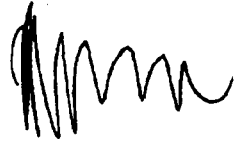


NLK-36R-50-6-1

1



TOP SECRET

23

EO 12958 3.3(b)(1)>25Yrs  
(C)

INTERDEPARTMENTAL COORDINATING GROUP

ON

GERMANY AND BERLIN

A STUDY REGARDING BERLIN

PREPARED IN RESPONSE TO

NSC DIRECTIVE NO. 58 OF JUNE 30, 1961

July 12, 1961

TOP SECRET

NSC Control No. 12

TOP SECRET

A STUDY REGARDING BERLIN  
PREPARED IN RESPONSE TO  
NSC DIRECTIVE NO. 58  
OF JUNE 30, 1961

TABLE OF CONTENTS

Memorandum to the President

Imminent Decisions

Summary of Development of the Courses of Action

Annex A - Integrated Timetable of Actions

Annex B - Military Preparations

Annex C - Permanent Increase in US Military Strength (not available)

Annex D - Federal Emergency Plan, Berlin. OCDM Submission

Annex E - Covert Action Annex, Berlin Contingency Plan

Annex F - Outline of Possible Economic Sanctions Against USSR and  
Its Satellites

Annex G - Berlin Planning: Actions to Minimize Dislocations to the  
U.S. Economy and the Balance of Payments

Annex H - Information Program in Support of Berlin Policy

Annex I - Preliminary Considerations on the Timing and Nature of  
Negotiations on Berlin

Annex J - Alternative Postures Concerning East Germans on Access  
Routes

TOP SECRET

2

SECRET

MEMORANDUM FOR THE PRESIDENT

Subject: A Study Regarding Berlin Prepared in Response  
to NSC Directive No. 58 of June 30, 1961

The Interdepartmental Coordinating Group on Germany and Berlin has prepared a report in response to the NSC Directive of June 30, 1961 (National Security Action Memorandum #58). This report is not an attempt to evaluate the merits of the courses of action described in the various attached papers. It is rather an effort to describe the courses of action in sufficient detail to permit judgments to be made concerning them. A discussion of the decisions required to carry out these courses of action follows immediately.

The report itself is organized into a summary of the development of the courses of action through the projected crisis period, which summarizes the integrated timetable, followed by these annexes:

- Annex A - Integrated timetable of actions.
- Annex B - A detailed examination of military preparations.
- Annex C - Permanent increase in U.S. military strength (not yet available).
- Annex D - OCDM submission.
- Annex E - A detailed examination of the covert actions.
- Annex F - A detailed description of the economic counter-measures.
- Annex G - An analysis of the effect of the courses of action on the United States economy and balance of payments.
- Annex H - A detailed examination of the public information aspects.
- Annex I - Preliminary considerations on the timing and nature of negotiations on Berlin.
- Annex J - Considerations affecting Western attitude toward East German personnel on access routes (checkpoint procedures).

SECRET

3

SECRET

IMMINENT DECISIONS

This section deals with the decisions that will need to be taken soon, in order to launch the courses of action described in this report.

Underlying these specific decisions, of course, is a more fundamental one: whether the broad courses of action indicated in this paper should be accepted as a basis for our approach to the BERLIN problem.

1. Military Preparations. A decision will be needed as to whether, and in what degree, a progressive mobilization of US resources and manpower should now be undertaken.

The arguments in favor of early large-scale mobilization are: (i) It might deter the Communists from blocking our access. (ii) It would make it possible to carry out the proposed military ground response to the blocking of allied access promptly after blocking; the four months needed to call up, train, and deploy units from the reserve components could be completed by 15 December, if they were started now. (iii) It could result in an improvement of the free world's military posture, which would be valuable regardless of how the BERLIN crisis turned out. (iv) It would give us a head start in seeking to gain a more favorable ratio of forces in the event that the Soviets, with greater ready reserves but lesser over-all capacity, tried to out-mobilize us.

The arguments against early large-scale mobilization are: (i) It might engage the Soviets' prestige and thus make it more difficult for them to abandon their threats to block our access. (ii) It could frighten off US allies, who might consider that it would prevent a strategy of diplomatic maneuver; resulting allied disunity might encourage the Soviets to proceed with pressure against BERLIN. (iii) It might not be necessary, since the BERLIN stockpile, supplemented by an airlift, could keep BERLIN going for a sufficient period to inaugurate preparations for ground combat after our access had been blocked, (even though the resulting capability would, of course, be less than if preparations were started now and continued for four months after access was blocked). (iv) It might trigger psychological fears of war and shortages in the US which could lead to inflation and thus require controls on the economy.

The choice need not, of course, be between black and white alternatives; it might be one of degree. Some kinds of early preparations will be necessary and may be helpful as a deterrent, even if it is decided to have a period of several months' final preparations

after

SECRET

SECRET

- 2 -

after blocking of our access before proceeding to ground action, and even if it is concluded that large-scale and dramatic preparations would be counter-productive in their effect on Soviet intentions.

In any event, the choice should be based on a systematic analysis of the political and military implications of alternative levels of early mobilization and of the concomitant actions which we would like our Allies to undertake and their probable reactions. The attached paper was put together so quickly that no time was available for the Departments of State and Defense to prepare such an analysis.

One specific point to be covered in any decision on military preparations is whether now to request an additional \$3-5 billion for the DOD FY 62 budget, before the Senate Appropriations Committee passes on that budget. It might well be desirable to do this, even if it is decided not to initiate immediate large-scale mobilization. This increase could be presented to the public as our response to the over-all world situation, rather than to an acute Berlin crisis - both to minimize the psychological impact on the US economy referred to in the Treasury-CEA submission and to avoid seeming to dramatize an ostensible challenge to the Soviets over Berlin.

2. The DOD Budget. The NSC June 30 Directive called on the Secretary of Defense to submit recommendations concerning the magnitude and character of a permanent long-term increase in the size of the US defense establishment (i) which might be planned now in addition to any preparations to enhance specific Western capabilities for fighting over Berlin; and (ii) which might be executed, if and when Soviet actions regarding Berlin (e.g., blocking of access and resisting Allied forces) seemed to foreshadow a long period of greatly heightened world tensions. The Secretary of Defense and the Secretary of State were also asked to submit recommendations concerning actions that might be taken to bring the prospect of this planned increase to the Soviets' attention .

The object of this course of action would be to deter Soviet pressures on Berlin, by convincing the USSR that such pressures could lead to a lasting step-up in US defense expenditures, such as followed the Korean War. (Since that step-up would not be begun until late in the crisis, it would probably not take effect in time to improve our fighting capabilities for dealing with that crisis.)

The DOD response to this part of the Directive was still in preparation when this report was assembled. Defense representatives at the 13 July meeting hope to be able to present proposals.

The concept

SECRET

SECRET

- 3 -

The concept of planning a post-Berlin permanent increase in the DOD budget is believed sound. The magnitude and character of that increase can be resolved as soon as the DOD submission is at hand; further questions of Congressional consultation can then be considered.

3.

In principle, this seems sound. The real questions arise in connection with scale and timing.

It is suggested that the basic course of action be approved, subject to continuing decisions by the Secretary of State as to scale and timing.

4. Defense Mobilization and Civil Defense Measures. An Annex to this report includes recommendations on defense mobilization and civil defense. These recommendations will need to be coordinated with the Department of Defense before decisions on them can be taken.

5. Economic Countermeasures. No new decisions are now required. Inter-Allied planning for economic pressures on the Bloc is well underway. If and as this planning generates need for Presidential decisions, these decisions will be sought.

6. US Economic Dislocations. If early, large-scale, and dramatic military preparations are to be undertaken, fears of war and prospective shortages could lead to hoarding, scare buying, and price increases in the absence of controls. If the program is a gradual and modest build-up not specifically keyed to the BERLIN crisis, on the other hand, no severe inflationary problem may arise. Decisions about economic controls should thus be postponed until it has been decided on what scale military preparations are to go forward.

7. Public Information. An Annex to this report outlines a proposed public information program. One specific component of this program calls for decision: the proposal for an early Presidential speech, to be made shortly after publication of the US reply to the Soviet aide-memoire. No further decision seems needed to launch this information program; the USIA and the Department of State should do so immediately.

8. Negotiations. An Annex to this report outlines possible alternative U.S. negotiating positions. Decisions on these alternatives

can be

SECRET

SECRET

- 4 -

can be postponed until serious negotiations seem more imminent than they do now. Indeed, it would be undesirable to freeze our negotiating position this early in the game.

9. Western Attitude Toward East German Personnel Along the Access Routes. The issue here is whether the Western Powers should allow the East Germans to carry out the same procedures regarding access as the Soviets now do, as recommended by Mr. Acheson, or whether the existing contingency plans should be maintained providing for the introduction of a new procedure, when the Soviets leave the check-points, which is less favorable to the East Germans. The arguments pro and con are summarized in Annex J. Further staff work would not seem to be useful; an early decision is required, since the British are pressing for clarification of our position on this point.

10. Other Issues. Three issues are not dealt with in this report:

- (a) The Allied Reaction. This can more usefully be considered as part of our attempt to resolve the specific issues indicated above than as a separate subject in itself.
- (b) UN. The timing and manner of possible UN involvement in the Berlin crisis will need to be studied further by the Department of State.
- (c) Congressional Consultation. This should be considered after decisions have been made on the specific items outlined above.

SECRET

4

SECRET

SUMMARY OF DEVELOPMENT OF THE COURSES OF ACTION

A. For purposes of planning, the course of action has been projected from July 17 until January 1. This period has been divided into three phases. Each phase corresponds to a predicted development in pursuit by the Soviet Union of its present policy. Needless to say, rigid schemata of this kind seldom if ever work out with great precision in practice, regardless of how necessary they may be for the planning of a complex and inter-related program of action; the intrusion of unpredictable events is always a certainty. (In the present case, for example, it is quite likely that the issue will be taken to the UN by one nation or another if the crisis develops very far.) Moreover, if Western policy is successful the crisis will not develop through all three phases but will be arrested before that occurs. On the other hand, early stages may last longer than the schedule indicates and subsequent stages would accordingly occur later than now scheduled. For planning purposes, the dates marking transitions from phase to phase are the earliest dates on which it can be assumed the transition would ever occur.

B. The three phases are as follows:

Phase I - From now until the period during which we would anticipate a call for a "peace conference" on the part of the Soviet Union. This might come any time after the German elections on September 17, though it is probably more likely to be related in timing to the Communist Party Congress in mid-October. For purposes of planning, however, we should consider September 17 as the end of Phase I.

During this period the West must demonstrate clearly its determination to defend its vital interests at all costs. It must also set in motion a program of military and civil defense preparedness which will put it in position to undertake military action shortly after the end of Phase III if the crisis should develop through all phases and military action should prove necessary. Simultaneously it must prepare the way for use in later stages of severe measures of economic warfare on a NATO-wide basis. Initial measures should be taken, and plans laid, for psychological warfare.

At the same time the West must make every effort to obtain the support of world opinion for its basic position on Berlin and Germany and to prepare the ground for whatever negotiating stance it might wish later to adopt. The point at which negotiations with the Soviets might occur, or the manner in which they would be brought about, is impossible to state with certainty. It is assumed the West would not wish to negotiate until its preparedness had reached sufficient proportions to alter Soviet estimates of

our determination.

SECRET



SECRET

- 2 -

our determination. On the other hand, if negotiations are to occur and prove fruitful the positions of the two sides should not have hardened irreparably. Thus Phase I must be a period of flexibility. Military and propaganda measures should not be such as to challenge and provoke the Soviets. They should be principally designed to induce Soviet willingness to compromise.

Toward the end of this period the West should be in somewhat better position to negotiate, if that appeared necessary or desirable at that time, although negotiations coming in this phase would likely be principally of public relations significance. In addition, we should be in a position to move rapidly forward with more vigorous measures of military preparedness and with various forms of non-military pressure if the crisis moves into Phase II.

Phase II - From September 17 until the "peace treaty" would be signed. The final date is difficult to establish beyond the fact that it would likely be this year. December 1 would be a useful date for planning purposes.

We should be prepared to move into this phase by September 17 but we would probably not wish to do so until the Soviet Union actually made an additional move in the direction of a "peace conference". The phase would be characterized by increased pace and scope of overt preparation. The need for retention of flexibility would be somewhat reduced, but it would still be present since negotiations, if they have not yet occurred, are likely to take place in this phase. Toward the end of the phase, if we have reason to believe the Soviet estimate of our seriousness of purpose has altered, it might prove desirable to encourage by indirection the initiation of negotiations. While large-scale economic counter-measures would not be instituted in this phase, overt indications of our intention to take them at a later stage should be given. Meanwhile, economic counter-measures of lesser scale and intensity would gradually be introduced.

Phase III - From the signing of the "peace treaty", assumed to be December 1, until the Soviet Union actually turned over control of Berlin access to the GDR. Here again there can be precision in the assignment of dates. However, the period could not be expected to be longer than a month.

If the crisis develops as far as this phase, the USSR will have signed a "peace treaty". Our assumptions concerning Soviet intentions will have to be weighted more heavily on the side of their pursuing their policies to the point of a showdown on access to Berlin. Our military preparations will have to be pressed rapidly to completion, including evacuation of dependents,

etc. Our

SECRET

SECRET

- 3 -

etc. Our propaganda will have to concentrate more directly on the question of access so that military action on our part, if it should prove necessary, would to the extent possible appear logical and justified. Psychological warfare should be stepped up to the point that this factor becomes of real concern to the Soviets in determining their next moves. Preparations for large-scale economic counter-measures should be made so evident that their implementation upon any interference with our access can be assumed by the Soviet Bloc to be virtually automatic.

SECRET

**A N N E X A**

**T I M E T A B L E**

**A N N E X B**

**Military Preparation**

TOP SECRET

- 1 -

TABLE OF CONTENTS

	<u>PAGE NO.</u>
INTRODUCTION	2
MEASURES PRIOR TO DECLARATION OF NATIONAL EMERGENCY	4
TEMPORARY REINFORCEMENT OF EUROPE	7
PARTIAL US MOBILIZATION FOR A <u>BERLIN</u> ACCESS OPERATION	10
MILITARY MEASURES OUTSIDE CENTRAL EUROPE	14
IMPROVEMENT OF GENERAL WAR POSTURE	18
THE USE OF FORCE AFTER ALLIED ACCESS TO <u>BERLIN</u> IS BLOCKED	19
LEGAL CONSIDERATIONS	20
TIMETABLE OF MAJOR MILITARY ACTIONS	24

A number of the subjects of this paper are still under review in the Department of Defense and this paper does not therefore represent a final Department of Defense position.

TOP SECRET

TOP SECRET

- 2 -

INTRODUCTION

1. The military actions to implement Mr. Acheson's preliminary report on Berlin might involve, through successive stages, the full capabilities of the nation's military forces. The proposed measures ascend through force improvement, force creation, deployment, actions of harassment and reprisal and, if needed, progressive levels of armed combat. Implicit in the use of the expanded military force is a significant risk that general nuclear war may result. As US action passes through the successive stages proposed, the risks of nuclear war (1) may increase if the Soviets and GDR choose to pursue tactics denying access to Berlin, or (2) may decrease if the Soviets, being convinced by our actions that we intend to fight over Berlin, if necessary, choose to accept a face-saving political accommodation. It is a matter for political assessment whether greater risks of general nuclear war would be involved in any alternative to the proposed program of actions.

2. The distinction which the report makes between military actions aimed toward a Berlin solution and the use of nuclear weapons in any larger conflict which might grow out of the Berlin problem is recognized as an appropriate form of political guidance. But in terms of practical actions, the national readiness for that larger and nuclear conflict must be a concurrent concern, because of the uncertainties of how any conflict might begin and develop.

3. The timing and pace of military preparations are crucially important to the US ability to execute the proposals, as well as to the prospects of success. Mr. Acheson's preliminary report on Berlin contains a potentially serious conflict between its stress on a gradual, initially low-key build-up and its implicit requirement for substantially stronger non-nuclear forces in Europe. If the creation of new forces does not begin early enough, the power will not exist for carrying out the proposed response to the blocking of allied access. A period of three to four months is needed to call up, fill up, equip, train, and deploy units from the reserve components.

4. If no units are called up until October, for example, and allied access is blocked in December, only after several months of blockage would our usable strength be effectively above present levels. The range of non-nuclear choices would be substantially as narrow as now, until several months of blockage had been endured. Furthermore, the chances of competing successfully with a simultaneous Soviet build-up would be lowered by the delay.

(5) The earlier

TOP SECRET

TOP SECRET

- 3 -

5. The earlier a partial mobilization begins, the wider will be the range of non-nuclear choices when the crisis occurs. More forces will be available, and the forces will be better ready for their tasks. The earlier the US acts to improve its military posture, the greater the power it can bring to bear. The first purpose of military build-up is to forestall a Berlin crisis by showing our determination to defend Allied rights. The earlier a partial mobilization is begun, the more such deterrent effect is gained.

6. The military measures which can be taken prior to declaration of a limited national emergency and the beginning of partial mobilization are relatively few. Their effects on Soviet decisions and on US readiness are not apt to be of much real significance.

7. The military portion of the over-all US timetable contained herein shows one possible program of action. Many others are possible, and several have been analyzed in equal detail. The principal variables are the time that partial mobilization begins, and its scale. The actions listed in the timetable represent major military actions. These, together with other actions, are discussed in following sections. Additional detail concerning these actions has been developed by the Joint Chiefs of Staff and is available.

8. As Mr. Acheson's preliminary report on Berlin points out, much more military planning would be needed to prepare forces to execute the proposals. Two prior requirements exist, however. There must be some basis for expectations about the size and timing of additional forces, and there must be a further formulation of the purposes and objectives to be militarily pursued. Within existing force levels and existing strategic policy guidance, not much more planning can usefully be done, nor is there much capability to execute the sort of expanding non-nuclear action contemplated in Mr. Acheson's report.

TOP SECRET

TOP SECRET

- 4 -

MEASURES PRIOR TO DECLARATION OF A NATIONAL EMERGENCY

1. A national emergency must be declared before that measure can be undertaken which would result in an early, substantial increase in non-nuclear capability, i.e., the partial mobilization of forces and manpower from the reserve components. (See Legal Considerations section below.) However, a number of military preparations could be made in the absence of a declaration of national emergency. These preparations would both give evidence of our serious purpose and appreciably increase the pace at which substantial increases in capabilities could be achieved following such a declaration. For full effectiveness, these measures must be wholly authentic and carried out in an orderly and progressive manner without fanfare or public alarm.

2. In general, military preparations of the following types could be carried out:

a. Measures requiring little lead time.

(1) Implementation of increased operational readiness measures by US forces worldwide but particularly in Europe, as appropriate.

(2) Increased draft calls.

(3) Intensified training of US and allied forces earmarked for a probe of Soviet and GDR intentions along the Autobahn and those earmarked for the restoration of ground access to Berlin.

(4) Deployment of a US or tripartite reinforced division from present locations in Germany to the Helmstedt area. (i.e., positioned for movement toward Berlin.)

(5) Increased readiness to execute existing demolition and mining plans in Central Europe.

(6) Alert naval and air forces for possible early execution of a variety of world-wide harassment, reprisal, and increased surveillance measures, particularly in Eastern Atlantic, the Mediterranean and the Baltic.

(7) Conduct air

TOP SECRET



TOP SECRET

- 5 -

(7) Conduct air operations through the corridors to Berlin at altitudes above 10,000 feet, with fighter escorts if necessary, and increase reconnaissance flights.

(8) Extend enlistments and terms of obligatory service of personnel now in active service. (Enabling legislation would be required.)

b. Measures requiring longer lead time.

(1) Bring US forces in Europe to full wartime strength (requiring in excess of 14,000 personnel). This would necessitate a substantial increase in selective service quotas in order to replace personnel withdrawn from units in the United States. In addition, the US should persuade our Allies to bring their forces in Europe to full wartime strength, and to provide the necessary combat support units.

(2) Step up the pace of procurement and materiel modernization. This would involve a necessary degree of industrial mobilization and establishment of priorities.

(3) Move selected units of the Strategic Army Corps (STRAC) and USAF to Europe, identifying this move, if appropriate, as an air mobility training exercise.

(4) Take steps to insure an improved ability to rapidly deploy troops to Europe by means of the Military Air Transport Service (MATS), the Civil Reserve Air Fleet (CRAF), and the Military Sea Transport Service (MSTS).

(5) Increase US war reserve stockpiles of arms, ammunition, equipment, food, POL, and other supplies in Europe.

(6) Move additional nuclear weapons forward in closer proximity to Army and Air Force forces which may require them.

(7) Increase the state of readiness of the Strategic Air Command (SAC).

(8) Make logistic preparations for call-up of several reserve component divisions. This would include steps to reactivate appropriate camps and training areas as well as steps to provide for the stocks of arms, equipment, and other materiel required.

(9) Increase

TOP SECRET

TOP SECRET

- 6 -

(9) Increase manning and equipment levels in two Strategic Army Force (STRAF) division forces, to bring them up to the current readiness level of STRAC units.

(10) Initiate action to return dependents and non-essential civilians from Europe.

(11) Activate a portion of the naval and merchant vessel mothball fleet.

3. Concurrently with measures indicated in paragraph 2 above, a progressive balanced increase in the permanent US military establishment could be initiated.

TOP SECRET

TOP SECRET

- 7 -

TEMPORARY REINFORCEMENT OF EUROPE

1. The temporary reinforcement of US military forces could be accomplished by:

a. Conducting a two battle group air mobility exercise from the US to Germany.

b. Deploying an entire STRAC division to Germany for a 30 to 60 day period, or for the duration of the crisis, and replacing it in the strategic reserve by calling one National Guard or Reserve division to active duty for a 30 to 60 day period.

c. Conducting other similar ground, naval, and air exercises and deployments directed toward Europe.

2. The STRAC force and airlift aircraft required to accomplish either of the first two activities could in an emergency commence deployment on one hour's notice.

3. The STRAC two battle group force could deploy in an emergency from a condition of full alert and complete its movement to Germany in 4.5 days.

a. Strength:	4216
b. Airlift required:	224 sorties
c. Estimated cost of movement to Europe:	
(1) Army	\$ 650,000
(2) Air Force	<u>12,100,000</u>
TOTAL	\$ 12,750,000

4. The STRAC division could deploy in an emergency from a condition of full alert and complete its movement to Germany in nine days:

a. Strength:	11,555
b. Airlift required:	560 sorties
c. Estimated cost	

TOP SECRET

TOP SECRET

- 8 -

c. Estimated cost of movement to Europe:

(1) Army	\$ 4,000,000
(2) Air Force	<u>30,600,000</u>
TOTAL	\$34,600,000

5. The STRAC division could deploy two battle groups by air and remainder of the division by sea as follows:

a. Two battle groups by airlift (4216 personnel, 224 aircraft sorties) completing movement to Germany in 4.5 days.

b. Sealifted remainder of division (7339 personnel, three troop transports, three cargo ships) completing movement to Germany in 17 days.

c. Estimated cost:

(1) Army	\$4,000,000
(2) Navy	428,500
(3) Air Force	<u>12,600,000</u>
TOTAL	\$17,028,500

6. a. One Reserve or National Guard Division could be called to active duty to replace the deployed division for a period of 30 to 60 days at an estimated cost of:

(1) Thirty days	\$ 5,142,827
(2) Sixty days	\$ 9,068,305

b. The divisions involved are currently not at full strength, and the corps headquarters concerned would require a minimum of 30 days prior notice to provide approximately 4,900 USAR fillers to bring one division up to full strength.

c. To call one reserve component division to active duty for this period would require Presidential declaration of an emergency as required by Section 673, Title 10, US Code, though there is the legal possibility that a National Guard division might be called up for this period by a State governor, if he can be persuaded to do so, without such Presidential declaration.

7. Possible

TOP SECRET

TOP SECRET

9 -

7. Possible naval and air exercises and deployments could include:

a. Deployment of elements of the Second Fleet to war stations, exercising from British ports and in the Norwegian Sea. If this movement were carried out during July or August, and compensating adjustments made in normal movements of other fleet units, no significant additional costs are foreseen.

b. Deployment of a tactical fighter force of five squadrons to Europe, at an estimated cost of \$2,078,000 for a 21-day exercise.

8. It should be noted that the above described activities are possible actions which might be employed in an effort short of war to deter the Soviets from initiating a Berlin crisis. These actions alone would not materially improve the US capability to engage either the GDR or Soviet Bloc forces in a non-nuclear war, but in conjunction with other military and non-military measures world-wide could have some deterrent effect.

TOP SECRET

TOP SECRET

- 10 -

PARTIAL US MOBILIZATION FOR A BERLIN ACCESS OPERATION

1. The US Military Services have, or can create, a capability for:
  - a. A unilateral airlift to support the Berlin garrison at any time.
  - b. The US portion of a quadripartite airlift to support the civilian population of Berlin, starting at any time and building up to full planned capacity in 90 days.
  - c. Naval harassment actions at any time, and pacific or naval blockade within two months of the time necessary force augmentations are ordered.
  - d. Large-scale nonnuclear ground action, with tactical air support, as necessary, within four months after necessary mobilization is ordered, assuming appropriate use of forces in Europe and assuming reinforcement from the US necessary.
  - e. Keeping SAC in a state of maximum readiness for flexible use over a prolonged period of crisis without degrading its effectiveness. (1/8th of the B-52 force on airborne alert)
2. In deploying forces to create an increased nonnuclear capability to carry out the contemplated actions in Europe, (1) forces now in Europe should remain on their present missions, and (2) forces to cope with world-wide contingencies should be created and maintained to replace forces deployed to Europe. Additionally, because of the serious military situation and increased world tensions which will result from military actions around Berlin, it is advisable to plan for measures to increase our general war readiness, such as those outlined below under "Improvement of General War Posture".
3. The question of whether adequate security for nuclear weapons in Europe now exists and can be maintained without taking steps that would degrade the general war capability of our nuclear forces is still under consideration by the Defense Department.
4. The actions and resulting posture for each military purpose can be summarized as follows, but partial mobilization would be required for the major capabilities requiring substantial personnel increases.

a. Airlift plans

TOP SECRET

TOP SECRET

- 11 -

a. Airlift plans are in existence and can be implemented to commence provision of airlift support for Berlin. For the quadripartite civilian airlift, 4 transport units must be retained and certain civil airlift contracts must be applied to replace diverted MATS aircraft. The garrison airlift can be accomplished within existing capabilities. Fighter escort as required will be provided.

b. For initial naval harassment of Soviet and GDR shipping and for air harassment, current capabilities will suffice. Intensified action leading to naval blockade measures would make it mandatory to prepare for escalation of the war at sea, and similar considerations apply with respect to some of the proposed air harassments. Since denial of the right to navigate freely on the high seas would unquestionably be viewed as a hostile act of war, decision to visit and search, divert and delay ships should be accompanied, as a minimum, by preparations for war at sea. Personnel augmentation and reactivation of reserve ships will be required for this purpose.

c. To prepare a six-division force for large-scale, non-nuclear ground action, mobilization of six reserve component divisions would be required. With the deployment of six divisions to Europe, there would be remaining in the CONUS an Army strategic ground reserve of six divisions. As an alternative, only four reserve component divisions could be mobilized and a force of six divisions still deployed to Europe. However, in this case there would be only four divisions remaining in the Army strategic ground reserve, a situation which would limit our capability to respond effectively to crises in areas other than Europe.

d. For any scale of ground action considered, basis augmentation of tactical air strength in Europe should be: 6 USAF and 18 ANG tactical fighter squadrons, and 6 air transport squadrons. This is considered to be the maximum USAF tactical force which can be made available within the time period and still retain a minimum reserve in the CONUS. For air action for operations considered in this study, 21 tactical fighter squadrons and 6 transport squadrons must be mobilized and French bases must be activated. Actions also include reassignment of Air Force Reserve C-134 aircraft to MATS, federalizing six Air National Guard C-97 squadrons, mobilizing the Civil Reserve Air Fleet, and activating necessary supporting elements.

e. To provide increased SAC readiness, 6 B-47 Wings and 6 KC-97 squadrons would be retained and ground alert would be increased to 50%, including 54 additional B-47's for the Overseas Alert (REFLEX) Forces. The posture achieved would provide a capability for increased airborne alert to a level of 1/8th of the

B-52 force

TOP SECRET

TOP SECRET

" 12 -

B-52 force without degrading the total alert posture.

5. Summary of Personnel Augmentation and Costs

a. A garrison and civilian airlift:

(1) The capability for a garrison airlift exists now. Increased Air Force costs: \$2 M for fighter aircraft deployment to Europe.

(2) The US unilateral share (50%) of the quadripartite (QBAL) civilian airlift as planned, for a period of 90 days:

	<u>Augmentation</u>	<u>Costs</u>
Air Force	2,946 (plus 219 civ)	\$64 M

b. Naval harassment and blockade of Bloc shipping:

	<u>Augmentation</u>	<u>Costs FY 62</u>
Navy:		
For harassment	None	None
For pacific) blockade )	121,900	\$2,014.4M
For full ) blockade )		

c. A six-division ground action in Europe:

	<u>Augmentation</u>	<u>Costs FY 62*</u>
Army	483,000	
Air Force	60,345 (plus 6,149 civ)	
Navy	<u>3,100</u>	
	546,445 (plus 6,149 civ)	

\*Over-all cost estimates being refined.

d. Maximum

TOP SECRET



TOP SECRET

- 13 -

d. Maximum readiness for SAC:

	<u>Augmentation</u>	<u>Costs FY 62</u>
Air Force	19,142 (plus 3,868 civ)	\$106 M**

\*\*Does not include increased aircraft procurement or production.

TOP SECRET

TOP SECRET

- 14 -

MILITARY MEASURES OUTSIDE CENTRAL EUROPE

1. There is a wide variety of military measures available to the US and its Allies which could be implemented in ascending order of severity. These measures consist primarily of actions by deployed naval and air forces, primarily of the three occupying powers and perhaps West Germany.

a. Naval Blockades and Harassments

(1) Passive surveillance and photographic documentation of the passage of Soviet and GDR shipping through selected restricted waters and narrow focal passages.

(2) Delay of passage of Soviet and GDR shipping on the high seas for a wide range of reasons such as inspection of documents, cargo and health conditions or search for illegally carried personnel. Lengthy delays can be interposed while documentation is being obtained.

(3) Full control on the high seas, including international waters leading to selected narrow focal passages, and return of Soviet and GDR shipping to ports of departure. Soviet and GDR ships subsequently apprehended attempting to evade the naval blockade would be subject to detention.

(4) While harassment can be carried out in many areas as well as on the high seas, the following geographical locations merit consideration:

- (a) Danish Belts and Kiel Canal.
- (b) Turkish Straits.
- (c) Tushima, Tsugaru and La Perouse Straits.
- (d) Straits of Gibraltar.
- (e) Aegean approaches to Greek and Turkish ports.
- (f) Cuban ports.

(5) Before

TOP SECRET

TOP SECRET

- 15 -

(5) Before such action could be fully effective in the above areas, understandings should be reached with the non-Bloc nations contiguous to the individual areas that they will not hinder our efforts to harass Soviet/GDR shipping. Area (a), Danish Belts and Kiel Canal, for example, would require at least passive approval of the operation by Norway, Sweden, Denmark and West Germany.

(6) Attempt to persuade Allied or other non-Bloc nations controlling the waterways referred to in subparagraph (4) to refuse rights of passage to, or to interfere by administrative delays and requirements with the passage of, Soviet and GDR shipping.

(7) As a form of legal harassment, consideration might be given to the following courses of action with respect to the aforementioned ships:

(a) As a test case, undertake the repossession of a Soviet-held Liberty ship.

(b) With the cooperation of certain foreign governments establish a date for the seizure and detention of all out-of-area US-titled Soviet merchant ships (emphasis to be placed on seizing and detaining the maximum number of Liberty's) on grounds that efforts to effect the return of these ships by negotiation have been exhausted.

(8) Deny Soviet and GDR shipping access for repairs, refuelling or commerce to ports controlled by US, Britain, France or West Germany, and encourage other nations to harass such shipping by denial of access or by administrative delays and requirements.

(9) The question of whether one or all of the above areas and measures would be undertaken should be resolved at the time in the light of the nature of the action against Berlin and the United States and Allied forces available.

b. Air Harassments. As in the case of naval harassments, air harassments and reprisals also provide a broad spectrum of possible alternatives such as the following:

(1) Issue orders

TOP SECRET

TOP SECRET

- 16 -

(1) Issue orders to appropriate commanders to seize or destroy Soviet and GDR craft intruding on US territory, airspace or waters.

(2) As a single action in direct reprisal, order appropriate commanders; e.g., Commander-in-Chief Alaska, to seize or destroy a Soviet or GDR military aircraft over international waters within 50 miles of US territory, territorial waters or territorial airspace and outside Bloc territory or airspace.

(3) Increase surveillance of Soviet and GDR fishing fleets and other shipping operating in North Atlantic and Pacific Oceans, seeking rationale for possible further actions at a later stage. Close "buzzing" may be required.

(4) Deny entry of all Soviet and GDR aviation to areas controlled by the United States, Britain, France and West Germany.

(5) Conduct depth bombing exercises from the air or surface ships in areas where Soviet or GDR submarines, which are not openly exercising innocent passage might be maneuvering.

(6) Seek common Allied and other non-Bloc nations to deny entry or delay transit to all Soviet and GDR aviation either by direct prohibition or through administrative requirements.

(7) Harass Soviet and GDR international air traffic through the application of air defense and air traffic control measures.

(8) As a single action in direct reprisal, instruct US unified commanders to flash Joint Chiefs of Staff directly at every opportunity to seize or destroy Soviet and GDR military aircraft or Soviet and GDR surface craft over or in international waters within 50 miles of US territory, territorial waters or airspace and be prepared to execute on Joint Chiefs of Staff command. Similar arrangements might be undertaken by Britain and France and, possibly, West Germany.

2. Capabilities for

TOP SECRET

TOP SECRET

- 17 -

2. Capabilities for Implementing Reprisal Actions

a. Forces available initially for effecting reprisals would consist of US forces already deployed in the general areas mentioned, such further US forces as might be deployed to those areas in case of Soviet or GDR counteraction, and such forces and facilities as Britain and France (and possibly West Germany) might make available.

b. Random reprisal actions could be accomplished with currently deployed forces. As the scope and severity of reprisal actions increase, additional units from the CONUS would have to be deployed, thereby in all probability creating an imbalance in overall deployments of naval and air units. The magnitude of the imbalance would be dependent on the extent of participation of British and French units. For full control of the high seas and international airspace, mobilization measures involving activation of naval and air reserves would be required.

c. US effort applied in reprisals against Soviet and GDR merchant shipping and air activities could become disproportionate to the real effects obtainable. A considerable portion of US sea and air forces could become involved, thus adversely affecting over-all US defense posture unless additional forces were mobilized.

d. It is necessary that clear, specific and thorough guidance be provided to military officers at all echelons who may be expected to execute acts of harassment or reprisal. When the acts to be consummated are established, specific instructions must be promulgated by appropriate authority. All officers must act under explicit orders and be authorized to use force, to the specified degree, where necessary to carry out instructions.

e. In carrying out reprisals at sea and in the air involving the forceful stopping of Soviet or GDR shipping or aircraft it must be recognized that the United States would probably be placed in the position of firing the first shot and perhaps of sinking one or more vessels.

f. Planning for such operations would be the responsibility of the Joint Chiefs of Staff under the direction of the Secretary of Defense.

3. Actions comparable to those listed above could also be applied to other Bloc nations, if and when they overtly supported Soviet-GDR action with respect to Berlin.

TOP SECRET

TOP SECRET

- 18 -

IMPROVEMENT OF GENERAL WAR POSTURE

1. Although all the military measures previously listed for improvement of non-nuclear posture also contribute to the improvement of general war posture, there are a number of specific measures which could be taken to further enhance US and Allied capability for general war. In this regard it is emphasized that these preparations should be made concurrently with preparations for the use of substantial non-nuclear forces in Central Europe. This is necessary to derive from all preparations a full and effective deterrent effect by convincing the Soviets of US determination and commitment to use whatever degree of force may be required to react successfully to any attempt at interference with access to West Berlin.

2. The specific measures, some of which have been previously listed, which should be taken are as follows:

a. Place SAC in an increased state of readiness which could be maintained over a prolonged period of crisis without degrading its strategic capability.

b. Intensify civil defense measures including the construction of fallout shelters and the placing of substantial contracts for the manufacture of radiation detection meters.

c. Place all US forces world-wide in an increased state of readiness.

d. Discontinue the inactivation and/or retirement of operational forces, such as B-47 wings and amphibious ships.

e. Resume nuclear testing.

f. Resume U-2 flights and reconnaissance flights over Siberia and the Soviet Arctic.

g. Step up the ICBM program and the program for "hardening" missile sites.

h. Accelerate current action to improve command and control capabilities to include placing the Joint Action Control Staff in a completely operational status.

i. Increase air defense measures.

TOP SECRET

TOP SECRET

- 19 -

THE USE OF FORCE AFTER ALLIED ACCESS TO BERLIN IS BLOCKED

1. While it is correctly recognized in the Acheson Report of 27 June 1961, that additional military analysis and planning would be needed in order to give effect to its principles on the use of force, a political framework is also needed before the planning can be carried further. A part of this would be provided by a clear statement of the purposes and objectives of forcible action. Another part would be some delineation of the scale on which increased military forces would be available, and the timing.

2. The Report calls for broader freedom of military action should BERLIN access be blocked. This wider availability of ways to use force can in fact exist only if partial mobilization some months beforehand has led to substantial reinforcement of US forces in Europe.

3. If partial US mobilization and some deployment to Europe are begun soon enough, the United States can have a capability to apply against a Soviet/GDR blockade an amount of non-nuclear power well beyond what is now planned. The amount, and hence the results, will depend on how much force is mobilized from the reserve components and when that mobilization is begun. If allied access to BERLIN is blocked before US mobilization is under way, the initial capability to carry out the non-nuclear ground operations described in the Report will be very limited. During the first week after blockage, only by weakening the general war deployment in Europe could more than one US division be used to restore ground access. Within about three weeks, a capability to use three US divisions for that purpose without interfering with war plan deployments could be created by moving two STRAC divisions to Europe. But without prior mobilization, it would require about three to four months before that capability could be significantly increased without major risks elsewhere.

4. Prior US political decisions and actions are also necessary in order to obtain maximum Allied force contributions. The range of non-nuclear options can be broadened extensively by Allied participation, but to get whatever Allied contributions are obtainable will require convincing evidence before hand that the United States really regards expanded non-nuclear ground action as worthwhile.

TOP SECRET

TOP SECRET

- 20 -

LEGAL CONSIDERATIONS

1. To augment the present American forces available for deployment in Europe, the following possibilities are legally available:

a. The present active duty strength of the armed forces is approximately 2.5 million. Until July 1, 1963, the authorized active duty strength of the armed forces is 5 million. The present active duty strength may be increased under laws now in effect by voluntary appointments and enlistments, by inductions under the Universal Military Training and Service Act, and by involuntary recall to active duty of members of the reserve components of the armed forces.

b. Presidential action would be needed to recall members of the reserve components of the armed forces involuntarily to active duty. The reserve components are the Army Reserve, Army National Guard of the United States, Naval Reserve, Marine Corps Reserve, Air National Guard of the United States, Air Force Reserve, and the Coast Guard Reserve. The President of the United States is authorized by 10 USC, section 673, upon his declaration of a national emergency, to order not more than one million members of the Ready Reserve to active duty without their consent. He may order these one million members "for not more than 24 consecutive months of duty."

c. The Ready Reserve includes both the Army and Air National Guard of the United States as well as the other reserve components. The President would have to declare a national emergency to call them to duty in spite of the fact that we are still operating under the national emergency declared in 1950 preceding the Korean war, for 10 USC, section 673(a), reads in pertinent part, "In time of national emergency declared by the President after January 1, 1953 . . ." The General Counsel's office of the Defense Department has prepared a draft of the Presidential Proclamation to accomplish this purpose. The promulgation of such an order would in effect be a proclamation of a limited national emergency for it would be geared to activate the authority of the President to order the Ready Reserve into active duty.

d. Should the situation require action supplementing that set forth above, the President could request the Congress to extend all appointments, enlistments and inductions of personnel already on active duty for an indefinite period. Such action must be taken by Congress. The General Counsel's office has prepared a draft of such a proposed Joint Resolution which would be submitted to the Congress if this action is necessary and desirable.

2. Augmentation

TOP SECRET



TOP SECRET

- 21 -

2. Augmentation of our Berlin aircraft capacity by supplementing military aircraft capacity with civilian aircraft, could be accomplished:

a. By the Secretary of Defense, in cooperation with the Director of OADM, activating the Civil Reserve Air Fleet (CRAF). This would provide a designated number of passenger and cargo aircraft (approximately 212). This, however, might have a significant impact upon the civilian economy as all over-ocean suitable four-engine cargo aircraft in the U.S. inventory are contained within this program. The "CRAF capacity" is only available on an all-or-nothing basis--there can be no partial activation.

b. By the Secretary of Defense declaring an airlift emergency, and requiring some or all of the current contractors providing airlift service to the Military Air Transport Service to provide the expanded capacity they have committed for emergency purposes. This would provide a lesser number of aircraft than contained in the "CRAF Program." Current contracts cover operations in the Pacific and in the Atlantic. However, in time of an airlift emergency, as declared by the Secretary of Defense, contractors may be ordered to divert to specific areas and specific routes.

c. Using civil aircraft in the Berlin operation can raise special legal and operational problems. However, no obstacle exists to the use of civil aircraft to replace military cargo and passenger aircraft in less sensitive areas, thus freeing military aircraft for use in the Berlin operations. This technique would also avoid the legal and operational problems inherent in using civil aircraft in sensitive areas generally.

d. The President could not seize or take control of civilian aircraft short of the arising of such a situation as might justify a declaration of war (see joint opinion of Department of State legal advisor and DOD General Counsel, dated 12 January 1960, regarding release of atomic weapons to the United Kingdom). 10 USC, section 9742, provides:

"In time of war, the President, through the Secretary of the Air Force, may take possession and assume control of all or part of any system of transportation to transport troops, war material, and equipment, or for other purposes related to the emergency. So far as necessary, he may use the system to the exclusion of other traffic."

3. International

TOP SECRET

TOP SECRET

- 22 -

3. International Law has recognized two kinds of naval blockades--belligerent and pacific.

a. A belligerent blockade, which applies to all shipping to and from the blockaded country, including neutrals, is universally recognized as an act of war against the blockaded country, even though the blockade is employed simply to deprive that country of intercourse with the outside world without military operations ashore. Absent a state of war between the United States and the Soviets or GDR, there can legally be no right to assert a belligerent blockade. Further, any attempt to do so would itself constitute in International Law an act of war thereby involving the United States in all the consequences of armed aggression.

b. Traditionally, a pacific blockade is undertaken for purposes of obtaining reparations or to put an end to some disturbance. As summarized by Hackworth, this type of blockade for reprisal is "regarded as an act short of war by which one State undertakes to blockade the ports of another State for the purpose of compelling the latter to make amends or reparation for some injustice claimed to have been caused by the blockaded State." An important incident of such a blockade is that the State imposing the blockade may lawfully seize only vessels of the blockaded State and may not interfere with vessels of third countries except for the purpose of identification. Historically, only the great European powers have resorted to pacific blockades (Britain and France thirteen times each) and in each case this device was used against weak countries which did not possess fleets of consequence.

c. Any attempt to impose a pacific blockade upon the Soviet Union would undoubtedly provoke retaliation of some kind which might well lead to general war. But apart from this practical consideration, the legality of the use of pacific blockades is now subject to serious doubt in view of our post-World War II commitments under the United Nations Charter. Article 2 requires all members to settle their international disputes by means which do not endanger peace and security. Paragraph 4 of Article 2 provides specifically that "All members shall refrain in their international relations from the threat or use of force against the territorial integrity or political independence of any state." It cannot authoritatively be stated that pacific blockades would be construed to be within the prohibition of Article 2 of the United Nations Charter, but it would seem that resort to this device is now proscribed on the ground that it more properly partakes of the nature of "force" rather than "peaceful means".

d. If it

TOP SECRET

TOP SECRET

- 23 -

d. If it should be determined by the Security Council of the United Nations that the prospective events of the Berlin crisis constitute a threat to the peace, a breach of the peace or an act of aggression on the part of the Soviet Union, then a blockade could in theory at least be authorized under the provisions of Articles 39, 41 and 42 of the United Nations Charter. As a practical matter, however, such a proposal would undoubtedly be vetoed by the Soviet representative.

e. A blockade might possibly be imposed under Article 31 of the United Nations Charter on the basis of individual or collective self-defense to repel armed attack but even this action could probably be continued only until the Security Council met to deal with the situation.

f. In sum, the legality of a blockade by the United States, whether belligerent or pacific, is subject to very grave doubts for the reasons outlined above.

TOP SECRET

TOP SECRET

- 24 -

TIME TABLE OF MAJOR MILITARY ACTIONS<sup>1/</sup>

PERIOD

6-DIVISION PLAN<sup>2/</sup>

PHASE 1

15 - 31 July 1961

1. Increase draft calls.
  2. Expand military and industrial production base.
  3. Increase production rates of non-nuclear ammunition and selected supplies and equipment.
  4. Commence prestocking essential non-nuclear weapons and supplies in Europe.
  5. Prepare to conduct naval and air harassment measures.
  6. Review readiness status of all STRAC units and supporting units, together with appropriate sea and air support, and insure capability for early deployment.
  7. Take steps to insure an improved ability to rapidly deploy troops to Europe by means of MATS, CRAF, and MSTC.
  8. Prepare for utilization of aircraft at war-time rates.
  9. Initiate measures to increase readiness of US and allied forces in Europe to include continued efforts to complete tripartite allied planning tasks.
  10. Increase combat readiness of selective reserves preparatory to call-up.
  11. Initiate measures to increase readiness for general war.
12. Begin filling

TOP SECRET

TOP SECRET

- 25 -

- 
- |                    |  |
|--------------------|--|
| 1 - 15 August 1961 | 12. Begin filling up STRAF division forces to extent possible without calling up reserves. |
|--------------------|--|
- 
- |                     |   |
|---------------------|---|
| 16 - 31 August 1961 | 13. <u>A LIMITED NATIONAL EMERGENCY HAVING BEEN DECLARED ABOUT 1 AUGUST BEGIN PARTIAL MOBILIZATION.</u> |
|                     | 14. Call up 6 division forces.  |
|                     | 15. Begin calling up 21 ANG fighter squadrons.  |
|                     | 16. Begin naval augmentation of 121,900 men, 89 ships, and 23 ASW squadrons.                            |
|                     | 17. Increase SAC ground alert to 50%.   |
|                     | 18. Obtain SAC overflight rights from Spain.  |
|                     | 19. Arrange for using nuclear weapons from French bases.  |
- 
- |                       |   |
|-----------------------|---|
| 1 - 17 September 1961 | 20. Complete filling up of STRAF division forces.                           |
|                       | 21. Deploy 6 ANG tactical fighter squadrons, 6 TAC squadrons, to Europe. 3/ |
|                       | 22. Retain Donaldson, MacDill, Chennault airfields.                         |
|                       | 23. Begin withdrawal of dependents and non-essential personnel from Europe. |
|                       | 24. Deploy 2 STRAC divisions to Europe.                                     |
- 
- PHASE II
- |                   |  |
|-------------------|--|
| (17 Sept - 1 Dec) | 25. Call up 6 ANG C-97 squadrons.          |
|                   | 26. Deploy 4 divisions to Europe.          |
|                   | 27. Deploy 12 fighter squadrons to Europe. |
|                   | 28. Mobilize CRAF.                         |
- 

PHASE III

TOP SECRET

TOP SECRET

- 26 -

---

PHASE III

- (1 Dec - 1 Jan)
29. Deploy 6 transport squadrons to Europe.
  30. Institute pacific blockade or naval blockade, as necessary.
  31. Implement 6-division plan in Europe, as necessary.<sup>4/</sup>
  32. Expand mobilization and take other military actions, as necessary.
- 

- NOTES:
- 1/ Contains representative major actions. Depending on situation and political guidance, numerous supplementary actions or changes would be undertaken. For example, a permanent increase in the US military establishment could be undertaken in lieu of partial mobilization; in addition, involuntary extension of current enlistments could be considered.
  - 2/ It is important to note that mobilization and deployment schedules are dependent on basic decision to declare national emergency. Lead-time of necessary preparatory actions before and after M-day will govern timing of ultimate operations. If basic decision on declaration of national emergency is deferred, corresponding deferrals of most events would result.
  - 3/ Deployment of TAC squadrons could come earlier, in connection with implementation of airlift.
  - 4/ Could be executed at any time after 15 November.

TOP SECRET

---

**ANNEX C**

**Military Strength**

TOP SECRET

ANNEX C

PERMANENT INCREASE IN  
UNITED STATES MILITARY STRENGTH

This problem is the subject  
of further study by the  
Joint Chiefs of Staff,  
and was not available for  
inclusion in this study.



ANNEX D

OCDM

SECRET

ANNEX D

FEDERAL EMERGENCY PLAN

BERLIN

OCDM SUBMISSION

ASSUMPTIONS

This plan is designed to meet increased international tensions, which could lead to war, resulting from the BERLIN situation. It is based on the following assumptions:

1. An increased state of national emergency will be proclaimed.
2. The public will be informed of all elements of the foreign and domestic situation to the extent permitted by security considerations.
3. United States military forces will be augmented.
4. Overt civil defense measures will be taken to reach the maximum feasible state of readiness by December 1961.
5. Emergency legislation will be submitted to Congress.
6. All mobilization actions and controls necessary to support increased military forces and civil defense readiness measures will be instituted.

PHASED TRANSITION TO MOBILIZATION

A series of interrelated actions must be taken by the Federal Government to attain industrial mobilization, military expansion, and an increased readiness in civil defense. Because of the lead time required for certain of these key actions, such as legislation and funding, this plan has been prepared to meet a proposed time table as follows:

Phase I, July through September 17

Decision and action on those organizational and preparatory  
measures

SECRET

SECRET

- 2 -

measures, including emergency legislation required to meet the situation.

Phase II, September 17 through November

Initiation of selected mobilization actions and controls, and civil defense measures.

Phase III, December

Completion of mobilization buildup to maximum readiness to support either (1) a limited war in Europe, or (2) a general war with nuclear attack.

SECRET

SECRET

- 3 -

PRESIDENTIAL ACTIONS

Phase I, July through September 17

1. Issue a Proclamation of an increased state of national emergency announcing a decision to augment the Armed Forces, including the calling up of selected Reserve and National Guard units.
2. Issue a Memorandum to the Secretary of Defense authorizing increase in strength of the Armed Forces to new strength goals, and granting authority to order up to one million Ready Reservists to active duty involuntarily.
3. Submit to Congress standby emergency legislation (War Resources Act) providing for (1) priorities and allocations, (2) authority to requisition, (3) expansion of productive capacity and supply, (4) acquisition and disposition of real property, (5) emergency contracting authority, (6) plant seizure, (7) emergency foreign assistance, (8) price, wage and rent stabilization, (9) control of consumer and real estate credit, (10) employment control, (11) settlement of labor disputes, (12) censorship of communications, and (13) general provision.
4. Direct preparation of Executive Orders implementing the emergency authority contained in the War Resources Act.
5. Issue Executive Order providing for step-up of civil defense training and readiness measures and prescribing Departments and Agencies responsible for these functions.
6. Issue Executive Order providing for mobilization of the Nation's resources and prescribing Departments and Agencies responsible for these functions.
7. Submit to Congress a bill for the immediate augmentation of the Armed Forces providing for authority for (1) ordering all Ready Reservists to active duty involuntarily, (2) increasing the period of training and service for inductees from 24 to 36 months, (3) removing restrictions upon the territorial use of members and units of the Armed Forces, (4) extending for a period of one year all appointments, enlistments, periods of obligated service, or other military status of members of the Armed Forces in active service at the time of the enactment of the legislation.
8. Submit to Congress a bill (1) suspending existing statutory  
strength ceilings

SECRET

SECRET

- 4. -

strength ceilings of the active Armed Forces, and (2) authorizing the ordering to active duty involuntarily of all units and members of the Reserve.

9. Submit to Congress a bill to authorize the transfer of atomic weapons to selected allies.

10. Submit to Congress a bill appropriating funds for the construction of shelters, to be allocated at the discretion of the President.

11. Establish an organization to direct and coordinate all economic warfare and psychological (both domestic and international) operations.

SECRET

- 5 -

DEFENSE MOBILIZATION ACTIONS

Phase I, July through September 17

1. Obtain from Department of Defense phased strength requirements, including category of personnel.
2. Obtain from Department of Defense estimate of their total requirements, including those for (1) military hard goods, (2) petroleum, including aviation gasoline and jet fuel, (3) food, (4) medical supplies, (5) transportation, (6) military soft goods, and (7) foreign military aid.
3. Obtain from State Department information on requirements for foreign economic aid.
4. Obtain from Council of Economic Advisers, Department of the Treasury and the Federal Reserve Board their recommendations for indirect economic controls and taxation policy that should be proposed to meet the requirements for the mobilization period.
5. Initiate preparation for establishment and staffing of the following emergency agencies: Stabilization, Transportation, Communications, and Censorship.
6. Notify selected Executive Reservists as to possible call-up to duty on a selective basis as required to meet the phased mobilization program.
7. Initiate Executive Order authorizing withdrawals from strategic and critical material stockpile.
8. Establish mechanism and procedure for determining requirements for the civilian population.
9. Establish mechanism and procedure for the purpose of (1) reviewing the overall programs of Federal Agencies developed to meet the situation for feasibility of completion within allowable time limits and (2) determining relative urgency of programs to establish program priorities, as necessary.
10. Establish programs for the immediate relocation of Federally-owned tools, equipment, materials, and food.

SECRET

SECRET

- 6 -

11. Prepare to suspend or modify import controls on petroleum products.

12. Initiate measures to increase output of aviation gasoline and jet fuel, including components and additives.

13. Direct Department of the Interior to estimate tanker demands by area; review need to adjust petroleum product trade patterns.

14. Alert Maritime Administration to possible need for activating reserve tanker fleet.

SECRET

---

SECRET

- 7 -

CIVIL DEFENSE READINESS MEASURES

Phase I, July through September 17

1. Initiate a public information program stressing measures of family protection, family fallout shelters, food and water reserves, first aid, warning, emergency information, etc.
2. Initiate program for financing new shelter construction program.
3. Expedite program of identifying and marking shelters and shelter areas in public and private buildings.
4. Increase procurement and distribution of radiological defense equipment, including reserves and partial sets.
5. Increase all fields of civil defense training with special emphasis on radiological defense monitoring.
6. Issue directive to Federal Agencies regarding civil defense goals time-phased for the next six months on (1) shelter, (2) radiological instruments, (3) medical supplies, and (4) essential survival items.
7. Expedite completion of assignment of emergency planning responsibilities to delegate agencies; direct such agencies to be prepared to carry out all assigned emergency functions.
8. Accelerate installation of NACOM II radio back-up to OCDM Regional Offices on an operational basis.
9. Expedite the extension of NACOM II radio back-up from OCDM Regional Offices to State emergency operating centers.
10. Increase frequency of unscheduled tests of the National Attack Warning System (NAWAS) and the Command Communications Network (NACOM I).
11. Direct GSA to direct all CBR equipment manufacturers with current contracts to accelerate production of selected detection instruments.

SECRET



SECRET

- 8 -

PRESIDENTIAL ACTIONS

Phase II, September 17 through November

1. Submit to Congress bill providing for the stockpiling of selected essential survival items and authorizing appropriations therefor.
2. Submit to Congress bill providing for additional emergency funds for use by the President.
3. Submit to Congress bill authorizing installation of the NEAR system nationally.
4. Submit to Congress bill to amend the Internal Revenue Code to provide for accelerated tax amortization.
5. Submit to Congress bill to authorize revisions in tax rate.
6. Submit to Congress bill to authorize an increase in the statutory public debt limit.
7. Issue Proclamation urging improvisation and construction of fallout shelters and other related essential preparations by state and local governments, industry, commerce, and individuals.
8. Issue Executive Order establishing priorities on all construction of new Federal Buildings and diverting materials and labor to construction of fallout shelters in appropriate existing Federal buildings.
9. Issue Executive Order suspending or modifying the Presidential Proclamation adjusting imports of petroleum and petroleum products into the United States.
10. Issue Executive Order transferring the Coast Guard from the Department of the Treasury to the Department of Defense.
11. Issue Executive Order declaring the Commissioned Corps of the Public Health Service to be a military service and prescribing regulations therefor.

SECRET

SECRET

- 9 -

12. Submit to Congress bill to adjust the Federal Civilian Personnel System for operation in an emergency.

13. Submit to Congress bill to authorize interception, and utilization of all communications crossing the borders of the United States, except official communications which by international law or agreement are immune from interception.

14. Submit to Congress bill providing for control over communications with respect to position and movement of ships.

15. Submit to Congress bill to exclude known subversives from defense plants and key facilities.

16. Submit to Congress bill to provide criminal penalties for the wilful disruption or sabotage of non-military defense communications.

17. Submit to Congress bill providing for control over telecommunications with respect to the movements of aircraft.

18. Issue Executive Order providing for the establishment of an alternate system for filing and publishing executive agency documents.

19. Submit to Congress bill to authorize the suspension of laws relating to the administration of civilian officers and employees of the United States in areas outside the territorial jurisdiction of the United States affected by actions of a hostile force or person, and for other purposes.

20. Submit to Congress bill to extend the benefits of the Missing Persons Act to all civilian officers and employees in the Executive, Legislative and Judicial branches of the Federal Government and the government of the District of Columbia.

SECRET

SECRET

- 10. -

DEFENSE MOBILIZATION ACTIONS

Phase II, September 17 through November

1. Issue OCDM Emergency Documents (Part III, Plan C), as appropriate. (Attachment A)
2. Obtain and process quarterly requirements (civilian, military and foreign.)
3. Coordinate and direct the carrying out of all approved emergency goals to meet the stated objectives of the mobilization.
4. Analyze geographical locations of all essential civilian survival stocks and end items for relocating for distribution or control in a D-Minus situation.
5. Review all OCDM D-Minus actions. Declassify and publish in the Federal Register on a standby basis those directives that would be issued.

SECRET

SECRET

- 11 -

CIVIL DEFENSE READINESS MEASURES

Phase II, September 17 through November

1. Recommend to the Governors particularly review of plans for continuity of governmental operations: Lines of succession, essential records, protected emergency operating centers, and full use of government resources.
2. Advise Governors to issue similar continuity of government instructions to at least their principal political subdivisions.
3. Issue instructions on a nationwide basis for improvisation of shelters in homes and other buildings, including industrial and commercial facilities.
4. Arrange for emergency appropriations and logistical support with such agencies as Bureau of the Budget, Civil Service Commission, and General Services Administration in connection with creation and operation of emergency agencies and emergency functions.
5. Accelerate public information program so as to condition public reaction to requirements of the situation with emphasis on shelter program, including the stockpiling of a two-week supply of food, water and other essentials.
6. Request Department of Health, Education and Welfare to submit for review plans for the dispersal of medical supplies and material currently held in the civil defense stockpile and those recommended for procurement.
7. Notify State Governors of the need for increased preparedness and recommend to them actions supporting or paralleling those taken by the Federal Government.
8. Direct Federal Agencies to increase physical security measures for non-military Federal facilities and stockpiles (e.g., dams, power plants, machine tools, agricultural and civil defense stockpiles).

SECRET

SECRET

- 12 -

PRESIDENTIAL ACTIONS

Phase III, December

1. Issue Executive Order creating the Emergency Stabilization Agency and prescribing its functions.
2. Issue Executive Order creating the Emergency Transport Agency and prescribing its functions.
3. Issue Executive Order creating the Emergency Communications Agency and prescribing its functions.
4. Issue Proclamation on censorship.
5. Issue Executive Order establishing the Office of Censorship and prescribing its functions.
6. Issue Executive Order to provide for increased control of vessels in territorial waters of the United States and Canal Zone.
7. Issue Executive Order to provide for increased control of foreign aircraft in United States air space or airports.
8. Issue Proclamation providing for documentary requirements applicable to persons seeking to enter or leave the United States.
9. Issue Executive Order authorizing the Director, Bureau of the Budget, to suspend the exercise of any functions not necessary to the national defense and transfer funds, personnel, material and facilities for performance of functions necessary to the national defense.
10. Issue Executive Order directing the Secretary of Commerce to control weather reports and coordinate civil meteorological facilities to meet requirements of the Secretary of Defense, and of the Director, OCDM.
11. Submit to Congress bill to bar legal cause of action against the United States arising out of certain combatant or warlike activities of U.S. Naval vessels.

SECRET

SECRET

- 13 -

12. Issue Executive Order amending Executive Order 10501 by authorizing additional Federal agencies to classify defense information.

13. Review all Presidential Emergency Documents of Plan D-Minus and declassify those that would still be required to be issued and publish on a standby basis in the Federal Register.

SECRET

SECRET

- 14 -

DEFENSE MOBILIZATION ACTIONS

Phase III, December

1. Coordinate and direct the implementation of the mobilization program as initiated in Phases I and II.
2. Be prepared to take all actions as required under an attack situation (Plan D-Minus).
3. Establish programs for the purpose of preserving formulas, designs, dies, blueprints, etc. which would be necessary for the rehabilitation and reconstruction of the Nation's economy following an attack situation.

SECRET

SECRET

- 15 -

CIVIL DEFENSE READINESS MEASURES

Phase III, December

1. Initiate intensified public information program covering:
  - Warning signals
  - Community plans for emergency action
  - Protection from radioactive fallout
  - First aid and home emergency preparedness
  - Use of CONELRAD
2. Augment staffing of the OCDM Classified Location to an appropriate level.
3. Notify Federal Departments and Agencies to augment appropriately the staffing of their relocation sites.
4. Call Executive Reservists to report for duty on a selected basis, as required.

SECRET



**A N N E X E**

**Covert**

ANNEX F

Economic Countermeasures

SECRET

ANNEX F

Outline of Possible Economic Sanctions against USSR and its Satellites

This is a general study of types of economic sanctions which might be applied, selectively or totally, by the United States and its allies against the USSR and its satellites, in particular the Soviet Zone of Germany. The US agency or agencies having specific responsibility for applying the sanction indicated are identified, and, where available, the feasibility of application from a standpoint of France and the United Kingdom is noted, these countries having participated in the essence of this study. The measures which must be undertaken by our allies to apply all of the sanctions are multifarious and are dealt with here only in terms of noting the need for preparation of machinery.

Premises - The application of economic sanctions, in conjunction with other measures, is intended to convey to the USSR and its satellites an impression of constantly mounting pressures which prepare the political groundwork for, and will culminate in, the application of military force, if necessary. They would best achieve this purpose if applied in ascending order of severity.

Initially it may be desirable to apply economic sanctions only against the Soviet Zone of Germany as envisaged by the Four Power Working Group studies, or against the Soviet Zone and the USSR. Certain of the economic sanctions in Phase II would, of course, have little or no actual economic impact if applied only to the Soviet Zone of Germany.

Participation - To be effective, most of the measures listed would require the participation of at least the US, UK, France and the Federal Republic and, preferably, all other NATO countries as well. It would be desirable to enlist the support of other friendly countries, e.g. Japan and member countries of OAS, CENTO, SEATO, if this proves practicable.

Schedule of Application of Sanctions - In order to mesh with the general planning projection for the Berlin situation, implementation of this phase would proceed about as follows:

Phase I (The present - September 19)

Consultation within NATO and subsequent planning and initial preparation by NATO countries, to establish necessary authority and administrative capability. Designation of a State-Commerce-Treasury working group to draw up detailed plans, including requirements, necessary for accelerated US implementation.

Phase II

SECRET

SECRET

-2-

Phase II (September 17 - December 1)

Introduction of economic sanctions of moderate intensity, as described in Phase II listing.

Phase III (December - January)

Final preparation for, and possible subsequent introduction of major economic sanctions, as described in Phase III listing.

Problems of Application - The United States is in a position legally (Trading with the Enemy Act, Export Control Act of 1949, Emergency Powers of the President) to implement the sanctions listed in the attachments to this paper. A new Presidential emergency proclamation may nevertheless be desirable.

Other NATO countries, the United Kingdom in particular, may, or in fact do have legal or precedent problems associated with the implementation of various, but not all, of these proposed sanctions.

Tripartite (US, UK, France) consideration of economic sanctions has been in terms of their application against the Soviet bloc not including Communist China. While this has no practical significance insofar as the US is concerned, it could involve important slippages and leakages elsewhere over a sustained period.

In view of the special situation affecting US economic relations with Poland, this study does not contemplate the extension of economic sanctions against Poland until Phase III is reached.

Possible impact - A measure of the possible impact of economic sanctions against the Soviet bloc may be inferred from the East German reaction to the West German statement of September 30 abrogating the interzonal trade agreement as of the end of 1960. Although the trade pact was reinstated on December 30, the State Planning Commission, presumably acting on the findings of special economic commissions appointed in the interim period, charged industrial and foreign trade planners with the task of "achieving independence" from Western supplies by 1962. The importance to East Germany of Western (particularly West German) imports of certain steel and machinery products to hasten the achievement of this "independence" is indicated by US intelligence studies and pointed up by East German efforts on a major scale to obtain alternate Western suppliers when the interzonal trade agreement was abrogated.

Within the framework of selective sanctions limited to the Soviet Zone, previous studies indicate Soviet Zone sensitivity in particular to sanctions applied only to key industries or commodities, which would also be indirectly disruptive to the USSR due to interrelationship of Soviet bloc planning. Sanctions limited in scope would offer advantages in terms of their greater political feasibility to the Allies.

Organisation

SECRET

SECRET

-3-

Organization of Study - The Economic Sanctions and their Possible Phases of Application are listed in tabular form under two time categories - Phase II and Phase III. To supplement the general comments made on the proposed sanctions there are four appendices, as follows:

Appendix A	Air Travel and Transit Items
Appendix B	Treasury Appendix on Blocking Controls
Appendix C	Commerce Appendix on Export Controls
Appendix D	Legal Memorandum

SECRET

SECRET

I Page 1

ECONOMIC SANCTIONS AND THEIR POSSIBLE PHASES OF APPLICATION

PHASE II

<u>Nature of Allied Harassment, Countermeasures or other Action</u>	<u>Countries Taking Action</u>	<u>US Action Agencies</u>	<u>General Comment</u>
1. Restrict economic negotiations with USSR to most essential matters.	1. NATO Powers	1. State	1. In UK view, chances are there would be no practical problem over <u>financial</u> negotiations, but it would all depend upon what agreements existed or were being negotiated. It might be that negotiations in train concerned debts to West on which we might wish to press Soviet bloc. In the case of <u>trade</u> negotiations, this item refers to a situation short of imposition of a trade embargo and rupture of diplomatic relations in which there is little action open to UK. Some delays could be imposed, but would inflict no serious harm on bloc countries. Trade with East Germany is in different category and action could be taken more easily.
2. Cancel arrangements for Soviet participation in exhibitions, trade fairs, scientific conferences, and other international meetings scheduled in Western countries (NATO).	2. NATO Powers	2. State Commerce	2. It may prove necessary to denounce US cultural agreement with USSR--and possibly Rumania--in order to implement this step.
3. Cancel arrangements for Western (NATO) participation in exhibitions, trade fairs, scientific conferences, and other international meetings scheduled in Soviet bloc countries.	3. NATO Powers	3. State Commerce	3. It may prove necessary to denounce US cultural agreement with USSR--and possibly Rumania--in order to implement this step.

SECRET

SECRET

I Page 2

ECONOMIC SANCTIONS AND THEIR POSSIBLE PHASES OF APPLICATION

PHASE II (cont'd)

<u>Nature of Allied Harassment, Countermeasures or other Action</u>	<u>Countries Taking Action</u>	<u>US Action Agencies</u>	<u>General Comment</u>
4. Undertake discussions at highest levels of government with NATO Powers re possibility of instituting total embargo (exports, imports, financial controls, etc.) against Soviet bloc.	4. NATO Powers	4. State	4. In consideration of approach to this problem, dangers of possibility of leaks of information to Soviets re discussions must be thoroughly considered as well as possible desirability of engineering a leak.
5. Interrupt official discussions of new credits for USSR and satellites, or terminate official credits and export credit guarantees, as appropriate, and other similar actions of such a nature as to convince Soviets NATO has every intention introduce economic countermeasures.	5. NATO Powers	5. State	5. Should be time-phased with action taken in interpersonal trade field.  US would experience no legal problems; in part these measures already provided for by US law.  French would experience no legal problems.  UK would have no legal problem in stopping new business through Exports Credit Guarantee Department. British Government is not at present extending government-to-government credits to Soviet bloc countries. Existing UK liabilities could not be terminated. Emergency legislative action would have to be taken to control credits by private firms.
6. Arrange for slowdown in issuance of export licenses for shipments to Soviet bloc.	6. NATO Powers	6. Commerce	6. US would experience no legal problems.

SECRET

SECRET

II Page 1

ECONOMIC SANCTIONS AND THEIR POSSIBLE PHASES OF APPLICATION

PHASE III

<u>Nature of Allied Harassment, Countermeasures or other Action</u>	<u>Countries Taking Action</u>	<u>US Action Agencies</u>	<u>General Comment</u>
1. Cut off selected types of industrial and technical exchanges in which Soviets are most interested and ban export of published and unpublished technical and scientific information.	1. NATO Powers	1. State Commerce AEC	1. US would experience no legal problem in implementation.  UK could at once stop exchanges organized through governmental machinery, and also visits by Soviet bloc technicians to UK. Visits by UK nationals to bloc could only be prohibited by new legislation. A ban could be imposed on export of goods, e.g., magazines, but it is difficult to see how it could be made effective without total embargo on all dealings between UK and Soviet bloc and probably other countries too.
2. Implement countermeasures against USSR and "GDR" in form of tripartite controls over transport on basis equivalent to Soviet harassments.	2. US, UK, France (possibly Federal Republic)	2. State Defense	2. In general, French wish to reserve action on transport measures to Three Powers to retain maximum control of action necessarily diffused over wide geographic area. Would like to retain revocable character of measures. For each measure would like methods of implementation to be provided and adapted to circumstances at time. Distinction should be made in these measures between USSR, "GDR", and other bloc countries in order avoid cementing relations in bloc. Implementation should be preceded by military precautionary measures, i.e. internal Western measures not necessarily observable. Some of measures could be prepared during Phase II for introduction then, particularly the less severe ones.

SECRET



ECONOMIC SANCTIONS AND THEIR POSSIBLE PHASES OF APPLICATION

PHASE III (cont'd)

<u>Nature of Allied Harassment, Countermeasures or other Action</u>	<u>Countries Taking Action</u>	<u>US Action Agencies</u>	<u>General Comment</u>
3. a. Initiate measures to prevent Soviet and satellite aircraft from making transit overflights and technical stops or, alternatively, to make overflying and technical stops difficult.	3-a. NATO Powers	3-a. State	3-a. See Appendix A.  UK thinks such action would only be useful in the event of actual Soviet interference with civilian access to Berlin.
b. Initiate measures to prevent Soviet and satellite aircraft from landing or enacting commercial rights at Western airports or, alternatively, to make such landings or exercises of commercial rights difficult.	b. NATO Powers	b. State	b. See Appendix A.
4. Bring action to represses Soviet land-lease ships in Allied ports.	4. US	4. Justice	4. US believes measures to effect this could be legally instituted, but doubts that they would be successful.

ECONOMIC SANCTIONS AND THEIR POSSIBLE PHASES OF APPLICATION

PHASE III (cont'd)

<u>Nature of Allied Harassment, Countermeasures or other Action</u>	<u>Countries Taking Action</u>	<u>US Action Agencies</u>	<u>General Comment</u>
5. a. Initiate harassments concerning documentation, inspections, delay, or technical requirements of Soviet bloc shipping at Allied ports.	5.a. US, UK, France	5.a. Commerce Treasury	5.a. French can implement these under terms of Inter-departmental Instruction of June 1, 1957.  US can implement tightening of ships documentation requirements, inspections, etc. by administrative action without recourse to any new or special legislation.  UK would be hampered by commitments under the International Convention on Safety of Life at Sea, but such measures as were feasible could be introduced almost immediately. However, implementation of this measure would probably lead to retaliation against UK and NATO shipping which would be likely to be of far greater tonnage than Soviet shipping affected.
b. Delay ship's servicing (bunkering, lightering, provisioning, naval stores) to Soviet bloc shipping.	b. US, UK, France	b. State Commerce	b. France believes these measures would require consent of private firms, which would tend to oppose measures in peacetime.  US has necessary legal authority.  In UK view, probably most effective measure under this heading would be action to prevent Soviet bloc ships from obtaining bunker supplies in NATO ports or in other ports in which supplies are controlled by oil companies of NATO Powers. Any action of this kind would have to be arranged with commercial interests and might, therefore, be more difficult than action under (a) which could be carried out by Government officials. It would similarly have repercussions on UK and other NATO shipping.

SECRET

II Page 4

ECONOMIC SANCTIONS AND THEIR POSSIBLE PHASES OF APPLICATION

PHASE III (cont'd)

<u>Nature of Allied Harassment, Countermeasures or other Action</u>	<u>Countries Taking Action</u>	<u>US Action Agencies</u>	<u>General Comment</u>
5. c. Regulate movement of Soviet bloc vessels in Allied ports.	5.c. US, UK, France	5.c. Treasury	5.c. Under present procedures, US Coast Guard could restrict or exclude any US port to Soviet bloc ships. Harassment potential by regulation of ship movements within US waters and ports is unlimited.  It would be contrary to statutory and treaty obligations for UK to regulate shipping movements in a discriminatory fashion. These difficulties would disappear if war seemed imminent.
d. Refuse to enter into new contracts to charter shipping to Soviet bloc countries.	d. NATO Powers plus Japan, Panama, and Liberia	d. Commerce	d. US has no legal problems. Can, under existing regulations, prevent US nationals from entering into charter contracts with Soviet bloc countries.  UK has no powers to control employment of British ships in peacetime. Something might be done by persuasion, but it would stand little chance of being effective unless similar action were taken by all NATO Powers.
e. Refuse ship's servicing to Soviet bloc shipping.	e. US, UK, France, Federal Republic	e. Commerce Treasury	e. Necessary US legal authority extends to offshore servicing by US firms and subsidiaries (see Treasury Appendix B, Item 4).  In UK view, implications of such a measure would be similar to implications of (b), but action taken would be more drastic and repercussions correspondingly greater.

SECRET

SECRET

II Page 5

ECONOMIC SANCTIONS AND THEIR POSSIBLE PHASES OF APPLICATION

PHASE III (cont'd)

<u>Nature of Allied Harassment, Countermeasures or other Action</u>	<u>Countries Taking Action</u>	<u>US Action Agencies</u>	<u>General Comment</u>
6. Initiate harassments similar to those in 5 directly above for Soviet Zone of Germany and/or bloc rail and inland waterway traffic.	6. US, UK, France, Federal Republic	6. State Defense	6. UK thinks such action would only be useful in the event of actual Soviet interference with civilian access to Berlin, and not necessarily then.
7. Expand export control measures against bloc, including selective embargo.	7. NATO Powers	7. State Commerce Treasury AEC	7. US, UK, and France have no legal problems. Re US, see Commerce Appendix C.
8. Harass Soviet trade missions, including Amtorg offices.	8. NATO Powers	8. State Commerce Justice	8. US has no legal problem.
9. Implement countermeasures against USSR and "GER" in form of controls over transport. Measures to be taken here are those listed in Phase III, Item 5, for US, UK and French action. At this point, they should be taken by all NATO Powers, plus additional powers where appropriate, as needed.	9. NATO Powers, plus others	9. State Commerce Treasury	9.

SECRET

ECONOMIC SANCTIONS AND THEIR POSSIBLE PHASES OF APPLICATION

PHASE III (cont'd)

<u>Nature of Allied Harassment, Countermeasures or other Action</u>	<u>Countries Taking Action</u>	<u>US Action Agencies</u>	<u>General Comment</u>
9. a. Suspend existing contracts to charter shipping to Soviet bloc countries.	9.a. NATO, plus Japan, Panama, Liberia	9.a. State Commerce Treasury	9.a. From US point of view, economic factors would make such charters impossible. Existing regulations prohibit such charters under general orders Nos. 58 and 59, and, therefore, "suspension" is academic.
b. Close Allied ports to Soviet bloc shipping.	b. US, UK, France, Federal Republic	b. State Commerce Treasury	b. France can implement this on basis of Article I of Decree of October 10, 1934.  Presents no legal problem to US and has already largely been implemented.  Powers to control entry of ships into UK ports would be assumed only if war seemed imminent. Soviets could be expected to retaliate, and a greater tonnage of Allied than Soviet shipping would thus be affected.
c. Forbid the calling at Soviet bloc ports of Allied vessels and planes.	c. NATO, plus Japan, Panama, Liberia.	c. State Commerce Treasury	c. US has necessary legal authority (see Appendix B, Item 3).

SECRET

II Page 7

ECONOMIC SANCTIONS AND THEIR POSSIBLE PHASES OF APPLICATION

PHASE III (cont'd)

<u>Nature of Allied Harassment, Countermeasures or other Action</u>	<u>Countries Taking Action</u>	<u>US Action Agencies</u>	<u>General Comment</u>
10. Terminate trade agreements involving Soviet bloc countries.	10. NATO Powers	10. State	10. US has no legal problems with respect to USSR but has no trade agreements with it. Legal and other problems arise with respect to other bloc countries particularly Poland and Czechoslovakia.  No new powers would be required for cancelling quotas for imports into UK, but some trade is carried on outside the agreements. Existing import licenses (valid for three months) would have to be honored.
11.a. Deny all exports to Soviet bloc countries.	11.a. NATO Powers	11.a. State Commerce Treasury AEC	11.a. US could encounter some legal problems relating to agricultural sales to Poland, since this could constitute a violation of any surplus agricultural commodities agreement then in force. No other US legal problem. System of international control would be required for effective implementation (see Appendices B and C).
b. Stop all Western imports from Soviet bloc countries.	b. NATO Powers	b. State Commerce Treasury	b. US has necessary legal authority (see Appendices B and C).

SECRET

SECRET

II Page 8

ECONOMIC SANCTIONS AND THEIR POSSIBLE PHASES OF APPLICATION

PHASE III (cont'd)

<u>Nature of Allied Harassment, Countermeasures or other Action</u>	<u>Countries Taking Action</u>	<u>US Action Agencies</u>	<u>General Comment</u>
11. c. Freeze or seize, as appropriate, all bloc assets under jurisdiction of NATO Powers.	11.c. NATO Powers	11.c. State Treasury	<p>11.c. In freezing Soviet bloc assets, US might have legal problems under claims settlement agreements with Poland and Rumania. Otherwise it would experience no legal problems in freezing. There is basis for seizure under existing US law, but courts might find action invalid. It would not appear, however, that seizure would be necessary since all desired economic pressure in this field could be accomplished by freezing without seizure (see Appendix B).</p> <p>By freezing Soviet bloc assets, UK will have gone as far as it can. Existing UK legislation gives powers, subject in certain instances to Parliamentary approval, to control payments and securities, but new legislation might be required to make action fully effective in UK. It is worth noting that present sterling balances of bloc countries are insufficient to cover their current liabilities. Consequently this measure would probably result in a net loss, to say nothing of suspension of payment under bloc debt agreements which would certainly follow.</p>

SECRET

ECONOMIC SANCTIONS AND THEIR POSSIBLE PHASES OF APPLICATION

PHASE III (cont'd)

<u>Nature of Allied Harassment, Countermeasures or other Action</u>	<u>Countries Taking Action</u>	<u>US Action Agencies</u>	<u>General Comment</u>
11. d. Institute total trade embargo. Cut off all Western financial facilities to (prohibit current transactions with) USSR and other bloc members and their nationals.	11. d. NATO Powers	11. d. State Commerce Treasury	11. d. US would experience no legal problems in doing this (see Appendix B).  UK could curtail or stop activities of Communist controlled banks in UK. New legislation would be required for placing ban on accounts of Soviet bloc nationals using ordinary banking facilities. Some would apply in all Sterling Area countries. Because of large number of countries using sterling, it would be very difficult to arrange for its total denial from all sources to Soviet bloc.
12. Expel Soviet technical experts and foreign trade officials without diplomatic immunity from NATO countries.	12. NATO Powers	12. State	12. UK would have no legal or administrative problem.
13. Close Soviet trade missions, including Antorg offices.	13. NATO Powers	13. State Commerce Justice	13. US would have no legal problem.



AIR TRAVEL AND TRANSIT ITEMS

(Item III - 3)

At the present time Soviet and/or satellite airlines, on scheduled runs, overfly four NATO countries and make traffic stops in eight NATO countries. Opportunity thus exists for harassment of Soviet bloc civil airlines by NATO countries as a countermeasure to bloc harassment of access to HERLIN, whether civilian or Allied military.

It is true that NATO countries have generally received air routes into the bloc in return for those which they have granted to bloc lines. It is to be expected that retaliation for harassment of bloc lines would be visited upon the lines of NATO countries in the bloc. However, bloc routes to the West are undoubtedly more important to the Communist Governments than Western routes into the bloc are to Western Governments. Hence an exchange of harassments would bring greater net pressure upon the bloc than upon the West.

Care must be exercised, however, to avoid giving the Soviets a pretext for harassing traffic in the HERLIN corridors.

In general, the countermeasures should be used with discrimination against either the Soviet Union, certain or all of the satellites, or both, as appropriate. Since the Soviet Union is not a signatory of the Chicago Convention, while the satellites most active in the civil air field --Czechoslovakia and Poland--are, there exists a natural basis for distinction should this be desired.

There are many ways in which harassment can be carried out. Those that will be selected by a particular country will depend upon the nature of the contractual relationship between the country and the respective bloc governments as well as upon the internal legal and administrative organization of the country itself. This paper simply lists a number of possible measures from which there can be selected those which best suit particular circumstances. They are grouped according to the organization of the civil air items in BERCON-TRI D-18a.

Item 3a

Item 3a (Phase III)

Initiate measures to prevent Soviet and satellite aircraft from making overflights and technical stops or, alternatively, to make overflying and technical stops difficult.

- 1) Refuse overflight clearance for special flights.

Comments:

This would be more difficult in connection with Czech and Polish aircraft than with the others. The Chicago Convention obliges signatory states to permit overflights and technical stops by other signatories. (However, means exist for delaying overflights, and charges by Czechs and Poles that this was being done could be strung out for a considerable period of time in ICAO.) In addition, the bilateral air agreements between NATO members and these and other bloc states may contain provisions of this kind. However, means might be found within the terms of the Chicago Convention or the bilaterals for abrogating them, and in any case the bilaterals normally contain clauses for abrogation with a fixed period of notice (for the UK and France, one year in the case of the satellites and six months for the USSR).

- 2) Refuse to permit regularly scheduled overflights and technical stops.

Comments:

(Same as paragraph 1 Comment under this Item.)

3) Strictly apply NATO air defense identification procedures. When bloc aircraft fail to hold to control times, altitudes and courses within allowable limits, make identification intercepts, file violations through ICAO and protest through diplomatic channels. As a more extreme measure, require offending bloc aircraft to land at the nearest airport for inspection and identification. A record of continuous violations could be used as grounds for future denial of clearances to the offending airline.

Comment:

The Czech airline in particular is a frequent violator in this respect.

b)

SECRET

A - 3

-3-

4) Prevent overflights on emergency grounds provided by Article 9 of the Chicago Convention.

Item 3b (Phase III)

Initiate measures to prevent Soviet and satellite aircraft from landing or exercising commercial rights at Western airports or, alternatively, to make such landings or exercise of commercial rights difficult.

Comment:

Traffic landings and exercise of commercial rights are normally governed by bilateral air agreements. Thus the comments under the previous Item on this subject would apply.

SECRET

SECRET

APPENDIX B

TREASURY APPENDIX

(Items III - 5a, 9c, 11)

Section 5(b) of the Trading with the Enemy Act gives the President authority, among other things, to regulate or prohibit transactions involving any property in which any foreign country or national thereof has any interest, by any person, or with respect to any property, subject to the jurisdiction of the United States. This authority has been delegated to the Secretary of Treasury by Executive Order 9193. Under these broad powers, all transactions or any specified category of transactions by Americans with foreign countries or their nationals may be controlled provided such controls are not arbitrary or capricious. Set forth below are certain types of controls which have been considered and which might be appropriate in the Berlin situation.

While Section 5(b) of the Trading with the Enemy Act is only operative in time of war or declared national emergency, the existing national emergency declared in 1950, when the Communist Chinese entered the Korean War, is still in effect and would sustain action under the statute in the Berlin situation.

1. Blocking Controls

Blocking controls might be limited or general. Limited blocking with respect to one or more Soviet Bloc countries would involve the freezing as of a given date of the assets in the United States of the affected Soviet Bloc countries. Limited blocking would involve no restrictions on current transactions between the United States and the countries blocked, but, of course, their blocked assets here would not be used for such current transactions.

General blocking would involve a prohibition subject to licensing of all current financial and commercial transactions by the United States and U. S. nationals with such countries as are included in the general blocking restrictions and nationals thereof in addition to a freezing of the U. S. assets of such countries and their nationals.

The

SECRET

The economic impact of limited blocking would be governed primarily by the amount of assets affected by the blocking. The following are reported Soviet Bloc assets here as of December 31, 1960:

<u>Country</u>	<u>Short-term</u>	<u>U. S. Government Bonds and Notes (other long-term Assets not known</u>
Albania	177,000	
Bulgaria	466,000 <sup>1</sup>	
Czechoslovakia	1,042,000	
East Germany	1,295,000	
Estonia, Latvia and Lithuania	2,608,000 <sup>1</sup>	7,357,000 <sup>1</sup>
Hungary	966,000 <sup>1</sup>	
Poland	6,088,000	
Rumania	1,084,000	1,150,000 <sup>1</sup>
U.S.S.R.	12,062,000 <sup>2</sup>	
TOTAL	\$25,788,000	\$8,507,000

If we were to institute general blocking, all imports from the affected countries could be stopped. The following are U. S. imports from the various Soviet Bloc countries during 1960:

<u>Country</u>	
Albania	65,000
Bulgaria	719,000
Czechoslovakia	11,946,000
East Germany	3,043,000
Estonia, Latvia, and Lithuania	15,000
Hungary	1,701,000
Poland	38,650,000
Rumania	1,386,000
U.S.S.R., including Outer Mongolia	25,018,000
TOTAL	\$82,543,000

<sup>1</sup> Believed to consist largely of assets now blocked by the OAF.

<sup>2</sup> Reported at only 5 to 6 million during first five months of 1961.

Cutting off this import trade would obviously be the most important economic result of Treasury blocking action. The actual foreign exchange loss to Soviet Bloc countries of these import restrictions would depend on their ability to dispose of the products formerly exported to the United States in other foreign markets.

2. U. S. Subsidiaries Abroad

American subsidiaries abroad have in the past been subjected to the same prohibitions on trade and financial transactions with blocked countries as American firms in the United States. It is assumed that, if general blocking controls were instituted, U. S. subsidiaries abroad would be treated the same as American firms in the United States and not be permitted to engage in trade or financial transactions with the affected Soviet Bloc countries.

Moreover, if it is decided to tighten export controls before taking blocking action, Treasury could supplement the U. S. export controls by prohibiting American firms abroad from sailing to the Bloc any product which could not be exported to the Bloc from the United States if such action were considered desirable.

3. Transportation Orders

Commerce transportation orders do not apply to foreign flag ships and registered planes which are owned or controlled by persons subject to the jurisdiction of the United States but only apply to American flag ships and U. S. registered planes. However, if Treasury imposed blocking regulations applicable to American subsidiaries abroad, such regulations would prohibit foreign ships and planes owned or controlled by Americans from making trips to Soviet Bloc countries affected by the Treasury blocking restrictions in the absence of a Treasury license.

Even in the absence of blocking controls, Treasury could supplement commerce transportation orders by prohibiting Americans from permitting foreign flag ships and registered planes which are owned or controlled by them to make trips to Soviet Bloc countries.

4. Bunkering Controls - Foreign Subsidiaries Owned by American Companies

Treasury could either independently or in connection with general blocking, prohibit American oil companies abroad from supplying ship bunkers or lubes to any vessel engaged in Soviet Bloc trade regardless of whether the commodity carried was strategic or non-strategic. We could also advise the oil companies that similar restrictions applied to their furnishing fuel or lubes to planes engaged in the Soviet Bloc trade.

SECRET

Valldated

The general licenses available for shipments to these destinations cover personal baggage, tools of trade, published technical data, unpublished scientific and educational technical data, motion picture films and non-technical publications.

Communist China, North Korea, North Vietnam

All exports from the U.S. are under regulatory control. Under these regulations exports take place under "general" licenses or "validated" licenses. General licenses are broad authorities permitting exports under specified conditions without specific individual shipment review by the Department of Commerce. Valldated licenses are authorized to export only after individual shipment authorization has been granted.

Regulatory Structure

Executive Branch has full power to impose controls over exports of whatever nature deemed necessary to effectively implement desired policies.

Under this legislative authority and statement of policy the Executive Branch has full power to impose controls over exports of items over exports from the standpoint of intelligence to the national security. The act declares that it is the policy of the U.S. to use export controls to the extent necessary (a) to protect the domestic economy from the excessive export of scarce materials, (b) to further the foreign policy of the U.S., and (c) to exercise the necessary right.

The act declares that it is the policy of the U.S. to use export controls to the extent necessary (a) to protect the domestic economy from the excessive export of scarce materials, (b) to further the foreign policy of the U.S., and (c) to exercise the necessary right. The act authorizes the President to prohibit or curtail the exportation from the U.S. of any articles, materials or supplies, including technical data. To achieve effective enforcement of such controls the President is also authorized to regulate the financing, transporting, or other handling of exports and the participation therein by any person. This authority has been delegated to the Secretary of Commerce.

Legislative Authority

(Item III - 1)

EXPORT CONTROLS

SECRET

APPENDIX C

Validated licenses are required for all other exports and such licenses are not issued.

Eastern Europe except Poland

General licenses available for shipments to these destinations cover personal baggage, tools of trade, dunnage, ship stores, plane stores, crews' personal effects, trade fair exhibits, published technical data, unclassified scientific and educational technical data, motion picture films and non-technical publications, gift parcels, and a list of about 1000 groups of industrial and personal articles.

Validated licenses are required for all other exports and such licenses are issued only when the shipments would not make a significant contribution to the Bloc's military-industrial potential.

Poland

General licenses available for shipments to Poland are, in general, the same as those available for friendly countries. The outstanding exception consists of a list of some 600 commodity groupings. These are in addition to the validated license requirements for friendly countries which consist of goods of primary strategic importance.

Possible Revisions in the Control Structure or Licensing Policies

- (a) Withdrawal of general licenses--some or all.
- (b) Expansion of area of export denials.
- (c) Complete embargo--for some or all Eastern European destinations.
- (d) Expansion of coverage of transportation orders.

Items (a) and (d) above would require publication of revised regulations. This could be accomplished within a period of time not exceeding one week. Items (b) and (c) can be put into effect immediately upon the decision to do so.



SECRET

SECRET

MEMORANDUM

Subject: Berlin Contingency Planning - Legal analysis  
by the United States of contemplated shipping  
and trade countermeasures.

This memorandum deals with the domestic and international legal aspects, from the standpoint of the United States, of those non-military countermeasures relating to shipping and to general trade and commercial relations which are being considered in connection with Berlin contingency planning by the United States-United Kingdom-French Tripartite Planning Group in Washington. The countermeasures, together with the legal conclusions of the United States, are as follows:

A - Shipping

1. Bring action to repossess Soviet lend-lease ships in Allied ports - Legally possible but unlikely to be successful.
2. Refuse to charter shipping to Soviet bloc countries - Presents no problems of legality.
3. Close United States ports to Soviet bloc shipping - Presents no problems and has already been largely implemented.

B - General trade and commercial relations

1. Terminate credits to U.S.S.R. and satellites - Presents no problems of legality, and is in part already provided for by United States law.
2. Freeze Soviet bloc assets in the United States - Only problems of legality relate to United States obligations under claims settlement agreements with Poland and Rumania.
3. Cut off all United States financial facilities to Soviet bloc countries - Presents no problems of legality.
4. Expand export control measures against Soviet bloc, including selective embargo - Presents no problems of legality.

5. Institute

SECRET

5. Institute total trade embargo against Soviet bloc - Only problems of legality relate to agricultural sales to Poland.
6. Seize Soviet bloc assets in United States - May be possible under existing United States law. From an international standpoint, permissible as a reprisal against Soviet Union but not against other Soviet bloc members.
7. Terminate trade agreements with Soviet bloc countries - No problems of legality with respect to Soviet Union, but United States has no trade agreements with it. Legal and practical problems exist with respect to other bloc countries, particularly Poland.

There follows a detailed discussion of each of the above conclusions.

A - Countermeasures relating to shipping

1. Bring action to repossess Soviet lend-lease ships in Allied ports.

Discussion. It is assumed that the repossession which is contemplated is by legal, pacific means rather than by forcible seizure. This question has been examined in the Department of State at various times in the past, and the opinion has been consistently expressed that suits to repossess those ships in the courts of countries where they might be found would fail before the defense of sovereign immunity. It is our view that this defense is not impaired by the obligation of the Soviet Union under Article V of the Lend Lease Agreement to return the vessels if the United States so requests after a determination by the President that they are of use to this country. The following conclusion is quoted from a 1954 memorandum by the Legal Adviser:

"... it is believed unlikely that successful suits could be maintained for the return of the merchant vessels. It might be possible to hinder the movement of merchant vessels by the institution of such suits, but it would not be for substantial periods, in view of the fact that most jurisdictions have summary procedures which can be invoked which would result in the quick release of the vessel on the application of the defense of sovereign immunity."

2. Refuse to charter shipping to Soviet bloc countries.

Discussion. There is adequate authority under Section 5(b) of the Trading with the Enemy Act and under Section 101(a) of the Defense Production Act of 1950 to take this action.

Section

Section 5(b) of the Trading with the Enemy Act provides in part as follows:

"(1) During the time of war or during any other period of national emergency declared by the President, the President may, through any agency that he may designate, or otherwise, and under such rules and regulations as he may prescribe, by means of instructions, licenses, or otherwise-

"(A) investigate, regulate, or prohibit, any transactions in foreign exchange, transfers of credit or payments between, by, through, or to any banking institution, and the importing, exporting, hoarding, melting, or earmarking of gold or silver coin or bullion, currency or securities, and

"(B) investigate, regulate, direct and compel, nullify, void, prevent or prohibit, any acquisition holding, withholding, use, transfer, withdrawal, transportation, importation or exportation of, or dealing in, or exercising any right, power, or privilege with respect to, or transactions involving, any property in which any foreign country or a national thereof has any interest,

"by any person, or with respect to any property, subject to the jurisdiction of the United States;..."

The Presidential declaration of national emergency of December 16, 1950 is still in effect, and consequently the above-quoted provisions of Section 5(b) could be utilized to prohibit any ships being chartered from the United States to Soviet bloc countries in the event of a Berlin crisis. Under the authority of Section 5(b) and of Executive Order 9193 of July 6, 1942 delegating to the Secretary of the Treasury the President's powers under that Section, the Treasury Department has prohibited all transactions involving persons or property subject to the jurisdiction of the United States with Communist China and North Korea. (31 C.F.R. 88900.201 - 500.204).

Section 101(a) of the Defense Production Act of 1950, as amended (50 App. U.S.C. 2071) forms the legal basis for Department of Commerce Transportation Orders presently in effect which control in certain respects the movement of and carriage of cargo by United States registered vessels or aircraft to Sino-Soviet bloc countries. Section 101(a) authorizes the President "... (2) to allocate materials and facilities in such manner, upon such conditions, and to such extent as he shall deem necessary or appropriate to promote the National Defense." The Transportation Orders prohibit United States registered vessels and aircraft from carrying certain enumerated items to any Soviet bloc destination without a license, and they also prohibit them from transporting any commodities to Communist China or North Korea and from calling at any point in these countries.

On

On the basis of the foregoing, it can be concluded that refusal to charter shipping to Soviet bloc countries could be accomplished by the issuance of appropriate Treasury Department regulations and Commerce Department Transportation Orders. This action would not involve any violation by the United States of legal obligations owed to those countries.

3. Close United States ports to Soviet bloc shipping.

**Discussion.** This countermeasure presents no problems of legality and has, in fact, already been put into effect in large part. Under the authority of the Act of August 9, 1950 relating to the regulation of the anchorage and movement of vessels in United States territorial waters during periods when the security of the United States is endangered (50 U.S.C. 191), the President on May 21, 1950, approved a program for the protection of ports. Although providing somewhat different procedures for different ports, depending principally on their importance, the basic provisions of this program provide for the denial of entry to Sino-Soviet bloc vessels with specific exceptions.

The first exception authorizes the Secretary of the Treasury to permit the entry of such vessels after consultation with the Secretary of State, Secretary of Defense, and Director of the Central Intelligence Agency, if he then determines that the circumstances justify such entry. In such cases the Secretary of the Treasury is required to prescribe appropriate safeguards. The second exception gives limited rights to Polish passenger ships and to Polish vessels coming to pick up Public Law 480 cargo under the surplus agricultural commodities agreements with that country.

B - Countermeasures relating to general trade and commercial relations.

1. Terminate credits to U.S.S.R. and satellites.

**Discussion.** Section 5(b) of the Trading with the Enemy Act, discussed supra in connection with countermeasure A-2, provides adequate legal authority for the prohibition of any extensions of credit by persons or firms in the United States to Soviet bloc countries. This prohibition could be effected by the issuance of appropriate regulations by the Department of the Treasury. At the present time, private credits (other than normal short term credits, i.e., up to six months duration) to certain of the Soviet bloc governments are prohibited by the provisions of the Johnson Act (18 U.S.C. 8955). That statute makes it a crime inter alia to extend a loan to any foreign government (not a member of the World Bank and International Monetary Fund) or political subdivision thereof or any organization or association acting for or on behalf of a foreign government while it is in default in the payment of its obligations to the United States. Consequently, those Soviet bloc countries

which

which defaulted on World War I debts owed to the United States cannot be the recipients of private credits today, since no bloc country is a member of the Bank or the Fund.

Furthermore, the Mutual Defense Assistance Control Act of 1951 (65 Stat. 644) in effect precludes any financial assistance by the United States Government to Soviet bloc countries.

2. Freeze Soviet bloc assets in the United States.

Discussion. The provisions of Section 5(b) of the Trading with the Enemy Act, together with the national emergency declaration of December 16, 1950 give the Executive the necessary domestic authority to impose controls blocking all Soviet bloc assets in the United States. On the basis of this authority, blocking controls have been instituted with respect to (a) Communist China and North Korea in 1950, (b) component parts of a steel mill belonging to Czechoslovakia in 1952, and (c) the Suez Canal Company and the Egyptian Government in 1956.

With the exceptions discussed below regarding the Polish and Rumanian claims settlements, neither customary nor conventional international law seems to impose any restrictions on the United States in freezing Soviet bloc assets under its jurisdiction as a national security measure in the event of a Berlin crisis initiated by the Soviets.

Pursuant to the claims settlement agreements recently concluded with Poland and Rumania (TIAS 4451, 4545), the United States has released all its blocking controls imposed during World War II against Polish and Rumanian properties in the United States. To the extent that implementation of this countermeasure applied to any of these properties, there would be violations by the United States of the claims settlement agreements. And as a practical matter, the freezing of any Polish and Rumanian assets by the United States would be likely to bring about the cessation of the annual payments due as under the above agreements.

3. Cut off all United States financial facilities to Soviet bloc countries.

Discussion. Section 5(b) of the Trading with the Enemy Act provides the necessary domestic legal authority for this countermeasure, which could be implemented by Treasury Department regulations similar to those presently in effect with respect to Communist China and North Korea (31 C.F.R. 500.201).

From an international standpoint, no problems of legality are presented by this countermeasure.

4. Expand export control measures against Soviet bloc, including selective embargo.

5. Institute

5. Institute total trade embargo against Soviet bloc.

Discussion. The domestic legal authority for the export controls presently applicable to Soviet bloc countries is sufficient for the expansion of such controls, including a prohibition of all exports to those countries, to be undertaken. That authority is contained in the Export Control Act of 1949 (50 App. U.S.C. 2021-2032), which provides in part as follows:

"§2022. Congressional declaration of policy.

"The Congress declares that it is the policy of the United States to use export controls to the extent necessary (a) to protect the domestic economy from the excessive drain of scarce materials and to reduce the inflationary impact of abnormal foreign demand; (b) to further the foreign policy of the United States and to aid in fulfilling its international responsibilities; and (c) to exercise the necessary vigilance over exports from the standpoint of their significance to the national security.

"§2023. Authority to effectuate policies; delegation; limitations.

"(a) To effectuate the policies set forth in section 2032 hereof, the President may prohibit or curtail the exportation from the United States, its Territories, and possessions, of any articles, materials, or supplies, including technical data, except under such rules and regulations as he shall prescribe. To the extent necessary to achieve effective enforcement of this Act, such rules and regulations may apply to the financing, transporting, and other servicing of exports and the participation therein by any person.

"(b) The President may delegate the power, authority, and discretion conferred upon him by this Act to such departments, agencies, or officials of the Government as he may deem appropriate."

Pursuant to Section 2023(b), the President has delegated his powers under the Act to the Secretary of Commerce, who has issued appropriate regulations. Present export controls include a total embargo on exports to Communist China and North Korea and broad controls on exports to other Soviet bloc countries. In this regard, the Department of Commerce has established the "Positive List of Controlled Commodities", the items on which require a validated export license for shipment to certain destinations. Those commodities represent selective strategic categories of significance to the Soviet bloc war potential.

In addition, with the exception of a specified list of clearly non-strategic items on a general license list for the Soviet bloc countries, all commodities, whether or not on the "Positive List", require validated licenses for export to those countries.

Poland

Poland receives special treatment under the present Department of Commerce regulations. All items not on the "Positive List" may be exported to Poland under general license, except for certain enumerated items.

The expansion of export controls against the Soviet bloc including a total embargo on exports could be accomplished by the Department of Commerce within the above-described framework. In addition, all imports from bloc countries could be embargoed by the issuance by the Treasury Department, under Section 5(b) of the Trading with the Enemy Act, of regulations similar to those presently in effect which prohibit all trade with Communist China and North Korea.

A total trade embargo would not violate any legal obligations owed by the United States to the Soviet bloc countries other than Poland. By prohibiting all exports to the latter country, however, the United States could be in violation of its commitments to sell certain farm products to the Polish Government under any surplus agricultural commodities agreements then in force. With respect to our obligations under the GATT, Czechoslovakia is the only bloc country which is a GATT member, and the United States severed all relations with that Government under the Agreement in 1951. On November 16, 1960, a Declaration on relations between Poland and the contracting parties to GATT entered into force, but it is in general an expression of hope of future expansion of trade and does not impose any obligations on the United States vis-a-vis Poland.

6. Seize Soviet bloc assets in the United States.

Discussion. Section 5(b) of the Trading with the Enemy Act provides in part as follows:

"During the time of war or during any other period of national emergency declared by the President, ...

\* \* \* \* \*

...any property or interest of any foreign country or national thereof shall vest, when, as, and upon the terms, directed by the President, in such agency or person as may be designated from time to time by the President, and upon such terms and conditions as the President may prescribe such interest or property shall be held, used, administered, liquidated, sold, or otherwise dealt with in the interest of and for the benefit of the United States, and such designated agency or person may perform any and all acts incident to the accomplishment or furtherance of these purposes; ..."

As pointed out in the discussion of countermeasure A-2, the national emergency declaration of December 16, 1950 is still in effect.

It

It would appear from the above-quoted provisions that adequate domestic legal authority exists for the seizure by the Executive of Soviet bloc assets in the United States. However, under Section 9 of the Trading with the Enemy Act, which gives non-enemies a right to sue for the return of their property, a court in the United States might order such return. While this matter has not been heretofore tested, it is possible that in any such action for return, the court would allow a defense by the United States Government based upon the fact that Section 5(b) authorizes the President to deal with vested property "in the interest of and for the benefit of the United States". It could be argued that the "interest" of the United States relates to the desirability of taking reprisal action against the Soviet bloc in a Berlin crisis.

The actions by the United States with respect to certain steel mill equipment belonging to the Government of Czechoslovakia are analogous to, but distinguishable from, the proposed countermeasure. In 1954 the Secretary of the Treasury, pursuant to the above-quoted provisions of Section 5(b) and to Executive Order 9193 of July 6, 1942 delegating to him the President's powers under that Section, sold the Czech steel mill equipment located in the United States. The property had previously been blocked in 1952 by order of the Secretary of the Treasury. After the sale, the Treasury held the proceeds thereof in a blocked account until legislation was passed in 1958 authorizing their use to pay certain unsatisfied claims of United States nationals against Czechoslovakia (P.L. 85-604, 22 U.S.C. 1642 et seq.). It should be noted that the actual taking of title by the United States to the Czech property took place under P.L. 85-604 and not under Section 5(b) of the Trading with the Enemy Act.

Under international law, the taking by a government of property within its jurisdiction belonging to a foreign government or nationals thereof is illegal unless accompanied by prompt and adequate compensation. Consequently, the contemplated seizure of Soviet bloc assets in the United States without compensation being paid therefor would be a violation of international law unless justified as an act of reprisal. Reprisal is an unlawful act which international law permits as retaliation for an international wrong. It must be preceded by an unsuccessful effort to obtain redress from the offending state and while it need not be the same type of act which occasioned the retaliation, it must be in proportion to the wrong done. It "may be performed against anything and everything that belongs to, or is due to, the delinquent State or its citizens". (II Oppenheim, International Law, 6th Ed., Sec. 37). Since a reprisal is by definition a justifiable act, otherwise illegal under international law, in retaliation for an international wrong, it is not in any way limited by the doctrine of sovereign immunity of property belonging to a foreign government.

In the event the rights of free access of the Western occupying powers to Berlin are impaired by some act of the Soviet Union, the

seizure



seizure of Soviet assets in the United States would be permissible under international law as an act of reprisal. As pointed out above, a necessary prerequisite to this reprisal would be an unsuccessful demand by the United States for the Soviet Union to cease its wrongful acts. Although it may be considered advisable to submit the Berlin dispute to the United Nations or to the International Court of Justice prior to the implementation of this countermeasure, this course of action would not appear to be a prerequisite from a legal standpoint since the seizure of Soviet assets in the United States could not by itself be deemed a threat to international peace and security within the meaning of the United Nations Charter.

The seizure of the assets of bloc countries other than the Soviet Union could not be easily justified as acts of reprisal under international law since the unlawful acts giving rise to the retaliatory measures would be those of the Soviet Union alone. Although the bloc governments are under the domination of the Soviet Union to varying degrees, it does not follow that each is chargeable with the international consequences of every wrongful act perpetrated by Soviet Union. It is our opinion, therefore, that seizure of assets belonging to those governments or their nationals, in alleged retaliation for the violation by the Soviet Union of its obligations with respect to Berlin access, would not be permissible under international law.

7. Terminate trade agreements with Soviet bloc countries.

Discussion. The unilateral termination of an international agreement by one of the parties thereto, unless such termination is permitted by and is effected in accordance with the provisions of the agreement, is normally a violation of international law. It is permitted by international law, however, as an act of reprisal in retaliation for an international wrong committed upon the terminating State by the other party to the agreement. Consequently, the United States would be legally justified in terminating agreements with the Soviet Union in retaliation for a violation by the latter of its obligations with respect to the rights of free access of the Western occupying powers to Berlin. As pointed out in the discussion of seizure of Soviet bloc assets as an act of reprisal (countermeasure B-6, *supra*), the United States would not, however, be justified under international law in illegally terminating trade agreements with members of the Soviet bloc other than the Soviet Union.

Apart from the legal aspects of this countermeasure, it should be pointed out that the only Soviet bloc countries with which trade agreements are presently in force for the United States are Poland and Czechoslovakia, and that for the reasons hereafter outlined, it would not seem advisable to terminate any of them. Although the United States, after securing a waiver from the other GATT members, severed all GATT relations with Czechoslovakia in 1951, there is still technically in force a commercial policy agreement with that country effected by an

exchange

exchange of notes dated November 14, 1946 (TIAS 1569). A similar agreement effected by an exchange of notes dated April 24, 1946 (TIAS 1516) is in force between the United States and Poland. Most of the provisions in each agreement are of a general and hortatory nature and do not commit the parties to any specific course of action. The few firm obligations contained therein are, with one exception, unilateral in nature and apply to Czechoslovakia and Poland rather than to the United States. The one exception is a bilateral commitment in each agreement to make adequate and effective compensation for properties which may be requisitioned or nationalized. It would then appear that more advantages would accrue to the United States, at least in theory, by allowing the two agreements to remain in effect than by terminating them.

The United States has also entered into a number of agreements with Poland over the past four years regarding the sale of surplus agricultural commodities to that country. With the possible exception of the most recent one dated July 21, 1960, those agreements have been fully performed on both sides. It is our understanding that performance of the July 21 agreement will be completed in the near future if it has not already been completed. With regard to consideration by the United States, in connection with BERLIN countermeasures, of termination of any future agricultural commodities agreements with Poland, certain factors which are beyond the scope of this memorandum should be kept in mind. These factors pertain to the efforts of the United States to reestablish more normal economic relations with Poland, as evidenced by the announcement by the President on November 17, 1960 that the United States is terminating the 1952 suspension of most favored nation treatment with respect to duties on Polish imports. In this regard, it is our understanding that certain unannounced understandings were reached with the Poles during the course of the negotiations for the claims settlement agreement of July 16, 1960 regarding restoration of most favored nation treatment and future sales of surplus agricultural commodities.

ANNEX G

Domestic Economy

SECRET

ANNEX G

SUBJECT: BERLIN PLANNING: ACTIONS TO MINIMIZE DISLOCATIONS TO THE  
U.S. ECONOMY AND THE BALANCE OF PAYMENTS

Attached is our memorandum under the above heading carrying out the assignment from the President that: "The Secretary of the Treasury and the Chairman of the Council of Economic Advisers should submit very preliminary recommendations as to the timing and nature of the preparations to be taken to ensure that execution of the above actions /designed to provide a capability for dealing with the Berlin problem in advance of hostilities/ would cause minimum dislocation of the United States economy and balance of payments. A fuller report will be expected later."

The attached material includes 3 copies of each of the following:

1. A three-page summary of the basic memorandum
2. The memorandum itself
3. Two appendices
  - A. The State of the Economy and the Impact of Military Crisis, 1950 and 1961
  - B. Impact on U.S. Balance of Payments of Berlin Preparations

The following supplementary papers, not submitted herewith, are available at the offices of the Council, and will be utilized in connection with the fuller report to be submitted at a later date:

1. Price, Wage, and Production Controls in 1950-51
2. Monetary-Fiscal Actions in 1950-51
3. The Voluntary Credit Restraint Program, 1951
4. The Supply of Manpower in 1950 and 1961
5. The Impact by Economic Sectors of the Korean Conflict

---

Douglas Dillon  
Secretary of the Treasury

---

Walter W. Heller  
Chairman  
Council of Economic Advisers

SECRET

SECRET

ANNEX G

BERLIN PLANNING: ACTIONS TO MINIMIZE DISLOCATIONS TO THE  
U.S. ECONOMY AND THE BALANCE OF PAYMENTS

SUMMARY

1. Economic Impact of Preparedness Program

Provision of a BERLIN capability may impose severe strains on the domestic economy and on the balance of payments. It is only prudent to prepare to meet these contingencies. If, however, the program is a gradual and modest build-up of military potential, not specifically keyed to the BERLIN crisis, no severe problem of destabilization may arise.

In the domestic economy, the principal initial threat of dislocation and inflation arises from the psychological impact of fears of war and prospective shortages. As in 1950, these fears could lead to hoarding, scare buying, and price increases, out of proportion to the actual increase in Federal purchases. Current unemployment and excess capacity provide considerable economic room--much more than in 1950--for an expansion of the Federal defense budget. But, if additional expenditures for the BERLIN capability mount to an annual rate approaching \$15 billion within a year, these demands superimposed on the general economic recovery will give rise to bottlenecks, specific shortages, and possibly general excess demand. Upward pressures on wages and prices would be strong, and even stronger if the psychological impact of the crisis created abnormal consumer and business spending.

The United States balance of payments could deteriorate (a) because of the increase in imports accompanying an accelerated upswing in economic activity; (b) because of U.S. cost and price increases; (c) because of a flight of capital reflecting loss of confidence in the dollar for political or economic reasons.

2. The Need for Direct and Indirect Controls

To deal with these unfavorable contingencies, the government needs both indirect controls--taxation and general monetary policy--and direct controls over wages, salaries, rents, and prices and over the allocation of materials, labor, scarce capacity, and consumer goods. Neither kind of controls can by itself stabilize an economy dislocated by crisis psychology and a sharp increase in defense spending....

3. State

SECRET

SECRET

-2-

### 3. State of Existing Powers

The direct and indirect control powers at the disposal of the government without new legislation are inadequate to deal with the threat of psychological inflation in the face of increased international tension and a military build-up. These powers cover only: general monetary and credit policy through the Federal Reserve System; rudimentary allocation of materials and facilities under the Defense Production Act of 1950; power to sell out of Defense Production Act stockpiles to counteract speculation in raw materials; controls over exports and external financial transactions; and the ability to reduce or defer other Federal expenditures. The force of these powers is dubious, and in any case they do not extend to direct control over prices, wages, salaries and rents, or to selective restraint of credit.

However inadequate they may be, it is important that these present powers be prepared for rapid use. The reason is that a request for additional legislation, whenever made, may be expected to set off inflationary reactions of the type experienced in 1950: scare buying by consumers, anticipatory increases in prices, and the hoarding of inventories.

### 4. Further Powers Needed

A package of new economic control legislation capable of handling the destabilizing effects of a Berlin crisis should include:

(a) Authorization for the President to impose a temporary freeze on all prices and wages if required in the interval between the request itself and the passage of more comprehensive legislation.

(b) Enabling legislation for comprehensive controls over prices, wages, salaries, rents and selected forms of credit, for the settlement of labor disputes, and for requisitioning.

(c) Discretionary authority for the President to sell excess materials from strategic stockpiles.

(d) Discretionary authority for the President to meet needs for revenue and the demands of economic stabilization by varying the first-bracket rates of the personal income tax within specified limits.

The timing of the President's request to Congress for this package of legislation is a major problem to be solved. The options are to make the request as soon as the military preparedness measures themselves become

publicly

SECRET

SECRET

-3-

publicly known, or to defer the request until visible inflationary manifestations appear in the economy. The earlier date might have a desirable effect on the public's consciousness of the gravity of the situation, might permit the probable inflationary reactions to be absorbed by a greater degree of economic slack, and might avoid the necessity of a special session of Congress. The later date might avoid premature inflationary effects should the crisis be short-lived, might avoid sidetracking of the President's general legislative program, and might lead to quicker Congressional action.

However the final timing decision is made, immediate action should take the form of the establishment of task forces to draft the required stand-by legislation, to review emergency plans for the use of existing powers, to draft regulations and orders for eventual issue under present or additional legislation, and to plan for setting up a new economic stabilization agency to administer such programs as became necessary. The task forces should, of course, operate as secretly as possible to avoid premature disclosure of plans.

5. International Arrangements to be Considered

Consultation and negotiation should be held at an early date concerning potential movements of capital from one national currency to another or some currencies to gold that may arise from anxieties growing out of developments in the Berlin situation. Similar consultation and arrangements should be directed towards the raw material situation so that shortages, speculative stock building, scare buying and unnecessary price increases can be prevented or minimized through international machinery or concerting common policies over imports and use of stocks. There should be especial consultations and negotiations with the West German Federal Republic designed to secure action on its part to relieve the additional strain on U.S. balance of payments that would result from large scale deployment of additional U.S. forces in Western Europe.

SECRET

SECRET

-4-

**BERLIN CAPABILITY PLANNING: ACTIONS TO MINIMIZE  
DISLOCATIONS TO THE U. S. ECONOMY  
AND THE BALANCE OF PAYMENTS**

**I. Introduction**

This preliminary report is in response to a direction by the President that: "The Secretary of the Treasury and the Chairman of the Council of Economic Advisers should submit very preliminary recommendations as to the timing and nature of the preparations to be taken to ensure that execution of the above actions /designed to provide a capability for dealing with the Berlin problem in advance of hostilities/ would cause minimum dislocation of the United States economy and balance of payments. A fuller report will be expected later."

Because this submission is limited to the precise focus of the Presidential request, it will not deal with (a) the production controls and related measures needed to facilitate the military supply build-up for the Berlin capability; or (b) preparedness action needed to minimize dislocation of the domestic economy in event of the outbreak of limited or general war, or in event of a crash civil defense program.

However, we suggest that the President ask the OCDM, working together with the various departments and agencies concerned, for a report on the preparedness measures outlined in Mobilization Plans C and D, or their current equivalents, in view of the potentialities for limited or full-scale war that are inherent in the present situation.

We have assumed that the preparations for firming up the Berlin capability to the levels contemplated would: (1) add between \$5 billion and \$15 billion to the budget for the fiscal year 1962; (2) require the military call-up of about 500,000 men; (3) necessitate not only increased procurement of military material on existing production lines but the reactivation of additional production lines; (4) require the overseas deployment of between two to twelve additional divisions and supporting air and naval forces, together with the housing and supplies necessary to maintain them from some time in the fall until the end of the fiscal year.

We have made no assumption concerning the cost or character of material or supply assistance to our NATO allies in connection with any efforts they may make to expand their forces.

Wa

SECRET



SECRET

-5-

We have made no underlying assumptions as to the nature and character of the public disclosure of these preparations except to take for granted that their scale and character will become matters of general knowledge during the next two months as the call-ups, contracts, and possibly requests for supplemental appropriations, become known.

We should not rule out the possibility that an economic stabilization crisis may not materialize out of a Berlin build-up under certain relatively favorable conditions:

Given a program at or perhaps even below the lower end of the \$5 - \$15 billion range -- ✓

Given a "conventional build-up" rather than a "Berlin crisis" send-off for such a program --

Given the greater slack in our economy in 1961 than in 1950 --

Given today's dimmer memories of shortages, speculation, and direct controls --

Given the readier availability of Federal Reserve monetary restraints in 1961 than in 1950 (when the "pegging" policy still prevailed) --

Under these conditions, it might well be premature to request sweeping direct control powers, since such a request will itself tend to have a substantial destabilizing impact. ✓

## II. Preliminary Conclusions

1. Preparedness measures for the Berlin capability will not, at least initially, result in general shortages of materials, facilities or manpower available to the civilian economy. An analysis of the over-all economy in 1961-62, without additional stress from the Berlin crisis, discloses substantial unused resources and capacity to produce. (See Appendix A.)

There are very substantial stockpiles of materials which could, within limits, be used to relieve shortages of the types of strategic and critical materials that are heavily relied upon in a military build-up.

Spot

SECRET

SECRET

-6-

Spot shortages of specialized products, tools or types of material could occur as a result of a crash munitions production program. Civilian transportation could be strained for limited periods of time because of the magnitude of troop deployments contemplated. These prospective supply dislocations do not seem to be of such a magnitude, character and duration as to threaten serious dislocation of the domestic economy, insofar as a very preliminary reading without a table of requirements permits a judgment.

2. The principal threat of dislocation to the domestic economy resulting from the provision of the Barlin capability is a destabilization of prices, wages and rents resulting from the psychological impact of the fear of war and prospective shortages. The Barlin preparedness measures and public reaction thereto might engender hoarding, scare buying, advance stocking, speculative buying, and artificial price increases.

3. An analysis of the history of the economy during the early stages of the Korean conflict from June 1950 to January 1951 shows that a serious inflation was experienced as a result of a psychological response to the crisis, out of proportion to the actual strain on the economy. (For a detailed analysis of the 1950-51 record see Appendix A.)

4. Many similarities between the present economic situation and that of June 1950 suggest the serious possibility that similar responses may well occur during the course of this Barlin crisis. There to be sure are some significant and reassuring dissimilarities: (a) excess productive capacity is much larger in mid-1961 than in mid-1950; and (b) the responses in the summer and fall of 1950 followed upon the actual outbreak of hostilities. (See Appendix A.) However, in our view, they are offset by the facts that (a) in the forthcoming contest of will and power the Soviet Union is directly involved as an opponent and (b) the new factor of Soviet nuclear capability for attack on the Continental United States is present in the national mind.

It is true that no adverse domestic economic reaction occurred at the time of the 1959 Barlin crisis. But this is not reassuring now because by the time the crisis became widely recognized by the public, the Soviet position eased, the foreign ministers' conference was scheduled, and no large military build-up occurred.

5. In addition to the purely psychological factors that might destabilize the U.S. economy, the preparation of a Barlin capability may involve an increase of between \$5 and \$15 billion in government expenditures in a relatively short period of time. An increase in Federal expenditures approaching \$15 billion on an annual basis within the next year could begin to produce excess

demand

SECRET

SECRET

-7-

demand pressures on the economy. Even apart from psychological factors and the possible development of general excess demand, a substantial build-up of military expenditures could be expected to generate cost-push pressures and sectoral price increases resulting from sharp changes in the pattern of demand.

6. If the preparations for a Berlin capability are accompanied by inflation, the consequences will be damaging to the national interest in four ways:

(a) Speculative inventory accumulation during the crisis is likely to cause an economic recession fueled by inventory disinvestment when and if the crisis is peacefully settled.

(b) The rise in the domestic price level could imperil the international position of the dollar and impose strains on the U. S. gold position. The U. S. is particularly vulnerable in this respect because the dollar is an international reserve currency.

(c) Hoarding, speculation and excessive inventory accumulation, if allowed to snowball, could create a degree of economic disorganization sufficient to weaken the capability of the U. S. for any rapidly increasing production of military goods associated with limited or general war.

(d) Should the Berlin situation develop into limited or total war, the failure to deal effectively with inflationary developments before the outbreak of hostilities would make the institution of adequate emergency stabilization measures substantially more difficult and less effective.

7. The reference to the danger to the international position of the dollar and the U. S. gold position inherent in any inflationary rise in the domestic price level requires amplification.

The U. S. is currently running an over-all balance of payments deficit at an annual rate of about \$1.2 billion as compared to \$3.8 billion during 1960. Much of the change is due to the conjunction of high levels of economic activity in other advanced countries with recession in the United States. The progress of recovery will bring an increase in U. S. imports during the second half of the calendar year. The over-all deficit (excluding special debt prepayments) is estimated at approximately \$1.5 - \$2.0 billion for calendar 1961, without taking into account the effect of Berlin preparations.

Factors

SECRET

SECRET

-5-

Factors other than the effect of an inflationary rise in domestic price levels due to domestic reactions need be taken into account, i.e.:

(a) It is conservatively estimated that the cost to the balance of payments of stationing one additional Army division in Europe, together with supporting air and naval force is \$250 - \$300 million per year. (See Appendix B.) For the four alternatives the estimates of additional annual balance of payments impact would be:

Alternative I - 2 divisions	\$500-600 millions
Alternative II - 4 divisions	1,000 - 1,200 millions
Alternative III - 6 divisions	1,500 - 1,800 millions
Alternative IV - 12 divisions	3,000 - 3,600 millions

(b) Our balance of payments in a period of recovery or greatly increased economic activity could be vulnerable to increases in prices of imported raw materials. Here the experience in 1950 during the early months of the Korean outbreak should be noted. From June 1950 to January 1951 the prices of imported raw materials increased 66 percent. During July and August 1950 prices of imported raw materials rose 10.2 and 14.7 percent, respectively, while the Wholesale Price Index rose 2.8 and 2.1 percent. The general supply situation in many commodities is more favorable today than in 1950, but it could change quickly.

(c) The movement of short term capital funds from the United States to other currencies which added to our balance of payments deficit in 1960 and the conversion of dollar claims into gold, which marked the last part of 1960, could be revived by fears of U. S. inflation, unfavorable developments in our balance of trade and payments accounts, or U. S. military involvement.

8. It is difficult to forecast the consequences for the U. S. economy of a developing Berlin crisis psychology. However, it is only prudent to plan in advance to deal with the unfavorable contingencies described above.

9. Preparation for action to prevent or minimize dislocation of the domestic economy as a result of establishing the Berlin capability leads to a consideration of control machinery. Controls over the economy in a

period

SECRET

SECRET

-9-

period of military emergency have three functions:

(a) To direct scarce resources from the civilian economy to the defense effort;

(b) To channel resources, even within the civilian economy, from unessential to essential uses;

(c) To prevent the general price-wage level from rising.

Unless and until the size of the additional defense burden, together with private spending induced by the rise in incomes, becomes large enough to encroach upon the economy's capacity to produce, our main concern will be with the third of these functions. Moreover, the major immediate source of inflationary pressure is likely to be a surge of consumer and business buying motivated by uncertainty and panic or by expectations of the imminent imposition of price control and rationing.

10. Economic controls are classified as indirect and direct.

(a) Indirect controls work through income and the supply of credit to siphon general purchasing power away from the civilian economy. On the side of taxation the possible instruments range from personal income and corporate profits taxes, through general expenditure taxes, to selective excise taxes which verge on being direct controls. On the side of monetary and credit policy, the Federal Reserve Board has the general power to limit the supply of bank credit to households and firms.

(b) Direct controls include those that restrict the movement of specific prices and forms of income--ceilings on prices, rents, wages, and salaries--and those that restrict and direct the use of specific materials, facilities, and kinds of manpower--allocation of materials, priority systems, consumer rationing.

11. Turning to the problem of containment of inflationary pressures primarily psychological in origin, we state the important principle that neither direct nor indirect controls can do the stabilization job alone.

Indirect

SECRET

SECRET

-10-

Indirect controls are not sufficient because:

(a) In an economy possessing a considerable ~~store~~ of liquid assets held by households and firms, it is difficult or impossible to prevent by indirect means surges of buying financed by such assets.

(b) Indirect and general controls, primarily because they are indirect, can not deal with bottlenecks and spot shortages.

Direct controls are thus a necessary part of an effective stabilization program. Until generalized shortages begin to appear, we do not think that further allocation or priority machinery is needed beyond what is now available under Title I of the Defense Production Act. It is to be anticipated that the burden on those regulations will increase. We do believe that Executive authority to impose direct controls over prices, wages, rents and certain forms of credit is needed as a standby defense against panic buying. But a major lesson of all previous experience in this field is that direct controls by themselves can not bear the burden of a prolonged stabilization program. Monetary and credit policy must be brought to bear against surges of purchases financed by liquid assets and credit as soon as they occur. And at a later date it may be necessary to use the tax system to absorb general excess purchasing power.

12. The foregoing analysis suggests the desirability of detailed contingency planning addressed to the following subjects:

(a) The state of existing powers of the President to deal with the type of destabilization of the domestic economy that might accompany the preparation of a Max III capability.

(b) The advisability of requesting the Congress to provide the President with additional authority needed and the preparation and timing of such a request.

(c) The state of Executive planning for utilization of the powers the President may now possess or acquire.

The following section will include recommendations dealing with the foregoing points.

SECRET

SECRET

-11-

III. Recommendations

A. Substantive

1. State of Existing Powers - Inadequate but Useful

The powers currently available to the President without further legislation to minimize dislocation to the domestic economy that may result from the EARLIER capability program are as follows:

(a) The Federal Reserve Board can act quickly and strongly to contract credit generally at the first signs of a wave of panic buying like those in the summer and winter of 1950;

(b) There is no discretionary authority available on the tax side, but it should be remembered that present tax rates will automatically extract more revenue as incomes rise under the pressure of increased military expenditures. Tax policy is in any case ill-suited to deal with waves of buying financed by liquid savings and bank credit.

Among direct measures currently available are:

(a) Those surviving in Titles I and III of the Defense Production Act of 1950, as amended, under which there could be instituted a system of priorities and allocations of materials and facilities to aid defense production and protect the essential civilian economy from shortages. These provisions extend to the rationing of consumer goods. There is also a vague but sweeping prohibition of excess accumulation of inventories of materials designated by the President as scarce. (Title I, sec. 102). To make this prohibition operative, the President may prescribe explicit regulations. In addition, the President may curb domestic price increases for essential imported metals, minerals and other materials by the device of buying at rising world market prices and reselling to American users at a lower domestic market price. (Title III, sec. 303). This process would require an appropriation or additional borrowing authority.

(b) The President also has authority to sell out of Defense Production Act stockpiles, (as distinct from those accumulated under the Strategic and Critical Stockpiling Act) and could use this authority to counter speculative shortages and price increases of materials contained in these stockpiles. This is a potentially important power, since it relates to the highly volatile basic raw material prices which are usually the first to react in any speculative flurry. However, it is of spotty and limited usefulness because many of the materials in which inflationary price rises might be expected are not contained in large quantities in those stockpiles. (See below the recommendations on sales of excess materials from the much larger strategic stockpiles.)

(c) The

SECRET

~~SECRET~~

-12-

(c) The President also has authority to control exports. This could be used to prevent domestic supplies from being drained off by speculative or panic buying from abroad.

(d) The President through his control over the expenditures of the Federal establishment could reduce or defer Federal outlays so as to offset in part inflationary aspects of additional defense expenditures.

(e) The President and the Secretary of the Treasury have broad powers, under the Trading With the Enemy Act and the Gold Reserve Act, over external financial transactions. Their applicability to effect exchange or capital controls is constrained by international arrangements to which the U.S. is a party such as the International Monetary Fund Agreement.

(f) With reference to any control of imports that might prove desirable to implement international arrangements designed to dampen speculative buying, there is some opinion that the national security clause of the Trade Agreements Extension Act of 1958 (Section 8), and section 5 (b) of the Trading With the Enemy Act, and Title I of the Defense Production Act of 1950 may provide some basis for action.

These and other immediately available control powers not listed are clearly inadequate to cope with the threat of psychological inflation of the 1950 type. Nevertheless, it is important that plans for use of these available powers be devised forthwith to the maximum degree practicable and that existing legislation be analyzed carefully for further Presidential powers that might be used to meet the Berlin contingency. The importance of such controls, however weak, is that they may be used upon need given adequate administrative preparation. The disadvantage of controls based on legislation still to be secured is the danger that the very request for such legislation may touch off precisely the inflationary reaction it is designed to avoid. The announcement effects are known to be great and the inevitable lag between request and operation is long enough for considerable damage to be done. It is clear, however, that a request to Congress for further enabling legislation must be made. What is now available could handle neither a prolonged military build-up bringing the country near the limits of its productive capacity nor a short but powerful expenditure spree motivated by panic on the anticipation of shortages.

## 2. New Powers Needed - Additional Legislative Proposals

A request to Congress for new legislation giving the President stand-by authority to deal with the economic consequences of new national

security

~~SECRET~~



SECRET

- 13 -

security emergencies declared by him should include the following:

(a) A separate, simple and short authorization for the President to institute a temporary freeze on all wages, salaries, prices, and rents, pending passage of more detailed legislation for emergency economic stabilization by direct controls. This is necessary because the anticipation of a coming system of direct controls may lead to substantial price increases in the hope of establishing a favorable base, and to excessive accumulation of inventories in the expectation of later shortages.

(b) Enabling legislation for comprehensive price, rent, wage and salary controls, for controls over consumer and real estate credit, for the settlement of labor disputes, for requisitioning and for general voluntary credit restraints. All these were contained in the sections of the Defense Production Act which were allowed to lapse in 1953.

(c) Discretionary authority to the President to sell excess materials from strategic stockpiles for counterspeculative purposes. The present authorization for the Secretary of Agriculture to sell from Commodity Credit Corporation stockpiles at 105 percent of parity should be changed to permit sales at 100 percent of parity.

(d) Authority for the President to meet shifting revenue and economic stabilization needs by raising or lowering the first-bracket personal income tax rate within five percentage points of its statutory level.

## B. Procedural

### 1. The Problem of Timing of the Request for Statutory Authority to Institute Direct Controls

A major decision will have to be made with respect to the timing of the announcement that the President will seek from Congress enabling legislation for price, wage, and rent controls. Once the announcement is made, it is agreed that the President should immediately submit the necessary draft legislation to Congress.

One view is that the announcement should be made as soon as the public becomes aware, through a Presidential message or otherwise, of the military preparedness measures which are to be taken. The other

view

SECRET

SECRET

-14-

view is that the announcement should be deferred until there are visible signs of the beginning of hoarding, excessive speculation, price, and wage increases, and other inflationary manifestations. The likelihood is that the "later" date will come close on the heels of the "early" date--for public knowledge of the projected military measures may well set off an inflationary reaction--but it is at least possible that a period of weeks or months may intervene between the two dates. Whether or not the announcement of the military build-up triggers inflationary responses on the part of the public, it is assumed that the announcement of the Administration's economic stabilization intentions will do so whenever it occurs; it is for this reason that the President should ask for quick authority to impose a temporary price-wage freeze while the Congress is considering the enabling legislation.

The advantages of acting on the "early" date are as follows:

- (1) Coupling the announcement of the economic stabilization program with the announcement of the military build-up would make clear to the public how the President proposed to deal with the possible economic consequences of the military measures.
- (2) Early announcement of the stabilization program would drive home to the public the gravity of the situation (if this is a desirable objective).
- (3) The earlier the announcement, the greater the likelihood that slack in the economy will absorb a substantial part of the inflationary pressure.
- (4) If the announcement were deferred until the later date this might necessitate reconvening Congress in a special session to act on the proposed legislation, and this might appear to be such a foreboding step as to evoke a panicky reaction from the public.

In favor of the "later" date are the following considerations:

- (1) In the event that the crisis is short-lived and emergency stabilization measures prove to be unnecessary, "early" announcement may give rise to inflationary reactions which might have been avoided entirely;
- (2) Announcement at the "early" date might lead Congress to side-track the President's general legislative program;
- (3) Congress

SECRET

SECRET

-15-

(3) Congress is more likely to grant strong stabilization powers to the President, unimpaired by special exemptions and loopholes for this group and that, if the forces of inflation are already visible.

## 2. Preparations Relating to International Gold Flows

The international position of the dollar is weaker today than it was in June 1950. The effects of an international crisis and of U. S. military and economic preparations on international capital movements and in particular on confidence in the dollar are difficult to assess, but they could be extremely serious. The psychological reactions of people who can move funds from one country to another may be quite irrational and volatile. The U.S. may receive some funds now in Germany. On the other hand, fears of U.S. military involvement or simply revived fears of U.S. inflation because of the economic strains of a build-up might lead to very large flows of private funds out of the United States, in favor of other currencies or of gold. Many of the central banks which would acquire dollar balances, either from the U.S. or from Germany would even under normal circumstances convert these balances into gold. We must be prepared to prevent, so far as possible, and to counter a new "run" on our gold, which could well be more serious than the problem of 1960. These preparations will need to include:

(a) Consultation with other governments concerning movements of capital from one national currency to another or from currencies to gold that may arise from anxieties about the international political situation, with a view either to preventing such movements or to offsetting their effects on the foreign exchanges.

(b) Review of existing emergency powers to control outward movements of funds, and to protect the United States monetary gold stock.

## 3. Consultations Relating to Raw Materials Supplies

Although world supplies of most basic raw materials are relatively abundant today, and prices are low, we must be prepared for raw material shortages, speculative stock-building, and price increases. This will create problems not only for the U.S. but for the industrial economies of our allies. We should consult with our allies concerning international machinery for assuring flows of basic materials to their most important uses here and abroad and for counteracting speculative influences.

4. Task

SECRET

SECRET

-16-

4. Task Force for New Legislation

There should be established and operated as secretly as possible a special Legislative Task Force chaired by a Presidential designee charged with the responsibility for drafting the stand-by legislation prescribed above. It should consult with the Attorney General, the Secretary of Agriculture, the Secretary of Labor, the Secretary of Commerce, the Secretary of the Treasury, the Chairman of the Federal Reserve Board, the Chairman of the Council of Economic Advisers, the Budget Director, and the Director of the Office of Civil and Defense Mobilization or successor agency. Drafts of proposed legislation dealing with direct price, wage, and rent controls exist in the files of the OCDM, and a draft dealing with consumer and real estate credit controls is available at the Federal Reserve Board. These should be reviewed and updated. New drafts are necessary for discretionary authority over labor disputes, use of stockpiles for counterspeculative purposes, and stand-by tax authority.

5. Task Force for Emergency Economic Stabilization

A second task force should be constituted to sharpen and perfect detailed preparation for an emergency economic stabilization program to be instituted coincident with the development of EARLIN capability. This general task force should include representatives of the OCDM or successor agency, the Council of Economic Advisers, the Federal Reserve Board, the Bureau of the Budget, and the Departments of Treasury, Commerce, Interior, and Agriculture. The function of this task force would be to review and update emergency planning in each department or agency for the use of existing statutory powers; to prepare drafts of regulations, orders, plans, and programs under existing powers and under any additional legislation that may be required.

6. Plans for New Stabilization Agency

The Bureau of the Budget, in consultation with the OCDM or its successor agency and other departments or agencies, should develop plans for the establishment of a new agency in the Executive Office of the President to direct and coordinate any economic stabilization program that becomes necessary. In this connection, the Bureau should assess the degree to which the Executive Reserve, organized under the Defense Production Act would meet the personnel needs of the new agency and the extent to which it would have to be supplemented by transferring personnel from existing agencies.

7. Additional

SECRET

SECRET

- 17 -

7. Additional Preparedness Planning

The OCDM or its successor agency should accelerate preparedness to take emergency stabilization action for limited or general war along the lines outlined in Item 27 of the National Plan for Civil and Defense Mobilization with particular emphasis on the readiness of departments and agencies mentioned therein to undertake the particular tasks that would be assigned to them.

At the same time intensive studies of more comprehensive fiscal measures should be undertaken with emphasis on such alternatives as a general expenditure tax, compulsory lending, compulsory saving.

8. Request for Burden Sharing on Balance of Payments Consequences.

Following the German elections scheduled for mid-September, Chancellor Adenauer should be informed that the U.S. expects the Government of the Federal Republic to provide assistance to offset U.S. dollar expenditures in connection with additional deployment of forces. G.F.R. assistance is to include construction and contractual services costs, offsetting conversions of troop pay into foreign currencies, and additional procurement of military equipment in the U.S.

This German support would be in addition to measures currently being worked out for offsetting a portion of the cost of the U.S. balance of payments of the troops currently stationed in Germany.

SECRET

SECRET

Appendix A

THE STATE OF THE ECONOMY AND THE IMPACT OF MILITARY CRISIS, 1950 AND 1961

A. Mobilization in a Recovering Economy, 1961

The American economy is currently expanding in a recovery from the 1960-61 recession. Most measures of income and output are near their previous peak levels of spring 1960 and will exceed these earlier records in the next few months. However, the economy remains far from full-employment (i.e., from a level of unemployment of 4 percent or lower). Economic activity was running considerably below its potential when the decline began in May 1960. Since then, increases in the labor force, new capital equipment, and gradually improving technology have further increased the productive capacity of the economy. As a result, it is estimated that the United States could have exceeded its actual production in the second quarter of 1961 by nearly \$50 billion without straining its productive facilities and without creating inflationary pressures of excess demand.

The \$50 billion gap between actual and potential output provides a cushion in the event of a sudden mobilization effort. As a first approximation, there is room for a \$20 billion rise in non-consumption expenditures before inflationary pressure would become a serious problem. A rise in spending of this magnitude would raise private incomes sufficiently to induce about \$30 billion of extra consumer and business outlays. Taken together, the initial \$20 billion plus the induced \$30 billion would eliminate the gap and achieve full employment. By this first approximation, a possible mobilization effort appears to carry little danger of straining the economy. But the first approximation requires many important qualifications, and these all point to serious unfavorable consequences of a sudden rise in defense spending.

In the first place, the economy has considerable forward momentum at the present time. Output has been rising by about two percent a quarter, while productive capacity grows less than half as fast. Hence, any action which closed the output gap right away would court inflation in the near future.

Secondly

SECRET

SECRET

Appendix-A

- 2 -

Secondly, there are speed limits on the pace of economic expansion. It takes time to put idle men and idle machines back to work. A sudden spurt of spending could strain the flexibility of adjustment and produce price rises along with output gains even at a time when there is slack in the economy. It is difficult to say how fast is too fast by this standard. It is certainly questionable whether a quarterly increase in output as great as 4 percent is compatible with stable and smooth expansion. No peacetime expansion in the 1950's raised real GNP by more than 3.3 percent in one quarter.

Third, the expansion of government spending involved in a mobilization program would raise demand selectively. It would increase orders for metal products far more, proportionately, than for textiles. Mobilization could therefore run into key bottleneck areas while slack existed in other sectors. There are certain factors in the economy which mitigate but do not eliminate the problem of bottlenecks. The area of durable goods manufacturing has considerable excess capacity currently and it would be the recipient of the major share of additional defense procurement. Furthermore, economic resources are substitutable and can be shifted to alter the composition of output.

Fourth, and most significant, expectations of a major upsurge in military spending and of the institution of direct controls can set off price and demand reactions out of proportion to the government's use of resources. Consumers and firms naturally wish to protect themselves against possible price increases and shortages. Their attempts to do so can easily produce inflation and scarcities even when government procurement demands are modest.

This description of the psychological inflation of 1950-1 is taken from page 5 of The Economic and Political Hazards of an Inflationary Defense Economy, Materials prepared for the Joint Committee on the Economic Report by the Committee Staff, Joint Committee Print, 82d Congress, 1st Session, Washington, 1951, page 5:

"...the inflation experienced thus far owes its impetus to the civilian segment of the economy and has been the result (1) of 'scare' buying by consumers seeking to be 'sitting pretty' individually in a period of general shortage (to that end they borrowed, liquidated savings, and

scrambled

SECRET

SECRET

Appendix A

- 3 -

scrambled for merchandise); (2) of anticipatory buying, inventory accumulation, and speculation by business firms financed by phenomenal profits and abundant bank credit; (3) of a price push-up designed to forestall getting stuck with a 'low' price ceiling in the event of a freeze; (4) of rapid acceleration of construction of plant and equipment in order to "beat the gun" on materials controls and allocations; (5) of increases in materials costs and frenzied bidding for scarce resources and manpower; and, finally, (6) of investment shifts by individuals and institutional investors from liquid assets and fixed income securities into physical goods and equities. These inflationary forces set in motion by warranted expectations and unwarranted fears of what the Government might do, will be given the impetus of substantial Government deficits unless we pay as we go, tax heavily, increase production per man-hour, increase savings, contract credit, control the money supply, and effectively enforce direct controls over prices, wages, materials, and manpower."

B. Quantitative Projections for 1961-62

The existence of slack in the economy permits some additional defense spending without inflation. The danger of inflation can be appraised best through quantitative estimates of the consequences of a particular addition to the defense budget. In order to isolate the effects of defense expenditures themselves, the estimates assume away scare buying and hoarding by businesses and consumers. The further effects of a burst of spending by consumers are considered subsequently.

1. Impact of Expanded Military Spending

Since the added military needs to implement the Berlin capability are so uncertain, it seems wisest to cover a wide range by making "low" and "high" estimates of possible added defense outlays. The low estimate adopted here assumes an additional \$5 billion of defense spending in fiscal 1962 and \$3 billion in the first half of fiscal 1963 (\$6 billion annual rate). The high estimate calls for \$11.5 billion of

supplementary

SECRET



## SECRET

Appendix A

- 4 -

supplementary expenditure in fiscal 1962 and \$7.5 billion (\$15 billion annual rate) in the first half of fiscal 1963. The assumed quarterly patterns of added defense outlays are given below (in billions of dollars at annual rates):

Calendar Year Quarter	1961			1962		
	III	IV	I	II	III	IV
Low assumption	2	6	6	6	6	6
High assumption	4	12	15	15	15	15

These hypothetical increments can be linked to present projections of GNP based on the current budget outlook. With existing plans for Federal spending, GNP in real terms is expected to rise at an annual rate of 6 percent for the next six quarters, according to projections prepared jointly by the Bureau of the Budget, Council of Economic Advisors, and the Treasury Department. Since potential GNP rises at an estimated annual rate of 3.5 percent, the gap between potential and actual output is expected to narrow but to remain substantial through 1962. Unemployment is expected to remain at levels above 5 percent of the labor force, in contrast with the "full-employment" target of 4 percent. Potential GNP and current projections of actual GNP are shown in the first two lines of Table 1. These data are expressed in prices of the second quarter of 1961.

By raising private incomes, added military outlays would expand the demand for consumer and investment goods. If firms and households respond in a normal fashion to the expansion of their incomes, each extra dollar of defense spending would eventually increase GNP by a total of about two and a half dollars. Estimates of GNP in constant prices are shown in Table 1 for the low and high assumptions concerning incremental defense outlays.

With the low estimate of extra military spending, GNP for calendar 1962 is projected at \$561 billion (in constant prices) in contrast with the \$546 billion estimate based on the current budgetary outlook. Even with the increased \$15 billion of output, projected GNP remains below potential through 1962. Unemployment would probably get below 5 percent of the labor force in the second half of 1962, but it would be expected to remain above 4 percent. Furthermore, the largest prospective quarterly increase in output--3 percent in the last quarter of 1961-- could be

achieved

SECRET

SECRET

Appendix A

- 5 -

achieved without strain. Except for the possibility of bottlenecks and cost-push pressures, these developments are consistent with price stability. The danger of excess demand inflation appears slight.

Opposite conclusions emerge with the high assumption about defense spending. As shown in the table, projected GNP crosses potential in mid-1962 and exceeds potential by more than one percent at the end of 1962. Unemployment would have to fall to about 3½ percent by the end of the period to match the demand for output. While such a low unemployment rate is desirable in itself, it may be associated with a serious threat of inflation. Furthermore, the high estimates of defense call for a rise in output of 4½ percent in the fourth quarter of 1961 and a further increase of 3½ percent in the next quarter; growth at this rate could strain the economy. Unless private demand were contained by increases in tax rates or exceedingly tight money, inflation would be probable in the absence of direct controls.

2. Impact of "Scare Buying" and Reduced Savings Rate

The above projections assume "normal" responses in the private economy. Specifically, consumers are assumed to raise their spending in parallel with the expansion of their incomes, maintaining their saving at 7 to 8 percent of their disposable income. It is quite likely, however, that the prospects of a national mobilization effort would lead to "scare buying" and a resulting decline in the saving rate. Such a development would, of course, magnify the danger of inflation. To take a concrete example, suppose the saving-income ratio was reduced by 1½ percentage points in the current quarter and by 3 points in 1961-IV. A spending spree of this magnitude is quite conceivable, in light of the Korean experience reviewed below. The additional consumer outlays would add \$9 billion to expected GNP for 1961-III and \$22 billion in 1961-IV. As shown in Table 1, with the high estimate of defense, output exceeds potential in 1961-IV, and a 7 percent gain in GNP is required in that quarter. Rapid inflation would be inevitable in the absence of controls.

With the spending spree added to the low estimate of defense, expected output remains below potential, but the 5½ percent rise in real

GNP for

SECRET

SECRET

Appendix A

- 6 -

GNP for 1961-IV is inconsistent with price stability. Of course, the low addition to defense outlays might not provoke panic buying as readily as a larger military program. But if it were viewed as a harbinger of larger future outlays, it could provoke a strong psychological reaction of consumer demand.

The quantitative discussion above suggests that the major immediate threat of inflation associated with an accelerated defense program lies in the possible psychological reaction of consumers. The experience immediately following the outbreak of the Korean War provides ample evidence of such a subjectively-induced inflation. A review of the Korean period provides instructive background for the analysis of today's situation.

SECRET

SECRET

Appendix A

- 7 -

TABLE 1

Quarterly Projections of Gross National Product  
(in billions of dollars at annual rates in constant  
prices of 1961-II)

	1961			1962			
	<u>II</u>	<u>III</u>	<u>IV</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>
Potential (at 4% unemployment)...	559	564	569	574	579	584	589
Projected:							
With current budget outlook...	512	519	527	534	542	550	558
With low assumption of extra defense and normal responses.		523	539	549	557	565	573
With high assumption of extra defense and normal responses.....		526	550	569	580	588	596
With low assumption of extra defense and lower saving ratio.....		532	561				
With high assumption of extra defense and lower saving ratio.....		535	572				

SECRET

**SECRET**

Appendix A  
- 8 -

Table 2.--Key Economic Magnitudes, 1950 II-1951 IV

(Seasonally adjusted unless otherwise indicated)

Series	Unit or base	Data	1950				1951				
			1950 II=100				1951 II=100				
			III	IV	I	II	III	IV	I	II	
GDP in current prices.....	\$ Billions, current prices, annual rate	274.4	106.9	110.9	115.8	119.0	121.6	123.2			
Personal consumption expenditures..	"	189.9	107.6	105.4	111.4	108.2	110.0	112.4			
Durable goods.....	"	27.9	127.2	111.8	118.3	100.4	102.2	101.8			
Nondurable goods.....	"	97.7	105.7	104.4	112.8	110.6	112.1	115.4			
Services.....	"	64.3	102.2	104.0	106.2	107.9	110.1	112.4			
Residential construction.....	"	13.8	111.6	104.3	102.2	90.6	85.5	87.7			
Business fixed investment 1/.....	"	28.2	109.6	113.5	114.5	119.9	121.6	120.2			
Government purchases of goods and services.....	"	36.5	104.7	117.8	135.6	158.1	177.8	190.4			
Federal national defense.....	"	12.0	117.5	152.5	202.5	260.0	317.5	348.3			
GDP in constant dollars.....	\$ Billions, 1954 prices, annual rate	312.0	104.4	106.3	107.1	109.0	111.0	111.2			
GDP deflators.....	1954=100	87.9	102.5	104.4	108.2	109.2	109.7	110.9			
Personal consumption expenditures..	"	88.7	102.1	103.9	107.3	108.0	108.2	109.5			
Durable goods.....	"	93.5	101.6	103.6	107.0	107.7	108.6	109.4			
Nondurable goods.....	"	89.7	102.9	105.1	109.7	110.5	110.1	111.5			
Consumer price index 2/ 3/.....	1947-49=100	101.8	102.6	105.0	108.3	108.8	109.6	111.1			
Wholesale price index 2/ 3/.....	"	100.2	106.9	111.9	116.3	114.9	113.2	113.3			
Industrial production 2/.....	1957=100	74.7	105.6	108.0	109.5	108.8	106.8	108.3			

(Continued)

**SECRET**

Table 2.--Key Economic Magnitudes, 1950 II-1951 IV (Cont.)

(Seasonally adjusted unless otherwise indicated)

Series	1950 II		1950				1951			
	Unit or base	Data	III	IV	I	II	III	IV		
			1950 II=100							
Manufacturers' inventories <sup>2/</sup> .....	\$ Billions	29.7	104.4	115.5	124.2	134.3	141.1	144.1		
Finished goods.....	"	11.1	95.5	101.8	106.3	119.8	135.1	135.1		
Purchased materials.....	"	11.3	111.5	128.3	139.8	146.0	145.1	146.0		
Goods in process.....	"	7.3	106.8	116.4	127.4	138.4	143.8	154.8		
Trade inventories <sup>2/</sup> .....	"	24.6	106.5	118.3	128.0	129.7	127.2	125.6		
Absolute change from 1950 II										
Change in business inventories.....	\$ Billions, current prices, annual rate	4.9	.0	10.1	5.6	10.3	5.3	.0		
Nonfarm.....	"	4.2	-.4	9.6	5.1	9.8	4.9	-.4		
Durable.....	"	3.6	-1.1	7.2	1.4	7.0	5.2	-.2		
Nondurable.....	"	.5	.9	2.5	3.8	3.0	-.2	-.1		
Personal saving rate.....	% of disposable personal income	5.9	-3.1	2.2	-2.2	3.3	3.1	2.8		
Unemployment rate.....	% of civilian labor force	5.7	-1.0	-1.6	-2.2	-2.5	-2.5	-2.3		
Operating rate, major materials <sup>2/</sup> ....	% of capacity	93.2	4.8	6.7	4.1	5.2	3.2	1.9		

<sup>1/</sup> Producers' durable equipment plus construction excluding nonfarm residential.

<sup>2/</sup> Last month of quarter.

<sup>3/</sup> Not adjusted for seasonal variation.

Source: Council of Economic Advisers (based on data from various Government sources).

SECRET

Appendix A

-10-

C. The Korean Experience

Economic developments in the first half of 1950 and the spring of 1961 display many resemblances. Then, as now, there was a rapid recovery from recession. The 1948-49 recession ended its eleven-month life in October 1949; the trough of the recent slump was in February 1961. The 1948-49 and 1960-61 recessions were comparable in size; Gross National Product in constant dollars fell 2.3 percent from 1948-IV to 1949-II; the decline was 2.1 percent from 1960-II to 1961-I. The drop in industrial production amounted to 8.4 percent in 1948-49; in 1960-61, it was 8.0 percent. The percentage rates of unemployment (as a percentage of the civilian labor force) were strikingly alike: 6.8 and 6.9 for 1949-III and 1949-IV, respectively, are matched by 6.8 and 6.9 for 1961-I and 1961-II. The levels of unemployment indicate that slack in the use of labor was equally large in October 1949 and February 1961.

Figures on capacity operating rates in manufacturing, however, indicate that underutilization of capital was considerably more marked at the 1961 trough. Eight months intervened between the trough of the 1948-49 recession and the North Korean attack. Meanwhile, output gained very sharply. Real GNP posted gains of 3 percent in each of the first two quarters of 1950. Industrial production rose 15 percent from December 1949 to June 1950. In the second quarter of 1950, unemployment was down to 5.7 percent of the labor force. Thus far, 1961 has had four months of expanding activity. From March to May, industrial production matched the pace of the 1950 expansion; the rise in real GNP in the second quarter was a healthy 2 percent, but did not equal the rate of increase of early 1950. Unemployment has shown virtually no improvement to date and remains 6.8 percent of the labor force. The greater unemployment today, amounting to an extra one percent of the labor force, is evidence of far greater economic slack than existed in mid-1950. This is abundantly confirmed by Federal Reserve data on industrial output of major materials; in June 1950, production of these items amounted to 93 percent of capacity; the operating rate for May 1961 was 77 percent of capacity. Primary metals and coke production was at 97 percent of capacity in June 1950 in contrast with the May 1961 level of 68 percent. Full employment had not yet been achieved by mid-1950, but the distance to full employment was much shorter than it is currently.

The outbreak of the Korean War accelerated the growth of output and initiated a sharp rise in prices. In one quarter, from 1950-II to 1950-III, real GNP rose by more than 4 percent. The price index for GNP, which had remained stable through the first half of 1950, jumped by 2 1/2 percent in the third quarter. Developments in key economic magnitudes are shown in Table 2.

The defense

SECRET

SECRET

Appendix A

-11-

The defense effort could not directly have accounted for this spurt of inflation. For Federal spending on national defense rose modestly in 1950-III to \$14.1 billion (at annual rates) from the \$12.0 billion level of the previous quarter. Federal defense orders for hard goods were at a high level: \$4 billion of new contracts equalled about five times the amount of actual expenditure. These were expansionary factors, but the major responsibility for the inflationary spurt must be attributed to consumer behavior. Households saved only 2.8 percent of their disposable income in 1950-III, in contrast with the average saving ratio of 5 percent in the preceding two years. Their excess spending was directed principally at durable goods. The annual rate of auto buying rose from \$12.2 to \$14.9 billion, or 22 percent, from the second to the third quarter; outlays on furniture and household equipment soared by 37 percent from \$12.4 to \$17.0 billion. More than half of the gain in total real GNP occurred in the relatively small consumer durables sector. The rise in consumer outlays for nondurable goods was comparatively modest; all components of nondurables showed gains of 5 to 6 percent in 1950-III, only slightly exceeding the 4 percent rise in disposable income. Yet, because the prices of foodstuff, clothing, and other nondurable items are more flexible than the prices of hard goods, inflation at the retail level was more pronounced for soft goods. Prices for nondurable goods rose by an average of 2.9 percent in 1950-III; consumer durable goods experienced a price-increase of 1.6 percent.

In their hard-goods spending binge, consumers were motivated by attempts to stock up before shortages and large price increases would develop. Memories of the conditions prevailing during World War II were undoubtedly vivid. The magnitude and duration of the Korean crisis was uncertain. A new 1950-model refrigerator was excellent insurance against the possibility that no refrigerators would be manufactured for consumer use in 1951 or 1952. To an individual, such a purchase appears prudent; it is an act of hedging against inflation and shortages, not an attempt to speculate. In an economy where the consumer is normally sovereign, it is hard for any household to view the prudent management of its budget as an unpatriotic act. But, when all households act to beat inflation, they produce the very situation whose consequences they are trying to avoid.

There is surprisingly little evidence in the aggregate of similar activity by business firms in the summer of 1950. If enterprises

were engaged

SECRET



SECRET

Appendix A

-12-

were engaged in hedging or speculating activities, their efforts must have been frustrated. Outlays for business fixed investment continued on their trend with no apparent influence attributable to Korea: the 10 percent rise (in current dollars) during 1950-III was a bit less than the gain of the second quarter. Similarly, nonfarm inventory investment in the third quarter was slightly below the level of 1950-II: \$3.8 billion compared with \$4.2. Manufacturers' stocks of finished goods fell by \$0.5 billion from June to September; this was clearly an involuntary decline resulting from the unexpected strength of demand. The \$10.5 billion increase in stocks of goods-in-process failed to match the rate of rise in sales. Manufacturers' inventories of purchased materials rose sharply from \$11.3 to \$12.6 billion. This increase could reflect an attempt to stockpile materials, but the increase could well have been induced by the expansion of demand, since stocks of purchased materials barely kept pace with sales. With a few exceptions in retail trade, inventory-sales ratios in all sectors of business declined during the third quarter. The evidence indicates that firms typically responded to the buoyancy of consumer demand but does not suggest that they were initiating inflationary pressure. The consumer emerges as the villain of the piece.

Both output growth and inflationary pressure diminished during most of the fourth quarter. GNP rose 3.8 percent in current dollars, with price-rises and output-gains contributing equal shares of the increase. Consumers relaxed from their spending spree of the previous quarter, and saved 8.1 percent of their disposable income. Outlays for consumer durables fell 12 percent. Retail sales flagged in October and November. Although Congress had given the President power to control prices on September 8 with passage of the Defense Production Act, the waning strength of inflation made direct controls seem unnecessary. The key expansionary factor in this period was inventory investment. Stocks were accumulated at record annual rate of 15.0 billion dollars in 1950-IV, with the largest portion--10.8 billions--in durables. In that quarter, stocks of durable goods rose between 11 and 15 percent at the retail, wholesale, and manufacturing levels. Particularly large gains occurred in machinery and transportation equipment. In manufacturing, stocks-in-process, purchased materials, and finished goods expanded in parallel. Inventory-sales ratios rose throughout the economy. By year-end, they were still slightly below June levels in manufacturing and wholesale trade. In retail trade, inventory-sales ratios went above pre-Korean levels, providing some evidence of speculative stocking by retailers. Meanwhile, government outlays for

national defense

SECRET

SECRET

Appendix A

-13-

national defense began to register sizeable increases, expanding by 30 percent to \$18.3 billion (annual rate) in 1950-IV.

The Chinese entered the Korean War in late November, 1950. Prices and consumer demand responded almost instantaneously to the news. Retail sales jumped 7 percent (seasonally adjusted) for the month of December. The Consumer Price Index rose 1.3 percent in December in contrast with increases of half of one percent in each of the two preceding months. Direct controls on materials and prices appeared probable, and this expectation stimulated demand. It also encouraged firms to announce price rises at once in the anticipation of a possible price freeze. On December 15, 1950, the President declared a state of national emergency and stated his intention to impose price and wage controls.

On January 26, 1951, the General Ceiling Price Regulation was issued, and prices and wages were frozen. By this time, the Consumer Price Index was nearly 7 percent above the level of June 1950. Wholesale prices had risen 15 percent since June, and much of the increase had not yet been reflected at the retail level. It would have been infeasible and inequitable to place a solid freeze on retail prices when they were not in equilibrium with wholesale costs. Despite controls, therefore, retail prices were allowed to creep upward through the year. The Consumer Price Index rose another 1.2 percent in February 1951, and 2.9 percent more from February to the end of the year, even though wholesale prices fell somewhat from their peak of February.

All sectors of demand showed great strength in the first quarter of 1951. Consumers renewed their heavy purchasing, with particular emphasis on nondurable items such as food and clothing. The personal saving ratio fell to 3.7 percent. Inventory investment occurred at a 10 billion dollar annual rate and extended to all items and all sectors. National defense outlays rose by a third once again to reach a 24.3 billion annual rate. New defense contracts for hard goods doubled in the first quarter, reaching a level of nearly 9 billions. Expenditures for durable defense items also rose sharply, but were only one-sixth as large as contract awards. Unemployment reflected the expansion of the economy and fell to 3.53 percent of the labor force in 1951-I.

For the

SECRET

SECRET

Appendix A

-14-

For the remainder of 1951, real GNP expanded smoothly at an annual rate of about five percent. Inventory investment continued at a rapid rate. Consumer spending eased, however, with the saving ratio running near nine percent. The decline in real consumption permitted real defense outlays to rise by more than the total gain in GNP. Federal defense expenditure reached a 41.8 billion annual rate in 1951-IV.

Under the impact of direct controls and tightened monetary and fiscal policy, the inflation lost its vigor. Shortages were rare. Much of the upward movement of retail prices that followed price controls can be attributed to the previous rapid increase in wholesale prices. In retrospect, it seems clear that controls came too late. There appeared to be little need for them in the two months preceding the Chinese intervention, for inflation was abating. Much damage was done in the two months following Chinese entry into the conflict. It became apparent--the President even announced--that controls on prices and wages were imminent. Price stability is inconceivable in such a situation.

D. Lessons of the Korean Period

The chief lesson of the 1950-51 experience is that expectations of inflation and of direct controls can be powerful destabilizing forces. Furthermore, deliberations in Congress on appropriate anti-inflationary policy and statements by the Administration unavoidably hasten the inflationary process. Ideally, it would appear that the President should always have emergency powers to freeze prices and wages for a short period provided that he simultaneously asks Congress to legislate direct controls. Such emergency powers should be acquired at a time when there is no emergency and when nobody could expect that the President is about to use them. Otherwise, the mere request for such powers could provoke a spending splurge.

Optimal anti-inflationary policy cannot be legislated during a period of emergency. For example, a stiff and clearly temporary excise tax on consumer hard goods might have had highly beneficial effects in discouraging consumer buying during the summer of 1950. However, the mere mention of such a proposal by any responsible public official is bound to intensify consumer demand. People would then endeavor to beat the excise tax as well as higher price-tags and shortages.

The success

SECRET

SECRET

Appendix A

-15-

The success of the Korean program of direct controls, once it was instituted, may make it easier to stabilize the price level if another mobilization becomes necessary. Because shortages did not arise to any significant extent and prices did not climb much above their levels of late 1950, consumers did not profit from their buying spree. They may be less likely to swarm into hard-goods dealers in the event of a repetition of such a situation.

The relative ease of administering direct controls in 1951-53 owed much to the tightness of fiscal and monetary policy. Aggregate demand was kept in check by higher taxes and interest rates. The painlessness of controls then may make them more acceptable now. On the other hand, some groups would point to the fact that few prices were pressing against their ceilings after mid-1951, and would infer from this evidence that direct controls were unnecessary. They would argue that inflationary pressures had spent themselves by the time controls were imposed. The alternative argument is that the mere existence of price ceilings prevented speculative purchasing and that controls appeared unnecessary only because they were present.

The chronology of policy actions which follows gives the date and substance of each major stabilization step taken during the Korean period. It covers the monetary, fiscal and direct-control area separately.

SECRET

E. Chronology of Stabilization Actions After Outbreak of Korean Conflict Through 1952

1. Monetary Actions

<u>Date</u>	<u>Action</u>
<u>1950</u>	
Mid-August	The Federal Open Market Committee began to minimize purchases of short-term U.S. Government securities in its open market operations.
August 18	The Federal Reserve System announced its intention to "use all the means at their command to restrain further expansion of bank credit."
August 21-25	Discount rate of various Federal Reserve banks raised from 1-1/2 to 1-3/4 percent.
September 9	By Executive Order No. 10161 the President delegated authority to regulate real estate loans to Board of Governors and to the Housing and Home Finance Administrator.
September 9	President requests all citizens to cooperate in objectives of the Defense Production Act.
September 18	Regulation W, regulating consumer installment credit, was put into effect by Board of Governors.
October 12	Regulation X, regulating real estate credit, was put into effect by Board of Governors. Parallel regulations were put into effect by housing agencies for real estate loans made or underwritten by Federal agencies.
October 16	Amendments to Regulation W, tightening up terms on consumer installment credit, became effective.
November 14	Regulation X amended to except credit extended before May 1, 1951, in connection with properties on which construction was started before October 12, 1950.

SECRET  
Appendix A

-17-

<u>Date</u>	<u>Action</u>
<u>1951</u>	
January 11 - February 1	Effective on these dates, reserve requirements were raised 2 percentage points on demand deposits and 1 percentage point on time deposits.
January 12	Regulation of real estate credit under Regulation X and related housing agency regulations broadened to include residential properties with more than two family units.
January 17	Regulation T and U amended to increase margin requirements on listed stocks from 50 to 75 percent.
February 15	Regulation of real estate credit under Regulation X and related housing agency regulations broadened to include residential properties with more than two family units.
March 4	Federal Reserve and Treasury announce "Accord" on monetary and debt management policies, making it possible for Federal Reserve to pursue general monetary policies more effectively.
March 12	Formal program of voluntary credit restraint implemented.
July 31	Regulation W amended to bring regulatory limits within range set by Congress in the Defense Production Act Amendments of 1951. Terms on installment credit liberalized.
September 1	Regulation X amended in accordance with statutory changes made by the Defense Housing and Community Facilities and Services Act of 1951. Terms on housing credit liberalized.
<u>1952</u>	
May 5	Voluntary credit program terminated.
May 7	Board of Governors suspended Regulation W.

SECRET

SECRET  
Appendix A

-18-

September 16

Board of Governors suspended Regulation X.

2. Fiscal Actions

<u>Date</u>	<u>Action</u>
<u>1950</u>	
July 11	Secretary of the Treasury recommends that action on tax revision bill pending in Senate Finance Committee be held up.
July 25	President recommends revised tax bill to add \$5 billion annually to existing tax revenues.
September 23	Revenue Act of 1950 enacted into law increasing individual and corporation income tax rates. Added \$5.8 billion to revenues at calendar 1951 incomes.
October 1	Higher withholding tax on wages and salaries goes into effect.
November 14	President recommends enactment of a corporate excess profits tax to yield \$4 billion.
<u>1951</u>	
January 3	Excess Profits Act of 1950 enacted into law, estimated to yield \$3.5 billion annually.
February 2	President recommends broad increases in individual and corporation income taxes to yield \$10 billion annually.
October 20	Revenue Act of 1951 enacted into law yielding \$5.4 billion at calendar 1951 income levels.

SECRET

SECRET  
Appendix A

-19-

3. Direct Control Actions

<u>Date</u>	<u>Action</u>
<u>1950</u>	
September 8	Defense Production Act of 1950 approved.
September 9	Presidential message urging restraint in buying and selling; Economic Stabilization Agency and Wage Stabilization Board established.
September 15	Priorities Policy Determinations issued by the National Production Authority.
December 18	Voluntary pricing standards issued by Economic Stabilization Agency.
<u>1951</u>	
January 3	Defense Production Administration established.
January 24	Office of Price Stabilization established.
January 26	General Price Regulation issued, freezing prices as of January 25, 1951.  General Wage Stabilization Regulation #1 issued, freezing wages, salaries and other compensation as of January 25, 1951.
April 21	Wage Stabilization Board reconstituted.
May 10	Office of Salary Stabilization established.
July 10	Members of Salary Stabilization Board appointed.  General Salary Stabilization Order #1 issued.
July 31	Office of Rent Stabilization established.  Defense Production Act Amendments of 1951 approved.

SECRET



SECRET  
Appendix A

-20-

August 28

Defense Materials Procurement Agency  
established.

September 27

Railroad and Airline Wage Board established.

Date

1952

June 30

Defense Production Act Amendments of  
1952 approved.

December 6

Wage Stabilization Committee established  
to continue the functions of the Wage  
Stabilization Board.

SECRET

SECRET

Appendix B

IMPACT ON U.S. BALANCE OF PAYMENTS OF BERLIN  
PREPARATIONS

Current Balance of Payments Situation.

The balance of payments deficit continues to be a matter of serious concern. The U.S. balance of payments deficit is currently running at an annual rate of about \$1.2 billion as compared with \$3.8 billion during CY 1960. Much of the change is due to the conjunction of high levels of economic activity in other advanced countries with recession in the United States. The progress of recovery will bring an increase in U.S. imports during the second half of this calendar year. The over-all deficit (excluding special debt prepayments) will be approximately \$1.5 - \$2.0 billion for calendar year 1961, without taking into account the effect of Berlin preparations.

Current Level of Military Expenditures Entering Balance of Payments.

During fiscal year 1961 U.S. defense expenditures entering our balance of payments totalled approximately \$3 billion. These expenditures were partially offset by receipts from military transactions amounting to approximately \$300 million, leaving a net out payment in the balance of payments of about \$2.7 billion.

As shown in the table below, U.S. defense expenditures in NATO Europe entering the balance of payments amounted to approximately \$1.5 billion during FY 1961.

	(\$ millions)		
	<u>Germany</u>	<u>Rest of NATO Europe</u>	<u>Total</u>
Conversions of troop pay	248	192	440
Major Equipment & MAP/OSP	10	85	95
NATO Infrastructure	14	81	95
Construction	10	72	82
Contractual Services & Other Local Costs	<u>362</u>	<u>398</u>	<u>760</u>
	644	828	1,472

SECRET

SECRET

Appendix B

- 2 -

Balance of Payments Impact of Increased Deployment.

The above figures provide a rough guide for estimating the balance of payments impact of increased deployments. Deducting from \$1.5 billion, \$100 million of expenditures for major equipment and MAP/OSP (on the assumption that all major equipment for the additional troops would be purchased in the U.S. and the U.S. would not contemplate OSP as a means of assisting the military buildup of our allies), the net is \$1.4 billion. Using \$1.4 billion as the remaining balance of payments cost of the present 5 divisions, plus supporting troops and the present level of air and naval forces, one fifth that amount, i.e., about \$280 million, can be apportioned per division.

Accordingly, \$250-\$300 million per year is estimated as a rough measure of the cost to the balance of payments of stationing one additional division in Europe, together with supporting air and naval forces. There are additional factors which could affect the cost. Increased expenditure for construction, bringing present divisions up to full strength, and greatly increased requirements for tactical air strength could raise the figure above \$250-\$300 million. These added expenditures would be partly offset by savings on dependents, since it is assumed that dependents would not accompany the additionally deployed forces. Further savings would result from bringing home dependents currently in Europe. Stationing the newly deployed forces in temporary and inexpensive quarters might bring additional reductions in cost.

As a rough guide, however, an estimate of \$250-\$300 million per division would appear reasonable. For the four Alternatives, the estimates of additional annual balance of payments impact would be:

Alternative	I - 2 divisions	\$ 500- 600 million
"	II - 4 "	1,000-1,200 "
"	III - 6 "	1,500-1,800 "
"	IV -12 "	3,000-3,600 "

Recommendations on Costs of Increased Deployment.

Inasmuch as the proposed military preparations are directly related to the problem of Germany and BERLIN, we should look to the German Government for logistic and balance of payments assistance for additional U.S. forces deployed to Europe. The strong German reserve position of

more than

SECRET

SECRET

Appendix B

- 3 -

more than \$7 billion, the current balance of payments surplus of more than \$1 billion per annum, and the very high level of business activity make it feasible from both the fiscal and foreign exchange aspects for the Germans to provide such support. This would still leave the bulk of the budgetary burden of U.S. preparations on the United States (about 80 to 90%). It is recommended that immediately following the German elections, scheduled for mid-September, Chancellor Adenauer be informed that the U.S. expects the Government of the Federal Republic to provide assistance to offset U.S. dollar expenditures in connection with additional deployment of forces. GFR assistance is to include construction and contractual services costs; offsetting conversions of troop pay into foreign currencies, and additional procurement of military equipment in the U.S.

This German support would be in addition to measures currently being worked out for reducing the balance of payments effect of the troops currently stationed in Germany.

Impact on Trade and Services Transactions in Balance of Payments.

The present rate of deficit in the balance of payments is expected to widen later this year as a result of rising imports not fully offset by rising exports and a consequent narrowing margin in the merchandise trade surplus. The increase in Federal expenditures for Berlin preparations and the probably psychological reaction of business and consumers will accelerate the recovery in business activity in the United States. Higher levels of domestic activity can be expected to lead to a considerable rise in the physical volume of imports. At the same time the psychological effects of Berlin preparations, both in the United States and abroad, may be expected to lead to higher world prices, particularly basic materials. If U.S. domestic inflationary pressures become accentuated, these pressures will stimulate imports and inhibit exports.

The effect of all these factors could easily add substantially to the over-all balance of payments deficit of the United States, through a rise in the cost and quantity of imports and the cost of freight. However, a reduction in tourist travel to Europe and the potential increase in purchases in the U.S. by the producing countries would partially offset this increased expenditure. In Europe

inflationary forces

SECRET

SECRET

Appendix B

- 4 -

inflationary forces would also come into operation, but it is unlikely that further additions to the imports would help the U.S. trade balance appreciably.

In summary, the net adverse impact of Herlin preparations on U.S. trade and service accounts, even excluding military expenditures, could be substantial depending on the magnitude of the preparations and the corrective measures adopted.

Controls to restrict imports for balance of payments purposes were not considered necessary to deal with the substantial U.S. balance of payments deficits incurred during the Korean War and World II (although domestic restrictions in World War II gave the authorities considerable indirect control over imports). The imposition of such controls would represent a fundamental change in U.S. Policy and should not be taken except after the most careful consideration in an extreme national emergency.

Impact on Capital Movements.

A large part of the balance of payments problem last year resulted from speculative capital movements into European currencies and gold. The effect of heightened tension over Herlin on the financial markets has not been appreciable up to now, although some slight nervousness has been noted on the part of a few sellers of German Marks. On balance, the movement of capital has continued inward into Continental Europe. Herlin preparations might stimulate some movement of European capital into dollars or gold, especially the latter. However, it is doubtful that the United States is regarded as a safe haven, as it has been in the past. Continental European nations could withstand some reserve losses without difficulty, but the U.K. is already facing a serious exchange drain.

A rush into gold on the London Market and on Continental Markets would likely aggravate the dollar problem. It would probably be a more serious problem for the U.K., in accentuating the present stress upon the pound. To the extent that foreign central banks become nervous and move to convert dollars into gold, however, the U.S. could face the threat of a cumulative run on the dollar.

Both the German and Italian Central Banks have been very cautious in acquiring gold, and have been willing to hold large dollar balances.

The Swiss

SECRET

SECRET

Appendix B

- 5 -

The Swiss also are increasingly cooperating, but there are limits to the extent to which they will be willing to hold dollars rather than gold. A moderate build-up in gold reserves of the primary producing countries should not in itself occasion great concern on our part. Movement of funds out of Germany, as a result of the Berlin crisis, could indirectly occasion a drain of gold from the United States, if the funds were moved to countries whose central banks are less willing than the Bundesbank to hold their international reserves in dollars.

The additional credit facilities in the International Monetary Fund can hardly be expected to become available before the end of 1961 at the earliest. It is possible that in the event of emergency some special ad hoc arrangements could be made, but probably not in sufficient magnitude to deal with a very large speculative drain of U.S. gold.

The United States has taken action to make the holding of gold abroad for hoarding illegal by persons subject to U.S. jurisdiction. Demands for gold for hoarding may continue to come from the Middle East, the Far East and Continental Europe, and might push the price of gold higher on the London Gold Market. As in the case of the last quarter of 1960, such a development can contribute to speculation against the dollar, and decisions would have to be taken as to whether or not to permit a premium price to develop.

The main danger in a gold outflow arises from the fears that might be generated if the United States lost \$2 or \$3 billion of gold and approached the 25 percent gold cover level. While we still have about \$5½ billion in free gold above this limit, foreign countries may be concerned that we would apply exchange restrictions rather than break through this level. The President made clear in his State of the Union message last January that we were prepared to utilize our full gold reserves, if necessary, to support the dollar.

At the present time legal authority exists for the temporary suspension of the gold cover requirement. This authority is in the hands of the Federal Reserve Board, and the Board feels that this power was intended by the Congress to be used only for a very short period, and that Congressional action to regularize any such use would be necessary as soon as it were possible to do so. Congressman Multer proposed at this Session a bill which would eliminate the gold cover

requirement, but

SECRET

SECRET

Appendix B

- 6 -

requirement, but no action has been taken on the bill by the Congressional Committees because soundings determined that there would be considerable opposition among many small bankers, particularly in the middle west, and among many conservative members of the Congress.

During World War II the Congress reduced the gold cover requirement from 40 percent to 25 percent, in order to make available more gold which was then needed to acquire essential imports from foreign countries. Should the present situation really develop into a substantial gold outflow, despite the cooperative efforts of other monetary authorities, it may become important to give greater emphasis in some way to the determination of the United States not to impose exchange restrictions and to be prepared to reduce the 25 percent gold cover requirement to free gold for international use. The Treasury and the Federal Reserve System might be asked to give further consideration to this general subject.

Recommended Actions to Meet a Large Outflow of Gold.

1. Upon the public announcement of Berlin preparations, consult with European monetary authorities to encourage them to hold any large temporary accumulation of dollars in the form of Treasury bills or other dollar securities rather than converting them into gold.
2. Press to completion multilateral agreements to provide additional standby resources in the IMF under which the United States could, in effect, borrow the needed European currencies and avoid or fund dollar accumulations resulting from large capital movements.
3. If the capital movement should take the form of very heavy demands for gold for private hoarding, which is now illegal on the part of U.S. citizens, give consideration to international action to close down the London Gold Market and allow a premium price for gold to develop, as was the case in the early post-war period.
4. In the event of very large losses of gold amounting to \$2 - \$3 billion, utilize the existing emergency authority in the Federal Reserve Board to suspend the gold cover, and follow this by Congressional action to reduce this gold cover requirement for the duration of the emergency.

SECRET

SECRET

Appendix B

- 7 -

5. In addition to the foregoing, in a critical situation the President and the Secretary of the Treasury might find it necessary to utilize the broad powers they possess, under the Trading With the Enemy Act and the Gold Reserve Act, over external financial transactions.\*

---

\* The authority to embargo capital outflows is as follows:

1. Under Section 3 of the "Gold Reserve Act of 1934" the Secretary of the Treasury, with the approval of the President, prescribes conditions under which gold may be "acquired and held, transported, melted or treated, imported, exported, or earmarked...by the Federal Reserve banks for the purpose of settling international balances," as well as for various other purposes. The regulations may make exceptions for various countries outside the United States. By means of these regulations it appears that the Secretary of the Treasury may, in effect, place an embargo on gold outflows to such countries and central banks as he desires

2. Under the "Trading and the Enemy Act" the President has sweeping powers to regulate or prohibit any form of capital transactions with any country. These powers can be exercised during time of war or during any other period of national emergency declared by the President.

We are told that the formal proclamation of emergency declared at the beginning of the Korean conflict has never been repealed and could be used as a basis for a "national emergency" under this Act. However, whether this is the case or not, the President has the authority to declare a "national emergency" such as would make this Act operative.

SECRET



ANNEX H

Information

SECRET

12

ANNEX H

INFORMATION PROGRAM IN SUPPORT OF BERLIN POLICY

SUMMARY

It is clearly desirable that an effective domestic and overseas information program be carried out in support of the political, economic and military actions undertaken by the United States and its Allies in relation to the Berlin situation. It should be the primary purpose of such a program to educate public opinion in the U.S. and overseas concerning the historical background of the Berlin issue, as well as the nature and implications of the Soviet threat of unilateral action to change the status of the city.

In organizing this information program it is contemplated that all appropriate U.S. public and private resources will be utilized and that these domestic resources will be augmented by facilities and resources which will become available as a result of coordination and cooperation with our Allies. Actions to be taken under the program will be designed to reach both the American audience and foreign target audiences. They will include such measures as the preparation and distribution of information materials on the Berlin question both here and abroad, periodic reports to the nation by the President and other key officials, briefing of representatives of American information media and non-governmental organizations, production of radio and TV shows on various aspects of the Berlin situation, coordination of the information activities of the U.S., Britain, France and Germany throughout the world and enlisting the cooperation of the member countries of NATO, SEATO, CENTO and OAS in support of the Western position on Berlin.

Many of the actions in the information program will be of a continuing nature while others will be dependent on actions in the political, economic and military fields.

SECRET

SECRET

- 2 -

DISCUSSION

It is desirable that the measures undertaken by the United States and its allies in the political, economic and military fields designed to cope with the developing crisis over Berlin must be supported by an adequate public information program. It should be the purpose of this program to present in simple but forceful fashion the basic historical facts relating to the Berlin situation - how the United States, Britain and France came to be in Berlin, what circumstances have necessitated our continued presence in the city and why it is vital to our own national security and to the security of the free world that we defend our position in Berlin at all costs. With respect to targets our information program must be designed to reach four audiences - the American public, public opinion in those countries allied with us in NATO, SEATO, CENTO, and OAS, the governments and peoples of the so-called uncommitted countries, and the people behind the Iron Curtain.

With reference to the question of phasing it is clear that many courses of action to be undertaken in the information field will not be confined to one phase of the crisis but will be of a continuing nature. In other cases, the decision as to whether certain courses of action are to be undertaken and the timing of such actions will be dependent upon developments which can not be foreseen at this time. Such factors as the exchange of further communications between the West and the Soviet Union, the presentation of new proposals by either side, the possible development of a Foreign Ministers Conference or a summit meeting will clearly affect the nature and timing of propaganda actions. With these considerations in mind, the following schedule of actions is presented.

PHASE I

Present to September 17

During the initial phase our primary task will be to state the essential facts of the Berlin issue and to explain in terms which the various target audiences can understand the nature of the Soviet threat and its implications for them and for world peace. Stress should be placed on the human aspects of the Berlin situation without, of course,

detracting

SECRET

SECRET

- 3 -

detracting from the juridical basis of the Western case. We should also emphasize that the threat to BERLIN is of Soviet manufacture. A suggested list of themes to be employed by Western spokesmen and information media is appended to this report. It might be noted that these themes have already been circulated to our missions in the NATO countries and to our posts in Belgrade, Bern, Moscow, New Delhi, Stockholm and Vienna.

1. Background Pamphlet on Berlin

A background pamphlet should be produced setting forth the basic historical facts of the BERLIN situation and presenting a well-reasoned explanation of Western policy on the BERLIN issue.

This publication should be widely distributed to opinion-molding groups in the American community, such as newspaper editors and publishers, radio and TV commentators, foreign policy associations, world affairs councils and similar organizations interested in international developments, key officials of the AFL-CIO, the principal religious groups and other non-governmental organizations with which the Department of State maintains liaison. The pamphlet should also be sent to all members of both houses of the Congress. (Action responsibility: State.)

As soon as the pamphlet is completed, it should be appropriately adapted and reproduced in foreign language versions for selected distribution by USIA through its overseas posts. It might be noted that this was done in the case of the pamphlet entitled, The Soviet Note on Berlin - An Analysis.

(Steps to implement this action are already underway. Mr. Ernest Lindley, now assigned to S/P in the Department of State, is preparing the first draft).

2. Preparation of Feature Articles on Berlin

Efforts should be made to stimulate the publication of feature articles on various aspects of the BERLIN issue by both newspapers and periodicals. (Action responsibility: State, USIA.) (Note: This action has already been initiated by both agencies.)

3. Expanded

SECRET

SECRET

- 4 -

3. Expanded Public Speaking Program

Immediate plans should be made to expand the public speaking program of the Department of State. To carry out such an expanded program consideration should be given to assigning to the Speaking Arrangements Section of the Department for periods of one or two months Foreign Service Officers on home leave or between assignments. As an important part of this program, influential platforms should be obtained for high-ranking officers of the Department, including the Secretary, the Under Secretary, the Counselor and other top officials. Efforts should also be made to enlist the services of specialists outside of the Department, such as Dr. Henry Kissinger and Dr. Hans Morgenthau. (Action responsibility: State.)

4. Briefing Conferences

By way of augmenting an expanded public speaking program special periodic conferences should be arranged for the purpose of providing thorough, authoritative background briefings on the Berlin situation for representatives of United States information media (press, radio, TV) from all parts of the United States, as well as for representatives of key non-governmental organizations.

In this same connection arrangements should also be made for regular background briefings in Washington for selected American and Allied correspondents accredited to the Department of State.

Such briefing will not only serve to keep the American public accurately informed concerning developments relating to Berlin but will provide a ready means of explaining the United States policy position on the Berlin issue. (Action responsibility: State, USIA.)

5. Presidential Reports to the Nation

The President should plan to make periodic reports to the nation on the Berlin situation. These reports could take the form of fireside chats as well as the customary statements at the beginning of Presidential news conferences.

It is recommended that the first of these reports be made shortly after the publication of the United States reply to the Soviet aide-memoire, perhaps in the form of an address to a joint session of Congress. (Action responsibility: White House.)

6. Special

SECRET

SECRET

- 5 -

6. Special Radio-TV Programming

In support of the President's reports to the nation, a carefully spaced series of radio-TV speeches should be scheduled by appropriate members of the Cabinet including the Secretaries of State and Defense and the Director of USIA .

Cooperation of the major radio-TV networks should be enlisted with a view to producing a series of network shows dealing with various aspects of the Berlin situation. These presentations could include panel discussions and documentary films. (Action responsibility: State, Defense.)

7. Instructions to United States Chiefs of Mission

Appropriate briefing material should be sent to the Chiefs of United States Missions overseas for the purpose of providing them with the essential facts relating to the Berlin situation and the basic elements of the Western position on Berlin.

Mission Chiefs should be instructed to approach appropriate officials of the governments to which they are accredited with a view to explaining to them the background of the Berlin problem, and, where appropriate, pointing up the nature and implications for their countries of the Soviet threat.

Mission Chiefs should be urged to exercise initiative in presenting the Western point of view on Berlin developments in contacts with prominent individuals and groups in the local community. In this connection speech outline material should be provided which could be adapted for local use. (Action responsibility: State, USIA.)

8. Provision of Background Material to Foreign Media

United States Missions abroad should make available on a continuing basis, to local information media and to opinion molders (individuals and organizations) appropriate information materials relating to the Berlin situation. Such materials should include books, pamphlets, and other publications, film strips and documentary films. (Action responsibility: USIA.) (Note: Preparation of these materials is already underway.)

9. Enlisting

SECRET

SECRET

-6-

9. Enlisting Support of NATO Allies

Through our Permanent Representative to the NATO Council we should immediately encourage all member countries of the Alliance to draw upon their information media resources to promote the Western position on Berlin both domestically and, where appropriate, through their overseas posts.

Arrangements should be made within NATO for a continuing exchange of information on the psychological and propaganda aspects of the Berlin situation. NATO-wide on the spot coordination through NATO country diplomatic missions in certain key capitals should also be considered. (Action responsibility: State.)

10. Quadripartite Coordination of Information Activities

An effort should be made to coordinate U.S., British, French, and German information activities relating to Berlin in order to assure the maximum use of available resources and uniformity in propaganda themes and treatment. While such coordination should be carried out principally on a government-to-government basis, coordination of the information activities of the four powers in the field should also be encouraged. There will be cases in which the information activities of one of the four governments in a given area may for historical or cultural reasons prove more effective than that of the others. In other cases, the facilities and resources of the four may differ, thus making local cooperation desirable. (Action responsibility: State, USIA.)

11. Provision of Background Material to SEATO, CENTO, and OAS

While for various reasons it may not be practical to attempt coordinated information activities within SEATO, CENTO and OAS on the Berlin issue, steps should be taken to make suitable background material on the Berlin problem available either through our representatives to these regional organizations or through appropriate liaison arrangements. (Action responsibility: State, USIA.)

12. Supporting Role of RFE and Radio Liberty

Arrangements should be made to provide RFE and Radio Liberty with adequate background material on the developing Berlin situation so that these stations will be in a position to lend effective support to the Allied position in their broadcasts to the Soviet Union and Eastern Europe. (Action responsibility: State.)

13. Organization

SECRET

SECRET

-7-

13. Organization of Trips to Berlin

In view of the demonstrable success of the German program of 1958-1959 under which foreign journalists were brought to Berlin as guests of the city of West Berlin to obtain a first-hand insight into the Berlin problem, it is recommended that efforts be made to reinstitute a similar program in the immediate future. The Federal Republic has indicated its willingness to finance such a program again but it may be necessary to exert some friendly pressure to ensure the resumption of a visits program.

(Action responsibility: State, USIA.)

14. Suggested Themes for Use by Western Spokesmen and Information Media

The following is a list of suggested themes relating to Germany and Berlin to be employed by Western spokesmen and information media, as appropriate, in presenting the Western case. This list is not intended to be exhaustive and it is anticipated that other themes or variations of themes will suggest themselves as the crisis develops.

1. There is no need for a Berlin crisis: if one develops, it will be artificial and made in Russia.

2. The apparent reasonableness of Soviet proposals covers a calculated plan to usurp essential Western rights and to deprive two and a half million people of their only effective guarantee for freedom.

3. In proposing a so-called "free city" solution for West Berlin the Soviets are seeking to extend to West Berlin the control of the dictatorial Communist regime of East Germany which is totally unrepresentative of the 17 million people over which it holds sway. The true nature of this regime is clearly demonstrated by a study of the biographies of the individuals who head it. Its unrepresentative character is demonstrated by the flight of over two and a half million of its citizens since 1949.

4. The Russian assertion that West Berlin is part of the territory of the D.D.R. is quite untrue. They offer a "Free City of West Berlin"

SECRET

SECRET



SECRET

- 8 -

as a "concession"; in fact they ask us to give up our absolute rights for a doubtful leasehold with a built-in risk that this is a first step towards swallowing up West Berlin.

5. The West certainly do not desire war, nor will there be war if the basic situation is left as it is. But we are determined to take any necessary steps to safeguard our position.

6. The Soviets justify their demand for the conclusion of separate peace treaties with the "two German States" by the alleged "Militarism" and "Aggressive Plans" of the Federal Republic. This is an obvious pretext since the Soviet Union with its tremendous military potential can not and does not feel menaced by the Federal Republic whose defense forces are merely a component of the common NATO Defense System. The real aims of the Soviet demand are to perpetuate the division of Germany and to tighten its hold over Central and Eastern Europe in order to consolidate their basis for further advances into Western Europe.

7. Berlin may seem a remote European problem, but Mr. Khrushchev is playing with fire. If he persists he may bring us close to nuclear war. This will affect all the peoples of the world. It is important therefore that they realize clearly what are the issues involved and leave Mr. Khrushchev in no doubt of their feelings.

8. The Soviet position in Germany can be depicted in terms of imperialism. The West are striving for the self-determination of all Germans which the Russians have constantly frustrated.

15. Steps should be taken to increase instability in East Germany and in the Eastern European satellites and to make the Soviets aware of the dangers of such instability. It is believed that this action can be carried out more effectively overtly rather than covertly, possibly through high level public statements expressing our hope that not only the people of East Germany but those of all of Eastern Europe may ultimately again enjoy the rights of self-determination. In this connection reference should be made to repeated Soviet demands for self-determination for all colonial areas. We should respond to these demands by calling upon the Soviets to grant self-determination to their East German colony and to the disenfranchised millions in their Eastern European empire.

(Action responsibility: White House, State)

SECRET

**ANNEX I**

**Negotiations**

SECRET

- 1 -

ANNEX I

PRELIMINARY CONSIDERATIONS ON THE TIMING AND NATURE OF  
NEGOTIATIONS ON BERLIN

I. General

1. The essential purpose of any Western program of action on Berlin must be to create a situation within which successful negotiations can take place. These might have a greater or lesser degree of formality, but would at a minimum have to provide a means of arriving at governmentally-approved agreements or understandings. Our objective in such negotiations would be to maintain the Western position in Berlin and free access thereto without paying an unacceptable price.

2. Negotiations should ideally occur at the point of maximum effectiveness of the western deterrent. It will be difficult, however, to know with any precision when this optimum point is reached, since it will largely involve the psychological state of the Soviet leadership. Until Khrushchev is persuaded, or at least fears, that the United States can, and will do, whatever is necessary to prevent his having his way with Berlin, negotiations will almost certainly not lead to an arrangement acceptable to the West.

3. From a practical point of view, however, we might find it necessary to enter into negotiations at an earlier stage. Our willingness to do this may be important to mobilizing Western support for a firm position. The pressures toward negotiations which can be generated in a situation of growing crisis are considerable. They will be particularly strong if the Soviets themselves seem to be asking for negotiations, and if, as prior to the Geneva Conference of 1959, they appear willing to withdraw the ultimative features of their threat.

II. Early Negotiations

A. Geneva-Type Conference:

4. Any negotiations which might take place within the next few months are unlikely to lead to conclusive results barring some early shift in the basic Soviet assessment of the situation. We could presumably get into such negotiations either because of the

pressures

SECRET

SECRET

- 2 -

pressures of world opinion, the pressures of our Allies, or because we ourselves felt that entering into discussions constituted a necessary part of our public propaganda posture. We might also wish to use them to gain time, to stretch out the progression from stage to stage of the Western program, and to define our objectives more clearly. Under such conditions, we might envisage a conference of the kind through which the Four Foreign Ministers went in the spring and summer of 1959 at Geneva. In such a conference the Western Powers would attempt to achieve as wide a public understanding and support of our position throughout the world as possible. They could also use the occasion to try to ascertain more clearly what the basic Soviet objectives might be and what might eventually be the outline of some acceptable arrangement, but such an arrangement would probably not emerge as a basis for negotiations during the conference itself.

5. An important consideration at such a conference would be the propaganda effect of Western proposals. The Western position would, therefore, ideally display some imagination and initiative, yet at the same time not expose for premature rejection by the Soviets proposals which, at a later stage, the West might wish seriously to consider as a basis for an arrangement with the Soviets. Here would be the occasion for presentation of a revised Western Peace Plan, an all-Berlin proposal, an all-German or all-Berlin plebiscite proposal, and other proposals with some appeal to world public opinion but unlikely to be negotiable with the Soviets (drafts of these exist or, in the case of the Peace Plan, the German Foreign Office is preparing a streamlined version).

6. A major difficulty in the staging of such a conference would be to have it break up under such conditions as would not accelerate the onset of the crisis. If the Western deterrent had not yet reached a point where the Soviets would at least hesitate about pushing ahead with their threat to sign a peace treaty with the GDR, they would then presumably take action to call such a peace conference.

7. An additional problem would be the inevitable wave of hopefulness which any conference or meeting will engender throughout the world. The counsels of relaxation will be strong, and the Soviets may do their best to conjure up some new "spirit" such as that of Geneva (1955) or Camp David (1959) to keep the

West

SECRET

SECRET

- 3 H

West off-balance. But this sort of thing has never yet created pressures on Western leaders to grant unwise concessions which they would otherwise have been able to resist.

B. Proposal to Call a Peace Conference or to Engage in Discussions on Peace Treaty

8. A somewhat different kind of Western initiative, interest in which has recently been revived by Governing Mayor Brandt of Berlin, would involve taking the counteroffensive against the Soviet campaign for a peace treaty. In a news conference on July 9, he stated that the Western Allies should consider calling a peace conference of all 52 nations who were at war with Nazi Germany. The West could take Khrushchev at his word, Brandt added. Such a move by the West would face Khrushchev with the question of what to do, according to Brandt. Another idea, he noted, would be for the West to circulate the skeleton of a peace treaty for all Germany, just as the Soviets did some time ago.

9. Chancellor Adenauer has since strongly attacked Brandt's suggestion, and in the heat of the German electoral campaign it is hardly likely to receive much detached consideration on its merits. A paper on the general subject prepared some weeks ago in the State Department is available.

10. Moving then from these early activities to discussions conceived of as taking place at a later stage when we will know more about whether or not our deterrent can be made effective, we should realistically develop negotiating positions for each of three hypotheses:

a. The Soviets might be entirely impressed by the Western deterrent and thus seek some reasonably face-saving way out of the extreme posture to which they seem committed.

b. They might be entirely unimpressed by it and hence be encouraged to proceed with their maximum progress for unilateral action aimed at the Western position in Berlin.

c. Or finally, they might be left in a state of doubt about our intentions, both believing and disbelieving the statements they heard and the evidence which comes to them of

Allied

SECRET

SECRET

- 4 -

Allied preparations, and therefore be hesitant to move decisively without possibility of calling a halt but also unwilling to retreat or to accept any arrangement which could not be represented as a considerable achievement.

### III. Later Negotiations

#### A. Soviet Intentions

11. A necessary starting point for any formulation of Western negotiating positions must be some assessment of Soviet intentions in the Berlin crisis. There are two competing theories as to Soviet objectives: (a) that they are using Berlin essentially as a lever to achieve a wider purpose of obtaining recognition of the GDR and consolidation of the Satellite Bloc; and (b) that West Berlin is a primary object in itself because its continuance in its present form is so harmful to the East that it must be eliminated. The truth probably lies in some combination of the two and the West must presently base its calculations on such an assessment. Berlin is indeed a useful lever with which to attempt to gain a broader objective, whether it be the holding of a summit meeting, a greater measure of recognition for the GDR, or a stabilization of the status quo in Eastern Europe. At the same time, West Berlin's role as a channel for the flow of refugees, as a center of Western propaganda and intelligence activities and as a show-window which dramatically and daily highlights the relative lack of success in the East is such that the Soviets may feel that they cannot tolerate it for the indefinite future.

12. If this analysis is correct, the Western negotiating position should presumably contain two major components: (a) some all-German features; and (b) the elements of a satisfactory Berlin arrangement.

#### B. Maximum Effectiveness of Western Deterrent

13. If, through actions taken in the forthcoming months, the Western Powers can convince the Soviet Union that to proceed with their announced course will involve a grave risk of thermonuclear war, the Soviets may be amenable to some sort of face-saving formula which would allow the status quo to remain substantially unchanged while, at the same time, permitting them to claim that

they

SECRET

SECRET

- 5 -

they had been able to carry out at least some important features of their program. This contingency is probably an unrealistic one, and the most that can presently be looked for is the kind of Soviet uncertainty the implications of which are discussed later.

14. In the assumed optimum type of situation now being considered, however, it might be possible to achieve a tacit understanding with the Soviets so that the claimed effects of their signing a separate peace treaty with the GDR would be mitigated to the extent of preserving the essentials of the Western position in Berlin without an explicit new agreement. Assuming the Soviets' commitment to a peace treaty with the GDR to be an important one for them in prestige terms, we might take the line with them privately that we cannot, of course, stop them physically from signing a peace treaty with the GDR, although we could not approve or underwrite a treaty confirming the division of Germany and would have to oppose it publicly. On the other hand, we could point out that a major practical interest to us would be the effect which such a peace treaty would have on our position in Berlin. Provided that arrangements similar to those under the Bolz-Zorin exchange of letters were still continued in effect, the signing of the peace treaty need not necessarily precipitate a crisis involving our position in Berlin. We on our part could try to make the necessary adjustments.

---

1/ In a letter from the Foreign Minister of the German Democratic Republic (Bolz) to Deputy Foreign Minister of the Soviet Union (Zorin) September 20, 1955, it was stipulated that:

"The control of traffic of troops and material of the garrisons of France, England, and the United States stationed in West Berlin passing between the German Federal Republic and West Berlin, will temporarily be exercised by the command of Soviet troops in Germany, pending the conclusion of an appropriate agreement. To this end, the transportation of military personnel or of garrison material of the troops of the three Western Powers in West Berlin will be permitted on the basis of existing Four-Power decisions:

(A) On the Autobahn Berlin-Marienborn,

(B) On the

SECRET

SECRET

- 6 -

- (B) On the Railway Line Berlin-Helmstedt, with empty rolling stock being routed back on the Berlin-Oebisfelde Railway Lines,
- (C) In the air corridors Berlin Hasborg, Berlin-Bueckenburg, and Berlin-Frankfurt-Main."

---

15. Another conceivable type of face-saving formula for the Soviets under the most optimistic assumptions regarding the effectiveness of the Western deterrent might be simply an agreement that the four occupying powers meet regularly at such levels as may be agreed to consider the German problem as a whole as well as the extension and development of contacts between the two parts of Germany. West and East German advisers might participate in line with the formula developed for the 1959 Geneva Conference of Foreign Ministers. This might enable the Soviets to parade their virtue, stressing how in the interests of world peace they were willing to sacrifice just claims in order to have another attempt at settlement of the German question by negotiations, the real intent being merely to talk the subject to death in protracted discussions which both sides recognized from the outset could lead nowhere, while the status quo in Berlin continued unchanged.

C. Failure of Western Deterrent

16. A failure of the Western deterrent might derive from a collapse of nerve or general unwillingness of our NATO Allies to engage in a course of action in which they would consider the hazards far to exceed the objective to be gained. (Although this is obviously a crucial question, we may assume here that the US has decided not to go it alone.) Under these circumstances, although the cost in prestige would inevitably be very great, we would presumably be casting about for some means of extricating ourselves from an untenable situation in a way best calculated to maintain the Atlantic Alliance and to put the best face possible on a bad mess. Outright acceptance of the Soviet free city proposal would presumably go too far and provide too little camouflage. Moreover, we would presumably wish to move towards an arrangement not under the apparent threat of Soviet unilateral action but, if possible, within the context of formalized negotiations in which agreement would appear to emerge as the result of a certain process of give and take.

17. Under the

SECRET



SECRET

- 7 -

17. Under the circumstances indicated in paragraph 13, the Western Powers might find it desirable to consider some solution involving a change of status for the city of Berlin which would provide some protection for the liberty of the West Berliners beyond that involved in the Soviet free city proposal but at the same time be negotiable with the Soviets under the unfavorable assumption of a failed Western deterrent. Here such proposals as those for a "guaranteed city" or some sort of UN agreement, which under other circumstances might be unacceptable to the French or Germans and would cause grave problems within the Western Alliance if advocated at the present time by the US, might be tolerable as the lesser of evils.

18. The proposal for a "guaranteed city" represents perhaps the most acceptable arrangement on Berlin which can be devised involving a change of juridical basis for the Western presence in the city. In essence, it would involve agreement by the Four Powers to guarantee the security of Western military and civil access to West Berlin, with the Western Powers agreeing simultaneously to suspend the exercise of their occupation rights so long as the agreement was otherwise being observed. The West Berlin authorities would be empowered to request that foreign troops up to a stated ceiling be stationed in West Berlin and each Western Power would agree to supply and maintain any forces requested. Full and unrestricted access for these troops would be guaranteed. The agreement would be registered with the UN and a representative of the UN Secretary General might observe its fulfillment.

19. It is highly doubtful whether, under the unfavorable circumstances stipulated, such a proposal would actually be negotiable with the Soviets. It might well be that the only kind of arrangement acceptable to them would be one which combined a change in the juridical status of the city with departure of most Western forces, leaving a UN force which might include Western contingents.

20. Under the latter formula, perhaps the West could also suggest one of the possible types of UN presences which have been advanced as possibilities. These might range through:

a. Acquisition of all of Berlin by the UN as a World City, capital of the UN;

b. Transfer

SECRET

SECRET

- 8 -

b. Transfer of the UN Headquarters to Berlin, without necessarily changing the formal status of the city;

c. Establishment in Berlin of a European Headquarters for the UN, with conference facilities, a permanent staff, et cetera;

d. Transfer to Berlin of the headquarters of one or more UN specialized agencies;

e. Establishment in Berlin of a UN representative, as a UN "presence" in the city to investigate points of friction, et cetera;

f. A UN trusteeship, or some similar status, for Berlin.

D. Soviets in State of Doubt About Our Deterrent

21. A third and perhaps more likely possibility than either of the two extremes of maximum effectiveness (of our deterrent) or complete failure of our deterrent would be the development of a situation where the Soviets are left in a state of doubt about the credibility of our deterrent. Under these circumstances, they might be hesitant to move decisively without the possibility of calling a halt, but they might also be unwilling to retreat openly or to accept any arrangement which could not be represented as a considerable achievement of their objectives. Such a state of mind on their part could, of course, involve a greater or lesser degree of doubt and this would affect the specifics of what they might accept. Under such circumstances, the possibility might exist of working out an arrangement which would be tolerable for both sides while avoiding the kind of direct confrontation of force which would strain the Western Alliance to the breaking point or constrain the Soviets to test the seriousness of our intentions by counteracting forcefully our attempt to reopen access. Such an arrangement would tacitly concede that the Soviets can, whenever they wish, turn over their controls to the GDR, while conceding also that the Western Powers intend to hang on to the essentials of their position in Berlin. The most refined approach of this kind is the old Solution C of the April 1959 London Working Group Report. (A summary of this proposal is attached.) In essence it involves a series of interlocking but unilateral declarations on Berlin access aimed at achieving a freezing of existing procedures, with ultimate Soviet responsibility being maintained, although implementation might be by the East German authorities. Although it is possible to vary the complexity and specific content of this

approach

SECRET

SECRET

- 9 -

approach, for example, by adding similar unilateral declarations on propaganda activities and by introducing a UN role, the crucial access problem remains its focal point.

22. Mr. Acheson has suggested that certain additional face-saving elements might be added to Solution C, such as declarations on espionage and subversive activities, no nuclear weapons in Berlin, no increase of Western forces in Berlin, stationing of UN observers in Berlin and along the access routes and possibly some all-German features such as recognition of the Oder-Neisse boundary.

23. The advantage of Solution C is that it might also be introduced during the course of emergency negotiations with the Soviets just prior to their threatened signing of a peace treaty and turn-over of responsibilities to the GDR authorities, or even conceivably after the actual signature of a peace treaty.

24. Under the circumstances envisaged of Soviet doubt about our ultimate intentions but heavy involvement of prestige on their part, such an arrangement might prove the best available for cooling off the situation. As with any other arrangement on Berlin, no matter how favorable or unfavorable to the Western position, its basic viability in the long run would depend upon the maintenance of Western world power and firmness of will, given the presumed Soviet objective of eliminating once and for all the Western presence in Berlin and eventual absorption of the city into the Soviet Bloc.

25. In addition to the foregoing, a number of proposals for possible negotiating packages have been suggested as conceivable bases for arrangements on Berlin which might be acceptable to the West. Ambassador Thompson, for example, has suggested combining an extension of the time period in the Western Peace Plan to seven years with an Allied declaration reassuring the Soviets on the frontier question, a NATO-Warsaw Pact non-aggression agreement and an interim Berlin solution somewhat along the lines of the Western interim proposals at Geneva. Various additions or permutations can, of course, be made in such packages. A more radical approach has been suggested to include trading recognition of the GDR for a Berlin corridor, or trading termination of the occupation in Berlin for such a corridor. While these deserve further study, the dual problem of acceptability to our Allies and negotiability with the Soviets serves as a distinct limiting factor under present conditions.

ATTACHMENT TO ANNEX I

SECRET

SECRET

ATTACHMENT TO ANNEX I

SOLUTION "C": LONDON WORKING GROUP REPORT

1. Solution "C" was devised to cover a situation in which the Soviets were attempting to give up all their responsibilities regarding Western access to Berlin. Under their contingency plans, the Occupying Powers are prepared to consider the possibility of a solution in which the Soviets would expressly authorize GDR personnel to function as Soviet agents in performing Soviet functions with relation to the access of the Three Powers to Berlin. Solution "C" assumes that the Soviets are not prepared explicitly to nominate the East German authorities as their agents. In effect it is an attempt to consider what would be the absolute minimum Soviet commitment with regard to access which the West would, in the last resort, be prepared to accept. Solution "C" may be summarized as follows:

2. The Western Powers would inform the Soviets and subsequently make a formal declaration to the effect that:

a) they consider that they have absolute and unqualified rights, until Berlin is once more the capital of a reunified Germany, and that these rights include the right to have their troops remain in West Berlin and to have freedom of communications maintained between West Berlin and the Federal Republic in the same general conditions as hitherto;

b) they continue to hold the Soviet Government responsible for the fulfillment of its obligations to the Three Powers in relation to their presence in Berlin and freedom of access thereto.

3. The Western Powers would then state that they would be prepared to take cognizance of a declaration of the Soviet Government guaranteeing that free and unrestricted access to West Berlin by land, by water and by air would be maintained for all persons, goods and communications, including those of Western forces stationed in Berlin, in accord with the procedures in effect in April, 1959 and would not object if the East German authorities made a parallel statement to the same effect. The Western Powers would make it clear that the access procedures could thereafter be carried out by German personnel. (As a less satisfactory alternative, the Western Powers would be prepared to accept a Soviet declaration associating the Soviet Government with an East German declaration in accordance with the terms set forth above, previously made either to the Soviet Government or "to whom it may concern".)

4. The Western

SECRET

SECRET

Attachment to Annex I--pg. 2

4. The Western Powers would state that all disputes which might arise with respect to the above-mentioned declarations would be raised and settled between the four governments. (If the Soviet Government refused to accept this the Western Powers should say that, in order to have some check on the activities of the East German authorities, the Four Powers should request the Secretary General of the United Nations to provide a representative, supported by adequate staff, to be established in both West and East Berlin, and at the access check-points, for the purpose of reporting to the Four Powers concerning any activities which appeared to be in conflict with the above-mentioned declarations).

5. The above are the only essential elements of Solution "C". Tentative language for the declarations involved has been considered by the Working Group and texts could be produced at short notice once the principles had been agreed.

6. (In connection with Solution "C", it would be possible to introduce certain elements along the lines of the Geneva proposal of July 28, e.g., undertakings regarding force limitations and abstention from "questionable activities" on a reciprocal basis. But these are not essential elements of Solution "C".)

SECRET

**A N N E X J**

**Checkpoint Procedures**

14

SECRET

ANNEX J

ALTERNATIVE POSTURES CONCERNING EAST GERMANS ON ACCESS ROUTES

It has been requested that the Secretary of State submit recommendations concerning the posture which the US, UK, and France should adopt toward the appearance of East German personnel along the routes of access to Berlin following a "peace treaty." These recommendations were not requested for the NSC meeting of July 13, but it was suggested that the possible alternatives might be discussed in a preliminary way at that meeting in order to keep the framework of the other studies before the Council.

Present Plans

The basic tripartitely-agreed paper governing surface access procedures dated September 22, 1959, provides for two contingencies:

1. replacement of Soviet control personnel at the checkpoints on the Berlin-Helmstedt road and rail routes by East German personnel who, in the capacity of agents acting for the Soviet Union, will seek to check travel documents of Allied personnel; and
2. replacement of Soviet control personnel at checkpoints on the Berlin-Helmstedt road and rail routes by East German personnel who, although not acting as agents of the Soviet Union, will seek to control the travel of Allied personnel.

In the first case, that of explicit acknowledgment of agency relationship by the Soviets, the procedures to be followed will be those presently executed by Soviet control officials.

In the second case, involving denial by the Soviets that such an agency relationship exists, the agreed plans to be followed involve the use of the so-called "peel-off" procedure. In essence, this is intended to identify Allied movements as being entitled to unrestricted access to Berlin, and involves handing over to East German personnel at each checkpoint a copy of the Allied travel order but not accepting the stamping of a travel order as a condition of passage.

Physical Interference

It has been proposed that instead of present plans "persistent physical interference" with access to Berlin should be the point at which the West would have to demonstrate its determination. This proposal is made by some who

believe the

SECRET

SECRET

-2-

believe the present tripartitely agreed procedures for use in the event that an express agency relationship does not exist do not draw the line at a point which will receive public understanding and support in that they involve a procedural innovation likely to give rise to criticism that the West is making an issue of who stamps a document.

It is necessary to translate this criterion into concrete terms. Obviously, it has to be given some concrete embodiment if it is to be operationally useful. We would not wish to be in a position of being willing to meet any "GDR" demand provided only that the traffic keeps moving.

The obvious next point which can be defined with precision would be maintenance of existing procedures across the board, whether the "GDR" officials are acting expressly as agents or not on the basis of an imputed agency theory.

An important problem would be the development of some rationale for accepting present procedures from "GDR" officials in the face of an explicit Soviet denial that they are acting in an agency capacity. One possibility, of course, is that the West could simply take the position that we do not really care what the Soviets say about this. Facts are facts, and a basic fact is that the "GDR" is a puppet of the Soviet Union. Hence, any action involving the rights of the Occupying Powers in Berlin must be considered to involve the basic responsibility of the Soviet Union. In this matter, the "GDR" officials are not free agents but are subject to continuing Soviet control, just as the "Government of the GDR", despite "peace treaty" and all the rest, will continue to operate as a puppet, subject to policy direction from the Soviet Union.

Another possible approach which gets away entirely from any attempt to ascribe agency would be for the West merely to acknowledge that, while we cannot prevent the Soviets from signing a so-called "peace treaty" with the "GDR", we cannot accept that such a document could have any effect on our rights with respect to Berlin and access thereto. We might then say that we will insist on undisturbed physical access to Berlin, and as long as this continues under present procedures, we will accept the execution of these procedures by "GDR" representatives (or alternatively--it is a matter of indifference to us who executes these procedures). We will, of course, continue to hold the Soviets basically responsible for maintenance of our rights, including those of access.

Underlying Assumption

The underlying assumption of the existing contingency plans has been that, while the plans in their current form may have the effect of forcing the issue at a relatively early stage, they would also result in clearly exposing Communist intentions to interfere with Western access. A clear statement of the arguments for the existing contingency plans and for reopening them on this point is contained in another paper on this subject which says:

Present

SECRET



SECRET

- 3 -

"Present contingency planning contemplates that the Western powers will identify their military traffic to the East Germans, if they take over access functions from the Soviets, but not allow the East Germans to stamp Western papers, as the Soviets now do.

"The arguments for thus trying to limit the East Germans' role are impressive:

(a) If the East Germans insist on paper-stamping, the crisis will be brought to a head at a time when the Western powers are fully prepared--physically and psychologically--for counter-action.

(b) If the Germans back away from paper-stamping, the Western position will have been strengthened. For the debate between ourselves and the Soviets as to whether present procedures constitute merely identification of Western military traffic or 'control' of that traffic will have been resolved in our favor.

"The argument against this course of action is that it may be politically infeasible.

"The British have only agreed to present contingency planning under great duress; in an emergency, they would almost certainly propose that the East Germans be allowed to perform the functions which the Soviets now discharge. There would probably be considerable European press and popular support for the British position; there would be a disinclination for seeming to make paper stamping a casus belli, no matter how much we explained the underlying issue.

"The alliance would thus be divided over an essentially procedural question, at the very time when maximum allied unity was needed as a basis for possible armed action in defense of Berlin. The situation would be the more difficult since there might be some questioning in the US press, public and Congress as to whether we had really chosen the most suitable issue on which to fight. There would also be grave difficulty in making our position plausible to the uncommitted countries.

"All this

SECRET

SECRET

- 4 -

"All this would be apparent to the Soviets, and they would be encouraged to press ahead to exploit the Western disarray. In the face of Bloc pressures and allied disunity, it seems likely that the allies would eventually accept the same paper-stamping from the East Germans that they now accept from the Soviets. To avoid such a last minute change in our position under fire, it would be better to straighten out this issue beforehand."

Air Access

A related question is whether a substitution of "GDR" officials would be accepted in the Berlin Air Safety Center. This is not contemplated under presently agreed contingency planning.

SECRET

TOP SECRET

TOP

TOP SECRET