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SECURITY INFORMATION

April 7, 1953

MEMORANDUM

SUBJECT: Discussion at Special Meeting of the
National Security Council, Tuesday,
March 31, 1953

On Tuesday, March 31, 1953, the National Security Council met informally with the Civilian Consultants designated by NSC Action No. 726-c, for the purpose of obtaining the reactions of the Civilian Consultants to the preliminary views of the Council members regarding basic national security policies and programs in relation to their costs, pursuant to NSC Action No. 730-a.

Present at the meeting were the President of the United States, presiding; the Vice President of the United States; the Secretary of State; the Secretary of the Treasury; the Secretary of Defense; the Director for Mutual Security; the Director, Bureau of the Budget; the Director of Central Intelligence; the Acting Director of Defense Mobilization; the Federal Civil Defense Administrator; the Chairman, Atomic Energy Commission; the Deputy Secretary of Defense; the Assistant Secretary of Defense (Comptroller); the Special Assistant to the President (for FCDA presentation only); the Special Assistant to the President for National Security Affairs; the Special Assistant to the President for Atomic Energy Affairs; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC. The Civilian Consultants present were as follows: Messrs. Dillon Anderson, James B. Black, John Cowles, Eugene Holman, Deane W. Malott, David B. Robertson, and Charles A. Thomas.

A summary of the discussion at the meeting follows:

Mr. Cutler first briefed the Council members and the Consultants on the program for the all-day meeting and the issues to which attention should be devoted. Mr. Cutler was followed by the Director of the Budget.

Mr. Dodge's briefing recapitulated the deficits of the past and present, and the projected deficits for the future in the absence of cuts in the Mutual Security and Defense Department programs. In conclusion, Mr. Dodge emphasized the need for a decision on these cuts not later than the end of April.

Secretary Humphrey followed Mr. Dodge, and in addition to stressing the danger of continued deficits, pointed out the critical situation which would face the Treasury Department on June 30, when

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it would owe \$3 billion and would have no money in the till. This specific situation, concluded Secretary Humphrey, emphasized the vital need for a reversal of the previous Administration's spending policy. Continuation of this policy would bankrupt the free world and force the United States itself to abandon its way of life. We were at the fork in the road and a decision would have to be made.

The Secretary of Defense then took the floor to reply to the question put to him on March 25 by the President, as to how much the Department of Defense could save annually in overhead and duplication. Secretary Wilson stated that the answer to this question was difficult because it ignored the factor of a real change in policy. His best guess, however, is that elimination of overhead and duplication would result in a saving of \$1 billion a year. This saving, cautioned Secretary Wilson, rested on the assumption that the Secretary of Defense would get real help from the committee which was at present studying the reorganization of the Department of Defense. Most of this \$1 billion, he concluded, would be saved from reductions in personnel.

Secretary Dulles then discussed the political repercussions to be anticipated from the carrying out of the estimated reductions for FY 1954 and 1955 in the Mutual Security and Department of Defense expenditures as such reductions were reported to the Council on March 18 and March 25. Secretary Dulles stated that it was the belief of the State Department that global war was not inevitable, but that it remained a real possibility. The greatest danger of such a war would come from Soviet miscalculation of the intentions of the United States or from further free world success in the alleged encirclement of the Soviet bloc, or, finally, from a collapse of the United States rearmament program. Secretary Dulles stated his conviction that it was perfectly possible to protect this country against all these risks. By all odds the greatest single preventive of global war was a strong and vigorous United States--a United States whose capabilities both our friends and our enemies would respect. It further seemed to Secretary Dulles that our potential strength was of greater significance than our actual strength in being. Beyond this, Secretary Dulles pointed out, we must take clear positions so that war could not result from Soviet miscalculations. There must be no repetition of the fuzzy situation in Korea in the spring of 1950, which constituted an invitation to the Soviets to move against South Korea.

Secretary Dulles called attention to the statement which had been issued on the occasion of the recent visit of Premier Mayer and his Ministers, which warned the Communists against assuming that the conclusion of an armistice in Korea would leave them free to intervene against Indo-China.

The third factor in preventing global war, continued Secretary Dulles, was a firm policy to hold the vital outpost positions around the periphery of the Soviet bloc. As examples, he cited Japan, Indo-China, India, Pakistan, Iran and NATO, and he further warned that the loss of any one of such positions would produce a chain reaction which would cost us the remainder. Accordingly, the State Department felt it necessary, short of general war, to avoid losses of key positions to the Communists, who won't themselves invite a global war, but who will stand ready to pick off all the choice positions offered to them locally by "civil wars".

Secretary Dulles found the European situation much improved, but pointed out that many European countries were seriously overextended and were in grave danger of economic or financial collapse. The result of such collapses would be the installation in these countries of governments of the far left. The situation was precarious; internal disintegration was much harder to identify and to meet successfully than an overt act such as a Soviet march across Europe. To prevent such internal disintegration and collapse, thought Secretary Dulles, would presumably require an expenditure in the next fiscal year of some \$5 to \$6 billion in assistance to our allies, though the size of this amount would depend in considerable degree on the final shape of American trade policy, which was now under study. Secretary Dulles thought it almost certain that the NATO targets would have to be stretched out. It was also likely that several hundred millions more would be required in United States assistance to help the French liquidate the Indo-China affair, if the French finally came up with a vigorous program for that area.

Japan, said Secretary Dulles, was living to a considerable extent off United States expenditures for the prosecution of the Korean war. If and when this war was settled, however, we would need to give further economic assistance to Japan, though here, too, the amount would depend on American trade policies.

Secretary Dulles noted that our policy of assistance to India would cost \$50 million in FY 1953. \$140 million seemed likely for FY 1954, though even this amount was sufficiently low to cause much anxiety in the State Department. Secretary Dulles doubted the wisdom of cutting the figure for India much below \$100 million.

His thorniest problems, said Secretary Dulles, were represented by Iran and the Arab States in general. These problems were predominantly political in character. Accordingly, no large sums can be spent in these areas at the present time. If, however, peace between Israel and the Arab States should be achieved, the problem of the Arab refugees would have to be liquidated. This would call for a substantial United States contribution as well as added military assistance to the nations of the Middle East.

In Turkey, the question was whether the Turks could continue to maintain the military forces they have in being, without assistance from us. We regard the maintenance of these forces as vital to our security, but the burden is excessively heavy for the Turks to bear.

The Latin American states, warned Secretary Dulles, are a problem which we can never afford to forget. Anti-American forces were on the march in many of these republics, and we might well wake up ten years from now to find that our friends in Latin America had become our enemies. Certainly we could not abruptly cut off aid to Latin America, though a reduction might occur during a transition from loans and grant aid to other kinds of assistance.

In summary, Secretary Dulles noted that the assistance program for the maintenance by the United States of these outpost positions, while absolutely indispensable, would not call for the expenditure of vast sums. Secretary Dulles believed that the figure of \$6 billion a year was probably reasonable, but said that he would defer to Governor Stassen on this point.

Secretary Dulles then turned to ways and means of ending the peril represented by the Soviet Union. This, he said, could be done by inducing the disintegration of Soviet power. This power is already overextended and represents tyrannical rule over unwilling peoples. If we keep our pressures on, psychological and otherwise, we may either force a collapse of the Kremlin regime or else transform the Soviet orbit from a union of satellites dedicated to aggression, into a coalition for defense only. Of course, said the Secretary of State, no one can surely tell, but Stalin's death certainly marked the end of an era. There is no real replacement for Stalin the demigod. The current peace offensive is designed by the Soviets to relieve the ever-increasing pressure upon their regime. Accordingly, we must not relax this pressure until the Soviets give promise of ending the struggle. The amount of dollars this will take will certainly fluctuate, but the American effort must not now be abandoned.

At the conclusion of Secretary Dulles' briefing, the President contrasted the free world coalition with the Soviet-dominated mass. Since the Soviets are totalitarians, the President pointed out, they could assign whatever proportion of national income they desire to warlike purposes. We, who are dedicated to raising the standards of living for all peoples, are inhibited from such methods. That is what we are up against when we try to match our resources with those of the Soviet bloc, and we should never lose sight of this fact. The President emphatically endorsed Secretary Dulles' warning against any relaxation of pressure on the USSR.

The Director of Central Intelligence then briefed the Council on the general subject of the adequacy and accuracy of intelligence relative to the Soviet Union as the basis on which our policies

and programs must in part be developed. After describing the major categories of such intelligence, Mr. Dulles freely admitted shortcomings of a serious nature. We must remain highly critical of our intelligence effort, he concluded, but we must not be defeatist in the face of the difficulties of securing adequate information.

After further discussion, particularly of the recent Communist peace moves in Korea in the light of Mr. Dulles' briefing, Mr. Cutler informed the Council that the views of the Consultants with respect to the general problem which had brought them to Washington, would be presented by Mr. Dillon Anderson. While there was near unanimity in the views of the Consultants, others of them desired to be heard after Mr. Anderson had read his written report.

Mr. Anderson expressed satisfaction with the briefing which the Consultants had received over the past three weeks on all the general aspects of the basic problem of reconciling an adequate posture of defense with a balanced budget. He recommended much greater candor by the Administration in setting forth to the American people the nature of the Soviet threat, the grave fiscal situation, and the resulting dilemma. Mr. Anderson expressed disapproval of continued deficit financing on the one hand or of increased taxation on the other. "We have bitten off more than we can chew", and accordingly, reductions in certain areas must be made. According to Mr. Anderson, the Consultants did not disagree with the basic security objectives of this Government, but these objectives were so general in nature that the courses of action to achieve them were themselves a matter of policy. For this reason the scope, pace, timing, priority, feasibility, and costs of these policies and programs ought to be re-examined with the greatest care. In general the Consultants believed, said Mr. Anderson, that the cost of rearmament since 1950 had been excessive, and would continue to be excessive until there was a clarification of the role and the mission of the three Services. There was obviously much duplication here, and it was now time to review a rearmament program which had been initially undertaken in haste and in fear. We should restore confidence to this nation for the long pull, but at the same time immediate savings can be made. Emphasis in this review should be placed on the areas where the United States was strongest, as, for example, in the field of atomic energy.

The Consultants had concluded, said Mr. Anderson, that we had been profligate in the use of military manpower. We should likewise be much more selective in our research and development effort. Scientific programs of the Department of Defense should be placed under an Assistant Secretary.

Turning to the Mutual Security program, Mr. Anderson warned that the United States should not undertake to shore up the whole non-Soviet world. In according assistance to other nations we should

emphasize the concrete defense implications and results. It was plainly impossible to purchase the loyalty and friendship of other nations. In general, thought Mr. Anderson, the Mutual Security budget should be revised downward this year in the direction of gradual elimination of all expenditures to which we were not committed.

In summary, it was the view of the Consultants, said Mr. Anderson, that the National Security Council should proceed on the assumption that a satisfactory national security posture is compatible with the balancing of the Federal budget in FY 1954. The top figure for the national security programs in the budget for FY 1954 should be \$45 billion.

The President stated that of course he could not disagree with the dangers to our economy which the Consultants had perceived and emphasized, but the problem, to him, was when it was necessary to achieve the balanced budget once you agree that you are going to move in that direction. We walk around this problem, complained the President, but it simply cannot be avoided. We can't suddenly cut off our developing policies and programs for national security. We can't get out of debt right away. His own belief, said the President, was that we should now show our determination to move in the direction of a balanced budget rather than to make a sudden cut to achieve that objective now.

Mr. Black answered the President with the statement that the Consultants had concluded unanimously that the Administration could balance the cash budget in FY 1954. This could be done in a variety of ways. Until now, everything had been subordinated to getting things done. Now, however, we were in sight of our desired posture of defense, so that we could eliminate this previous wasteful concept. This will require not merely economies, but a stretch-out, and even renegotiation of contracts.

The President expressed agreement with Mr. Black, but said he wanted to get down to the facts. If a project or program for supplying some military end-item is 60% complete, do we now abandon it, or do we continue it? These are the facts that must be faced. In illustration the President cited the program for large cargo planes, and indicated that the main emphasis should be placed on showing the public that the Administration is definitely moving in the direction of a balanced budget, but that failure to reach that goal at once is the result of policies adopted by the previous Administration.

Mr. Thomas expressed agreement with Mr. Black. On curtailing contracts, he complained that until now American industry had been deprived of any sense of sustained military demand for its products. Instead, it had operated on a "get-what-you-can-while-you-can" basis.

The President concurred, and expressed the desire that business should become the partner of the Administration in this emergency. He then turned to the specific problem of taxes. What, inquired the President, do we do by way of finding a substitute for the excess profits tax and the increased income tax, both of which will expire this summer? Did the Consultants advocate, he inquired, letting these taxes lapse, or would they prefer to find substitute taxes of a more practical sort to be continued until the Administration can get things on the track?

In response to the President's inquiry, Mr. Cowles said that he believed that the American public was quite unaware of the terrible fiscal mess in which we were involved. They plainly expect much greater budget cuts and tax cuts than it is safe to provide in the face of the threat which the Russians represent. Accordingly, they must be informed more fully about this threat, and the practices of the Government in over-classifying security information must be changed in order that vital information be placed in the hands of the public. Mr. Cowles also added that the Consultants had used "weasel words" in stating their belief that the Administration could achieve a balanced cash budget in FY 1954. What they really meant was that the Administration should head toward this objective.

The President answered that there was certainly no point in cutting off your leg because it was injured. While he expressed some agreement with Mr. Cowles' desire for declassification of security information, he also pointed out the risks involved and the limitation beyond which it was not safe to go.

The President then inquired of the Consultants whether they had given any thought to asking for somewhat greater flexibility from Congress in the disposition of funds given to the Mutual Security Administration, so that if at any given moment a certain area required help it could be immediately forthcoming. Would such an approach, inquired the President, be politically possible? In a similar category, continued the President, were the questions of off-shore procurement and the breaking down of trade barriers. All of these were politically touchy matters which always aroused the special interest groups.

The Vice President replied with the view that the President should emphasize in his dealings with Congress the very close connection between foreign aid programs and our military budget. He should stress that off-shore procurement would enable us to buy our defense at a cheaper rate. If the issue could be presented to Congress in this fashion, the Vice President thought it might change their thinking.

Secretary Dulles stated that you could only cut aid if you increased trade; but you can't do both, as the Congress seems to desire.

Secretary Wilson also expressed a keen desire for more off-shore procurement, if only to relieve the dangerous inflationary pressures in this country. Something had got to be done to "cool off" the economy of the United States.

Secretary Humphrey then commented that he seemed to be more radical than the other members of the Council. It was never an agreeable task to cut expenses, but we had got to do it in one of two ways --one, to keep the old programs, but to revise them and effect savings in carrying them out, and two, to make basic changes in the national security policies and programs. For himself, he believed thoroughly in the second course, since our existing program was self-defeating in that it asked industry to produce vast quantities of defense materials at a given time and then suddenly cut off orders.

The President expressed doubt as to whether Secretary Humphrey's analysis of the self-defeating nature of our present effort was valid. He did not think that Secretary Humphrey had distinguished clearly between building up to our security objectives and thereafter maintaining them. In particular, said the President, there was one danger that constantly worried him--lethargy and inaction in Europe which would allow that Continent to fall into Soviet hands. If the Soviets attempt to overrun Europe, said the President, we should have no recourse but to go to war.

Secretary Humphrey answered that all of this might be true, but that we were at present pushing some of our European allies so hard to build up their defenses that we were forcing them into bankruptcy. Accordingly, Secretary Humphrey believed that the National Security Council should set a top limit for defense expenditures for FY 1954--say, \$40 billion--and then see what we could buy with that much money.

Mr. Cutler then raised the question of what risks the American people would be willing to take in order to secure a victory in Korea (which Secretary Humphrey had said would have such a wholesome effect on the economy), or to cut seriously our military and mutual security expenditures.

Secretary Wilson expressed the opinion that the Administration could probably balance the budget in FY 1956 if in the meantime there were no added inflation, but it would be pretty tough to achieve this balance in FY 1954 or 1955.

The President then spoke his mind on the Korean problem. If, he said, we decide to go up to the strength which will be necessary to achieve a sound tactical victory in Korea--for example, to get to the waist--the Russians will very quickly realize what we are doing. They would respond by increasing the Communist strength in Korea, and, as a

result, we would be forced ultimately into a situation very close to general mobilization in order to get such a victory in Korea. General Bradley expressed agreement with the President's thesis.

The President then raised the question of the use of atomic weapons in the Korean war. Admittedly, he said, there were not many good tactical targets, but he felt it would be worth the cost if, through use of atomic weapons, we could (1) achieve a substantial victory over the Communist forces and (2) get to a line at the waist of Korea.

Secretary Dulles expressed the thought that it might now be possible to achieve an armistice in Korea on the basis that the previous Administration had sought in vain. Addressing his question to Mr. Robertson, Secretary Dulles asked if in the circumstances we should accept such an armistice.

Mr. Robertson avoided an explicit answer, but expressed the general belief of the group of Consultants that the American people would welcome an armistice on this basis.

Mr. Cutler then asked the Consultants if they were prepared to answer the question whether we should try for a massive victory in Korea if it turned out that the Communists dragged out their current proposals for perhaps a period of three months and no real armistice was in prospect.

Mr. Robertson expressed the opinion that the American people would, under the circumstances, support an all-out effort in Korea.

There then ensued a discussion of the Mutual Security program and the view of the Consultants that this should be drastically cut unless (a) the current program had been based on prior commitments, or (b) the program had clear defense implications.

Mr. Anderson noted the feeling of the Consultants that many of the MSA programs appeared to be based on the assumption that you could buy the friendship of other nations and make their economies viable by spending money. This had raised doubts as to the worth of many of the individual country programs.

That might be so, said the President, but many of the European nations would certainly have gone Communist had it not been for the money we had spent on them in recent years. We simply cannot afford to let Europe go Communist, warned the President, and while we may not have spent our money intelligently in all cases, we could not now abandon these nations and these programs in Europe. It was the task of our leadership to make them do their jobs better.

In response to a query from Mr. Cutler, the President refused to agree with the proposition that the five American divisions in Europe were largely psychological in emphasis. He said that he would have sent more American divisions, not fewer, if the United States had had more available, and he stressed that they were a real physical deterrent to the Soviets and not merely a psychological one.

The President further expressed the opinion that the \$130 million was a good investment in Latin America if we could be sure that by the expenditure of this amount we could secure the allegiance of these republics to our camp in the cold war.

Secretary Wilson expressed a willingness to spend even more money to prevent the Latin American republics from falling into Communism.

Mr. Holman, for the Consultants, stated that he was less worried about the danger of Communism in Latin America than about rampant nationalism.

At 12:45 the members of the Council and the Consultants went to lunch at the White House.

The meeting reconvened after lunch, and Governor Peterson briefed the Council on his tentative views with respect to the FCDA budget for FY 1954 and the general outlines of the civil defense program. These were subsequently transmitted in writing to the members of the National Security Council.

In addition, Governor Peterson made two special points-- one, that as head of the FCDA he must be made fully aware of all relevant intelligence material, particularly from AEC and the Department of Defense, and two, that his agency must be more clearly aware of enemy and United States capabilities if FCDA is to provide realistic leadership to civil defense. Perhaps, said Governor Peterson, this might be accomplished if he sat in the NSC. If not, some other arrangement should be made.

At the conclusion of Governor Peterson's briefing, the President observed that Governor Peterson's report indicated a certain sense of frustration. The President then said that he personally thought Governor Peterson's job to be of the highest importance and that he would see to it that Governor Peterson got the support and the information which was required to do the job that the President had asked him to do.

Governor Peterson was followed by Chairman Dean of the Atomic Energy Commission, who briefed the Council in the first instance with respect to supplemental information on the program for the development of nuclear power (NSC 145--The Development of

Practical Nuclear Power). A sanitized version of the report of the Consultants on this problem, which had been referred to them by the Council, was then distributed by the Executive Secretary.

Chairman Dean noted that the total cost of the pilot plant called for in NSC 145 was \$15 million. It would be impossible, he stated, to erect this plant with the \$3 million budgeted at present for FY 1953 and 1954. In other words, new funds would have to be appropriated if the Government was to build the pilot plant in FY 1954.

Although Secretary Wilson repeated his doubts as to the value of "crowding" this project, Chairman Dean made clear that he did not wish to see the \$15 million for this plant knocked out of the FY 1954 budget.

Mr. Thomas suggested that instead of spending \$15 million in FY 1954 for the pilot plant, the Council recommend at this time the acceptance of the changes in the Atomic Energy Act which Chairman Dean had suggested, and then see whether private industry would not undertake to build the plant. This might save the \$15 million. If not, the \$15 million could subsequently be put back into the budget.

Chairman Dean expressed doubt that private industry would at this time come in on an experimental reactor to the tune of \$15 million, but the President expressed approval for going ahead with the process of changing the Atomic Energy Act. He also suggested that no appropriation beyond that already made should be added until after the legislative changes had been approved.

Chairman Dean was followed by Admiral Strauss, who briefed the Council on his tentative evaluation of the atomic energy programs for FY 1954 and 1955 and his views of possible reductions in expenditures for these programs. The chief question at issue, said Admiral Strauss, was whether \$200 million could be saved in the budget for the Atomic Energy Commission. Admiral Strauss stated that North America provides us with approximately one-third of our total requirements of uranium oxide. The other two-thirds of our uranium oxide requirements come from areas vulnerable to enemy attack. In view of our rising weapons objectives, it was therefore plain to Admiral Strauss that it was necessary to go on with the AEC's program for construction of plants for the production of plutonium. In short, it would be impossible to reduce the AEC budget for these two fiscal years with respect to ore resources or weapons requirements.

Moving on, Admiral Strauss observed that the normal place to look for savings is in the area of greatest cost. In the AEC budget this area was that of plant expansion. The question, therefore, was, could we reduce the program for plant expansion without a major default

in the production of weapons. At first blush it seemed possible to cut perhaps one new pile at Hanford and two at Savannah River. But in view of the fact that these plants produced tritium, and also because without them reliance would have to be placed on a single installation, it was obvious that cutting out these piles involved a heavy risk to the national security. Accordingly, Admiral Strauss was unprepared at this time to recommend cuts in plant expansion expenditures. Admiral Strauss did suggest, however, that it might be possible to reduce the amount of money being expended and projected for the tests of atomic weapons. These tests involve a cost of \$325 million, and he thought a possible saving might be made in this category. Similarly, he suggested that cuts could be made in the production of dummy weapons used in training. Thirdly, he felt that the security program of the Atomic Energy Commission could be reduced by the device of increasing the degree of security in special sensitive areas, but relaxing it in other less sensitive areas. In the aggregate these items might go far to reach the desired goal, but even in these categories Admiral Strauss stated that he was not yet prepared to make a positive recommendation, and that further study would be required. He felt it would take sixty days to complete this study.

Secretary Humphrey observed that he hated to give up the idea of abandoning some of the proposed increased production capacity in the AEC budget.

Chairman Dean replied that if you cut out the Portsmouth, Ohio, plant you would be completely dependent on Oak Ridge. What would happen to your U-235 if the Oak Ridge installation were destroyed by air attack or by sabotage? In short, Chairman Dean supported Admiral Strauss' view that to cut the production capacity program involved too great a risk to the national security.

Mr. Thomas inquired as to the possibility of cutting out the program for producing an atomic aircraft carrier and an atomic-powered plane. If this could be done with safety there would be a saving of \$254 million in the first two years.

The President inquired, what would we lose? What would go down the drain by way of cancelled contracts? On the other hand, he said, there was certainly good reason to question why we should continue to try to produce two other experimental power plants for use in carriers and aircraft until we saw how the program for the atomic-powered submarine turned out.

Mr. Thomas said that that was precisely his question.

The President said it was not necessary to reach a final decision on this issue today, but that it did not seem to him that

any very logical reasons had been set forth for pushing ahead on the atomic carrier and plane program.

Mr. Cutler then raised the question of "enough-ness", and there ensued a discussion of the JCS estimate of weapons requirements. It was noted that 1959 is the date at which we presently estimate that we will have on hand the weapons which the Joint Chiefs believe we need.

Mr. Malott then raised the question of public hysteria with respect to atomic weapons and the danger of atomic attack.

The President said that he was less concerned about hysteria than about the public complacency concerning which Governor Peterson had spoken earlier.

Mr. Malott argued that he nevertheless believed that we ought to use a couple of atomic weapons in Korea.

The President replied that perhaps we should, but we could not blind ourselves to the effects of such a move on our allies, which would be very serious since they feel that they will be the battleground in an atomic war between the United States and the Soviet Union. Nevertheless, the President and Secretary Dulles were in complete agreement that somehow or other the tabu which surrounds the use of atomic weapons would have to be destroyed. While Secretary Dulles admitted that in the present state of world opinion we could not use an A-bomb, we should make every effort now to dissipate this feeling, especially since we are spending such vast sums on the production of weapons we cannot use.

At the conclusion of this discussion it became the turn of Governor Stassen to express his judgment as to the extent to which Mutual Security expenditures could be reduced in FY 1954 and 1955 without serious prejudice to the national security. Governor Stassen stated his belief that we could accomplish our objectives with respect to assisting our allies in the context of the new United States policy that seemed to be evolving. In changing the Mutual Security program to fit the new policy, he stated, it was of the greatest importance that the United States act in an atmosphere of confidence. While the change to the new program should be rapid, it should not be abrupt.

Governor Stassen stated that he felt that the forthcoming program should have the following new emphases: (1) on modern weapons; (2) on sound economies, both for ourselves and for other nations; (3) private capital; (4) increased international trade. Governor Stassen felt that in the future our programs should involve lessened expenditure of funds but a longer period of commitment for U. S. assistance. While he felt that it would be unwise to cut completely our aid to any area of the free world where it was now being given,

he believed that the following changes were necessary: In each critical area to concentrate our aid on correcting the weakest point and strengthening the potentially strongest nation. As examples, Governor Stassen gave top priority in Western Europe to France as a critically weak point and to Germany as a potential strong point. With regard to the United Kingdom, Governor Stassen predicted that development of off-shore procurement would accomplish wonders and would enable us in a short time to stop grant aid. In the Far East we desired to realize on Japan's great potentiality, but this would require an Asia-wide approach to foreign trade. In South Asia it was essential to save India, but this would not involve so much vast expenditure as the long-term approach which Governor Stassen had just mentioned. In the Near East we should develop Egypt as the point of strength. In Latin America and in Africa we should cut the amount of government aid provided to the area, but greatly increase the role of private capital in the development of backward areas. In so doing, however, Governor Stassen warned of the need for increasing the stake of the people of these countries in the development of a sound capitalistic economy.

If we indeed followed this emphasis in the Mutual Security programs, Governor Stassen believed that we could taper off and cut back on the NATO force goals. In accomplishing all these things, said Governor Stassen, what we do in the United States will very directly affect what we do to assist foreign countries. We can only achieve our objectives overseas if we put an end to inflation in the United States. We cannot hope to lead others in the direction we wish them to go unless we ourselves are prepared to do what is necessary to assure a more stable economy and less inflation in the United States. Governor Stassen stated his belief that it would be possible to reach this new program by January 1954, by which time certain cuts could be made. On this basis we could subtract \$1.5 billion in expenditures for the FY 1954 budget, and subtract \$1 billion from the appropriations figure for FY 1954.

After an exchange between Governor Stassen and Mr. Cutler with respect to the discrepancy between the figures stated by Governor Stassen in his oral presentation and the figures in his written report, the other members of the Council were asked to give their opinions of the policy and program which Governor Stassen had outlined.

The Secretary of State emphasized the importance of the psychological factor abroad. Many people in the European countries have been taught to believe that a Republican administration in the United States would mean a return to isolationism. Any sudden cut might therefore produce panic, and at any rate, said Secretary Dulles, along with such reductions in grant aid as those suggested by Governor Stassen, there must go renewed efforts to increase international trade and to cut tariffs.

The Vice President warned the Council that they must think of sentiment and feeling on Capitol Hill. Members of Congress, he said, are often reluctant to make cuts in the Defense budget, but they do like to cut the Mutual Security budget. He believed a cut of only \$1 billion in the Truman budget for MSA would be extremely difficult to sell to Congress unless it was presented to the Congress as a new program. Accordingly, he urged that heavy emphasis be placed on the defense implications of the Mutual Security program, so that it might be presented as a means of obtaining our national security objectives at less cost than the United States would have to pay if it produced the men and materiel to secure its defenses.

Secretary Dulles and the President both stated their conviction that it was absolutely impossible to pull a single American division out of Europe at the present time. The President said we should never forget that in defending Europe with \$6 billion of Mutual Security assistance we are getting a very great deal for our money, because we are avoiding the necessity of using our own troops. The money in this program was not merely "giveaway" money. With it we are buying something concrete in terms of U. S. security. The real problem, the President repeated, was to find the economical way to make these European nations perform effectively as our allies.

At the conclusion of the discussion of Governor Stassen's briefing, Secretary Wilson was asked to brief the Council on his judgment of the extent to which Defense Department expenditures could be reduced in FY 1954 and 1955 without prejudicial effect on the national security.

At the outset, Secretary Wilson stated that defense-wise the United States was much better off now than it had been three years ago, but to achieve by 1956 the force and readiness goals contemplated in NSC 135/3 would require the Department of Defense to spend \$45 billion for the next three years and to spend \$40 billion in maintenance in the years that followed. Even so, we would not achieve the force and readiness goals at the dates contemplated in NSC 135/3.

Secretary Wilson then said that he was working at present on the assumption of a "floating D-day" instead of a specific date for readiness. On this basis it was possible to achieve expenditure cuts of a notable order: \$41 billion in FY 1954 (plus \$2 billion for the war in Korea). The \$41 billion figure could be progressively reduced in subsequent fiscal years to perhaps \$33 billion annually by 1958. Reductions of this order of magnitude and in this time sequence would not substantially affect our strength in being in the next two fiscal years. We would, of course, be less well off in the third and subsequent years.

Going on, Secretary Wilson suggested that the following might be considered an acceptable program. The Truman budget for FY 1954 called for appropriations of \$41 billion. Secretary Wilson proposed taking \$5 billion off this figure, which he thought could be got chiefly from better balancing out of the Defense Department programs and not extending our commitments so far. This would bring us from \$41 billion to \$36 billion, and we could of course go still lower if it were not for the Korean war. \$5 billion out of the Truman budget, however, Secretary Wilson felt to be the maximum that could be cut from a political and psychological point of view. A further cut in FY 1954 would result in the conclusion that the United States was abandoning a serious defense effort for itself and its allies. Furthermore, said Secretary Wilson, with these cuts we should make every effort to keep the maximum forces in being for two years at least, and he proceeded to outline the probable composition of the forces of the Army, Navy and Air Force on the basis of such cuts as he proposed.

After Mr. Cutler had summarized to the best of his ability the cuts which seemed reasonable to the Secretary of Defense and to the Director for Mutual Security, the President stated that he was satisfied with the picture which they had presented, and felt that Congress ought also to be satisfied. The proposed solution by Governor Stassen and Secretary Wilson was even better than he had hoped for.

Mr. Cutler noted that the Consultants had earlier expressed a view that the budget could be balanced, in terms of cash expenditures, in FY 1954. Did they now wish to comment on what they had heard from Governor Stassen and Secretary Wilson?

Mr. Cowles said it would be magnificent if cuts of the proposed magnitude could be made. Secretary Humphrey added that on this basis we would have to contemplate a cash deficit of only \$1.5 billion. On the whole this seemed to him not too bad.

The President suggested that we should certainly not, in the present situation, let the excess profits tax die without a substitute. Indeed, he added, we ought never to commit ourselves to any tax reduction while we are fighting this war.

The Consultants were then invited by the President to make their comments.

Mr. Thomas thought that you could still make certain small savings which in the aggregate could be very significant. As examples he thought such savings could be made in the AEC budget and in the money currently being spent on research and development in the Defense Department.

Mr. Robertson felt that the proposed cuts were admirable, and he had no suggestions for improvement in the programs outlined by Secretary Wilson and Governor Stassen.

Mr. Anderson also expressed satisfaction, and stated the view that a balance of the cash budget in FY 1954 might even yet be achieved, since "savings breed savings."

Mr. Cowles likewise expressed wholehearted approval of these presentations, and again stressed the importance of educating the public to the current threat to the national security. This alone, he predicted, would put an end to the yelling for further tax cuts.

Mr. Black stated his wholehearted approval of the programs.

The President stated, in closing the all-day session, that he had been thinking about the great contribution which the Consultants had made to the Administration's understanding of the problem, and it had occurred to him that it would be desirable if the Consultants were to return to Washington and give us some few more days at about the time that the Administration's budget went to the Congress. They could then check over the final budget to see what actually had been done in the way of cuts. As the President put it, they could give a kind of spot check of the promises that had been made. Furthermore, in thanking the Consultants for their work the President stated that he wanted them to be apostles of the faith throughout the country. If they really believed that the new Administration was doing its job, then they must go back to their localities and say so.

Mr. Cutler summed up as the consensus of the meeting that the over-all policies for national security were on the whole appropriate and reasonable. Second, that we should nevertheless, in carrying them out, approach as rapidly as possible the balancing of the budget. Thirdly, that the means of doing this would involve changing our programs to carry out our policies rather than changing the policies themselves.

Secretary Humphrey expressed firm disagreement with Mr. Cutler's observations, and stated that he believed that what we were contemplating was a very different set of objectives as well as a different program, from those which had been endorsed by the Truman administration.

S. Everett Gleason

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