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Preparation of General Economic
Program for U.S. in Event of
German Victory

I. Suggestions Regarding Personnel

In the matter of additions to staff in connection with the preparation of a general economic program to meet the problems which would be presented by German victory, I have the following suggestions:

Dr. Paul Hermberg - Dr. Hermberg was professor of economics at a German university - Jena, I believe - until shortly after Hitler's accession to power. Following his refusal of an invitation to join the Nazi Party, he was obliged to leave Germany and obtained a post as economic adviser to the Colombian Government. I believe that he entered the United States only recently and that he is not yet a citizen. He now holds a special appointment as research associate at the New School for Social Research, and is doing research work in Washington. Dr. Hermberg is ill at the moment but would be available for work in two or three weeks. I have not met Dr. Hermberg, but he has been strongly recommended to me by Dr. Gerhard Colm, who says that he has a thorough understanding both of the Nazi economy in general and of the methods of German economic and political penetration in Latin America in particular.

Dr. Charles P. Kindleberger - Kindleberger's qualifications for this job need no elaboration. I received a letter from him today, explaining that he had felt unable to accept your recent offer because he still considered himself obliged to remain with the BIS. Mr. McKittrick has taken the position that the facilities of BIS should be kept intact so far as possible in order that that institution may collaborate with whatever powers are victorious in the task of European reconstruction. Kindleberger would, of course, seek to leave in the event of a German victory, but he still hesitates to quit in opposition to the wishes of Messrs. McKittrick and Jacobsson. I believe that a request to McKittrick that Kindleberger be released for urgent work here would remove all obstacles.

Prof. Alvin H. Hansen - I concur strongly in the view that Professor Hansen's services would be of the greatest usefulness in this job.

II. Suggestions Regarding Program

Since the task is one of preparing a comprehensive program with all possible speed and without much research or study, I have sought, instead of preparing an outline of fields to be covered in such a program, to record my present thoughts on what the general content of the program should be. Even though what follows is extremely loose and rough and the details are entirely undeveloped, I believe this kind of approach may provide a basis from which a full-fledged program might be developed.

A. Internal Economic Policy - Germany's spectacular successes so far have greatly strengthened the feeling in the United States, as in other non-totalitarian countries, that democracies are inherently incapable of coping with the "Nazi menace" and that the task of preserving our institutions has become hopeless. In the event of a German victory, the number of those who believe that we cannot provide effective resistance will increase, and the problem of sustaining and strengthening popular morale will become the most difficult part of our national defense effort. Many people, including those with a violent distaste for Nazism, have come to believe that the flaws of the democratic process - inertia, indecision, and reliance on outworn symbols - are bound to be fatal. It is essential for national defense that this belief should not be allowed to grow.

The problem of national defense is not merely, therefore, one of enlarging our military and naval establishment and protecting our supplies of essential raw materials. Closely related to this task and equally basic is the need for convincing ourselves that this country can act comprehensively, vigorously, and boldly.

As a rich and highly productive country, we have been able to get along after a fashion while using only two-thirds of our available productive power. If we are to obtain both the military establishment and the morale which are essential to survival in the event of German victory, we must now regard the full exploitation of our available productive power as the central and most urgent objective of public policy. The technical solution of this problem is inherently not difficult, once its compelling urgency has been thoroughly recognized. The broad outlines of such a policy are given below.

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1. National defense - There should be prepared immediately a full program outlining our specific defense requirements. This program should cover not merely what we seek to achieve in the coming fiscal year but in the next four or five years. It should include a general blueprint of the kind of military and naval establishment which we want to have, say, four years hence in terms of personnel and equipment. It should cover also such matters as the construction of strategic roads, by-passes around cities, location of strategic industries at interior points, development of interconnections between electric power systems, etc. The requirements of this program should be worked back to requirements for basic capacity of all types-- transportation, power, capacity in steel and metal working industries, shipyards, workers of particular types, etc. This overall blueprint would, of course, be flexible and subject to revision, but it would provide, nevertheless, an indispensable basis for an effective and rapid preparedness program. It will not be sufficient for the Government merely to order finished products and wait for the demand to filter back to the early stages of production. This process of expanding capacity is too slow and far too expensive. It operates chiefly through the mechanism of price increases, which necessarily encourage profiteering and speculation. When necessary, the Government should build plants of its own which could then be leased to private operators. If the Government can envisage even roughly its whole defense requirements, it should be possible to spend on defense in the coming fiscal year not three or four billions, but ten or twelve.

2. Relief - The Federal Government's present policy of providing employment only to those certified as being in need of relief should be abandoned in favor of a program which seeks to make use of all of our idle man-power. This program should be designed to absorb not only those classified as unemployed but also our redundant labor in agriculture and in some of the service industries. This program should be concerned with the training of workers so that an inventory of workers with appropriate qualifications will be available to private industry as the need arises and with all of the types of construction which are required directly or indirectly by the defense program.

3. Financing of the program - Of the outworn symbols which have retarded armament efforts in other democratic countries, the shibboleths of "sound finance" have perhaps been the most damaging in their effects. These notions of "sound finance" have imposed artificial limitations on the magnitude of the preparedness effort and on the full and effective utilization of real resources. The objectives of a financing program should be twofold. First, the financing program should be designed to promote general expansion of output and employment so long as productive power is not being fully utilized and should seek to curtail private expenditure as an offset to increased public expenditure only when full employment has been reached. Second, the instrument of taxation should be used to check at once the expansion of large incomes derived mainly from profits, and should be used, after full employment has been reached, to diminish markedly the present inequalities of income. This second requirement is essential for the strengthening of public morale and for the effective prosecution of a unified national effort. The dilemma with which we are faced unless an effective tax program is adopted is that, despite all the price controls and priorities which it will be possible to develop, rising prices and rising profits in some industries will be impossible to avoid and will be a part of the process by which additional productive resources are drawn to those industries whose products are in heavy demand. On the other hand, the feeling that a few individuals and corporations should not be permitted to make huge profits out of a national emergency is deep-seated and justified. If this problem is not effectively handled, labor difficulties are bound to be serious, and the mood of the public generally will become tinged with bitterness and cynicism. Mr. Krost now has in preparation a tax program designed to accomplish the above objectives.

4. Profiteering - In addition to the tax weapon, there are a number of other instruments by which the Government can help to check the inflation of profits. If private industry is to undertake the risk involved in providing the productive facilities required by the defense program, it will naturally seek high remuneration to cover these risks since it must proceed on the assumption that armament and derived demands will be transitory. The Government should construct the necessary capacity and lease the facilities to private concerns. By anticipating plant needs, it will be possible to avoid many of the shortages which produce price increases. Private industry will be hesitant to make capital outlays which do not furnish the prospect of large, quick returns from this type of business. Government priorities, rationing, control over the speculative accumulation of inventories of essential products, and similar devices of direct control should also be developed. In this connection, it might be useful to obtain the recommendations of someone familiar with the operation of German and European cartels and with the experience of governments in seeking to apply direct controls through these cartels.

B. External Economic Policy - In the event of a German victory, our achievement of full employment will be an indispensable prerequisite to the development of an effective external economic policy. Germany's principal advantage in the sphere of foreign trade during recent years has consisted in the fact that, owing to her achievement of full employment, she has not been obliged to seek exports as a means of creating employment and income at home, but rather as a means of obtaining needed imports. The raw material producing countries, eager to dispose of their surpluses in any way, have been ready to trade with Germany on Germany's terms. The vested interests established in the raw material producing countries through the expansion of bilateral trade with Germany have provided a major instrument for extending German influence in these countries.

The impact effect of a German victory upon our foreign trade would doubtless be an abrupt curtailment in our exports. If Germany succeeds in consolidating her victory and carrying out her program, there is reason to believe, however, that a German-controlled Europe, mobilized on a full-employment and full-production basis, would be eager to expand its imports from the United States and from the whole non-German world. Thus Germany would be ready rather quickly to purchase the output of American industry and agriculture in exchange for the gold and dollar assets of conquered European countries. If we agreed to furnish a market in this country for products whose exportation Germany was disposed to encourage, she would further expand her purchases here. So long as we sought export markets as a means of providing employment and income at home while Germany's attention was focused primarily on obtaining imports, our position would be extremely weak. Cessation of gold purchases or the blocking of European dollar assets would arouse the intense opposition of exporting groups in this country while if we sought to encourage exports to German-controlled Europe as a means of sustaining employment and income at home, we should give to Berlin an important means of influencing our own level of internal economic activity.

In the suggestions which are put forward in the following paragraphs it is assumed that we will have solved our internal problem of underutilization of resources:

1. Gold - As soon as our internal economic situation makes it possible to do so, it is essential for us to discontinue gold purchases.
2. Blocking of foreign assets - The considerations which make desirable the cessation of gold purchases point also to the desirability of refusing to permit German utilization of the confiscated dollar assets of European nationals. This represents merely an extension of the policy already in effect with respect to the dollar assets of conquered countries.

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3. Essential imported materials - The possibilities of developing Latin American sources of supply for products now obtained from Asia or Africa should be intensively exploited, and, in the case of rubber at least, the establishment of extensive facilities for domestic production of substitutes should be undertaken.

4. Latin American policy - The widely held view that our position in Latin America is inherently weak owing to the competitive nature of their export products, is open to serious question. In the case of all of the major Latin American countries except Argentina and Uruguay, we are in a position to exercise a large measure of influence either because we purchase a major part of the leading export products or control the marketing and distributing facilities for these products. Our Latin American policy should, I believe, contain the following items, among others:

- a. The acquisition and joint administration with neighboring countries of British, French and Dutch colonies in Latin America.
- b. The acquisition and joint administration with local interests of British and Dutch investments in petroleum and other mineral properties.
- c. Negotiation of an oil settlement with Mexico whereby marketing of Mexican oil would be placed in American hands and a reasonable portion of the proceeds of Mexican oil sales would be withheld as compensation for Mexico's expropriation of the properties.
- d. The exportation to countries outside this hemisphere of such Latin American products as copper, petroleum, coffee, cocoa, and bananas should be placed under a centralized Pan-American supervision, and this agency should control also the disposition made of the proceeds of such export sales.