

October 3, 1957

MEMORANDUM

EYES ONLY

SUBJECT: Discussion at the 338th Meeting of the National Security Council, Wednesday, October 2, 1957

Present at the 338th NSC meeting were the President of the United States, presiding; the Vice President of the United States; the Secretary of State; the Secretary of Defense; and the Director, Office of Defense Mobilization. Also present were the Secretary of the Treasury; the Director, Bureau of the Budget; the Special Assistant to the President for Disarmament; the Acting Director, International Cooperation Administration; the Director, U. S. Information Agency; the Chairman, Council of Economic Advisers (participating in Item 1); Assistant Secretary of State Walter S. Robertson (for Item 2); James P. Richards, Special Assistant to the President (for Item 2); the Deputy Secretary of Defense; the Counselor, Department of State; the Chairman, Joint Chiefs of Staff; the Director of Central Intelligence; Special Assistants to the President Cutler and Dearborn; the White House Staff Secretary; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

There follows a summary of the discussion at the meeting and the main points taken.

- 1. U. S. GOLD RESERVES AND THE GROWTH OF U. S. FOREIGN LIABILITIES (NSC 5707/5; Memo for NSC from Executive Secretary, same subject, dated August 26, 1957)

Mr. Cutler indicated, in his short briefing of the Council on this subject, that Dr. Saulnier, Chairman of the Council of Economic Advisers, would present the report (copy of Mr. Cutler's briefing note filed in the minutes of the meeting).

Dr. Saulnier stated that this report, prepared by the Council of Economic Advisers, the Treasury Department, and the Bureau of the Budget, fulfilled the commitment for such a study, stated in our basic national security policy (NSC 5707/8) adopted last spring. He proceeded to explain the nature of the problem, and to give the basic facts, which he said were clearly set forth in the second table appended to the report. Dr. Saulnier indicated that two figures would suffice to state the nature of the trends in the relation between U. S. gold reserves and the growth of U. S. foreign liabilities.

DECLASSIFIED E.O. 12356, SEC. 3.4 (b)

MR 78-148-21 BY [signature] DATE 11/14/86

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The first set indicated that in 1947 the United States had \$3 in available gold for every dollar of foreign claims against this gold. By 1956 the situation had changed to the point where the United States had less than a dollar of gold in relation to each dollar of foreign claims. After stating the various reasons for this change, Dr. Saulnier pointed out that the over-all results were set forth on pages 12 and 13 of the report.

Thereafter, Dr. Saulnier turned to the conclusions of the report. No policy changes were recommended by the committee, but the committee had stressed the importance of developments in this field and called for continuous and close scrutiny. To emphasize his point, Dr. Saulnier read the last two paragraphs of the report. Dr. Saulnier then suggested that he might refer to more recent changes that have characterized the relationship between U. S. gold reserves and U. S. foreign liabilities. Thus, in March 1957, a small decline in net dollar holdings, the first in a long time, was observable. In point of fact, this decline set in toward the end of 1956 and continued at a somewhat lower rate into the second quarter of 1957. It was likely that in the third quarter of 1957 this trend would be stabilized, and there would be neither an increase nor a decrease in the level of U. S. foreign liabilities. These recent shifts were due in the first instance to a sharp increase in U. S. exports, accompanied by no change in the flow of imports into the United States. The shift also was to some degree the result of the flow of flight capital to the United States. It was of particular significance that the loss of gold claims has not been evenly distributed among the various countries. The large gainers were Germany, Canada and Venezuela. Very heavy losers were France, Japan, the United Kingdom, and certain others.

These recent developments, continued Dr. Saulnier, suggest that this is a two-way road with turns in it. Claims on U. S. gold can fall as well as rise. There are serious problems with the erosion of these claims on U. S. gold as well as with the accumulation of claims on such gold. We must therefore concern ourselves with the distribution of these claims as well as with their aggregate.

Mr. Cutler asked Secretary Anderson if he wished to make any comments. Secretary Anderson said he would confine himself to pointing out that one of the primary reasons for the reversal was the heavy payment to Venezuela for oil concessions. It was also significant that there were only two countries which represented solid monetary strength in the Free World, the United States and Germany. It was of vital importance that the United States maintain itself as a bulwark of economic strength for the Free World.

Apropos of this reference to Germany, the President inquired to what extent the deutschmark was being used in international trade as a substitute for the pound sterling. Secretary Anderson replied that the deutschmark was not being too widely used as an international

currency, but that we were very much concerned about the pound sterling, which is still a widely-used international currency.

Mr. Brundage said that he would expect dollar balances to continue to grow as the United States assumes more and more responsibility for international financing. Did Secretary Anderson think this was so? Secretary Anderson replied that he was not altogether clear that this would be the case, and he cited factors on both sides of the question.

Secretary Wilson said he had a couple of questions to put to Dr. Saulnier. First, what had happened to the total gold supply in the world in the period of the eight years given in the table of the report? Dr. Saulnier replied that the gold supply of the world had increased in this period, as a result of the mining of new gold. Secretary Anderson commented that the total world supply of gold was not growing at a very fast rate, perhaps \$35 or \$40 million a year.

Secretary Wilson said his next question dealt with the subject of our required gold reserves. Wouldn't the level of these reserves have to go up in the future? Accordingly, we must either change the ratio or get more gold. Otherwise the result would be an impasse in our gold supply.

The President reminisced that shortly after his election in the first term, he had asked his advisers to give him some ideas with respect to the free convertibility of gold. He hadn't derived much satisfaction from the answers of the experts. All that they had to say, in effect, was that the President should pray that no one ever really woke up to the fact that in essence gold is valueless--you couldn't eat it, you couldn't build things with it, or fire it in guns.

The National Security Council

Noted and discussed the report on the subject, prepared by a committee consisting of representatives of the Treasury Department, the Bureau of the Budget, and the Council of Economic Advisers, pursuant to the last paragraph of the NOTE BY THE EXECUTIVE SECRETARY in NSC 5707/8 ("Basic National Security Policy"), transmitted by the reference memorandum of August 26, 1957, and presented orally by the Chairman, Council of Economic Advisers.

2. U. S. POLICY TOWARD FORMOSA AND THE GOVERNMENT OF THE REPUBLIC OF CHINA

(NSC 5503; Memo for NSC from Executive Secretary, subject: "Report by the Interdepartmental Committee on Certain U. S. Aid Programs", dated December 5, 1956; NSC Actions Nos. 1314-a-(2) and 1624-c; NIE 43-2-57; Memos for NSC from Executive Secretary, subject: "U. S. Policy Toward Formosa and the Government of the Republic of China", dated September 9 and 19, 1957; NSC Action No. 1790)

In view of the length of his briefing of the Council on this subject at last week's Council meeting, Mr. Cutler's briefing note (which is included in the minutes of the meeting) was somewhat shorter in length. He also pointed out that Secretary Dulles had requested a delay in the Council action last week in order to ascertain the opinions of Under Secretary Herter and Mr. James P. Richards, Special Assistant to the President. He then called on Secretary Dulles.

Alluding to the fact that Under Secretary Herter and Mr. Richards had recently been in the Far East, Secretary Dulles said that the State Department had asked Mr. Richards in particular to study the situation on Taiwan in order to get a fresh appraisal of the effectiveness of our policies there. Accordingly, Secretary Dulles asked if Mr. Richards might speak first and give his impressions, after which he, Secretary Dulles, would like to make further comments.

Ambassador Richards indicated that he had stayed over on Taiwan for a longer period than Secretary Herter, in order to look more thoroughly into the situation on the island. From all the evidence that he, Mr. Richards, could find, he had come to the conclusion that it would be disastrous now to change our present policy with respect to Taiwan, though he said he did not know the precise limitations with respect to available appropriations for carrying out our policy in Taiwan. If, because of such limitations, any reductions have to be made in our assistance to Taiwan, such reductions should be made in a world-wide context and in terms of the Congressional Resolution (Public Law 4, 84th Congress). The Nationalists, continued Mr. Richards, had urged on him the view that discontent in mainland China might offer the opportunity for armed intervention by the Nationalists at some future time. Mr. Richards thought that we should take this view into account, as well as taking heed of the general situation in the Far East. Again he said it would be disastrous everywhere else in free Asia, and particularly in Southeast Asia, if the United States drastically changed its policies in Taiwan.

Whether in fact the Generalissimo will ever be able to return to the mainland was certainly a question. Nevertheless, if there was even one chance in ten of his successfully doing this, the United States should be in a position to take advantage of the opportunity.

At the conclusion of Mr. Richards' comments, Secretary Dulles spoke again. He first stated that Secretary Herter had asked him to report to the Council that he was fully in accord with the view that we should not change the missions of the GRC armed forces on Taiwan. Secretary Dulles continued that it was his own view that it would be a major disaster to our whole position in the Far East if we did change these missions. Secretary Dulles said it was not for him to state that we must agree to maintain certain GRC force levels, but certainly we should not change the missions of the GRC armed forces. Particularly, we should not change these missions by cutting out reference to the possibility of a Nationalist return to mainland China. It was indeed only this hope of a return to mainland China that sustains morale on Taiwan, even if the hope was remote.

Secretary Dulles then pointed out that the general situation from the U. S. point of view is quite different in Asia than in Europe. The Western European countries are much more solid in depth and strength, both militarily and otherwise. In Asia, on the other hand, only a series of small island and peninsula positions separate the United States from Communist positions in depth on the continent of Asia. The reason these small island and peninsula countries maintain their will to freedom is because of their hope that Communist China will one day blow up. Nor was this to be thought altogether a forlorn hope, as Hu Shih had recently pointed out in his address before the United Nations. What had happened in Hungary and Poland could conceivably happen in Communist China. If a blow-up occurred, Chinese Nationalist troops might find the great opportunity which they had been seeking. While we can all have our own views as to the likelihood that such things will come to pass, the fact remained that the Chinese Nationalists believe that this chance may be offered, and it is precisely this belief that sustains them in their resistance to Communism. If, by changing our policies, we destroy that Chinese Nationalist hope, we will at the same time destroy the capacity of the Chinese Nationalists for the defense of Taiwan itself. Beyond this, such a change in our policy would mean the abandoning of our whole Far Eastern position.

The President said that this was beginning to sound a little academic to him. Were we talking about reducing the GRC force levels on Taiwan?

Secretary Dulles undertook to explain to the President what the issues were. Mr. Cutler followed with a fuller explanation, in terms of the past history of our policies toward Taiwan. He cited paragraph 3 of existing U. S. policy toward Formosa, which set forth the missions of the GRC armed forces as follows:

"3. Continued development of the military potential of GRC armed forces (a) to assist in the defense of Formosa and the Pescadores and (b) to take action in defense of the GRC-held off-shore islands, equipped and trained to contribute to collective non-Communist strength in the Far East and for such other action as may be mutually agreed upon under the terms of the Mutual Defense Treaty."

Mr. Cutler then explained that the difference in interpretation of this paragraph derived from disagreement as to whether the contribution of the GRC armed forces to collective non-Communist strength in the Far East and for such other action as might be mutually agreed upon under the terms of the Mutual Defense Treaty, constituted separate and distinct missions, or were merely by-products of the first two missions of assisting in the defense of Formosa and in the defense of the GRC-held off-shore islands.

The President replied that this was not what he was asking about. Here in the Council we were writing a policy for ourselves, and we do not have any obligation to tell all about it to Chiang Kai-shek. What the President said he was after was the actual effect of our language, because he emphatically agreed with the State Department on the danger of destroying Nationalist hopes of an ultimate return to the mainland. This, of course, did not mean that we were obliged to tell the Chinese Nationalists everything else that we have in our mind about them.

At this point Secretary Dulles broke in to state that this was precisely the intention of the sentence proposed by the Bureau of the Budget in the proposed revision of paragraph 17 of NSC 5805, where it is suggested that we "make clear to the GRC that--except in the event of substantial change in the world situation or of conditions on the mainland of China--our future military and economic assistance programs will not be premised on the assumption of the GRC's return to power on the mainland."

Mr. Cutler explained the basis for the Budget's point of view as expressed above, and also called attention to the argument of the State Department representative on the Planning Board that we are already telling the Chinese Nationalists what the Budget proposes that we tell them in the Budget revision of paragraph 17.

Speaking with emphasis, the President said he heartily disagreed with the revision of paragraph 17 proposed by the Bureau of the Budget. Only the hope of ultimately returning to mainland China

sustains the morale of the Chinese Nationalists on Taiwan. The President added that of course this did not mean that we now propose to send them masses of military materiel for their use in an invasion of the Chinese mainland.

Secretary Wilson said that he had a point of view somewhat different from that of the President. While he understood the basis of Secretary Dulles' feelings, and had not seen the Generalissimo for some two years, he did believe that if we were realistic we should continue to budget our assistance to the Chinese National Government on about present levels, or even to cut these levels down somewhat in a quiet way. Not only were Chiang and his soldiers growing old; the day was coming soon when we were going to have to reapportion all our resources available for foreign assistance.

The President said that it seemed to him that as the island becomes populated more and more by native Taiwanese and less and less by mainland Chinese, the interest in returning to the Chinese mainland would proportionately lessen. Secretary Dulles replied to the President by pointing out that it was much more basic that if all hope of a Nationalist return to the mainland were to be destroyed the United States would lose the whole show in the Far East. We simply could not afford to permit the Chinese Nationalists to think we believe that a Communist China was a permanent feature of history.

Secretary Wilson asked Secretary Dulles for the factual basis of the view he had just expressed. Secretary Dulles replied that his view was based on the best judgment of our qualified political observers.

Mr. Cutler then stated that inasmuch as we had heard so much from the proponents of the broader interpretation of the missions of the GRC armed forces, it would be perhaps apropos to hear from Mr. Brundage on the narrower interpretation of these missions, which would confine them to the defense of Taiwan, the Penghus, and the off-shore islands, and stating that any other mission of the GRC forces was merely a by-product of these two missions and not a separate and distinct mission justifying additional build-up of GRC forces.

Mr. Brundage began by stating that representatives of the Bureau of the Budget who had made trips to Taiwan were convinced that Chiang Kai-shek was seeking more military power in order to launch a counteroffensive against the Chinese Communist mainland. Essentially, therefore, what the Budget was seeking was to guard against a further U. S. build-up of existing GRC forces rather than a reduction in existing levels. Of course, he added, the Budget Bureau would accept the judgment of the President and the Secretary of State in this matter, but he repeated that the proposed Budget

version of paragraph 17 of NSC 5503 was designed to prevent enhancement of the GRC armed forces rather than to suggest a retrenchment.

The President said that we were, of course, talking in this instance about a possible future emergency development in the shape of a Nationalist counteroffensive against the mainland. If such a thing eventuated, the United States must be prepared to rush amphibious equipment to the Nationalists. However, it did not mean that we now contemplated building up the Chinese Nationalists with a lot of military materiel designed for offensive action. We should provide Chiang Kai-shek with a limited capability in terms of amphibious equipment, but we should concentrate our assistance on the provision of defensive equipment. So we will be well-advised to talk about cases and facts in terms of actual equipment rather than in terms of missions. The President reaffirmed that he was dead set against the revision of paragraph 17 of NSC 5503 proposed by the Bureau of the Budget.

Mr. Cutler cited the figures which indicated costly programming and heavy U. S. expenditure for Taiwan over the three years through fiscal 1960, and the very considerable maintenance costs after that year. This certainly seemed to Mr. Cutler to involve the question of a modest cut in these programs and expenditures.

Secretary Wilson cautioned against moving too fast in making such cuts, for this would be bound to get us into trouble. Nevertheless, over the long haul we are leaning on a pretty weak reed in the shape of the Chinese National Government.

The President emphasized that in this context our main purpose was to maintain our hold on the off-shore island chain. It was in order to do this that we must let Chiang Kai-shek believe that he may ultimately succeed in getting back to the mainland. Secretary Wilson said he doubted whether Chiang really believed that he could ever stage a successful return to the mainland, and that his repeated allusions to the possibility were largely a matter of saving face.

Secretary Anderson said that he agreed with the President that we could not say to the Generalissimo that his hope of returning to the mainland was a forlorn hope, but we should supply as little materiel as possible to sustain this hope.

Secretary Dulles commented that there had been a very great improvement in economic conditions on Taiwan in recent years and months. Mr. Cutler pointed out, however, that in the attachment to Annex B of the Planning Board paper, the Treasury Department member of the Planning Board had expressed considerable doubt as to the State Department's contention with respect to economic progress in Taiwan.

Mr. Richards said he doubted whether anyone in Southeast Asia seriously believed that the Generalissimo would ever successfully return to mainland China, but he believed that the Generalissimo himself was genuinely sincere in his own belief that he would. What particularly bothers the Generalissimo is the sense of frustration now current on Taiwan. Accordingly, if the United States now acts further to destroy the hope of a return to the mainland, the effect will be to increase this sense of frustration. It was in this context that Chiang Kai-shek had asked him to tell the President of his hope for assistance in the training of Chinese Nationalist paratroopers. Such training would constitute visible proof that the United States had not given up hope of an eventual return of the Nationalists to the Chinese mainland. Chiang apparently had in mind a force of some 5000 paratroopers. This was, of course, a matter for the President and the Secretary of State to decide, but in any case Mr. Richards counselled that we avoid doing anything to increase the sense of frustration now widespread in Taiwan.

Governor Stassen commented that the problem could perhaps be solved by providing the Generalissimo with a few paratroopers and reducing the size of other units.

At this point Mr. Cutler summed up what he believed to be the Council's consensus with respect to paragraphs 3 and 13 of NSC 5503, where the views of the State Department and the Joint Chiefs of Staff seemed to have prevailed. He then said that he would take up two other proposed revisions in NSC 5503, which he believed were non-controversial in character. The first of these was concerned with paragraph 10 of NSC 5503, which Mr. Cutler read as follows:

"10. Seek to preserve, through United Nations action if appropriate, the status quo of the ROC-held off-shore islands. Provide to the ROC forces, military equipment and training to assist them to defend such off-shore islands, using Formosa as a base. U. S. forces will be used to assist the Chinese Nationalists to defend the ROC-held off-shore islands from Chinese Communist attacks whenever the President judges that such attacks are parts of, or definite preliminaries to, attacks against the main positions of Formosa and the Pescadores."

Secretary Dulles, however, did not regard the matter as non-controversial, and said he would rather have this paragraph follow Public Law 4 verbatim, because the statement of intention set forth in the text of Public Law 4 was more authoritative than the President's statement to the Congress as to how he would administer Public Law 4. There was no reason needlessly to curtail the President's authority, and there was much in the legislative history of Public Law 4 to justify his argument.

The President said that he couldn't see that this particular argument was of much substance. The statements in Public Law 4 and his own statement as to how this would be administered, amounted, as far as he could see, to very much the same thing. Mr. Butler then suggested that the text of the revised paragraph 10 follow the text of Public Law 4, but that there should be added a footnote which would cite the President's statement as to how he would apply his authority under Public Law --.

Secretary Dulles then observed that it seemed to him that the defense of all of the off-shore islands was now so complete and so integral a part of the defense of Taiwan, that it was not to be compared with the fluid situation of three years ago. Certainly as conditions existed today, said Secretary Dulles, he would say that if there were an all-out attack on Quemoy or the Matsus, the United States should not sit to one side and permit the loss of these islands, because their loss would surely result in the loss of Taiwan and the Penghus. It was for this reason that he preferred the broader language of Public Law 4.

With respect to paragraph 15 of NSC 5503, the Council agreed without discussion to accept the revision proposed by the NSC Planning Board.

The National Security Council:

- a. Discussed the draft report on the subject, prepared by the NSC Planning Board pursuant to NSC Action No. 1624-c, and transmitted by the reference memorandum of September 9, 1957; in the light of the views of the Joint Chiefs of Staff, transmitted by the reference memorandum of September 19, 1957, and the views presented orally by Ambassador Richards based upon his recent visit to Taiwan.
- b. Adopted the following amendments to NSC 5503:
 - (1) Paragraph 3, page 1: Revise to read as follows

"3. Continued development of the military potential of GRC armed forces: (a) to assist in the defense of Taiwan and the Penghus, (b) to take action in defense of the GRC-held off-shore islands, (c) to take such other action as may be mutually agreed upon under the terms of the Mutual Defense Treaty, and (d) to contribute to collective non-Communist strength in the Far East. Action with respect to (c) and (d) should be directed primarily toward, and limited to, what is deemed necessary to maintain the position and morale of the GRC."

(2) Paragraph 11, (b) - (c) - (d) - (e) - (f) - (g) - (h) - (i) - (j) - (k) - (l) - (m) - (n) - (o) - (p) - (q) - (r) - (s) - (t) - (u) - (v) - (w) - (x) - (y) - (z)

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(3) Paragraph 12, (a) - (b) - (c) - (d) - (e) - (f) - (g) - (h) - (i) - (j) - (k) - (l) - (m) - (n) - (o) - (p) - (q) - (r) - (s) - (t) - (u) - (v) - (w) - (x) - (y) - (z)

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(4) Paragraph 13, (a) - (b) - (c) - (d) - (e) - (f) - (g) - (h) - (i) - (j) - (k) - (l) - (m) - (n) - (o) - (p) - (q) - (r) - (s) - (t) - (u) - (v) - (w) - (x) - (y) - (z)

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(5) Paragraph 14, (a) - (b) - (c) - (d) - (e) - (f) - (g) - (h) - (i) - (j) - (k) - (l) - (m) - (n) - (o) - (p) - (q) - (r) - (s) - (t) - (u) - (v) - (w) - (x) - (y) - (z)

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Mr. Dulles compared the...
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International Development

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9. U. S. POLICY TOWARD LAOS AND VIETNAM
(NSC 5613, 1; Progress Report, dated September 20, 1954, by the
cc: NSC 5613/2)

The National Security Council:

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10. RESIGNATION OF CHARLES W. HENNING

The President... Secretary Wilson, although he... said that we had had great... Secretary Wilson, that we regard... Council's best wishes... either to visit or to work... contributions to NSC... Secretary Wilson replied that... remember with great... and with the President.

The National Security Council:

Noted the... resignation... with... only... to...

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future, and appreciate his...
NSC deliberations.

Richard Nixon
Secretary of State

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