six nations present had signed the completed Charter. However, as Clayton later wrote to his son-in-law, "we met so much objection on the part of large corporations in the U. S. on certain aspects of the charter that the Administration never did put it before Congress as they realized it would be defeated."

The failure of the United States to adopt the Charter was the greatest disappointment of Clayton's government career. Nevertheless, so long as there was a chance for its adoption, he continued to seek support for it:

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1Will Clayton to St. John Garwood, February 23, 1960, CP, ACCO.
A Speech on the Havana Conference

June 15, 1948

Why and How We Came To Find Ourselves at the Havana Conference

"Why and How We Came to Find Ourselves at the Havana Conference" is a good story, but it will take us over a long and difficult road. The story needs to be told because it will help to a better understanding of the Havana charter.

No doubt the inspiration for that great enterprise lay in the general realization that the nations of the world made a tragic mess of their international economic relationships following the first world war and in a determination that this same road should not be traveled again.

It is only necessary to mention such matters as reparations, the handling of the war debts, the raising to fantastic heights of tariffs and other trade barriers, the practice of bilateral and barter trading, and the bitter retaliations and discriminations which flowed from these actions.

The first significant declaration of a determination to prevent a recurrence of these tragic mistakes was contained in the Atlantic Charter in August 1941. The victorious German Army was then far inside Russia, having long since swept western Europe. There were no illusions in the United States regarding the peril with which we
would be faced if Germany should win the war.

Under these dramatic circumstances President Roosevelt and Prime
Minister Churchill met upon the Atlantic and signed a pledge which
became known as the Atlantic Charter. The Atlantic Charter announced,
among other things, that the two Governments: "... will endeavor,
with due respect for their existing obligations, to further the en-
joyment by all States, great or small, victor or vanquished, of access,
on equal terms, to the trade and to the raw materials of the world ..."

By 1943 thirty-four other nations had subscribed to the principles
of the Atlantic Charter.

Four months after the publication of the Atlantic Charter the
Japanese attack on Pearl Harbor brought the United States into the
war.

Within a short time thereafter we concluded the first of a series
of master lend-lease agreements with our European Allies.

Article VII of this agreement committed the signatory Govern-
ments to the principle of "the expansion, by appropriate international
and domestic measures, of production, employment, and the exchange
and consumption of goods, which are the material foundations of the
liberty and welfare of all peoples; ... the elimination of all forms
of discriminatory treatment in international commerce; and ... the reduction of tariffs and other trade barriers."
The United States Government lost no time, even in the agonizing years of the war, in taking energetic action to mobilize the thinking in other governments and to prepare measures to carry out these declarations.

In November 1943, a distinguished British delegation led by Lord Keynes came to Washington by invitation to discuss with us the shaping of a world economic program. A broad range of economic subjects including trade and finance were discussed at that time. Similar discussions were held in January 1944 with the Canadian Government. Following these talks, we began work in Washington to shape up a program of action. For this purpose, an interdepartmental committee was formed, headed originally by Mr. Myron Taylor and later by Mr. Dean Acheson as Chairman of the Executive Committee on Economic Foreign Policy, established by the President. As Assistant Secretary of Commerce, I took part in the deliberations of this Committee and later, as Assistant Secretary of State for Economic Affairs, succeeded Mr. Acheson as Chairman of the Committee.

The international trade policies formulated by this group were presented in a document called Proposals for the Expansion of World Trade and Employment. Before publication in December 1945, these proposals were discussed with the British Government and were mutually agreed to. Subsequently, in the early months of 1946, other govern-
ments expressed their approval of the principles contained in the U. S. proposals.

Having achieved a wide measure of agreement on basic economic principles, the United States then drafted a charter to give effect to these principles. This document was known as Suggested Charter for an International Trade Organization. It was circulated to all United Nations governments for their consideration.

Meanwhile, the United Nations had been organized and in February 1946, the Economic and Social Council called a preliminary meeting of 18 countries to prepare for a conference on trade and employment. This meeting was held in London from October 15 to November 30, 1946. The draft charter suggested by the United States was used as the basis of discussion.

The text of the draft resulting from the London meeting was put into better shape by a drafting committee convened at Lake Success in January and February 1947. This became known as the "New York draft" and served as the basis for the Second Preparatory Conference convened in Geneva in April 1947. Prior thereto, however, this Government diligently endeavored to acquaint the American public and the Congress with the project in hand. Conferences were held with numerous business groups including the United States Chamber of Commerce. A representative group selected from departments of the Government held
informal public hearings in seven major cities of the United States to receive "grass roots" opinions about the proposed ITO. The Senate Committee on Finance conducted a detailed inquiry, the record of which covers several thick volumes.

This "referendum" of public and congressional opinion was extremely valuable. Over 100 specific suggestions were received for revising or extending the charter. The entire record was carefully studied to pick out every meritorious suggestion for use in the Geneva negotiations. Both the Geneva draft and the present Havana Charter bear the imprint of these suggestions.

As you probably know, there were 19 countries represented at Geneva, and negotiations there lasted some five months. They were complicated and prolonged by the fact that these same countries were also negotiating a General Agreement on Tariffs and Trade which required bargaining on thousands of specific items. In addition, agreement on general undertakings had to be reached to give value to the tariff reductions on these items. This enormous and very difficult task was successfully concluded and now stands as a landmark in international trade relations.

The charter negotiations at Geneva were concluded late in August 1947. On November 21, 1947, the World Conference on Trade and Employment convened at Havana to perfect the final draft of the charter.
Representatives of 56 countries attended the Conference. This meant that two thirds of the countries at Havana had not participated in the preliminary conferences at London and Geneva. The charter was finally initialed by representatives of 54 countries.

In retrospect it seems almost inconceivable that representatives of 54 nations, great and small, developed and undeveloped, with divergent interests, and speaking many different languages, could agree on a constitution of principles to govern their international economic relationships.

The drafters of the American Constitution didn't have an easy time reaching agreement on that document, but just suppose they had neglected to forbid the States of this Union to erect tariff barriers. In that case, today, 160 years later, we would certainly have a flourishing crop of protectionist measures dividing the United States into 48 economic principalities.

For example, I am quite sure that my State of Texas would have prohibitive tariffs, among other things, on shoes, woolen and cotton goods. Since Texas is the greatest producer of the raw materials for these articles, it is too much to expect that loyal Texans would have overlooked the great advantages to be obtained in the employment of Texas capital and Texas labor for the conversion of Texas raw materials
into finished products for Texas citizens. The fact that other areas might do the work better and cheaper, leaving Texas capital and labor to devote itself to more profitable undertakings, would, of course, have nothing to do with the matter.

And suppose some President of the United States, realizing that this situation had seriously interfered with the sound development of the country, had invited the governors of the 48 States to meet with him in Washington to try to come to agreement on remedial action.

How long do you think it would take these 48 governors, all speaking the same language and living under the same political system, to reach effective agreement, if indeed any agreement could ever be reached?

One needs only to draw this kind of parallel to the Havana conference to illustrate the enormous complexity and difficulty of the task undertaken there.

Indeed we were told again and again that it could not be done. The program was too ambitious. It would involve too many commitments. Circumstances and systems were too diverse. Fair dealing in international trade was old-fashioned and impractical anyway. The disorganization caused by the war was too great. The problem of reconstruction was too pressing. Nations were too much preoccupied with immediate difficulties. They would not look to the future. The future in any
case was too uncertain. It could not be done.

But it was done.

The charter is complex and difficult. It is long and detailed
and technical. It is far from perfect; indeed, it falls short of
what we fought for. But behind its many chapters and its scores
of articles, there lies a simple truth. The world will be a better
place to live in if nations, instead of taking unilateral action with
little regard to the interests of others, will adopt and follow common
principles and enter into consultation through an international or-
ganization when interests come into conflict.

And this, throughout the entire range of trade relationships,
is what the signatories of the charter agree to do. Each will surrender
some part of its freedom to take action that might prove harmful to
others and thus each will gain the assurance that others will not
take action harmful to it.

This may well prove to be the greatest step in history toward
order and justice in economic relations among the members of the world
community and toward a great expansion in the production, distribution,
and consumption of goods throughout the world.

The International Trade Organization will deal with questions
that nations have always held to be of the greatest importance. It
will seek solutions for problems that have been a perennial source
of irritation and ill will. It will serve as a center where the peoples
of the world with their diversity of economic interests can meet on common ground.

If the United States should ratify the Havana Charter, many other nations will promptly ratify it.

If the United States should fail to ratify the charter, there will be no International Trade Organization. Such an eventuality would be a tragedy; it is unthinkable.

It has often been said and correctly that the United States is the giant of the economic world. But it is not so generally recognized at home as it is abroad that we are looked upon as leaders in the world in the movement to reestablish the principles of nondiscriminatory, multilateral trade; that we are regarded as the exponents of liberalism in international economic relations; that we are recognized as proponents of policies designed to bring about a great expansion in the production, distribution, and consumption of goods throughout the world, to the end that people everywhere may have more to eat, more to wear, and better homes in which to live.

Peoples and governments, generally, understand that the purpose of all this is to lay a firm foundation for world peace and world prosperity.

It would be difficult to exaggerate the weight of the responsibilities which this position of leadership places upon us.

The policy itself is one which expresses the enlightened self-
interest of the United States. The productive capacity of the United States in the industrial field equals that of the rest of the world combined. We must import from all over the world all kinds of raw materials to feed our huge productive machine. In metals and minerals, we are self-sufficient only in coal and one or two other items. Our fast-growing and prosperous population requires a great variety of goods. Much of our industrial and basic agricultural activity operates so efficiently that vast surpluses are produced at reasonable cost. These surpluses must find markets abroad. We have much to gain and nothing to lose from a great expansion in the interchange of goods and services around the world, a result which can only come from a return to multilateral nondiscriminatory trade.

If the United States should fail to ratify the charter, that action would not only be contrary to our best interests but would be a shock to the whole world. It would be a surrender of our leadership in international economic affairs; it would be more than that; it would be regarded as a repudiation of much that has been accomplished under that leadership.

If we deliberately vacate our rightful place in this field, does anyone believe that there is another nation in the world today prepared to step into our shoes?

What, then, would the consequence of such action be?
It is certain that every country in the world would feel that it was again on its own, that it was compelled to rely on unilateral action, in short that it had no other recourse except to return to the practices of the international economic jungle—everyone for himself and the devil catch the hindmost.

Bilateralism, import quotas, export quotas, exchange controls, cartels, subsidies, discriminations, retaliations—all the devices known to man for limiting the international exchange of goods and services—would again become standard procedure throughout the world.

Do we want to see a return to that kind of world? Is that in our interest? We must realize that the United States could not long remain an island of free enterprise in a sea of state-controlled international trade. The United States would be forced into the international trading practices of the rest of the world.

But that is not all.

We would find it extremely difficult to carry on international trade in isolation from domestic trade.

There are two roads we can take here.

One road leads in the direction of free enterprise and the preservation of democratic principles.

The other road leads in direction of Socialism and state trading.

We must soon choose which road we will take.

The Twentieth Century Fund recently issued a report recommending
strongly a broad anti-cartel policy by the United States and declaring that support by the United States of the International Trade Organization is essential to such a policy.

The report further states that if the United States refuses the ITO charter, the result will be not a better agreement but a looser one or perhaps no agreement at all.

There are only two questions we have to ask ourselves in trying to decide what we will do about the ITO charter; and those two questions are:

1. Would the United States and the world be better off if there were no ITO, leaving each country to act on its own as heretofore?
2. If the present charter is rejected, would we be able later on to obtain agreement on a better charter?

In my opinion the answer to both questions is NO.
A Speech on the Havana Conference
June 15, 1948

Footnotes

Printed in the Department of State Bulletin, XVIII (June 27, 1948),
pp. 825-927.

1Delivered before the Economic Institute of the Chamber of Commerce

2Myron Taylor, member of the Postwar Planning Committee and vice-
chairman of the Advisory Council on Postwar Foreign Policy, Department
of State (1944).
To W. H. Harrison

March 11, 1949

Dear Bill:

It was good of you to take the time to write me regarding your views on the Havana Charter.

I recognize, as well as anyone I think, the weaknesses and imperfections of the Charter. For example I am worried about the International Investments provisions. Knowing the difficulties in the way of getting any worthwhile commitments on this subject, the U. S. Delegation had not intended to attempt anything in this field, but did place it on the agenda on the urgent insistence of the National Foreign Trade Council and other organizations.

I would favor lifting the whole question bodily out of the Charter rather than take what we have there and I believe this deletion could be effected without any serious difficulty.

I cannot recognize, as a practical matter, the validity of your arguments against Charter provisions relating to cartels. I think this is one of the best provisions in the Charter. The Twentieth Century Fund agrees on this and has issued a very informative volume on the subject.

The exceptions referred in your criticism of the provisions relating to "imports, exports and exchange" and "protection" are almost altogether temporary, at least in so far as any serious application
of such exceptions is concerned.

We are dealing with a very sick world and it would be impossible to get binding commitments on these subjects without exceptions to cover present conditions and situations.

I have carefully read your comments under the heading "Economic Aid" but I don't think there is anything serious here either.

I have also carefully considered your stated objection to the Charter under the heading "Restrictions" and I feel here that you fail to take into account the fact that the continuance of certain controls and restrictions is inevitable under present conditions and nothing that the Charter might say could change this situation.

Let me sum up my view this way: All of the bad practices which exceptions to the Charter recognize are practices now being indulged in right around the world and they will continue to be indulged in until conditions alter to the point where they can be abandoned.

No matter what we do, countries which have serious balance of payments problems are going to practice controls of different kinds in order to protect their meager store of foreign monies. I am sure you will agree with me that they should continue to control the expenditures and commitments of their citizens abroad so long as there is a definite limit on the amount of foreign money that they can make available for meeting such commitments.
Suppose the situation were reversed in the United States and we had need to import much more than we could export. In those circumstances we in the United States would do exactly what foreign countries are doing.

The Charter recognizes the temporary necessity of certain restrictive and undesirable practices but it surrounds such practices with controls and conditions which keep them within reasonable bounds and it provides the discontinuance of these practices as soon as the conditions which brought them about have changed.

We have to look at the Charter in terms of alternatives.

If we reject the Charter there will be no restraint on the unbridled practice of all kinds of nationalistic devices. I have spent the last few years in almost daily contact with representatives of foreign governments around the world and I firmly believe unless we can bring these governments into some kind of international trade organization with definite objectives and principles where we can sit around the table face to face and discuss these problems, the world will soon become a kind of economic jungle with every fellow for himself and the devil take the hindmost.

Frankly, Bill, I think you had better take another careful look at this question and view it in the large instead of a too meticulous regard for imperfections.
To W. H. Harrison
March 11, 1949
Page 4

The International Telephone and Telegraph Company ought to be for this enterprise!

With very kindest regards, I remain,

Sincerely yours,

W. L. Clayton
To W.H. Harrison
March 11, 1949
Footnotes

L, CP, ACCO.

1President of the International Telephone and Telegraph Corporation
of New York.
On August 3, 1948, Whittaker Chambers, a professed Communist, appeared before the House Committee on Un-American Activities and charged that Alger Hiss had been a member of the Communist Party in the thirties. He later alleged that Hiss had passed secret State Department papers to him. Hiss denied these charges but was convicted of perjury and sentenced to five years in prison. Clayton, like most of Hiss's other coworkers in the State Department, refused to believe the charges against him.
To William M. Bullitt

April 5, 1949

Dear Bill:

I believe you are one of the Trustees of the Carnegie Endowment for International Peace and I just write to say that I am happy to learn that this Institution has extended Alger Hiss's leave of absence.

I know Alger Hiss well. While recognizing that some of the circumstances surrounding his case are hard to understand, I cannot overlook the fact that his chief accuser is a self confessed spy and communist. I am just a little suspicious about any overnight change of heart which a man of this kind professes to have.

I believe Alger Hiss is innocent of any design to injure his country and I will continue to believe so until he is proven guilty beyond the shadow of a doubt.

For a couple of years now we have been in great danger in this country of repealing something akin to the disgraceful Salem Witch-hunt chapter in our history.

Let's not do that!

Sincerely yours,

W. L. Clayton
To William M. Bullitt
April 5, 1949
Footnotes

L, CP, ACCO.

¹Trustee of the Carnegie Endowment for International Peace.

²Accused by Whittaker Chambers of passing classified State Department documents to Communists. On November 17, 1949, Hiss was convicted of perjury and sentenced to five years in prison.
In the late forties the American people displayed a fascination with the concept of international federation. In 1946 the people of Massachusetts voted nine to one in favor of strengthening the United Nations to provide a modified form of world government. In a similar referendum in Connecticut in 1948, the vote was favorable by a twelve-to-one margin. Two organizations were formed during this period to mobilize support for political internationalism. The United World Federalists favored operating through the United Nations and including all nations; the Atlantic Union group, on the other hand, favored a regional federation in the Atlantic area, composed of the United States, Canada, and the nations of Western Europe. Will Clayton's case for Atlantic Union follows:

Memorandum on United World Federalist's Policy

January 17, 1949

Comment on Mr. Grenville Clark's Memorandum of December 1st, 1948

Mr. Clark believes that a "sound and complete policy" has now been found by UWF with respect to the transformation of the United Nations into an effective Federation and the settlement of the main issues between the Soviet Union and the West.

The solution, he thinks, is one big negotiation with Russia on both these interdependent matters.

This negotiation "might extend over several years since the obstacles are great and the utmost patience will be required." (Having had some rather extensive negotiating experience with Russia, I can keenly appreciate the force of this statement).

"It has been a necessary thing to make it plain to Russia that her further expansion would be promptly opposed."

Presumably, therefore, the negotiation would proceed on the basis that the vast Central European territory into which Russia has already forcibly expanded since the end of the war is now hers without further question.

It is not clear as to what the situation would be if other States, now free and independent, should fall into the Russian orbit by the usual methods, during the "several years" which the negotiations
would require.

I do not advocate going to war with Russia for the restoration of the integrity and independence of Czechoslovakia, and other States which she has forcibly subdued to her will.

But I am opposed to any plan of negotiation with Russia which tacitly recognized her right to keep her heel on the necks of the millions of people of these Central European States forcibly brought under her dominion since the end of the war.

Any negotiation which recognizes such right, or ignores the question, cannot possibly bring peace to the world, even though agreement were reached on every other point of difference.

There will be no peace in the world until Russia returns to her prewar boundaries.

The obvious question is: How can this be accomplished short of war?

Possibly it may never be accomplished but I believe that it can be; but not under the present policies and procedures of the democracies.

Regardless of the Marshall Plan or similar plan, Western Europe cannot in the foreseeable future return to a position of financial independence with a decent standard of living for its people so long as it continues to function as eighteen or twenty separate and independent economic compartments as it does now.
As a practical matter, the United States does not possess sufficient reserves of strength to carry Western Europe on its back, forever, as it is doing now.

The only solution, it seems to me, is Union or Federation of the remaining free States of Europe. And I am inclined to favor the inclusion in such a union of the United States and Canada.

Such a Union would present to Russia an aggregation of political, economic and military power so great that further Russian expansion westward would be impossible, and the probabilities are that the natural pull from the West on Russian Satellite States lying in between would be so much greater than the pull from the East that most, if not all, of these States would in time successfully reassert their independence.

Everything possible should be done to increase trade, travel and cultural intercourse and exchanges between the West and the East.

On the question of trade alone, Russia will have enormous difficulties in holding the Satellite States in her sphere of influence. The Western and Eastern economies are complimentary which is not at all true of the Russian and Satellite economies.

The goods and services which the Satellite countries require are for the most part the identical goods and services of which the
Russians are themselves buyers; and the goods which the Satellite countries wish to sell are for the most part the same sort of goods which the Russians wish to sell.

There is thus no natural economic basis for inclusion or retention of the Satellite countries in the Russian sphere of influence.

If we go on as we are or if we negotiate as Mr. Clark suggests "for several years," we will wake up one day and find Russia in possession of the atom bomb and then we will face a different situation.

Anyone having any doubt as to the ultimate aims of Stalin ought to read the article by "Historious" in the January issue of "Foreign Affairs."²

W. L. Clayton
Memo, CP, ACCO.

1 Vice President of United World Federalists.

To John S. Knight

July 30, 1949

Dear Mr. Knight:

I have carefully read the editorial over your signature in your July 23rd issue entitled "Plan for Atlantic Union Lacks a Sound Blueprint."

My own idea of the proper reply to the various questions which you raise follows:

(1) You suggest that adoption of Senator Taft's one paragraph declaration that "we should make it clear to the USSR that if it attacks Western Europe it will be at war with us" is a surer guarantee that there will be no such attack than the formation of an Atlantic Union (Western Europe, the United States and Canada) which you say "requires a constitutional amendment, ratification by thirty six states and years of delay."

Aside from certain constitutional questions concerning the validity of the proposed Taft declaration, other serious objections occur.

Can the United States produce evidence of warlike intentions toward Western Europe on the part of the USSR, which such a declaration would imply?

I seriously doubt that there is any such evidence, or, indeed, any such intentions.

The danger is not so much that Soviet Russia will precipitate
To John S. Knight
July 30, 1949
Page 2

an armed attack on Western Europe as it is that economic deterioration in Western Europe, temporarily arrested by the Marshall Plan, will eventually give victory to the Soviets in the cold war.

In that event the Communists would occupy all of Europe.

And then indeed Soviet Russia would find herself at war with the United States. Isolated politically and economically, we would be the attacker fighting for our very existence.

But, meantime, the general fear of war immobilizes the capital, brains and initiative of much of the free enterprise system of the world and throws the burden of European recovery on Governments. And Governments operating as separate sovereignties in tiny economic compartments just can't do the job.

(2) You indicate that reestablishment of confidence in the integrity of European currencies, with private enterprise encouraged to operate freely in Europe, which it is claimed would result from the adoption of the Atlantic Union Plan, could probably come only from throwing our gold reserves into the depleted international "kitty" and from using our money to encourage European socialism and a perpetuation of authoritarian controls over business and private lives.

Although I do not admit the necessity of any such step, may I say if a portion of the gold now stored at Fort Knox should be needed in a sound and permanent plan to stabilize and make convertible the
currencies of the world, restore world trade, raise the standard of living and remove the threat of communism and war, the United States could make such gold available with great profit to itself.

The United States is now spending each and every year more than the equivalent of all the gold that it possesses in an effort to ward off communism and war.

Originally, much of this very gold belonged to these same countries of Western Europe, where it served as a support to their currencies. It flowed to our shores because we refused to accept goods for goods. Much of the mess we now find ourselves in stems from this very fact. Under the Atlantic Union no such mistake could be made again, because the Nations composing the Union, like the 48 States of the U.S.A., would presumably have no customs houses between them.

(3) You say that the military aspects of Atlantic Union would undoubtedly be less costly to Europe but vastly more expensive for us.

The total military costs of Atlantic Union would undoubtedly be less than the aggregate of such costs to the separate states at this time. It is unnecessary to argue this point. The United States would, of course, have to bear its proper share but this would unquestionably be much less than the 20 billion dollars plus which we are now putting out in one way or another to prevent another world war.
(4) You question whether Atlantic Union would arrest the spread of communism. You express the view that communism flourishes wherever a nation has lost its national pride, the capacity for self-help, and its moral integrity.

You seem to question the belief of the sponsors of the Atlantic Union that communism feeds on frustration, hopelessness and economic misery.

I think both views are correct, but may I point out that as a general thing the loss of national pride, the capacity for self-help, and moral integrity are generally associated, in a nation, with conditions of economic misery and frustration.

You seem to fear if no passports are required in a federated union, the United States, instead of repelling communism as we have done to date "would soon become a happy hunting ground for the crack-pots of the world."

Our record in repelling communism arises not so much from our ability to keep out the crack-pots (since this species is indigenous to our country, imports are unnecessary), but is due rather to the creation of an economic climate highly inhospitable to the spread of communism.

It is believed that Atlantic Union would in time create such a climate throughout its entire area.
(5) You are of the opinion that Atlantic Union might bring a higher standard of living in the other nations but a lower standard for Americans, because it would involve a "distribution of America's wealth and resources." You say "when the economic pie is cut into more pieces for the 'have-not' nations America's portion is sure to be smaller."

Nobody contemplates cutting the economic pie into more pieces. It is merely intended to add more pie through an intense re-activation of the forces of free enterprise.

(6) You question whether Atlantic Union will strengthen the United Nations. And you speak of "an Atlantic Union gun against Russia's head."

The idea of Atlantic Union cannot possibly contemplate holding a gun against anybody's head. On the contrary, it expects that the guns which now menace the peace of the world will be lowered with the return of decent living conditions for the millions of people of Western Europe who do not have enough to eat, or enough to wear, and who go cold in winter.

Undoubtedly there are great difficulties in the way of the formation
of an Atlantic Union of the Democracies.

You are familiar with the history of the formation of our own
Union of the thirteen colonies.
You know how difficult that was.
At times the difficulties appeared so great that the effort
seemed doomed to failure.

Admitting all of the difficulties in the formation of an Atlantic
Union, is it not the only way out of the mess into which the world
is fast heading?
Can you suggest a better way?
The Kremlin has divided the world in two -- the communist world
and the free world.
The policy of the communist world is aggressive and expanding.
If the world goes on for another ten years as it has done for
the last five years, 1960 will find the United States politically
and economically isolated.

How long then could we continue as a free enterprise, democratic
nation?
The end of the Marshall Plan (even if continued until the summer
of 1952 and there is no certainty of that) will find Western Europe
annually 2½ to 3 billion dollars in the red with the rest of the
world.
To John S. Knight
July 30, 1949
Page 7

Without outside help, the only practical way this situation can be met is through a substantial lowering in the standard of living of Western Europe - a standard already too low.

Do you not believe with me that the probabilities are that communism would then march to the English Channel?

If Atlantic Union is not the answer, what is the answer?

Atlantic Union would break down the tiny economic compartments in which Western Europe now operates, and which keep her tools of production inefficient, unable to compete in the markets of the world; it would solve the dollar problem; it would dispel the fear of war; it would release and vitalize the labor, genius and capital of men everywhere; it would give a great new hope to the world that at last we are on the right track.

All that we have done the last few years has been leading up to Federal Union of the free.

Must we fight another world war to realize that our freedom can be preserved only through Union of the free? If so the realization may come too late.

Sincerely yours,

W. L. Clayton
To John S. Knight
July 30, 1949
Footnotes

L, CP, ACCO.

1 Editor and Publisher of the Chicago Daily News.
General Douglas MacArthur, Supreme Commander in the Far East, was an American hero as a result of his roles in World War II and the Korean War; yet on April 10, 1951, President Truman ordered him to relinquish his command to General Ridgway. MacArthur's refusal to accept administration policies challenged the constitutional concept of the President as commander-in-chief, and Truman moved to meet the challenge. The decision was an unpopular one, yet there was no doubt where Clayton's loyalties lay:
To Hon. Harry S. Truman

Houston, Texas
April 11, 1951

Sue and I thoroughly approve of your action regarding General Mac
Arthur\(^1\) and congratulate you on the very clear and convincing manner in
which you reviewed the issues involved in your radio address this evening.
If we should follow the course urged by General Mac Arthur the prob-
abilities are that we would soon be up to our necks in World War 3
and without allies. As long as you continue to work to save America
and the free world from such a catastrophe you may be sure that we
the great majority of the American people will understand and will
approve.

WILL CLAYTON
To Hon. Harry S. Truman
April 11, 1951
Footnotes

T, CP, AGCO.

To Y. Noda

April 11, 1964

Dear Mr. Noda:

Thanks so much for your good letter of April 7 about General MacArthur.

I am, of course, in complete agreement with your estimate of the General's character and ability. The demonstration throughout the whole of the United States in connection with his death is certainly proof of this statement. Except for the tragic death of the late President Kennedy, I have never seen anything like it.

Having said this, I must recognize some of the General's weaknesses. He never bowed to anyone's authority. As you probably know, I was in the Department of State from the latter part of 1944 until the latter part of 1948, and I know that many cables we sent to the General in matters in which we have authority were completely ignored by the General.

At one time, I was offered the position as General MacArthur's financial advisor, but, having in mind his rather peculiar character, I declined. I knew that whatever advice I might give him, he would take if it suited him and reject if it didn't, and I wasn't looking for that kind of job in the government! The above is written you in confidence.

There is no doubt about it that General MacArthur was a great
man and his history in Japan attests to this statement.

With every good wish,

Sincerely yours,

W. L. Clayton

P. S. Thank you also for copy of THE JAPAN TIMES, which I found very interesting.

W.L.C.
To Y. Noda
April 11, 1964
Footnotes

L, CP, TL.

1Osaka, Japan, cotton merchant.
Clayton's loyalty to the Democratic Party never wavered after his brief flirtation with the Liberty League in the thirties. In 1952 he placed the following advertisement in a number of Texas newspapers:
A Statement on the 1952 Election

Houston, Texas
November 1, 1952

TO MY FELLOW DEMOCRATS

I will not get the shivers and vote for Eisenhower because:

1. According to The Chicago Tribune (a supporter of Eisenhower), "General Eisenhower accepted all the conditions demanded by Senator Taft regarding the kind of campaign the Republican Presidential Nominee will conduct, and the kind of administration he will establish if elected."

(We must not forget the main argument the General's advisers used to persuade him to enter politics, leaving his task in Europe unfinished, was that only he could save the Republican Party, the United States and the Free World from Senator Taft).

2. In the words of The New York Times, another supporter of Eisenhower: "The Eisenhower crusade is turning into just another political campaign, featuring all the old platform tricks, all the old debating points, all the old slogans, and all the old compromises."

Eisenhower, who believes, as many of us do, that peace depends upon strengthening the unity of the Free World, as established by N. A. T. O., has succumbed to the allurement of political expediency in taking to his bosom, Taft, McCarthy, Jenner, Kem and others of the Republican Old Guard. These men never lost an opportunity to work
for the isolation of the United States from its natural allies, and
to sabotage the wise policy of Free World unity which Eisenhower had
so warmly advocated.

3. Lifted to eminence by his friend, General Marshall, Eisen-
hower has now joined hands with men who called Marshall a front for
traitors and a living lie and has asked the voters to return those
men to the United States Senate. He has done this to a friend, a
great American, in the belief that it will win votes.

4. Eisenhower is acknowledged to be a great general. He is
now also marked as a little politician. To win votes, he has surrendered
to the greatest reactionaries of our times.

***

I shall vote for Stevenson\textsuperscript{5} because:

1. Stevenson has set himself the highest standards and has
never departed from them.

2. Stevenson scorns tricks, deals and compromises; he sticks
to the truth. He has refused to embrace demagogues to win votes.
If elected President, he will be the servant of all the people and
the master of his own soul.

3. Stevenson's statements are consistent, not trimmed to favor
the special interests of the particular territory in which he may
be speaking.
4. Stevenson is experienced in civilian government; he surrounds himself with able men; he is steeped in the principles of democratic government; as President, I believe he would fill that great office with wisdom, dignity, experience and complete devotion to the best interests of all the American people.

Will Clayton
A Statement on the 1952 Election
November 1, 1952
Footnotes

Statement, CP, ACCO.

1 A political advertisement appearing in newspapers in six Texas cities.


Government agricultural policy continued to be a sore point with Clayton during his postgovernment years. Yet even this subject, in his mind, was part of the larger problem of economic nationalism. The following attack on federal farm policies ends with a plea for freer trade:
A Statement on Government Agricultural Policy

January 27, 1954

Our Bankrupt Farm Program

The U. S. Farm program, founded on moral and economic fallacies, is dragging American agriculture down a road which can lead only to ruin.

The whole false structure was near collapse more than a decade ago, but was saved by World War II, the Marshall Plan, and Korea.

Under the Farm program, the richest country in the world sabotages the processes of nature; subsidizes the creation of artificial scarcities in food and fibre, diverting them from consumption into Government warehouses; pays farmers not to produce and has even paid them to destroy that which they had produced.

The principal crops concerned are wheat, cotton and tobacco. These are world crops—not American crops. Their prices are made in world trading.

At heavy cost, our Government has exerted some influence on these prices. To the farmer, the most serious aspect of this cost is the surrender from time to time of important portions of his export markets.

Just a few years more of this and the American farmer will find that the Government has subsidized him out of practically all his foreign outlets—outlets which normally take one-half his cotton,
forty percent of his tobacco and one-third of his wheat. Total U. S. exports have been running at record levels but cotton and wheat exports are less than one-half their normal volume. Tobacco has fared better but is now slipping badly. Our "umbrella" is bringing other suppliers rapidly into the world market. South Africa has substantially captured the important British market in tobacco.

Meantime, our Government has in storage, out of the channels of trade, more than five billion dollars worth of farm products. This figure is growing rapidly and will probably reach the statutory limit of 6.75 billion dollars in another six months. Will Congress raise this limit, along with the limit on the National debt? Will the Government provide more storage capacity? If not, Government support at ninety percent of parity will be ineffective, in some cases, because of lack of storage room.

What will our farmers do with the millions of acres of crop land normally producing for export?

What other crops can they plant without creating grave new problems of so-called "surpluses?"

They can let this land revert to pastures for the production of meat, an activity not yet controlled by the Government. Many of them have already done this with well-known results—among them a march of cattlemen on Washington.
The truth of the matter is that agriculture cannot go on much longer half free and half Government controlled. Either some way must be found to deal with this problem short of Government controls or the Government will take complete control.

If the Government takes complete control, we will then be far off the straight and narrow path of spiritual and material greatness and will be headed down the broad highway to socialism and decay.

There are other aspects of this matter, the momentous implications of which will be recognized by thoughtful students.

The U. S. Farm program, and its forebear, the U. S. protective tariff, are jeopardizing our leadership of the Free World.

Until 1929, American farmers bought in a protected market and sold in a free market.

While industry and the stock market boomed during the decade following the first World War, there was a steady decline in farm prices, following the precipitous break in 1920. This was an issue in the Presidential election of 1928. Promptly after Mr. Hoover's inauguration in March, 1929, he redeemed his campaign pledge by calling a Special Session of Congress to deal with the Farm question.

Having become politically conscious, the farmer, in effect, said to the protectionists: "Give us protection, or we will destroy yours." The result was the passage of the Federal Farm bill, the creation of the Federal Farm Board, with half a billion dollars of Government
money to "stabilize" farm prices, and the enactment of the Smoot-Hawley tariff bill.

The half billion dollars was promptly lost, principally in trying to "stabilize" cotton at sixteen cents; cotton went to five cents per pound.

The Roosevelt administration took over in 1933, and promptly passed the Agricultural Adjustment Act, which continued the Farm Board principle of price "stabilization," but with practically unlimited funds, and with authority to curtail production and to "quota" or embargo imports of those agricultural products receiving Government "support."

Hence, our present Farm program is essentially a government price-fixing device, plus production and import controls.

No such program can square with our responsibilities of world leadership.

The Nations of the Free World are held together by a common purpose to preserve their freedoms and to seek world peace; they are held apart largely by economic difficulties and differences.

These economic factors have been present in varying degree since World War I, but, until now, were neutralized through vast grants in aid by the United States.

Apparently, our policy of gifts, except for war goods, is now coming to an end, as it should; and, in doing so, the economic difficulties
and differences in the Free World are coming to the surface.

In practically all the necessities of modern life, the industrial revolution has made every country in the world a deficit producer in some things and a surplus producer in others. No country is self-sufficient. Every country in the world must cover its deficits by trading its surpluses for the surpluses of other countries.

Nobody denies this condition of interdependence but man's heritage of communal pride, prejudice and unenlightened selfishness keeps his political and economic concepts deeply rooted in tribal traditions, forebear of that blood-soaked fetish known as National Sovereignty.

We in the United States mix political internationalism with economic nationalism and forget that problems which were purely domestic yesterday may today vitally concern the welfare of hundreds of millions of people in other parts of the modern world.

Western Europe is an important deficit area in food and fibre and in most of the raw materials to feed her factories. These things must be imported from all parts of the world. They must be paid for. In the long run, this payment can only be made by exporting her surplus of manufactured goods.

But political and economic developments and readjustments, following two world wars, have multiplied the barriers which Western Europe now finds in the way of her exports.

Aided by vast grants from the United States, Western Europe's
productive machine is now more efficient and productive than before the war. Her people are very intelligent and very proud; they are tired living off the bounty of Uncle Sam; they want to trade and earn their way.

But productivity is a barren thing unless there are markets for the produce.

Formerly the markets of Eastern Europe and China were natural and substantial outlets for the manufactures of Western Europe, but they may not now be availed of without incurring the severe displeasure of the United States; the Colonial Empires of Southeast Asia, formerly important markets, are now in a ferment; most other countries are trying to industrialize by the protectionist principle. The big United States market is still protected by tariffs and quotas and other devices to discourage imports.

Meantime, our surpluses of food and fibre are very important to the economy and the standard of living of Western Europe and of all the world; generally these surpluses are available only at prices fixed by our Government.

As long as there are in the world hundreds of millions of people who go to bed hungry and cold every night, there is not really a surplus pound of cotton or a surplus bushel of wheat. As leader of the Free World, it is our job to seek ways to increase the buying power of these people instead of indulging in schemes which reduce it and
thus add to their misery.

We should not be surprised when the foreigners who are harmed by our actions resent it.

And they resent it doubly because of the impediments we have placed in the way of the sale of their goods to us, the only sound means they have of paying for their purchases from us.

These impediments take the form, not only of tariffs, but of quotas, embargoes, the "Buy American" law, and customs regulations designed to discourage imports.

No wonder the Russians say to our allies in NATO: "You see! The United States not only won't let you trade with the East—they won't even let you trade with the West!"

Until adoption of the present Farm program, our entire economy was nurtured in the freest kind of domestic competition. Under it, there have been many economic casualties, of course, But out of it all, free enterprise has substantially survived, and our economy has grown to be the strongest in all the world.

The whole world is avidly seeking dollars with which to buy our goods. This is the most convincing proof that, for the great bulk of our production, the only fear we need have is that the rest of the world won't be able to earn enough dollars to buy our surpluses.

Our present Government' price-fixing Farm program, with its import quotas and embargoes, should be eased out and finally discarded.
Goods are produced to be consumed, not to be withdrawn from the channels of trade, at enormous cost and waste.

Government subsidy of any segment of our economy is unsound policy; but the farmers have an argument when they point to the protective tariff; however, they have used the argument poorly. A transitory, pseudo-protection, such as they have got, is self-defeating.

What the American farmer needs is a free market at home in which to live and operate; and cleared channels of trade to all the world in which to sell his surpluses.

Foreigners to whom we have been giving the dollars with which to buy these surpluses for many years will certainly not—indeed cannot—continue buying them unless we now give them the opportunity to earn the necessary dollars by the sale of their goods to us.

With dollars scarce, the first dollar commodity the foreigner will cutoff his list will be farm products. This is already happening. He can buy such things in many different countries and pay for them with goods of his own production.

What will we then do about the vast surpluses which our farmers normally produce annually?

What will become of the labor which the production, processing, transporting, and merchandizing of these surpluses normally employs?

There is perhaps one sound basis for a program of modest Government economic assistance to agriculture.
Our greatest national resource is our soil. It is the responsibility of organized society to see that the productive quality of this soil is preserved for future generations. Government may, therefore, properly make payments to farmers for following its recommendations regarding rotation, diversification, fertilization, prevention of soil erosion, etc., provided such program is not prostituted into a disguised crop control device.

American farmers are the most efficient in the world.

If we unshackle them, returning to the free-enterprise, free-market system to which we owe our greatness; if we re-open foreign markets to them, the unsubsidized American farmer can hold his own against the world.

Our gross production of goods and services now exceeds an annual rate of three hundred fifty billion dollars. An increase in our imports of one percent of this sum, or three and one-half billion dollars, and abandonment of Government price fixing and controls would solve the American Farm problem. These increased imports would enable our foreign customers to earn the dollars with which to continue to buy our surpluses of farm products and other goods; they would contribute to the variety and enrichment of life in our country, while stimulating our producers to greater efficiency.

But they would do much more than that.
The adoption by the United States of a policy leading eventually to free trade would hearten the world; it would cause other countries to follow our example; it would release and stimulate productive facilities the world over, it would raise the standard of living throughout the world; it would unify the free nations of the world as nothing else could; it would go far toward ending the threat of Communism to world peace.

If, on the other hand, we persist in our present policy of economic nationalism, it is almost certain that Western Europe and Japan will be driven into the economic and probably the political arms of the Communist Empire. On that day we will have lost the Cold War and the United States will be isolated in an unfriendly world, waiting in its garrison for World War III to begin.

If it should be urged that the adoption of a free trade policy is for us politically impossible, the answer is that nothing is politically impossible in the United States if it is vital to the national interest, and if it has adequate leadership.

Congress is composed of members representing Districts and States. A great share of their attention is devoted to the affairs and interests of their constituents; but their paramount duty is to the Nation, and this is the duty which prevails when real statesmanship is inspired.

The President of the United States, on the other hand, is elected to serve All the People. Those Presidents who will go down in
history as great men are the ones who fought the battles of all the people, even against Congress itself.

President Eisenhower is the only man in the United States with the necessary prestige and confidence of the people to arouse them and Congress to action in this vital matter.

Once the people are aroused, Congress will not fail to obey their will.
A Statement on Government Agricultural Policy
January 27, 1954
Footnotes

Statement, CP, Rice.
On May 18, 1948, Clayton wrote to Lamar Fleming, Jr.: "It seems to me that the greatest present danger is in the Middle East. I have believed for a long time that the situation is more vulnerable there than anywhere else." His fear that the Middle East would succumb to communist influence was even greater by 1957:
Memorandum on the Middle East Resolution

Houston, Texas
January 14, 1957

As I understand it, the Administration's purpose is to keep Russia from taking over the Middle East as she has taken over Eastern Europe.

I am in complete accord with this.

But I seriously doubt if the passage of the Administration's resolution would do any such thing.

In effect, that resolution says to Moscow: "If you break into the Middle East house you had better not enter by the front door because if you do and the owner yells loud enough, we will help him throw you out; but if you enter by the back door and take over, with the connivance of some little Stalin of the area, there is nothing we can do about it."

Most of us will need only one guess as to which route the Russians will choose. They generally use backdoor methods, anyway, because they have found them less costly and less risky.

By the 19th Century standards, the so-called power vacuum in the Middle East would be occupied by some great and ambitious world power.

By 20th Century standards, this vacuum should be occupied by the sovereign states of the Middle East themselves.

As I understand the intent of our policy, it is that the right of these states to so act for themselves shall not be abridged. Let
us make this clear to the whole world in language which all can understand.

If Russia should take over in the Middle East, it would give her the power to dictate conditions to Western Europe which would almost certainly alienate that area from the United States and leave us effectively isolated.

Democratic government in the modern world cannot long exist in isolation.

I have suggested a declaration in this language: "The United States regards as vital to her interests the preservation of the independence and integrity of the States of the Middle East, and if necessary her armed forces will be used to that end."

It is said that this would violate the charter of the United Nations. I am no expert on this subject, but I did observe the impotency of the United Nations in regard to Hungary and the inhuman but effective action of the Russian Empire with respect to that poor country.

Of course, substantial economic and technical assistance should be extended to the Middle East but it seems to me best to cover this separately. This subject may take more time because it will probably provoke more argument. Mr. Acheson has suggested that other free nations should join us in an economic assistance program, and his suggestion
is certainly worthy of serious consideration.

Mr. Acheson has also referred to several Middle East problems which demand solution, among them the Suez Canal and the Israeli-Arab controversy.

It seems to me all these matters can be best handled if we first make clear our policy in the political and military fields. This is the heart of the whole matter and there should be no great delay in acting on the necessary declaration. Subsidiary questions can then be given attention.

If six months ago we had taken a firm stand on the Middle East as here suggested, it is extremely unlikely that Israel, England or France would ever have thrown their armed forces against Egypt.

Will Clayton
Memo., CP, ACCO.

Memorandum on the Middle East Resolution
January 14, 1957
Footnotes
To Hon. J. William Fulbright¹

Houston, Texas
February 5, 1957

Dear Bill:

Looking over an old file, I ran across a copy of a letter I wrote you on March 2, 1956, and your reply, about the Middle East situation. I suggest you have your secretary show these to you.

I enclose copy of a memorandum I sent Sam Rayburn² recently on this subject, also photostatic copy of an article by Joe Alsop³ from Moscow.

I am glad you keep a hot fire under Dulles.⁴ It seems to me one of the chief functions of diplomacy is to foresee adverse developments and endeavor to prevent them, or at any rate to be prepared for them.

Measured by this, I think Dulles has been one of our poorest Secretaries of State.

We have to judge men by their works.

The situation in the Middle East is tragic and may turn out for us a disaster.

The Free World alliance is falling apart and, so far as an outsider can tell, little is being done to hold it together.

Sincerely yours,

W. L. Clayton
To Hon. J. William Fulbright
February 5, 1957
Footnotes

L, CP, ACCO.

1U. S. Senator from Arkansas (1945-).

2Speaker of the House Sam Rayburn, U. S. Representative from Texas (1913-1961).


4John Foster Dulles, Secretary of State (1952-1959).
Although China was not an area with which Clayton was concerned in the State Department, he followed developments there with great interest in later years. During the fifties, he made the following statements about U. S. - China relations:
To Ellen Garwood

Houston, Texas
February 15, 1955

Dear Ellen:

Thanks for your sweet letter of the thirteenth.

I read the article on Formosa which you sent me. I think it is good.

I enclose a copy of THE NEW REPUBLIC of February 7. There are three articles in it which I think you will be interested in—the one on Formosa and the articles by Lowenthal and Forrest. The latter two articles look prophetic now in view of what happened so soon after they were published.

I am very unhappy about Formosa. I think we have got ourselves in almost an impossible situation. If we had not made the treaty with Chiang and if it had not already been ratified by the Senate, I would strongly favor dumping the Formosa problem in the lap of the United Nations. Attlee and the Labor Party in England are saying, "We don't want to die for Formosa," and I must say that it is the way I feel too.

It even looks as if we might help Chiang defend Quemoy and Matsu. We have absolutely no business doing that. There is no question but what those islands belong to China and despite the fact that we are doing everything in our power to preserve the fiction that Chiang is the government of China, everybody knows that it is a fiction.
To Ellen Garwood  
February 15, 1955  
Page 2  

We got off on the wrong foot in 1949. We should have recognized that the communists had China and that they are the government of China, whether we liked it or not. Of course, we don't like it but that couldn't alter the facts. I recognize that we had some responsibilities toward Chiang and his troops on Formosa but we could have made a deal, I am sure, at that time whereby the U. N. could have taken responsibility for Chiang and his troops. But this is all beside the point now. We are committed and that's that. The fact of our commitment plus the recent turnover in the Russian Government undoubtedly greatly increases the danger of war in the next two years.

* * * * *

Affectionately yours,

W. L. Clayton
To Ellen Garwood
February 15, 1955
Footnotes

I, CP, ACCO.

1Chiang Kai-Shek, President of the Chinese Nationalist Government (1943--).
To J. W. Fulbright

Houston, Texas
February 12, 1959

Dear Bill,

I have asked myself the question: Looking at the world picture as it is, what is the next step for the West to take?

I enclose a short memorandum which suggests a "giant step," to use the words of the "Sputnik" editorial in LIFE Magazine.

Of course, the State Department will hold up its hands in horror at the idea of sitting down in the same room with representatives of China when we have refused to recognize China. I would sit down and negotiate with the Devil himself if I thought it might contribute to world peace. The whole question is just that and not a question of punctilio of procedure based on outworn precedents of olden times.

If, as I fear, we refuse to take this "giant step," then I would propose that immediately and unilaterally we greatly liberalize our position on East-West trade. We shouldn't sell arms to the Communists, but we are wrong to prohibit other trade. This step alone would strengthen the unity of the free world. Our partners are all chafing under the restraints that we have imposed on them.

Sincerely yours,

W. L. Clayton

Enclosure
Memorandum on U.S.-China Relations

Houston, Texas
February 12, 1959

If we ever had diplomatic initiative vis-a-vis Russia, we surrendered it so long ago that it has been forgotten. We just sit now while the Russians make one proposition after another, to all of which we must say "no."

We act as if it were all a bad dream and will go away if we just give it time.

This may do for some international situations but not for the kind with which we are now faced.

Surely we have enough ingenuity and daring to make some move which will place the initiative in our hands.

There are today two especially dangerous situations between the Communists on one side and the West on the other. One is the Formosan-Chinese situation; the other is the Berlin dispute. Some day both must be liquidated.

The Western nations may not see eye-to-eye on method, but all have the same interest to find acceptable and peaceable solutions.

On the other hand, there is reason to doubt the genuineness of Russia's interest regarding the Far Eastern imbroglio; and reason to doubt China's genuine interest in the Berlin situation.

Barring a shooting war in the next ten or fifteen years, the threat to world peace at that time will almost surely come from China, not Russia. Russia probably recognizes this and fears it. There is intrinsically little between the two countries of mutual interest and much which could lead to mutual jealousy and distrust.
The West must find some way to take advantage of this.

The Congress of Vienna was called to deal with problems growing out of war.

Why not call the Congress of Geneva to deal with problems that threaten to result in war?

It could last as long as we were willing to listen and to keep talking; would give us an opportunity to exploit whatever differences may exist between Russia and China; and would put them on the defensive.

Principal participants: United States, Britain, France, West Germany, Russia, China.

We would hold some powerful cards in such a conference, but they would be of no use unless we were prepared to play them if the stakes were high enough--I refer especially to recognition of China, her admission to the United Nations, and East-West trade.

Such a conference would need to agree on conditions of German reunification, and on the status of Formosa. It has been suggested that the latter could be a protectorate of the United Nations for five years, and then vote on the question whether she should become a part of China, or have independent status.
To Hon. J. W. Fulbright
February 12, 1959
Footnotes

L & Memo, CP, ACCO.
The esteem in which Clayton's views were held in matters of foreign economic policy even after he left the government is illustrated by a letter from Representative Hale Boggs asking Clayton and Christian Herter to contribute a statement on free world foreign economic policy to the Joint Economic Committee. The two, according to Boggs, represented "the best experience and highest intelligence the Nation has to offer."\(^1\) The consequent statement transmitted to the committee on October 23, 1961, was written primarily by Clayton, but represents the thinking of both men. The text follows:

\[^1\text{Hale Boggs to Will Clayton, June 5, 1961, CP, ACCO.}\]
A Statement on Foreign Economic Policy

Washington, D. C.

October 23, 1961

A New Look at Foreign Economic Policy

Twenty-seven years ago, with enactment of the Trade Agreements Act, the United States committed itself to a liberal foreign economic policy. That basic commitment has been renewed in eleven extensions of the act, but with restrictive amendments. Next year it must be renewed again. But "renewal" is a deceptive word if it suggests that what has been done eleven times in the past quarter century will suffice another time. It will not.

The time has come for the United States to take a giant step.

Two developments since the end of World War II pose the inescapable challenge and the one hope of answering it. The challenge is the cold war, in which the Soviet Union aims to divide the free industrial nations and at the same time win the underdeveloped countries of the world to communism.

The answer lies in the second development, the European Common Market. The nations of the free world must work together, as the Common Market "six" are doing already. In our experience we have found no international issues more divisive than economic issues. We assume that there will be no hot war. We are thinking in terms of winning the cold one.
Here is the situation:

There are 3 billion people in the world. About one-third live under Communist rule. One-sixth live in the major free industrial lands. The rest, who are one-half of the total, live in the poorer, less developed countries—the uncommitted or, as we prefer to call them, the "contested."

The 1 billion under communism live in a huge and relatively self-contained land mass with enormous natural resources. All of their foreign trade and most of their domestic trade is conducted by the state. Their governments are totalitarian.

The one-half billion in the major industrial countries—the West plus Japan and Australia—live under stable popular governments. They possess preponderant economic power in the world community. This is a point of critical importance for the purpose we have under consideration. Eighteen percent of the world's population commands two-thirds of its industrial capacity. It is our firm conviction that the way in which this preponderant power is used will be a major factor in determining the issues and the outcome of the cold war.

The 1-1/2 billion people of the contested areas occupy one-half of the land surface of the earth, principally in the Tropics and farther south. They have vast natural resources of their own, but many of their people are hungry. Hunger and political instability go hand in hand.
The Communists are concentrating their subversive efforts principally on these poorer, underdeveloped countries. Soviet political and military pressures against these countries have been continuous since the end of World War II. In the 1950's the economic dimension was added.

Khrushchev fixed the terms of the cold war, in its economic aspect, in his declaration to the Twentieth Party Congress in 1956:

* * * from the fact that we advocate peaceful competition with capitalism one should under no circumstances conclude that the struggle against the bourgeois ideology and against the remnants of capitalism will be relaxed by our people; our task consists in a continuous attack on the bourgeois ideology and the unmasking of its antisocial and reactionary character.

The declaration of Soviet economic hostilities against the non-Soviet world has been made. The immediate objective in this war is the control of the contested countries, more than three score and ten in number. The ultimate objective is the control of the world. The struggle will be relentless, irreconcilable, merciless. The West need expect no quarter from the enemy. If Western determination is less than the Soviet bloc's, eventual Soviet triumph is assured.

In all of the contested countries, particularly those just now
emerging from colonialism, the Russians have organized groups of native Communists who preach to the people, over and over again, that the best and quickest way to raise their level of living is by the Communist system. And who can say that people who have always been slaves to hunger will not put food before freedom?

In forming policies to meet the situation described, three significant facts of current life must be kept in mind:

I. The increasing interdependence of nations. Domestic economic policy can no longer be made without regard to possible external effects, nor can existing external conditions be ignored when domestic policy is being shaped. This country has known for years that it is not an isolated political system. It must realize that that is no less true of the body economic.

This is particularly the case for the United States because it possesses preponderant economic power in the Western community. If the United States domestic policy is damaging to Western unity, the West is diminished in the cold war. The same may be said of the domestic policy of any of the principal allies.

It is ironic that the United States should continue to erect barriers against the nations whose raw materials it, in fact, must have. Despite its domestic resources it must import many of the raw materials essential to its industry. So far as we know the only major mineral the United States has in exportable
surplus is coal. The Automobile Manufacturers Association lists 38 imports necessary to the production of motor vehicles. The telephone companies list 20 imports from many lands—in Asia, Africa, and South America—which are essential to their industry.

The domestic agricultural policy of the United States is the base of its import quota system. If it continues to support farm prices above world levels, obviously it will continue to have a restrictive quota system.

On a broader scale, the lesson of unbalanced international payments is there for all to see. Few even dreamed so recently as 5 years ago that there would be talk of American costs, interest rates, and taxes in the same breath with gold and "hot money."

2. The new role of technology. We are impressed by a statement of Dr. Guy Suits, of the General Electric Laboratories:

Growth (in science and technology) has been so rapid that 90 percent of all the scientists who ever lived must be alive today. Science and technological change had almost no impact on the outcome of World War I, while it was a major factor in World War II * * * Lord Keynes didn't recognize technological innovation as a factor in the economy 20 years ago, yet today it assumes major proportions.
Technological change has been a determining factor in the conflicts of the past two decades. It would be folly to suppose that it will be a smaller force in the future.

We have been impressed also by a statement of "Gerard Piel, publisher of the Scientific American, in his brief paper, Consumers of Abundance. Dr. Piel observed, and we feel correctly, that "the advance of technology has begun to outstrip our capacity for social invention." He noted particularly that in the past several years "despite a steady rise in gross national product, unemployment has been rising."

In effect, while abundance has been definitely achieved in the West by the advance of technology, Western institutions are no longer able to keep abreast of the rapid change. In many sectors of Western opinion, automation has taken on the aspect of a serious menace, although it is an indispensable factor in military security, competitive parity in the world economy, and the ultimate relief of Western man from the stultifying effects of repetitive labor.

3. The population eruption. A score or more of the countries in the contested areas are now growing at a Malthusian rate; i.e., their populations are doubling every 25 years. In this connection, we would like to quote from the preface to Prof. Philip M. Hauser's distinguished volume, Population Perspectives:

The revolutionary changes in population size, composition and
distribution during the modern era, and especially during the course of this century, have precipitated problems which are among the most serious confronting the contemporary world.

The United States has been aware of the effects of population change right at home. The rapid migration of the rural population to the cities in the wake of an irresistible technological advance in agriculture has had grave effects on the urban areas. "Explooding cities" are a matter of concern. The situation may become much worse as the increasing younger generations disperse into the suburbs.

The explosion of cities in the United States comes at a time when Japan, in contrast, has achieved a historic measure of population restraint. An authoritative view of the effects of this unprecedented development must await careful and extended inquiry, but there is no escape from the conclusion that it has had very favorable effects on economic developments in Japan.

Our main concern in the population explosion is with the contested countries. These populations are growing at a rate double that of the Western community, but they possess only a negligible fraction of the economic resources of the West. In these circumstances of unprecedented proliferation, the daily struggle for food and space among populations already undernourished cannot fail to become more bitter. This is our concern.
Overt social conflict is a commonplace affair in the Malthusian world. It is a kind of conflict upon which the agents of world communism feed and upon which the fate of unstable governments often rests. In the contested countries of the world, the average income of hundreds of millions of people is about $100 per year, as against about $2,500 in the United States. Most of these people have gained their political freedom since the end of World War II. While they intend to retain that freedom, they are even more determined to raise their level of living, with more to eat, more to wear, and better houses in which to live.

The gap between the developed and the less developed countries hits close to home in the case of Latin America. Frank Tannenbaum, professor of Latin American history at Columbia University, says in a recent article entitled The United States and Latin America--The Sins of the Fathers:

Stated simply, the task we face in Latin America can be put in a single question. What can the United States do to help bridge the gap that lies between a $2,500 average annual income in North America and the $200 average income in Latin America? * * * The difference in income is so wide that, until it is narrowed, we cannot expect the people of those countries to identify themselves with our aspirations, projects, or policies.
Let us look at some of the things that the United States has done which have the effect of curtailing the markets for Latin American products, thus reducing their income and widening the gap between the rich and poor countries. At the behest of politically powerful minority groups in this country the Government has instituted import quotas on lead, zinc, and petroleum. For many years there have been import quotas on sugar and other agricultural commodities. There is an export subsidy on the export of our cotton. All of these things are produced in Latin America.

So long as there is great disparity in living standards between the industrial and the contested countries, today's rapidly shrinking world will not be a peaceful place in which to live. The economic gap between the two groups of countries is now widening. The gap must be narrowed. Otherwise, permanent world peace is an illusion. The gap can be narrowed while raising the living standards of both groups.

But time is running out.

Almost precisely 99 years ago, on December 1, 1862, Abraham Lincoln said in a message to Congress:

The dogmas of the quiet past are inadequate to the stormy present. The occasion is piled high with difficulty, and we must rise with the occasion * * * we must think anew and act anew. We must disenthrall ourselves and then we shall save our country.
The Trade Agreements Act as it stands today is hopelessly inadequate to meet conditions as they are and as we can see them developing.

The last renewal of the act, in 1958, was hailed for its long term. Four years is the longest that any renewal has run. But it was less meaningful than it appeared to be. The negotiating authority vested in the President was small, and when the American negotiators prepared to do the actual negotiating at this year's session of the General Agreement on Tariffs and Trade in Geneva, they found themselves hamstrung by the law's protective clauses.

At this juncture we see only one course to consider as the Reciprocal Trade Agreements Act presents itself for action next year.

If the act were allowed to expire, this would be a clear victory for protectionism. The symbol of our liberalism would be gone. The President's negotiating authority would be gone. But the protectionist clauses of the act would remain, for they are permanent law.

The challenges of the times demand a substantial broadening and reshaping of the act for another term of several years. This approach recognizes the limitations of the act as now written, and recognizes that the United States needs an enormously stronger hand than it has if it is to meet the competitive challenge that is built into the Common Market. But we hope that this would not mean a postponement of reckoning with the greater question we must face.
We believe that the United States must form a trade partnership with the European Common Market and take the leadership in further expanding a free world economic community.

As a minimum step in that direction, the Trade Agreements Act must give the President authority to negotiate tariff reduction across the board in place of his present authority to negotiate item by item. Our allies in Europe are no longer dealing in item-by-item terms, and we must adapt our negotiating authority accordingly.

It is frequently suggested that there be a Federal program to aid industries and workers, and even whole communities, injured by competing imports, to help them adjust to new ways of economic activity. We believe that the dislocations of labor or capital as a result of increased imports can be adjusted better by the affected parties than by the Government, but we would support a public program for extreme cases.

We note that the government-aid adjustment program of the Common Market itself has had relatively little use. Actually, in this country it is hard to find an industry whose troubles can be traced to imports alone, and we suspect that too liberal an adjustment assistance program would be more of a temptation to inertia than a stimulus to innovation.

More than any broadening or reshaping of the existing law, however, we believe that the most hopeful vehicle for strengthening the West
and thus for defeating Khrushchev in the cold war is to be found in the example of the Common Market. The object of a common market is to enlarge the number of consumers within a free trade area. The United States was formed into a common market when the Thirteen Colonies were welded into one nation by adoption of the Constitution.

For many years Europe has dreamed of a United States of Europe. Now they have made a beginning. Unfortunately only six countries joined in the initial effort. Seven others formed instead the European Free Trade Association, thus creating a rival organization and a serious breach in a vital area.

The recent decision of Britain and other Western European countries to open negotiations for joining the Common Market "Six" gives promise that one of the elements of Western disunity soon will be eliminated. So long as Western Europe is divided by the "Six" and the "Seven" there is not only a lack of economic unity, there is great danger that this will lead to grave political differences. The New York Times has referred to Britain's announcement as a turning point in history. Indeed it is. The Common Market ushers in an age of new competition, new ideas, and new initiative.

But the happy prospect of healing Western European differences still leaves the two sides of the Atlantic with a gap in economic policies that is getting wider, not narrower, all the time. On the one hand, Western Europe, for centuries divided into many separate economic
and political compartments, is attempting now the elimination of her internal trade barriers and their customs houses so that her 325 million people and their goods can move freely from one country to another. On the other hand, the United States is in reverse. It takes too frequent refuge in protectionist devices. But even if this country stood still it would be drifting backwards because it would not be keeping pace with Europe's determined move forward.

At the close of World War II the United States embarked upon a policy designed to bring about a great expansion in the world economy. There resulted the GATT and later the Marshall Plan, with the Organization for European Economic Cooperation to implement it. OEEC, now the larger Organization for Economic Cooperation and Development, was organized at the request of the United States by countries recipient of Marshall Plan aid. It is perhaps not too much to say that it was the father of the Common Market. (It is interesting now to recall that the American proposal for an OEEC caused the Russians to walk out of the first international Marshall Plan meeting in 1947, and to force Poland and Czechoslovakia to withdraw their tentative acceptance of Marshall Plan aid. The Soviet Union realized then that such a group might one day become an effective roadblock to Communist ambitions.)

If the United States is to continue to meet its responsibilities of Western leadership in preserving the freedom of the Western World, it must again, as in 1947, put the national and international interest ahead of the short-term special interest of its politically powerful
minority groups. It cannot be repeated too often that communism is waging war against the West—relentlessly, craftily, cunningly. The West will lose this war unless it can maintain Western unity and can keep the contested countries independent and out of the Communist bloc.

If the Communists are able to win and organize most of the contested countries, communism will dominate the world. The West has NATO, but it is limited largely to a military alliance. There will probably be no shooting in Khrushchev's war. The Communists have a cheaper, shrewder way. They plan to take us alive, with all our assets intact. If they can encircle us, our grandchildren will live under communism, as Khrushchev has said. Western unity is essential to Western survival.

The 20 OECD countries—18 Western European countries plus the United States and Canada—comprise one-half billion of the most highly industrialized peoples in the world. Acting in unity, there is almost nothing that they could not do. Unfortunately, they are not so acting. Except for the Marshall Plan, the Communists have held the initiative and the West the defensive in this worldwide struggle. Defensive postures win few wars.

If the United States fails to associate itself with the Common Market movement there will be constant economic friction between
Western Europe and the United States and its allies in the Pacific. A unified Western Europe, with its highly developed industrial and technological complex and its disciplined workers, would comprise the most efficient workshop in the world.

Heretofore, the United States, with the largest home market in the Western World, has been able to offset high wages (three times the Common Market average) by the mass production of goods, thus keeping costs on levels competitive with those of other industrial nations. The European Common Market already has a home market, in terms of population, almost as large as that of the United States. If all, or nearly all, the Western European countries join the market, as we expect they will, it will then have a much larger home market than the United States, and the implications of that are only too clear.

The Common Market is justifying the most optimistic expectations of its friends. Official reports show that, since 1958, trade among the "Six" has risen by approximately 50 percent—a growth far greater than shown by any other industrial nation. Businessmen of the "Six," many of whom originally opposed this plan for eliminating tariffs, quotas, and other protective barriers, are now in the forefront of pressures for speeding up the transition. As the provisions of the market went into effect there were marked increases in sales of Volkswagen automobiles in France and Reraults in Germany. Also, the number of mergers and corporate alliances across national boundaries has increased rapidly.
By far the biggest, most reliable and profitable markets for United States exports are in the industrialized countries of the free world. When competition has forced all or practically all such countries to join the Common Market, the only way this country can hope to hold its export markets is by associating itself with the Common Market movement. And the United States must hold and add to its export markets, to pay for essential imports and to permit continuation of its heavy commitments abroad.

The longer the United States waits, the more difficult it will be to align its trade policies to match the Common Market's own actions. By the end of this very year, the "Six" will have reduced their tariffs to each other by 40 to 50 percent.

Thus we recommend that the United States open negotiations, as soon as practicable, for a trade partnership with the European Common Market, at the same time stressing the absolute necessity of enlarging the area.

It should not be difficult to show the contested countries that their best interests demand that they associate themselves in this historic process. Among those countries, including the 42 that have gained their freedom since the end of World War II, less than 10 have populations of more than 25 million and many have less than 10 million. There is talk about industrializing these little entities, though we believe that their first interest demands farm rather than factory
production. Granted that industrial effort will be made, it will be a net loss if such countries only set up little industries to serve local populations and bind in their inefficiency permanently by tariff-quota protection.

One way to ease the adjustment for the contested countries, and to meet our principal objective of raising their living standards, would be to grant unilaterally to groups of contested countries, as distinguished from individual countries, the right to free trade on their exports of raw materials to industrial countries. Another way would be by reduction in import tariffs by the contested countries at the rate of 5 percent per annum in consideration of the industrial countries reducing their duties at the rate of 10 percent per annum.

Without restrictive tariffs or other impediments to the movement of goods across national frontiers, production would be rationalized on the basis of comparative advantage, just as it has been in the 50 States of the U.S.A.

Under such conditions there would, in our opinion, take place the greatest expansion in productive facilities, including those of the United States, that the world has ever known. The facilities would be located in the most advantageous areas, based on labor, skills, climate, availability of raw materials, transportation, and markets. Most of them would be built by private capital. Many would be built in the contested countries because of favorable operating conditions and because, no matter where located, the whole trading area with its
2 billion people would be a potential market, without barriers.

In this way, sound development of the contested countries would take place. Their standards of living would rise. The economic gap between the richer and the poorer would be narrowed. Communism as a threat to world peace would recede.

We are fully conscious of the domestic American political difficulties inherent in the policy we recommend, but we believe nonetheless that at this juncture in our history we must face the issues realistically.

Christian A. Herter.

William L. Clayton.

Fidel Castro's seizure of power in Cuba was extremely alarming to Clayton, a man who had dealt with Latin American countries for years in the cotton business. The immediacy of communism and the threat it posed to Latin America caused him in 1964, to suggest policies which would strengthen economic relations with the United States' southern neighbors. Earlier, in 1962, he had called for more drastic action:
To Hon. J. W. Fulbright

September 19, 1962

Dear Bill:

I have been thinking deeply about our situation in Latin America, and the following is my conclusion:

No one familiar with Latin American economy and psychology can doubt that the Latin American countries are dangerously drifting for lack of definite leadership on the part of the United States.

This drifting could easily lead to socialism and then communism in several important Latin American countries.

The impact of any such development on the outcome of the cold war would be decisive and tragic.

The Monroe Doctrine would be destroyed.

The Communists would win the cold war.

What should the United States do to prevent this Communist victory?

When Castro publicly announced that he was a Communist, he gave notice that the Monroe Doctrine had been flagrantly violated.

Within twenty-four hours thereafter, the United States should have blockaded Cuba or taken other drastic action to end the Communist government set up by Castro and thus end the violation of the Monroe Doctrine.

Not having taken this action at that time, the United States should take it now, with or without Latin American participation.
Failing any such action, the United States might as well channel all its strength in preparation for World War III.

Sincerely yours,

W. L. Clayton
To Hon. J. W. Fulbright
September 18, 1962
Footnotes

L, CP, TL.

1Fidel Castro, Premier of Cuba (1959- ).
A Statement on Latin America

Washington, D. C.

January 16, 1964

Looking at the world political and economic situation, I am convinced that Latin America is the most pressing problem now facing the United States.

Perhaps we can live with one Cuba, if we must, but we could not live with half a dozen Cubas.

What can we do to assure the freedom and independence of all countries of Latin America and our prestige and influence in them?

I do not think the Alliance for Progress, by itself, is the answer.

I believe the answer is to be found in opening up our markets to the products of these countries and assisting them to open up the markets of the rest of the free world to their exports.

Latin American countries themselves have shown us the way.

Already a common market has been set up by five Central American countries and a free trade area has also been started by seven of the principal Latin American countries: Mexico, Brazil, Uruguay, Argentina, Chile, Peru and Colombia. Later, Paraguay and Ecuador joined this free trade area, making a total of nine countries.

On the other hand, the U. S. has substantially closed its markets to Latin American sugar, petroleum, lead and zinc, to name the principal items affected.
The quota system for sugar was first adopted by us in 1934 and was revised in 1937, 1948 and 1962.

In 1934 we consumed about 6-1/2 million tons of sugar. Today we consume annually about 10 million tons of sugar.

In 1934 the domestic quota for sugar was about 1,800,000 tons. In 1937 it was about 2 million tons and in 1948 2,300,000 tons, whereas in 1962 it was over 3-1/2 million tons (all figures include both beet and cane sugar).

There is perhaps no lobby in Washington more active and effective than the sugar lobby.

But for the quota system, or a very high tariff on imports, we would produce little sugar in the United States. We can generally buy it from Latin American and other countries much cheaper than we can produce it. The dollars we would pay for it would be promptly returned to us in payment for goods that we can produce cheaper or better than the sugar countries.

The substantial closing of our markets to foreign sugar, petroleum, zinc, lead and other commodities has been done in the short-term, special interest of politically powerful minority groups and against the national and international interest.

Moreover, the United States has established heavy export subsidies on cotton, which is also one of the principal exports of several Latin American countries.
During the Hoover Administration, when the United States had occasion to complain of a foreign country for "dumping" a commodity in the United States, we defined dumping as the sale of a commodity in the country of destination at a lower price than in the country of origin.

The United States Government is selling cotton for export at 24 cents, whereas for domestic use the Government price is 32-1/2 cents.

Thus, we are dumping our surplus cotton in the world markets. This causes deep and bitter resentment on the part of our Latin American and other foreign cotton-growing competitors.

On December 19, 1963, Senator Javits of New York made an outstanding speech in the United States Senate on Latin America. Senator Humphrey of Minnesota, immediately following Senator Javits, said this of Senator Javits' speech:

"I wish to associate myself with the text and substance of the Senator's speech. I believe it is one of the truly great speeches made on this whole subject matter. The Senator is to be commended."

In the speech referred to, Senator Javits said:

"It is essential that the U. S. revise its trade policies toward Latin America and put its full support behind the formation of a Hemispheric Common Market."

This is not only sound doctrine; it is imperative doctrine. It
will pinch the toes of a few U. S. producers, but it is decidedly and
definitely in the national interest.

This is the age of the common market or free trade area. General
de Gaullé cannot change the course of history; he can delay it, and that
is what he is doing.

In the four years that the European-Common Market has been operating,
intra-market trade has increased 100 per cent and total trade has
increased more than 50 per cent. The European Common Market is now the
greatest trading unit in the world.

Rightly, Senator Javits strongly supports the formation of a
Western Hemisphere Common Market or Free Trade Area.

But both the United States and Canada contain highly efficient,
giant industries with which the small industries of Latin America,
each geared to the buying power of the country in which it is situated,
could hardly compete.

I suggest that a Western Hemisphere Free Trade Area should be
established, as a beginning, on the following limited bases:

1. The United States, Canada and Latin American countries would
reduce their tariffs on imports of raw materials originating in other
Western Hemisphere countries at the rate of ten per cent per annum
for ten years, until such tariffs are at zero. Where import quotas
are employed on such trade, such quotas are to be modified annually,
so that at the end of ten years they will have completely disappeared.

This second step must be taken if the Latin American area is ever to be developed industrially. In ten years' time, a common market or free trade area of 200 to 300 million people (larger even than the United States Common Market) will be created, justifying the establishment of highly efficient, giant industries in Latin America.

3. It is expected that the Western Hemisphere Free Trade Area will further multilateralize the above plan by negotiating arrangements with other free trade areas, or common markets.

4. At the end of ten years, the foreign ministers of Western Hemisphere countries will meet to discuss their future problems in respect of trade and to advise their respective governments on the course that should be pursued for the future.

A Western Hemisphere Free Trade Area on the above basis would accomplish the following:

a. Raw materials originating in the Western Hemisphere would circulate freely throughout the whole of the Western Hemisphere.

b. All goods—raw materials and industrial products—originating in Latin America would circulate freely throughout Latin America, now with over 200 million people and growing in population faster than any other area of the world. This provision would be similar in an economic sense to the adoption of the United States Constitution which welded
the thirteen colonies into one nation, under an edict that there should never be any tariffs, quotas or other government-made impediments to trade between the colonies, or states. Who is to say that the end result of this economic policy for Latin America would not be similar to that achieved in the United States?

In the January 1961 issue of FOREIGN AFFAIRS, there is an excellent article by Alfred C. Neal, President of the Committee for Economic Development, entitled "New Economic Policies for the West." I quote one paragraph from this article:

"It is too little recognized, especially by the new political leaders, that modern industrial development is heavily dependent upon what economists call 'economies of scale' and 'external economies.' The first of these pertains to the size, and therefore potential output, of a plant. Most of the commonplace goods associated with a high standard of living (and high productivity) cannot be made in small plants and workshops. The reasonably economic size of a flat-rolled steel-products mill is about a million tons per year; for a bar mill, about half that. Similarly, petroleum refineries, automobile tire and synthetic rubber plants, automobile and tractor plants, all require large
outputs to achieve reasonably low cost. The low income of underdeveloped countries and their low level of development make almost all of them too small a market to support such plants. Without forming large customs unions among themselves, their development will be limited for a very long time to agriculture and the extractive industries, to the earlier stages of processing of their products for export markets, and to a few small-scale local industries (bricks, slaughtering) whose products enjoy the protection of high transport costs or perishability. This is precisely the kind of economy that their political leaders wish to escape from. Politically as well as economically, it is important that we help them to find avenues of escape that lead somewhere other than to the Soviet Union."

This avenue of escape is a road that leads to markets for Latin American products and, at the same time, leads to a Latin American Free Trade Area.

There is no other way of which I am aware to lay the foundation for the industrialization of the Latin American economy.
A Statement on Latin America
January 16, 1964
Footnotes

Statement, CP, ACCO.

1 Delivered before the Subcommittee on Inter-American Relationships of the Joint Economic Committee, January 16, 1964.


Before many of his fellow Americans, Clayton was concerned about American involvement in Southeast Asia. On February 25, 1965, he made the following prophetic statement:
To R. F. Moody

February 25, 1965

Dear Mr. Moody:

Thanks so much for your note of February 15, with enclosures, which I carefully went over at home last night.

I think one of the reasons that we don't do as much in the "propaganda" field as the Communists is that we are too busy doing constructive things which in the end justify our theory of life. I freely admit that we can go too far in the direction that I have indicated and that we must give some attention to actions and charges that the Communists make against the free-enterprise system. I freely admit that I do not know where to draw the line.

Take, for instance, South Vietnam. I feel that as long as the people of this area felt that they must resist the Communists in the latter's effort to deny their freedom, it was their "war" and all we could do was to give them military advice and financial aid. But when it got to the point where the South Vietnamese took the position that it is an American "war" and they want to make what they can out of it, then I think we are in a very anomalous position and riding for a fall.

We just can't defend our way of life all over the world, and I doubt very much, even if we should have the power to do this, that it would succeed.

I have recently read the leading editorial on South Vietnam in
the "Saturday Review of Literature." It is a shocking description of the South Vietnamese enterprise in which we are engaged.

With regards and every good wish, I remain

Sincerely yours,

W. L. Clayton
To R. F. Moody
February 25, 1965
Footnotes

L, CP, ACCO.

*President of Compania Hulera Euskadi of Mexico.*