

SOURCE:

National Defense University, S. Nelson Drew, ed.
NSC-68: Forging the Strategy of Containment
National Defense Press, Washington D.C., September 1994

112 FORGING THE STRATEGY OF CONTAINMENT: NSC-68

NSC-68/3 **8 December 1950**

Background

The interagency process did not respond smoothly to the directive to revise NSC-68/1. On 14 November 1950, the day before the revision was due to be completed, Paul Nitze's Policy Planning Staff submitted a draft of a new 78-page annex, "The Strategy of Freedom."¹⁰ In the meantime, the Joint Staff and the Defense Department had been unable to reach agreement on revised cost estimates for the defense portion of the NSC-68 programs. As a result, the deadline was slipped. Before the final report could be submitted to the President, the Chinese launched their massive counterattack against the UN forces on the Korean peninsula, prompting the President to seek an immediate supplemental appropriation of \$16.8 billion for the Department of Defense. The dramatically altered situation in Korea also lent new urgency to the

* The enclosure consisted of the conclusions of NSC 68, April 14, with a small number of minor variations in form.

¹⁰ This annex was not included in NSC-68/3.

NSC-68/3
8 December 1950

Background

The interagency process did not respond smoothly to the directive to revise NSC-68/1. On 14 November 1950, the day before the revision was due to be completed, Paul Nitze's Policy Planning Staff submitted a draft of a new 78-page annex, "The Strategy of Freedom."¹⁰ In the meantime, the Joint Staff and the Defense Department had been unable to reach agreement on revised cost estimates for the defense portion of the NSC-68 programs. As a result, the deadline was slipped. Before the final report could be submitted to the President, the Chinese launched their massive counterattack against the UN forces on the Korean peninsula, prompting the President to seek an immediate supplemental appropriation of \$16.8 billion for the Department of Defense. The dramatically altered situation in Korea also lent new urgency to the

* The enclosure consisted of the conclusions of NSC 68, April 14, with a small number of minor variations in form.

¹⁰ This annex was not included in NSC-68/3.

proposed U.S. military buildup, leading the Joint Chiefs and the Defense Department (now headed by George Marshall) to advance the target date for the forces called for in NSC-68/3 by 2 years, so that the levels projected for 1954 would be attained by June 1952.¹¹

When NSC-68/3 was completed on 8 December 1950, the Defense budget was still in a state of flux. Secretary of Defense Marshall provided a separate annex on Defense programs on 14 December. While this reflected the accelerated buildup, it still contained no new cost estimates; NSC-68/3 was approved without them.

Document

*Report to the National Security Council by the Executive
Secretary (Lay)*

[Extracts]

TOP SECRET
NSC 68/3

WASHINGTON, December 8, 1950.

NOTE BY THE EXECUTIVE SECRETARY TO THE
NATIONAL SECURITY COUNCIL ON UNITED STATES
OBJECTIVES AND PROGRAMS FOR NATIONAL SECURITY

- References: A. NSC 68 Series
B. NSC Actions Nos. 361 and 386
C. Memo for NSC from Executive Secretary, same subject,
dated November 14, 1950

The enclosed revision of NSC 68/1 on the subject, prepared pursuant to Reference C, by the NSC Staff with the assistance of representatives from the other departments and agencies participating in the NSC 68 project, is submitted herewith for consideration by the National Security Council, the Secretary of the Treasury, the Secretary of Commerce, the Economic Cooperation Administrator, the Director, Bureau of the Budget, and the Chairman, Council of Economic Advisers at the regularly scheduled Council meeting on Thursday, December 14, 1950.

¹¹ Marshall, George C. "Memorandum to the President by the Secretary of Defense, 14 December 1950." *Foreign Relations of the United States, 1950, vol. 1, 475.*

Also attached for information are the following appendices:

Appendix A—Tabulation of Approximate Costs of the Programs;

Appendix B—The Economic Implications of the Proposed Programs, prepared by the Chairman of the Council of Economic Advisers.

There is also being circulated separately, for information in connection with this report, a set of seven related annexes, prepared by the respective departments and agencies as indicated in each annex.

It is recommended that, if the enclosed report is adopted, that it be submitted to the President for consideration with the recommendation that he approve it as a working guide and direct its implementation by all appropriate departments and agencies of the U.S. Government.

It is requested that this report be handled with special security precautions, in accordance with the President's desire that no publicity be given the NSC 68 series without his approval, and that the information contained therein be disclosed only to the minimum number of officials of the Executive Branch who need to know.

JAMES S. LAY, JR.

[Here follows a draft report by the National Security Council on United States Objectives and Programs for National Security. For the text, as amended, see NSC 68/4, December 14, the report to the President by the NSC.]

Appendix A

Tabulation of Approximate Costs of the Programs

TOP SECRET

[WASHINGTON, December 8, 1950.]

The following tabulation of the approximate costs of the programs required to implement the policies outlined in NSC 68/3 over a five year period, is wholly tentative both with respect to the magnitude of the sums involved, and the rate of their expenditure. It is inserted solely to convey an idea of the general magnitudes likely to be required for the NSC 68 program according to current estimates of requirements. The four year projections for certain of the programs are subject to review in the light of the decision to accelerate the military program as rapidly as possible, and are currently being reappraised.

Approximate Costs of Proposed Programs
(In billions of dollars on an obligations basis)

<i>Programs</i>	<i>FY 1951</i>	<i>FY 1952</i>	<i>FY 1953</i>	<i>FY 1954</i>	<i>FY 1955</i>
U.S. armed forces*					
Foreign military and economic assistance	8.697	10.409	10.237	7.650	5.010
Information and educational exchange	.233	.193	.198	.200	.200
Civilian defense—					
Federal	.150	.486	.632	.452	†
State	—	.429	.615	.418	†
Stockpiling	1.800	1.000	1.000	.800	—
Internal security (excluding the Department of Defense programs which will be included in "U.S. Armed Forces")	.112	.154	.163	.170	.176

Appendix B

*Memorandum by the Chairman of the Council of Economic Advisers
(Keyserling)*

TOP SECRET

[WASHINGTON, December 8, 1950.]

Note: This is based on assumptions concerning the U.S. military programs which appeared most reasonable on the basis of the NSC Senior Staff meeting of Wednesday, December 6, 1950, namely:

- a) That the strength target for June 1952 would be 3.2 million men; and
- b) That the force targets for June 1954 set forth in NSC 68/1, dated September 21, 1950, would be accepted as targets for June 1952.

The broad calculations flowing from these assumptions were in large

* To be supplied by the Department of Defense. [Footnote in the source text.]

† The assumption is made that only recurring and maintenance costs will be incurred after FY 1954. [Footnote in the source text.]

measure based on Annex A to the NSRB document of December 4, 1950, entitled "Instruction for Preparation and Presentation of Programs and Program Requirements". This Annex represented a preliminary effort to translate these assumptions into terms of productive effort.

Should these assumptions be revised substantially upwards the attached document would, of course, require major revision.

THE ECONOMIC IMPLICATIONS OF THE PROPOSED PROGRAMS: REQUIRED
FISCAL, BUDGETARY AND OTHER ECONOMIC POLICIES

(Prepared by the Chairman, Council of Economic Advisers)

1. The top advisers to the President in the field of economic policy have been asked to register their appraisal of the economic impact and economic policy implications of the objectives of NSC 68/2, as approved by the President on September 30, 1950, and of the programs submitted in support of those objectives. It is not, of course, the function of such an economic appraisal to pass judgment on the adequacy of the recommended programs to meet the requirements of military and foreign policy in the light of the risks and needs outlined in NSC 68/2. If such an appraisal showed, however, that the recommended programs substantially exceeded our economic capabilities, or wrought damage to the economy to an extent endangering our general strength, they would clearly have to be brought into balance. Likewise, if such an economic appraisal showed that the recommended programs fell substantially short of our economic capabilities, or imposed a burden upon the economy light in relation to the seriousness of the clearly revealed and commonly agreed upon national danger, that conclusion should be revealed forthrightly as one guide in evaluating these recommended programs.

2. Because it has not been feasible, within the time available, for the Department of Defense to prepare procurement and expenditure estimates in support of the force and strength targets recommended for June 1952 and thereafter, only a few broad indications of economic impacts can be given at this time. From such preliminary calculations as can be made, however, certain broad conclusions emerge clearly.

3. The programs submitted in the report represent a relatively brief maximum effort toward a limited objective. The strength target of 3.2 million men for June 1952 represents about 4½ percent of the total labor force, as compared with over 17 percent (12.3 million men) during the peak of World War II, and about 6½ percent (3.9 million men) as of July 1, 1942. Military production at its peak would absorb not more than 15 to 20 percent

of the total steel supply, as compared with well over 50 percent during World War II. Yet production of ingot steel is now at an annual rate of 100 million tons, as compared with 89 million tons in 1944. The absorption of copper would be less than one-third of supply, as compared with two-thirds during World War II. The absorption of aluminum would also be less than one-third, as compared with over 80 percent during World War II.

4. The production rates required to achieve the targets indicated in the report would reach a peak in 1952 which would be substantially below our capabilities. Total budget expenditures on national security programs would probably reach a peak annual rate of about 70 billion dollars during the second half of the fiscal year 1952, or about 25 percent of total national output. If such expenditures were to reach the World War II peak burden of about 42 percent of national output, they would amount to about 130 billion dollars. If they were to reach the 32 percent level achieved during 1942, i.e., during the 12-months period following Pearl Harbor (when the number of men in the armed forces averaged 3.8 million men), they would amount to about 100 billion dollars. Such calculations are, of course, only illustrative. They indicate quite clearly, however, the limited character of the effort implied in the programs recommended in the report.

5. This relatively limited character of the programs does not, of course, mean that their impact on civilian consumption would be negligible. In order to free the materials necessary to support the productive effort implied in these programs (with no allowance for stockpiling), the production of automobiles and of other metal-using consumer goods would probably have to be cut below their 1950 levels by sixty percent or more. Housing would have to be cut by more than one-third. The production of civilian radios and television sets would have to be cut by much more than this, if not eliminated entirely, in order to meet military demands for electronics.

6. Although these represent very sharp cuts in individual items below the record-breaking levels of 1950, the general civilian consumption standards which would be possible under the proposed programs could hardly be described as austere, even if the relatively comfortable standards of World War II in this country were taken to represent bedrock austerity. By the standards of any other country in the world, they could only be described as luxurious. Aggregate personal consumption in 1952, although substantially different in composition and somewhat less satisfactory to consumers, would be within 10 percent of the 1950 level. It would be nearly one fourth greater than the 1944 level, and over half again as great as in 1939. Even the production of durable consumer goods would be about half again as

great as in 1939.

7. These broad estimates are based on the assumption that working hours and the proportion of the population drawn into the active labor force would increase considerably above recent levels, although not approaching the peaks of World War II. With greater increases in labor effort than assumed in these estimates, a substantially greater increase in total output could be achieved. This could provide the basis for a greater military production even while still maintaining the consumption standards outlined above (with the exception that sharper cuts in durable consumer goods would, of course, be necessary in order to free materials for military production).

8. Given a major labor effort over the next two years, and given a substantial investment in basic productive facilities, there can be no doubt that the force targets presented in the report could, from the standpoint of our manpower and other resources, be maintained indefinitely; and that, even with the maintenance of these forces, the civilian consumption standards of 1950 could be restored and improved within a few years. This is hardly the time to give high priority to improving the consumption standards of 1950. But the fact that such an achievement is within reasonably conservative bounds of feasibility casts light on the degree of long-term sacrifice and effort implied in the programs recommended in the report. Without passing any judgment upon the adequacy of the programs recommended in the report, which would be outside the scope of economic analysis, it follows palpably that these programs in terms of their economic implications fall about half way between "business as usual" and a really large-scale dedication of our enormous economic resources to the defense of our freedoms, even when defining this large-scale dedication as something far short of an all-out war or all-out economic mobilization for war purposes.

9. Aside from the basic economic conclusion just stated, it is necessary to outline the economic policies which would flow from programs of the size and degree of acceleration recommended in the report. It is self-evident that defense, civilian (both industrial and consumer) and international needs are of such a size that none can be given an absolute priority over another. Perhaps the most striking example of this is the fact that fulfillment of the manganese stockpiling goal would require a very severe cutback in current steel production. A decision to attempt to achieve the full stockpile objective for copper by June 1952, for example, would be tantamount to a decision to forego any industrial expansion in this country, and to disrupt the economies of allied nations. It is for such reasons that so great importance is attached by Mr. Attlee in the current conversations to the establishment

of machinery for the international allocation of basic materials.

10. The central and urgent requirement of economic policy, indispensable to the sound formation of policy in all other areas, is the continuing maintenance of an over-all inventory of supply and requirements, accompanied by a continued basic programming to determine the priority considerations which must determine the distribution of available supply among competing requirements. The basic requirements are military, stockpiling, international, industrial and consumer. These must all be serviced, in varying degrees, by the totality of supply. Every specific economic program is directed, in the final analysis, toward the matching of supply and requirements, whether it be by increasing supply, redirecting supply, or restricting certain requirements. And since this over-all programming operation is central to the whole task of economic mobilization, it should be located in one place. Further, this place of location should also be the place of location for ultimate decisions, short of the President, with respect to coordination of programs, settlement of disputes arising from conflicting policies or requirements, etc. This is true because no ultimate coordinator or umpire can act effectively unless armed with a programming operation to provide the basis for intelligent action. The Administrative question of where this function is located is not specifically within the economic sphere, but economic analysis must point out that until this operation is functioning on a centralized and comprehensive basis there can be no effective economic mobilization either partial or complete.

11. The completion of the first effort at such a comprehensive balancing of program requirements and supply would reveal the need, and provide first quantitative guide lines, for the expansion of capacity in critical areas. It would also reveal areas where such expansion could be given only a low priority. Such an analysis is essential in order to give meaningful and detailed content to the term "shortages", and in order to translate the need for expansion into concrete terms.

12. Such a comprehensive programming operation is also essential to reveal the way in which direct controls should be used. The need for such controls is no longer in question. There can now be no doubt of the early necessity for complete allocation of basic materials throughout the economy, on a scale comparable to the Controlled Materials Plan of World War II. There can be no doubt that widespread price and wage controls will be required within the near future. Maximum feasible action in the fields of taxation and credit will be essential, not in the hope of minimizing the need

for direct controls, but in order to make those controls workable. The probable existence, under present and pending tax legislation, of a deficit of over 30 billion dollars (annual rate) by the second half of fiscal 1952 is ample evidence of this.

13. It would be the height of folly, however, to initiate a fully comprehensive system of direct controls before having a reasonably clear idea of the purposes which those controls were intended to accomplish, i.e. before major policy decisions had been reached in the light of a comprehensive analysis of the facts, and of a reappraisal of existing policies in the light of those facts. Controls without purpose could only weaken the economies of the free world and confuse the populace. Nonetheless, it should be emphasized that certain tasks to be accomplished by controls are so immediately urgent, and the size of the ultimate task so great, that the development of the necessary organization and staff should proceed with utmost speed.