

William McChesney Martin, Jr., Papers

Box 16/Folder 1

General Correspondence

Series IV, Subseries B

General Correspondence

CONFIDENTIAL

"Paraphrase of this message is not required. Handling and transmission of the literal plain text of this message as correspondence of the same classification has been authorized in accordance with the provisions of paragraphs 51i and 60a (4), AR 380-5"

INCOMING MESSAGE

MILATTACHE LONDON

FROM : **WAR**
SUBJECT : **BUSINESS SITUATION AND GOVT SECURITIES MARKET.**
ACTION TO : **SEC OF THE TREASURY SNYDER**
INFO TO :
DECODED BY:

NUMBER : **SVC 538**
DATE : **080020Z JULY 49**
RECEIVED:
SECURITY: **CONFIDENTIAL**
TYPED BY: **JWS**

Pls Pass to Secy Snyder:

THE FOLLOWING IS GEORGE HASS' REPORT ON THE BUSINESS SITUATION AND THE GOVT SECURITIES MARKET.

INDUSTRIAL ACTIVITY IN THE EARLY PART OF JULY HAS BEEN CURTAILED BY HOLIDAY INFLUENCES, VACATION SHUTDOWNS AND CURTAILED COAL OUTPUT. A PARTICULARLY SHARP DROP HAS OCCURRED IN STEEL OUTPUT, WITH STEEL OPERATIONS THIS WEEK SCHEDULED AT ONLY 61.2 PERCENT OF CAPACITY.

ON THE OTHER HAND, INDICATIONS OF IMPROVEMENT HAVE APPEARED IN SOME INDUSTRIES WHICH HAVE UNDERGONE SHARP READJUSTMENTS, SUCH AS TEXTILES AND NONFERROUS METALS. FOLLOWING AN UPTURN IN OUTPUT OF WOOLEN TEXTILES IN MAY, TRADE REPORTS NOW INDICATE THAT AN IMPROVEMENT HAS ALSO OCCURRED IN NEW ORDERS RECEIVED BY RAYON PRODUCERS. SIMILARLY, IN THE NONFERROUS METALS INDUSTRY, AN INCREASE IN THE DEMAND FOR LEAD AND COPPER HAS BEEN NOTED. IN FACT, THE PRICE OF COPPER ROSE YESTERDAY FOR THE FIRST TIME SINCE THE DECLINE IN THE PRICE OF THIS METAL GOT UNDER WAY EARLY IN THE SPRING.

A SUSTAINED HIGH LEVEL OF CONSTRUCTION ACTIVITY CONTINUES TO BE A STRONG FEATURE OF THE BUSINESS SITUATION. NEW CONSTRUCTION EXPENDITURES IN JUNE ROSE MORE THAN SEASONALLY, AND SLIGHTLY EXCEEDED THE CORRESPONDING MONTH LAST YEAR.

ENGINEERING CONSTRUCTION CONTRACT AWARDS, AS REPORTED BY THE ENGINEERING NEWS RECORD, LAST MONTH ROSE TO THE HIGHEST LEVEL SINCE AUGUST 1942 ON A

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MILATTACHE LONDON

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VALUE BASIS, AND EXCEEDED YEAR-EARLIER LEVELS BY 20 PERCENT. HOWEVER, THE VALUE OF CONSTRUCTION CONTRACT AWARDS (INCLUDING RESIDENTIAL) AS REPORTED BY THE F. W. DODGE CORPORATION FOR 37 EASTERN STATES, FOR THE PERIOD JUNE 1-22, WAS ABOUT 10 PERCENT BELOW THE CORRESPONDING PERIOD LAST YEAR.

BASIC COMMODITY PRICES HAVE STRENGTHENED SOMEWHAT RECENTLY, WHILE STOCK PRICES HAVE RISEN ABOUT 5 PERCENT FROM THE LOW FOR THE YEAR REACHED 3 WEEKS AGO. MEANWHILE, BUSINESS LOANS OF WEEKLY REPORTING MEMBER BANKS HAVE SHOWN ANOTHER DECLINE FOR THE TWENTY*FOURTH CONSECUTIVE WEEK.

THE GENERAL PRICE LEVEL SHOWED A FURTHER DECLINE LAST MONTH. HOWEVER, THE DECREASE IN THE WEEK ENDED JUNE 28 WAS VERY SLIGHT, WITH THE BLS ALL*COMMODITY WHOLESALE PRICE INDEX RECEDING ONLY 0.1 PERCENT TO 153.1. THE DOMINANT FACTOR IN THE DECLINE WAS A DROP IN THE PRICES OF FARM PRODUCTS, ALTHO PRICES OF ALL COMMODITIES OTHER THAN FARM PRODUCTS AND FOODS AGAIN DECREASED SLIGHTLY.

BASIC COMMODITY PRICES HAVE STRENGTHENED SLIGHTLY RECENTLY, BUT THE RISE IN THE BLS INDEX ON 28 BASIC COMMODITIES SINCE THE MIDDLE OF LAST WEEK HAS BEEN RELATIVELY SLIGHT. AN INCREASE IN THE FOODSTUFFS COMPONENT WAS THE PRINCIPAL FACTOR IN THE SMALL ADVANCE, ALTHO THE INDUSTRIAL RAW MATERIALS GROUP ALSO ROSE SLIGHTLY.

A SUBSTANTIAL RISE IN WHEAT PRICES WAS THE OUTSTANDING FACTOR IN THE ADVANCE IN THE FOODSTUFFS GROUP, WHILE A RISE OF 1 CENT PER POUND IN THE PRICE OF

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COPPER CONTRIBUTED IMPORTANTLY TO THE SMALL INCREASE IN THE INDUSTRIAL RAW MATERIALS GROUP.

THE RISE IN THE PRICE OF COPPER IS ESPECIALLY SIGNIFICANT, SINCE IT IS THE FIRST PRICE INCREASE IN THE NONFERROUS METALS GROUP SINCE THE DECLINE IN NONFERROUS METALS PRICES GOT UNDER WAY LAST MARCH. REFLECTING THE INCREASE IN THE PRICE OF COPPER, A LEADING FABRICATOR HAS RAISED THE PRICE OF COPPER AND BRASS PRODUCTS. FURTHER EVIDENCE OF AN UNDERLYING IMPROVEMENT IN THE MARKET FOR COPPER IS SEEN IN A RISE IN COPPER SCRAP PRICES.

THE DEMAND FOR LEAD ALSO HAS IMPROVED CONSIDERABLY IN RECENT WEEKS AND THE MARKET FOR LEAD HAS A FIRM UNDERTONE, ALTHO NO PRICE INCREASE HAS OCCURRED THUS FAR. ON THE OTHER HAND, THE MARKET FOR STEEL SCRAP IS STILL WEAK, WITH ANOTHER REDUCTION OF \$1 PER TON IN STEEL SCRAP AT PHILADELPHIA LAST WEEK.

STOCK PRICES HAVE SHOWN PERSISTENT STRENGTH RECENTLY, AND HAVE RECOVERED SLIGHTLY MORE THAN HALF OF THE LOSS SUFFERED IN THE DECLINE FROM MID-MAY TO JUNE 13, WHEN PRICES HIT THE LOWEST LEVEL OF THE YEAR. SINCE THAT DATE THE DOW-JONES AVERAGE OF 65 STOCKS HAS RISEN ABOUT 5 PERCENT.

THE DOW-JONES STOCK AVERAGES HAVE CLOSED HIGHER IN THE LAST 5 TRADING SESSIONS THUS SHOWING A STEADY RISE SINCE JUNE 28. IT IS OF INTEREST THIS WAS THE DATE OF THE RECENT ANNOUNCEMENT OF THE FEDERAL OPEN MARKET COMMITTEE. THE ENSUING RISE IN PRICES OF US GOVT SECURITIES AND HIGH-GRADE BONDS UNDOUBTEDLY HAS BEEN A CONTRIBUTING FACTOR IN RECENT STOCK MARKET STRENGTH.

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DECODED BY: page four

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THE ALMOST UNINTERRUPTED DECLINE IN STEEL OUTPUT SINCE MID-MARCH HAS BEEN FOLLOWED BY A SHARP DROP OF 18.7 POINTS THIS WEEK, WITH OPERATIONS SCHEDULED AT ONLY 61.2 PERCENT OF CAPACITY. WHILE THE INDEPENDENCE DAY HOLIDAY WAS A CONTRIBUTING FACTOR IN THE DECLINE, IT SHOULD BE NOTED THAT THE DROP IN THE CORRESPONDING WEEK LAST YEAR WAS ONLY 4.9 POINTS.

IN ADDITION TO THE EFFECTS OF SLACK DEMAND AND VACATION SHUTDOWNS, THE NEARBY OUTLOOK FOR STEEL OPERATIONS IS CLOUDED BY THE POSSIBILITY OF LABOR TROUBLES. THE US STEEL CORPORATION YESTERDAY REJECTED WAGE AND OTHER DEMANDS OF THE CIO UNITED STEELWORKERS, AND A STEEL STRIKE MIGHT POSSIBLY DEVELOP ON JULY 16 AS A RESULT OF THIS ACTION.

AN ELEMENT OF STRENGTH IN THE DEMAND FOR STEEL CONTINUES TO BE PROVIDED BY A HIGH OUTPUT OF AUTOMOBILES. AFTER RISING TO THE HIGHEST LEVEL SINCE 1929 IN THE WEEK ENDED JUNE 25, ESTIMATED OUTPUT OF PASSENGER CARS AND TRUCKS IN THE US AND CANADA LAST WEEK DECLINED ABOUT 6,800 UNITS TO 146,200.

A FACTOR IN THE MODERATE DROP IN OUTPUT LAST WEEK WAS THE CURTAILMENT IN OPERATIONS AT SOME PLANTS CAUSED BY THE HEAT. DESPITE ADVERSE WORKING CONDITIONS, HOWEVER, THE OUTPUT OF CARS AND TRUCKS LAST WEEK WAS 30 PERCENT HIGHER THAN IN THE CORRESPONDING WEEK LAST YEAR.

MEANWHILE, BUSINESS LOANS CONTINUED TO DECLINE. COMMERCIAL, INDUSTRIAL, AND AGRICULTURAL LOANS OF WEEKLY REPORTING MEMBER BANKS IN THE WEEK ENDED JUNE 29 SHOWED A FURTHER DROP OF \$111 MILLION. THIS COMPARES WITH A DECREASE OF ONLY \$10 MILLION IN THE CORRESPONDING WEEK LAST YEAR. THESE LOANS HAVE

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FROM : NUMBER : WAR SVC 538
SUBJECT : DATE :
ACTION TO : RECEIVED:
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DECODED BY: page five TYPED BY:

SHOWN UNINTERRUPTED DECLINE SINCE EARLY IN JANUARY, AND ON JUNE 29 WERE ABOUT \$1,160 MILLION BELOW LAST YEAR'S LEVEL.

REAL ESTATE LOANS OF WEEKLY REPORTING MEMBER BANKS IN THE WEEK ENDED JUNE 29 SHOWED A SMALL INCREASE TO A NEW HIGH. "OTHER" LOANS, WHICH INCLUDE INSTALLMENT LOANS, ALSO ROSE TO A NEW HIGH DURING THE PERIOD, WITH AN INCREASE OF \$50 MILLION.

DEPARTMENT STORE SALES IN THE WEEK ENDED JULY 2 WERE 11 PERCENT BELOW THE CORRESPONDING WEEK LAST YEAR IN DOLLAR VALUE. THIS COMPARES WITH A DECLINE OF 7 PERCENT BELOW YEAR-EARLIER LEVELS IN THE FOUR WEEKS ENDED JUNE 25 AND A DECLINE OF 4 PERCENT FOR THE YEAR TO DATE.

A DISCUSSION OF THE GOVT SECURITY MARKET FOLLOWS:

THERE HAVE NOW BEEN SIX TRADING DAYS SINCE THE OPEN MARKET COMMITTEE'S ANNOUNCEMENT ON TUESDAY EVENING, JUNE 28. DURING THE FIRST FOUR DAYS, THERE WERE SHARP ADVANCES IN ALL SECTORS OF THE GOVT SECURITY MARKET. IN THE LAST TWO DAYS, HOWEVER, BOND PRICES HAVE LEVELED OFF. THREE ISSUES HAVE SHOWN NET DECLINES FOR THE TWO-DAY PERIOD; PRICES OF MOST OF THE REMAINING BOND ISSUES, HOWEVER, HAVE SHOWN SMALL GAINS RANGING UP TO 4/32.

MR ROUSE TOLD ME THAT THE LEVELING OFF IN BOND PRICES CAME ABOUT BECAUSE HE GOT IN TOUCH WITH VARIOUS GOVT SECURITY DEALERS TO PROTEST THE FACT THAT THEY HAD NOT BEEN COOPERATING IN THE FIRST FOUR TRADING DAYS AFTER THE ANNOUNCEMENT. MANY OF THE DEALERS HAD BEEN SOMEWHAT GREEDY. THEY WERE HOLDING BACK AND

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NOT FEEDING ISSUES TO THE MARKET FROM THEIR PORTFOLIOS.

THE LONGEST RESTRICTED 2-1/2 IS NOW QUOTED AT A BID PRICE OF 102.15, A NET GAIN OF --22/32 SINCE JUNE 28. THE SHORTEST RESTRICTED BOND, THE 2-1/4'S OF 1959-62, HAS GAINED 31/32. THE LONGEST BANK-ELIGIBLE 2-1/2 IS QUOTED AT 105.07. A NET GAIN OF 1-7/32. NET GAINS FOR SHORT AND INTERMEDIATE TERM BANK-ELIGIBLE BONDS EXCLUDING THOSE CALLABLE IN 1949, RANGE FROM 3/32 TO 14/32.

BECAUSE OF EASY MONEY MARKET CONDITIONS CERTIFICATES AND BILLS HAVE NOT SHARED THE BOND PRICE LEVELING-OFF WHICH HAS OCCURRED THESE PAST TWO DAYS. YESTERDAY'S ADVANCES WERE THE SHARPEST OF THE PRESENT MOVE. TODAY'S ADVANCES WERE LESS EXTENSIVE AND THE LONGEST BILLS WERE INCHANGED. THE LONGEST CERTIFICATE OF INDEBTEDNESS CLOSED AT A BID PRICE TODAY TO YIELD 1.03 PERCENT. THIS COMPARES WITH A CLOSING BID OF 1.22 PERCENT ON TUESDAY OF LAST WEEK. TODAY'S CLOSING BID ON THE LONGEST TREASURY BILL WAS 1.00 PERCENT. THIS COMPARES WITH 1.17 PERCENT ON JUNE 28. THE AVERAGE RATE ON THIS WEEK'S TREASURY BILL OFFERING WAS 1.052 PERCENT. THIS COMPARES WITH AN AVERAGE OF 1.158 PERCENT ON THE LAST FOUR WEEKLY TREASURY BILL OFFERINGS.

THERE HAVE BEEN NO SALES OF TREASURY BONDS FOR SYSTEM ACCOUNT SOLD #14.3 MILLION OF BILLS AND \$5 MILLION OF CERTIFICATE TODAY.

THE MARKET HAS BEEN ORDERLY AND GENERALLY THIN, THE LIMITING FACTOR ON VOLUME HAS BEEN THE SCARCITY OF SUPPLY. THE DOWNTURN IN YIELDS ON GOVTS

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HAS MET WITH PROMPT RESPONSE IN THE PRIVATE LENDING FIELD. CORPORATE AND MUNICIPAL BOND PRICES HAVE ADVANCED. IN VIEW OF THE BETTER MARKET SITUATION, UNDERWRITERS AND DEALERS HAVE MADE SUBSTANTIAL PROGRESS IN REDUCING THEIR INVENTORIES OF UNSOLD MUNICIPAL AND CORPORATE BONDS. THE DISCOUNT CORPORATION, ON TUESDAY, REDUCED BANKERS' ACCEPTANCE RATES BY $1/8$ to $1/4$ OF A POINT.

signed FOLEY

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TELEGRAM RECEIVED

16-37113-1 GPO

From: ACTING SEC TREASURY

Date: JULY 22, 1949

No.: --

Code: CLEAR

Received: JULY 23 840AM

SECRETARY OF THE TREASURY SNYDER.

UNITED PRESS SAYS PRESIDENT HAS DELAYED SENDING TO CONGRESS PROGRAM OF \$1,450 MILLION FOREIGN MILITARY AID. SUBMISSION PREVIOUSLY FORECAST FOR TODAY FOLLOWING SENATE RATIFICATION NORTH ATLANTIC PACT VOTE 82 TO 13. OF TWELVE PARTICIPATING NATIONS WE SEVENTH TO RATIFY. FORECASTS ON MILITARY ~~XXX~~ AID PROGRAMS AID \$1,030 MILLION WOULD GO TO PACT SIGNATORIES.

HOUSE DEPEATED BRANNAN FARM SUBSIDY PLAN, THEN REPEALED AIKEN FLEXIBLE PRICE SUPPORT SYSTEM WHICH WAS SCHEDULED TO GO INTO EFFECT NEXT JANUARY, AND VOTED ONE YEAR EXTENSION PRESENT PRICE SUPPORT LAW. UNITED PRESS SAYS SENATE WILL LET BRANNAN PLAN DIE BUT OPPOSES EXTENDING PRESENT LAW.

WASHINGTON POST SAYS SENATOR ELMER THOMAS DROPPED EFFORT TO HAVE STOCKPILING LIMITED TO ONE YEAR SUPPLY AND NO LONGER EXPECTS RESCINDING OF \$600,000,000 OF CURRENT STODKPILING APPROPRIATION.

SYLVIA PORTER COLUMN SAYS TIME HAS ARRIVED FOR CUTBACK IN WARTIME EXCISES. HOLDS THEY MAKE NO ECONOMIC OR SENSE WHEN WE ARE TRYING RESTIMULATE BUYING. REPORTS MOUNTING ~~XX~~ PRESSURES MAY BRING ACTION THIS SESSION. CITES UNEMPLOYMENT FUR INDUSTRY.

TYPED: FSP/1130 JULY 23



THE SECRETARY OF THE TREASURY
WASHINGTON

December
Twentieth
1949

Dear Bill:

Each day of our association makes me more and more aware of the excellent service you are rendering in your capacity as Assistant Secretary - not only to me personally but also to the Treasury. At this time, I wish to thank you for the many thoughtful things you do to lighten my burdens, and, in addition, I wish to commend you on the outstanding job you are doing in supervising and directing the operations of the Office of International Finance. I realize that a large part of the credit for the successful way in which that organization is operating is due to your able leadership, and that your advice and cooperative assistance has aided materially in the solution of the many international monetary and financial problems that arise daily.

As the Christmas season is now approaching, I wish to extend to you and your family my best wishes for a very pleasant holiday. It is also my hope that you will enjoy the best of health and happiness in the New Year.

Cordially,

A handwritten signature in blue ink, reading "John W. Snyder". The signature is written in a cursive style with a large, looping initial "J".

Honorable William McC. Martin, Jr.
Assistant Secretary of the Treasury
Treasury Department
Washington, D. C.

Dear Bill,

This copy of my letter to
Secretary Snyder is for your information.

SHB

S. H. B.

BOARD OF TRANSPORTATION
THE CITY OF NEW YORK
NEW YORK 13, N. Y.



S. H. BINGHAM
CHAIRMAN

June 5, 1950

Hon. John W. Snyder
Secretary of the Treasury
U. S. Department of the Treasury
15th St. & Pennsylvania Ave., N.W.
Washington 25, D. C.

Dear Mr. Snyder:

I want to thank you for the opportunity I had on Saturday to discuss some of the problems confronting the transportation industry in this country. It was a most stimulating and enlightening meeting.

As you know, I have been in the city transit field since 1915, in all capacities from surveyor to Chairman of the Board of Transportation of the City of New York. My appointment by Mayor O'Dwyer was the first appointment to the Board from the ranks. I have also studied main line railroad operations here and abroad. I was in the military railway service in both wars, serving as Assistant to the Director General, Military Railways, ETO during the last war, and spent three years prior to the invasion on the planning and design of equipment. Your intimate knowledge of this highly technical field was most impressive.

As promised, I am sending you, under separate cover, copies of some of the reports and studies I have made. To make these studies my services were loaned by the City of New York. I would be pleased to assist you and Bill Martin on the same basis. I am certain that a request for my services made to Mayor O'Dwyer by your office would be very cordially received and honored.

I hope that you will find this material of interest and that the opportunity to continue our discussion will arise.

With kindest personal regards, I remain

Sincerely,

S. H. Bingham
Chairman

C
O
P
Y

Birch-Seville Apts.
Fort Lauderdale, Florida

December 7, 1950

PERSONAL

Dear Secretary Snyder:

Despite the beguiling and beneficent beauties of Florida and my need for the rest I am having, I have been unable to keep my mind from the present world crisis (including Korea) and the threat it involves for the security and the strategic position of the United States and for the free, civilized world we wish to retain and build. I know there is all too little I can do about it (or perhaps all too little I know about it), but I have nevertheless allowed my concern to find expression in a few notes on what I think might be done. I am sending them on to you for whatever worth they may have.

Many of these thoughts I have discussed with Bill Martin over the past several months. They are certainly not strikingly original, and I know they are not fully rounded or complete, or written with full knowledge of the strategic and political situation. I believe, however, they are shared by responsible people who are no more interested than I am in political recrimination or crying over past mistakes, but who are deeply concerned over the survival of the United States and who wish to avert any further deterioration in our weakened strategic position. If at any point they may sound critical of past policies, it is only to point the way to what I, at least, regard as essential to our future and the future of a free, civilized world.

So, for what they are worth, I send them along. If they have no other use, they will at least have served to express some of my concern.

With every good wish to you in the noble struggle you are making, I am, as always, admiringly and sincerely yours,

A PROGRAM FOR U.S. LEADERSHIP IN THE FREE WORLD

I. Introduction

The present crisis facing the United States (in its broad sense and not limited only to the immediate Korean situation) should make clear that our war and post-war policy, i.e., our political (diplomatic) policy, has been found wanting, for we are now confronted with the threat and fear of another world war, which is the failure of diplomacy.

In considering the security of the United States and our present strategic position, we find there has occurred during the past ten years a substantial alteration in the world balance of power - to our serious detriment - arising from the following factors, among others:

1. The defeat of Germany and Japan.
2. The weakening in the power of the British Empire and Commonwealth.
3. The building up of the strength of Communist Russia, through means including external aggression (absorption of the Baltic States, the Balkans, Eastern Germany, etc.) and internal aggression designed to weaken other countries (subversion, spies, capture of control of labor unions and media of public opinion).
4. The displacement of Chiang Kai-shek by the Chinese Communists - thus converting China with its vast millions from a nation friendly to the United States and the Western powers to a nation which is openly hostile and is embarked upon aggressive expansionism akin to that of Communist Russia (e.g., Tibet, Korea).

Our future policy must be designed among other things to restore some balance of power through building up offsetting blocs of power (our Allies, Germany, and Japan), through undermining the power of Communist Russia and Communist China, and through rolling back the Iron Curtain.

It seems clear that the policy of containment of Russian Communism which we have pursued has not prevented further successful aggression and penetration by Communist Russia and Communist China. It seems equally clear that a defensive policy is bound to fail and that we must evolve an offensive policy which will in fact roll back the Iron Curtain.

In formulating future policy, it may be helpful to review recognizable elements of our past policy which have been found wanting:

1. Attempting to cooperate with Communist Russia in the belief she could be persuaded to peaceful policies.
2. Primary, if not virtually exclusive, emphasis on Europe in our foreign policy and efforts to curb Communist Russia.
3. Secondary emphasis on, if not virtually abandonment of, China and the rest of Asia.
4. Defensive or containment tactics against Communist Russia.

5. In our policy and propaganda, always trying to catch up with the last Communist lie.
6. Working with and through a United Nations organization which includes Communist Russia.

II. Premises of a New Policy.

It is submitted that the present U.S. strategic crisis demands a reorientation of our foreign political policy - on the diplomatic, economic, informational and psychological warfare fronts - based on somewhat different and realistic premises. These premises would include, among others, that:

1. The Communist expansionist offensive started years ago on all fronts - in the Baltic States, the Balkans, Central Europe, Western Europe, Middle East, Asia, Latin America, and in the United States - that the offensive is world-wide and not restricted to Europe, and that the outbreak of the Korean war was the dramatic manifestation of a war which had been waged for years.
2. Russian Communist aggressive expansionism is revolutionary, dynamic, ideological, conspiratorial, subversive, oriental (with complete disregard of human life), and ruthless beyond Western belief, and is coupled with traditional Russian nationalistic expansionism.
3. Communist aggression is made up of external and internal aggression against other countries - and is world-wide in its scope and activities.
4. The Russian Communist bureaucracy, living on a higher standard than Russia produces, will attempt to absorb and live off other countries and will feed its own people hate, violence and terror as part of its power program.
5. Chinese Communists are not primarily agrarian reformers but are puppets, stooges or allies of Moscow - their leadership largely Moscow-trained and oriented.
6. Our policy and approach must be world-wide to meet and counter the world-wide policy and approach of Communist Russia.
7. We alone cannot compete on a military manpower basis with the Communist Russian and Chinese millions.

III. A Program for U.S. Leadership in the Free World.

A program for U.S. leadership in the free world should include, among other things, the following:

1. The urgent build-up of U.S. military potential and the military potential of like-minded, effective and willing Allies.
2. Shifting our policy to the political offensive in the diplomatic, informational and psychological warfare fields and working out a detailed program to be implemented day after day in successive waves of political attack to roll back the Iron Curtain.

3. Begin by publicly proclaiming all Communist Russia's violations of international agreements and understandings during the war and post-war periods (it is understood they number over fifty violations in the post-war period alone).
4. In view of these violations and the demonstrated external and internal aggression of Communist Russia, repudiate forthwith U.S. adherence to and obligation under the Potsdam, Yalta and Teheran agreements with Communist Russia. (This will in part reestablish our moral position with the non-Communist peoples of the Balkans and Asia.)
5. Intensify a simple informational and propaganda campaign throughout the world on Russian (and Chinese) Communist aims, purposes, actions and performance compared with U.S. aims, purposes, actions and performance. (Responsible observers in other countries report our present informational and propaganda campaigns are too high-brow and ineffective to combat simpler and cruder Russian techniques.)
6. Intensify direct subversive campaigns (not excluding bribery) in the Balkans, Eastern Germany, China and other parts of Asia, and in Russia - aiding and financing anti-Communist underground and opposition movements. (Dollars and lives invested in these activities are many times more effective than general economic aid or subsidies, as the Russians well know and have consistently practiced to our disadvantage and strategic loss.)
7. Organize and help equip and finance a volunteer international brigade for freedom recruited from escapees and refugees from Communist terror - Poles (including General Anders and his thousands of loyal soldiers), Czechs, Hungarians, Rumanians, Bulgarians, Latvians, Estonians, Lithuanians, Russians, Chinese, and others, including volunteers from other countries, willing to fight Communist oppression and to restore freedom. Use these forces wherever necessary to engage and repel Communist troops.
8. Permit and assist the Germans and Japanese to rearm as rapidly as possible, since we must not over-commit our manpower or try to engage the Russians or Chinese or other Communists on a manpower basis.
9. Discontinue our quarantine and immobilization of the Formosa Chinese and allow them to fight where they wish - on the Chinese mainland or elsewhere, to engage, tie down or divert Communist forces and aid guerilla forces in China.
10. Form an alliance, if possible, with the fighters of Asia and the Middle East - i.e., the Turks, the Iranians, the Pakistanis, the Siamese, the Filipinos and others. In the Moslems we may well find effective, active allies. India may or may not formally join such an alliance, but may, in fact, come along. Although this alliance probably could not be self-operating (as is the North Atlantic Treaty), we should commit ourselves to furnish military arms and equipment.

11. In Europe we should put our emphasis on the need for an effective demonstration of their recognition of the world-wide character of Communist aggression and of their readiness to rearm themselves and undergo sacrifice on an equal basis. Our help should be almost exclusively in military arms and equipment provided there is a demonstrated will and ability to fight.
12. Except for aid through the permanent institutions (International Bank, International Monetary Fund, Export-Import Bank), special economic aid, which has not conspicuously succeeded in creating the required determination now so sorely needed, should be reduced to a minimum (possibly for Austria, Greece, Western Germany temporarily). Self-reliant allies operating on an economically competitive basis will generally be found to be stronger and more dependable than subsidized or procured allies.
13. In the United Nations, we should go on the offensive, charging Communist Russia and Communist China with aggression - both external and internal. The U.N. to date has been very much to Communist Russia's advantage as a convenient and effective propaganda forum. We must, in the U.N. and elsewhere, give up the game of always trying to catch up with the last Communist lie. We must go on the offensive in telling the truth and beating the Communists to the propaganda punch. (The United Nations should represent a moral and spiritual force for peace, freedom and civilization. Communist Russia and her satellites have perverted the U.N., if their presence there may not indeed be said to make a travesty of it. The departure of Communist Russia and her satellites from the U.N. would not be a tragedy to be feared; it might well serve to clarify and reestablish the moral position of the U.N.)

IV. Conclusion

A positive program including a political offensive and other elements along the lines indicated above may well involve calculated risks. A less positive policy is believed to involve greater risks.

The only way to combat the Russian and Chinese Communists is to go on the political, propaganda and subversive offensive against them and to avoid, if possible, engaging our limited U.S. manpower against them in wars which would bleed us white.

The alternative to the positive policy enunciated above may well be to lose Asia to the Communists, to be thereafter obliged to abandon Europe, and to go strictly on the basis of a defense of the United States with our limited U.S. manpower.