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SUMMARY OUTLINE
OF DISCUSSION OF LONG TERM INTERNATIONAL PROBLEMS
FOR JANUARY 1950 ECONOMIC REPORT

I propose to begin with a discussion of the gift-financed gap in the U. S. Balance of Payments, and to use this as a springboard for a discussion of foreign investment under the Point Four Program. Other important international programs, such as ERP, will be dealt with but this will be done more or less in passing so that the Point Four Program will occupy the center of the stage.

I. <u>Existence, Meaning and Causes of the Dollar Gap</u>.

A. Statement of facts about postwar export surplus, pointing out that it is not confined to Europe.

B. What is bad about it and why do we want to close it?

C. Reasons given in 1947 and reasons for believing that portion financed by gifts could be eliminated by 1952.

II. <u>Developments Since Initiation of the European Recovery Program</u>.

A. Great progress has been made in last two years to remove what were believed to be primary causes.

1. Increased European production.

2. Improvement in European shipping earnings.

3. Better control of internal inflationary pressures abroad for adjustment of exchange rates.

B. Despite this progress and substantial reduction of the gap since 1947, the problem requires reappraisal.

1. Even allowing for the fact that devaluation has not had time to work, it now looks as though the gift-financed gap cannot be eliminated by 1952 with present levels of foreign investment.

a. Position has become worse recently.

b. Much of the improvement resulted from undesirable increase ~~use~~ of restrictions on purchases from U. S. by foreign countries.

III. <u>Approaches to Solution</u>.

A. ~~[illegible]~~ Reduction of export surplus reduced to level of net foreign investment that can be expected in 1952 under present conditions would not be a solution. Reduction of our exports and increase of our imports necessary to achieve this in two years would involve difficulties here and abroad.

1. Abroad -- reduction of resources available to rest of world would require either cut in standard of living or in investment. Cut in investment would inhibit increase of productivity; cut in living standards would threaten political stability, and have harmful ideological effects both in Europe and underdeveloped areas.

2. Domestic -- U. S. could find outlets for saving and maintain maximum employment without large export surplus but might require more time to make necessary adjustments to do so. Also specific dislocations would result for industries dependent upon exports to Europe, especially wheat, cotton, and tobacco. Perhaps most important, political effects