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The sort of commodities most countries want for economic development are capital goods, machinery, and metals of various kinds, all of which have to be taken away from either direct use in military production or from investment. In addition, by allowing the recipient countries to choose the precise composition of the bundle of goods that would be offered, the U.S. would be demonstrating that one of our objectives is really that of providing economic assistance to the less fortunate areas of the world.

6. It is unlikely that such a proposal would put a serious strain on the U.S. economy, since, only very small amounts of materials, critical to the U.S., would be included in the bundle of goods. Further safeguards could be built into the proposal by stipulating that either the U.S. or the USSR could substitute one type of product for another in their contributions, but this would be self-defeating as it opens up possibilities for interminable negotiations, charges, and counter-charges. As mentioned above, it is almost certain that equal contributions of any set of industrial goods would do considerably more damage to the USSR military program than to that of the U.S.

7. If the proposal is to be studied at greater length, some pitfalls should be pointed out:

- a. The U.S. proposal would indicate a total dollar sum that we are willing to supply, leaving it to the receiving countries to determine the composition of goods included in the total. It should be clearly indicated that the USSR will match the U.S. in terms of the specific commodities requested by the recipient country, not in terms of the dollar total. Otherwise the whole question of the significance of ruble prices compared to dollar prices would be opened up. If goods are matched against goods, much of this sort of difficulty will be avoided.
- b. The proposal should specify that the USSR and the U.S. contributions be equal. Since one objective of the proposal is to reduce the size of the military effort in both countries, a proposition that the USSR supply some fraction of the U.S. contribution would be interpreted to mean that we have a bigger armament program than they have, and are therefore bigger "warmongers."
- c. The matter of what would be given in exchange by the receiving countries would be difficult to handle. From our point of view, a proposal that

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the goods constitute a long term loan would probably be best, since the USSR can less afford to exchange present goods for future goods than we can. In addition to increasing our military strength relative to theirs (actually, weakening them more), this might be more acceptable to the beneficiary countries.

- d. The magnitude of the supply of goods offered should be decided by whether or not we look upon this as having primarily psychological value. If we actually expect that the USSR might accept the proposition, than a modest sum would be in order. If we expect that the USSR would not accept the proposition, than a larger offer is indicated.

8. In general, it is hardly likely that the USSR would accept such an offer. There is thus some danger that the reputation of the U.S. for honesty and sincerity in international relations (where we still have such a reputation) might be damaged if the offer were to be construed by the non-Bloc-non-NATO world as consisting of pure propaganda. Its effect on our NATO allies might also be substantial.

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REMARKS: I doubt if this is very helpful, but the general conclusion represents the view of some pretty competent economists in our analysis division.