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THE INTERDEPENDENCE OF THE EUROPEAN NATIONS

9 May 1949

CONTENTS

| | <u>Page</u> |
|--|-------------|
| INTRODUCTION--Colonel S. F. Clabaugh, Ord., member of the Faculty of the Industrial College of the Armed Forces..... | 1 |
| SPEAKER--Dr. Robert Strausz-Hupe ¹ , Associate Professor of Political Science, University of Pennsylvania..... | 2 |
| GENERAL DISCUSSION..... | 12 |

Publication No. L49-127

THE INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

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COLONEL CLABAUGH: Gentlemen, we have asked Dr. Strausz-Hupé to talk to us today on the Interdependence of the Nations of Europe. The title, I will admit, is not specific. We left it that way, purposely, in order to give him the greatest latitude to tell you something of his conclusions as a result of his observations and travels and study in Europe for the Council of Foreign Relations. I have been privileged to see his notes and to the broad generalizations implicit in the title we gave him, he has responded with the amazing precision that is characteristic of everything that he does.

Dr. Strausz-Hupé has a background not only in the academic world but in the business world. At a time when so many intellectuals are suspect, he is an intellectual that vindicates intellect, an exponent of the finest ideals in a world of realities, a political scientist aware of the facts of international life.

European born, with the best of the old world traditions, a citizen of America for more than a quarter of a century, he is a symbol of one of the finest segments of our American life. He is a world traveler, erudite scholar, cultured gentleman. If he survives that introduction, he is even better than I think he is. Dr. Strausz-Hupé.

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200

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The frontiers of Europe were drawn in the age of eotechnics when technical instruments were fashioned from wood and iron and motive power was supplied by wind and water. Since the economies of all nations were then predominantly agricultural they were alike as regards not only structure, but also the independence of the bulk of population from world markets. Hence political frontiers mattered little from the economic point of view. The areas covered by individual nations, except for the dwarf states of Germany and Italy, were neither too large nor too small in relation to the available means of transportation and communication and administrative techniques. The advent of power-driven tools not only diminished progressively the cost-time dimensions of European economic geography but facilitated an enormous expansion of economic exchanges between individual countries. On one hand, geological deposits which formed the raw material base of European industrialization extended across several political frontiers as, for example, the coal seams of north-western Europe, whereas, on the other hand the juxtaposition of mineral resources, as, for example, French iron ore and German coal, gave rise to a system of economic interdependence encompassing several political units. The geological formation of northwestern Europe, the juxtaposition of Rhineland coal and Lorraine iron ore, meshed the heavy industries of Germany, France, Belgium and Holland into an economic unity. That unity was reinforced by interconnected waterways, rail and road systems which, in large measure, conform to topographic formations. The power system of western Europe was developed as a combine of German, French and Swiss thermoelectric and hydroelectric resources. More important still, the distribution of plants, labor force, and skills formed a pattern which, without interventions requiring colossal investments if immense losses in productivity were not to ensue, was unalterable. In this respect, German heavy industry in its capacity as producer as well as consumer was of vital interest to such "intermediate" and specialized producers as Holland, Belgium and Switzerland.

The movement of raw materials and finished goods spun the web of European interdependence. Interdependence of skills made not only for high specialization but also for division of labor as regards one and the same branch of industry. Thus, for example, British woolen cloth was shipped to Thuringia for processing and re-shipped to Britain for conversion into men's suits and blankets. This type of commerce--for which the Germans devised the descriptive term: Veredelungsverkehr--was characteristic of the differentiation of European skills as well as the unity of the European market at the apogee of free trade.

In the face of innumerable trade restrictions, spawned by World War I, and subsequent economic dislocations, intra-European trade continued at a high level in relation both to national and to per capita incomes. In 1928 the nations of Europe, excluding Russia, exported to

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each other and their dependencies 12.5 billion dollars worth of goods, or \$37 per head of population, and in 1938 at the height of the flood of restrictive schemes, intra-European export trade amounted still to nine billion dollars, or about \$26 per head. The corresponding figures for imports are 12.8 billion dollars and \$38 per head in 1928 and eight billion dollars and \$23 per head in 1938. Thus total intra-European trade was \$75 per head of population in 1928 and \$49 in 1938. These are large per capita figures even compared with United States' statistics which show a total of exports and imports per head of population of \$69 for 1928 and \$37 for 1938. Since the per capita income of Europe was considerably lower than that of the U.S., intra-European exchanges were proportionately more important in terms of European per capita incomes than was the contribution of American foreign trade to the income of the average American.

Three developments have tended to diminish the total volume of intra-European trade and to clog the traditional channels of exchanges on which the functional balance of the European economic system depended. The first is the catastrophic reduction of Germany's trade, the second is the crisis of the Pound and subsequent reorientation of British trade, and the third is the decline of trade between Eastern Europe and the rest of the European continent.

In 1928 Germany exported to the rest of Europe, excluding the Soviet Union, more than two billion dollars; in 1947 she exported \$421 million dollars. This represents a decline of Germany's contribution to European trade from 11% to 2% of the total. The corresponding figures for imports are 1.7 billion and 240 million, an 11% and 1.7% respectively of total European imports.

The resulting contraction of intra-European trade was compounded by the altered position of Great Britain and by the resolute re-direction of British trade by governmental controls. The bare bones of British trade policy under the guidance of Sir Stafford Cripps are these: Britain seeks to maintain a rigid balance in her exchanges with the European continent and looks to the Sterling areas for a favorable balance of trade in order to offset the dollar deficit. Balance with the Continent implies a severe reduction of British imports of what are called "non-essentials" or "luxury" products. This policy resulted, for example, in a substantial reduction of French exports to Britain and thus to an over-all reduction of French foreign trade. For France counted in the prewar era upon Sterling credits for offsetting her trading deficit with other continental nations including Germany.

In 1938 Eastern Europe exported to the rest of Europe 1.5 billion dollars worth of goods, or 8.3% of Europe's total imports. In 1947 the East European share had declined, with 679 million dollars, to 3.2% of the total. Thus the decline of German and East European exports alone account for a shrinkage of Europe's total imports by 14.4%.

2000

It is not necessary to digress on the meaning of these figures. They are self-explanatory and convey the essence of Europe's contemporary economic problem. Nor need we recapitulate the various measures which the United States and the European beneficiaries of the Marshall Plan have taken in order to cope with the problems posed by these three major dislocations. The story is told in the Outline of European Recovery Program submitted by the State Department to the Senate Foreign Relations Committee and, more recently, in A Survey of the Economic Situation and Prospects of Europe, prepared by the U.S. Research and Planning Division of the Economic Commission for Europe. However, in order to distinguish between emergency and long-range problems, it is necessary to examine certain features of the European situation which, because they are as permanent as they are unprecedented, militate against a restoration of the European system as it existed before World War II. This is not to say that the countries of Europe are today less dependent on intra-European exchanges than they were before the War. It is one of the chief aims of the Marshall Plan to increase substantially the exchanges between individual Marshall Plan countries; dollar aid is conceived chiefly as a measure designed to obtain that end. However, the restoration, if not to say the increase of trade between the Marshall countries envisioned by the C.E.E.C., necessitates far-reaching readjustments in the composition of European trade and important shifts in its geographical distribution.

It may be objected that Europe even today, split as it is along the Stettin-Trieste line, is an economic unity. Does not the United Nations Economic Commission for Europe still officiate in Geneva, despite Russia's refusal to permit Eastern Europe to participate in the Marshall Plan? Do goods not move in large volume across the lines of power political cleavage? Do not the Franco-Polish, Anglo-Polish, and Anglo-Yugoslavian trade agreements concluded during the first year of the E.R.P. bespeak Europe's dependence on "East-West trade"? Did not, on December 1, 1948, at the height of the Berlin crisis, the American Military Government conclude on behalf of Western Germany a \$40,000,000 trade agreement with Czechoslovakia? Did not on January 14, 1949 Poland sign a 5-year trade agreement with Britain for exchange of goods with a total value of five billion dollars? It is not proposed here to discuss the virtues and vices of what is called "functional" integration, to wit, economic integration beyond and above, so to speak, of political divisions. There are plentiful cases on record showing that nations hostile towards each other manage to trade with each other, utilizing for the exchange of vital commodities the services of neutrals or of their own nations engaged in smuggling, as did France and Europe during the Napoleonic Wars. But this type of activity should not be mistaken for what is meant by normal economic relationships.

Both the Marshall Plan and the so-called Molotov Plan are posited on the assumption of the revival of East-West European trade. The Marshall Plan countries are dependent to no small measure upon East European imports of grain, lumber and coal, while the Molotov Plan

countries are dependent on the supply of capital goods and precision tools from the West for the execution of their development plans. However, the proportion of trade from the East in the total trade of Western nations would be considerably less than the proportion of Western trade in the total trade of Eastern Europe, even if the prewar flow of trade were to be revived. Moreover, the Western nations are probably less dependent on the resumption of East-West trade than are the Eastern nations for the fulfillment of their plans. In the short run the nations of the Eastern block will encounter many difficulties. The pattern of the Molotov Plan begins to emerge in outline somewhat along these lines: Russia will provide the industrial raw materials whereby Czechoslovakia and Poland, as "workshops" of Eastern Europe, will industrialize the Balkan countries. Of the latter, Rumania and Hungary will be most closely tied to the Soviet Union, which they supply with certain industrial raw materials. Yugoslavia, Bulgaria, and Albania will build up their industry on the basis of electrification and will rationalize their agriculture. There is nothing in the nature of things to prevent the creation over a long period of an Eastern Bloc as a single economic unit. It has been said that such a project could never be achieved since the economies of Russia and the Danubian countries are not complementary, both having exportable surpluses of such products as grain and timber. If the industrialization of Eastern Europe proceeds and population increases, and if the population of the Soviet Union expands as it is projected, it is by no means certain the Eastern Bloc will not need every bit of food and minerals it produces. There is little reason why in the long-run these two areas, as the diversification of their economies proceeds, should not be able to merge into a single economic bloc with perhaps a few common surpluses, such as timber, and a few extraneous needs.

All available evidence points to a far-reaching re-orientation of east-European trade and integration of east-European national economies within the Soviet orbit. Soviet theory and Soviet practice accords primacy to politics over economics, and nothing in the record suggests that Soviet policy will yield to economic logic--be its arguments ever so persuasive as regards the "natural" correspondence of east-European agricultural surpluses and the industrial export capacity of western Europe.

Since Germany, more than any other major European country, relied in prewar times on raw material and food imports from Eastern Europe, the Molotov Plan, as we may call for the sake of brevity the Russian scheme, affects Germany most directly. Moreover, it is not Russia alone who is responsible for the eviction of Germany from her former markets to the East. In certain markets of eastern Europe Germany has been effectively replaced by western competition as a purveyor of industrial imports, as, for example, in Poland by the Scandinavian countries, in Hungary by Czechoslovakia and eastern Austria, and in Turkey by the United States and Britain. There is nothing to indicate thus far that political considerations which dictated Soviet commercial policies in

eastern Europe, have been revised. More important still, it is doubtful that they could be revised were this the wish of the Soviet Union. In all likelihood, the "Molotov Plan" or a similar scheme for regional integration will furnish guidance for the future long-range orientation of eastern European economies. Political expediency may have merely hastened long standing trends which were inscribed in the population statistics of eastern Europe and its pattern of progressive industrialization and urbanization. In this sense, Hitler's attempt to conquer eastern Europe was an attempt to capture markets that were slipping from Germany's grasp.

It is these circumstances, the long-range and apparently irreversible developments in Eastern Europe, superimposed on the acute crisis of Britain's and the catastrophic reduction not only of German productivity but also of Germany's traditional outlets, which must inevitably lead towards increasing competition for the world's remaining markets and frantic search for new markets. In Europe proper they have actually given rise to an increasingly sharp competition for hard currencies and to a repression of intra-European trade because of the efforts of individual countries to deal unilaterally with the hard currency shortage. The result has been a system of rigid bilateral trade. If these disadvantages are to be overcome, ways must be found to (1) render bilateral trade agreements among European countries more flexible by developing a trade structure under which a country can offset its import and export surpluses with other European countries, to wit, a working clearing system and provision of credits to countries which for some years cannot do without import surpluses; and (2) decrease dependence on bilateral arrangements by broadening the basis of trade and institutionalizing reciprocity, to wit, by customs union.

The problem of a customs union for Europe raises the question of two alternative approaches to European unity, namely (1) the functional and (2) the political approach. Let us deal briefly with the "functional" integration.

Professor Mitrany, perhaps the most persuasive exponent of the "functional" approach to the obstinate problem of equal sovereignty, holds "that by its very nature the constitutional approach emphasizes the individual index of power; the functional approach emphasizes the common index of needs," and that, since many such needs cut across national boundaries, a beginning could be made by providing joint government for them.* In brief, it is Professor Mitrany's thesis that in order to deal with political problems it is necessary to tackle and solve first functional problems. This means that if people were fed, clothed and housed, industries developed and tariff barriers broken down, then the problem of political unity would take care of itself. The real problem is to persuade some 16 European sovereign governments to do just that. In areas where existing inequalities are small or not important governments and peoples will readily incur whatever inconveniences the "functional" approach might entail.

*("The Functional Approach to World Organization," International Affairs, Vol. 24, No. 3, July 1948, pp. 350-362.)

It is possible, though not always easy, to persuade peoples of not-too-dissimilar living standards to pool their resources, as, for example, the pooling of hydro-electric power by France and Italy, or the pooling of trading opportunities effected by Holland, Belgium and Luxembourg through customs union. It is possible, too, to effect similar mergers of specific economic interests among nations of greatly dissimilar living standards in times of war, as for example the pooling of regional resources in the Middle East Supply Center during World War II. But "functional" partnership in peace time between high-living-standard and low-living-standard countries involves, if it is to come to grips with vital issues, a sharing of wealth and trading opportunities. Such sharing, while highly desirable from the point of view of classical economics, flies in the face of the protectionist doctrines dominating the economic policy of every major country. For the sovereign power of every major state is employed to no other purpose but to defend existing "inequalities", to wit, a high standard of living which is not equal to that of the poor countries. Wherever "functional" arrangements entail large, though perhaps only temporary, sacrifices of cherished "inequality," their ratification by popular approval stands no more chance than do such "functional" proposals as tariff agreements and agreements on population movements in general. In brief, the functional solution is practical only when there exists a similarity or community of interests. That similarity or community of interests can be reinforced by functional organizations; it cannot be created by them.

The advantages sought in doing away with barriers between two or more countries lie essentially in the possibilities of rational organization of production and of a more far-reaching division of labor, such as would be created within a wide market.

Experience gained in large scale economic markets has always shown clearly the immense progress which may result from an increase of production, a better utilization of resources and the increase in national revenue, all of which are in close relation with free exchange of commodities over a wide area. It is for this reason that the advantages sought in the establishment of a customs union can never be accurately foreseen in their entire development, because the dynamism of the national economies concerned may result in a maximum expansion to possibilities which can only be guessed at before the union comes into being. The factors in a static economy which may be measured in advance are not proportionate to the result which should normally derive from the efforts deployed.

From this point of view, the setting up of an economic union can always be considered more or less as an act of faith in the future and history shows that reasonable confidence at the outset has always been rewarded.

An economic union is one in which the contracting countries merge their policies and regulations in economic, financial, social, industrial,

agricultural matters, etc., in order to remove all impediments to the free exchange of commodities, methods of payment, capital, labor, etc., in territories within their economic control.

When undertaking the fusion of several national markets into one large internal market, it is necessary to realize that the new distribution of production which will result, owing to the freedom of movement of commodities and of factors of production, will always give rise to difficulties for certain enterprises. It is on this subject that illusions should be cast aside from the very beginning and the sacrifices inevitably caused by an undertaking of this importance should be clearly appreciated. A rearrangement of the factors of production with a view to improving the distribution of labor must inevitably cause certain firms to disappear and imply the loss of some capital. It may also call for large sacrifices from labor, whose new economic conditions may demand displacement, readaptation and training for new tasks. Finally, the movement of raw materials, their use, the trade channels through which they flow, are generally directed towards new paths to promote a regrouping of the elements of production.

Past experiments in customs unions were generally made at a time when economic liberalism had created a large degree of fluidity in economic systems, thereby facilitating the adaptations necessary. This fluidity has now ceased to exist and, for social reasons, its complete reestablishment is not desirable. The power of resistance of vested interest may therefore be far greater than that experienced in the past. Political influences, electoral interests and various other forms of resistance may be opposed to the fusion of markets and it would be unwise to ignore these considerable difficulties which are certain to arise when setting up an organization of this kind; such difficulties will have to be overcome with perseverance and energy in order to obtain satisfactory results.

These considerations lead to the conclusion that the simple suppression of customs barriers between two national markets which intend to unite will not be sufficient to attain the final objective of the economic union, that is to say the fusion of markets, the rational organization of production and an increase in national revenue, as long as other barriers remain, either as regards quantitative or exchange restrictions. It can be assumed that vested interests which would normally be condemned by the creation of a union will make use of these weapons in order to safeguard their situation in spite of everything and will stand in the way of complete fusion.

A really efficient form of European union would undoubtedly call for a full customs union, but the function of a customs union is different in a planned economy than in a liberal one. In a liberal economy the creation of a customs union with the removal of customs duties between the members might prove adequate in itself substantially to increase trade between them and to work towards an adjustment and unification of their economies. On the other hand, the growth of economic planning and intervention, ranging all the way from the issuance of certain general direct

to the supervision of regular daily business transactions, complicates the whole nature of the problem. It is clear that a customs union could not be expected to fulfill its purpose if it were concluded between one country with private foreign trade and another with a government foreign-trade monopoly or with its trade centrally planned and controlled. Serious difficulties might also arise if very important branches of production were owned by the government in one country while private enterprise prevailed in the other, or if the general objectives of planned economy greatly differed between the member states. In either situation the mere existence of a customs union would not of itself bring about the expected mutual adjustment of the member economies, nor would it be powerful enough to create the desired price equilibrium between them. Therefore, in an interventionist economy the need for uniform policy could not be limited to customs tariffs and monetary and financial policy, but should embrace all important aspects of economic policy if the real benefits customarily associated with a customs union are to be obtained. Hence, under these conditions the concept must be enlarged from that of a customs union to that of an economic union.

With an interventionist regime this type of economic cooperation consequently requires a higher degree of homogeneity between the economies of the member states than does a customs union in a liberal economy.

That this generalization applies to Europe can be immediately verified by the fundamental divergency of British policy on one hand and French and Belgian policies on the other. It is obvious that Britain could join a customs union with the continent only at the sacrifice of most cherished conceptions of austere planning whereas such countries as France and Belgium would have to extend greatly government controls in order to meet British--or rather British Labor--standards. Conversely, the Benelux Union and the Customs Union initiated by France and Italy are to be a considerable extent based not so much on economic correspondence but rather on similarities as regards political and social structure and, even more important still, of ways of doing business and temperamental and cultural affinities. How divergencies on socioeconomic doctrine may disrupt west-European cooperation is illustrated by the recent intervention of the British Labor Party in the affairs of western Germany. During the recent deadlock over the drafting of a German constitution at Bonn the British Government informed confidentially the German Socialists that their demands for the important powers of centralized financial control would be acceptable to the three military governors, although France, supported by the U. S., had opposed their grant as being an irrevocable step towards the socialization and centralization of the German economy.

The foregoing remarks may suffice to show how difficult, indeed how inadequate, is the "functional" approach to European integration. The problem is a political one, and that political problem does not take care of itself; it can be solved only by political intervention. History supplies a few examples which fortify this contention:

The confederation of thirteen American States agreed to provide the forces and money necessary to fight the War of Independence. Within three years of the end of the war the United States was bankrupt and on the verge of civil war between one State and another. The functional approach had broken down. Then Washington urged them to tackle the key political problem of creating an organ of Government. Over the heads of the politicians, who said that the States would never surrender their sovereignty, Washington persuaded the congress of Philadelphia to tell the people what they must do if they wished to save themselves from another disaster. Within twelve months the people, by popular vote, accepted the proposed constitution. After that the functional problems were comparatively easy to handle and there was free trade throughout the whole of the thirteen states.

The second case is that of Germany, which was rent with internal and foreign wars from the Middle Ages onwards. After the Napoleonic War Germany adopted the functional approach, the Zollverein. When after some years one State after another began twisting it in its own interests, Bismarck declared that unless a Government was elected by adult suffrage throughout Germany which could make one tariff for the whole of the German people, Prussia would go out. Everyone knew that that meant war, and the Government was formed.

The third case is that of South Africa, where a customs convention was signed after the South African War, but in the course of a few years difficulties arose and there was a possibility of war between the Transvaal and Natal. Then a political union was formed, and the whole customs question was settled at once.

It is France that has taken the leadership in the political consolidation of Europe: In August, 1948, the French Government called for convening of a European parliamentary assembly for the purpose of drafting of a European constitution. Having shown marked initial coolness the British Government, yielding to internal and external pressures, acceded to the French proposals, although obtaining some important modifications. A Council of Ministers is to function as the supreme executive body; the delegates to the Assembly, a consultative body, are to be chosen according to methods to be determined by each government, be it by appointment, be it by popular election. The seat of the Assembly is to be Strasbourg.

Although this seems a logical step towards European political as well as economic integration, it can solve the European problem in one sector only, to wit, in Europe. However, European integration, if it should expand and not merely freeze Europe's trading opportunities, is itself a function of a wider integrating process which must encompass the great overseas connections of the European trading community.

One has to distinguish, from the points of view in question and overleaping all political boundaries, between an industrial nuclear Europe and a predominantly agricultural peripheral Europe--the first

comprising England, Germany, Belgium, Luxemburg, the Netherlands and Switzerland, the eastern areas of France and the northern areas of Italy, as well as Austria and Czechoslovakia, the second comprising the whole of the territories lying around about these. As can easily be seen, the massing of industry in the European nucleus is not an historical accident but is conditioned by the potentials of raw material and heavy industry partly located in and partly surrounding these countries and by the mines and factories exploiting them, between which or in the vicinity of which the optimum growing-points of such labor-absorbing industries as use coal and the like have developed by preference. If now you look at the living economic circulation in this economic body of Europe, you will see that it is obvious that the industrial nucleus should be the given market for the largely agricultural areas on the periphery, just as, at the same time, they obtain their industrial articles from it (averaging 80 per cent and 83 per cent respectively in 1930). These peripheral areas have quite clearly not yet reached full industrial development, neither have certain subsidiary members of the industrial body of Europe, which depend wholly for their export market and home supplies on the prosperity of the nucleus. But this itself is a highly integrated structure geared to world economy. It is--always taking its tendency to assert itself after the first world war despite all existing obstacles, as representative--integrated in every part of the industrial processes going on in it. The various parts of the nucleus are their own best customers, since they exchange almost half their total exports among themselves. And in its turn half this exchange consists of raw materials and half-finished goods, so that it is, therefore, a movement within an integrated process of production, in which the various phases divide themselves out according to the most suitable localities and complement one another till final completion is reached. Lastly, the nucleus markets half its finished products in Europe itself; only to a comparatively small extent in the periphery on account of the latter's lesser development and inferior purchasing power; and to the second largest extent in territories outside Europe, whence it obtains 50 per cent of its raw materials and more than 30 percent of its foodstuffs, paying for these with goods, transport services and revenues from foreign investments. Hence one can see clearly that Europe, politically so fragmented, is naturally and historically, but above all in its nucleus, a single unit bound by the closest and most intense economic ties, each of whose parts is intimately dependent on all the others for the full use of its potentialities. And this state of things, interestingly enough, also includes England even though she is part of the British Empire, for in 1930 she was sending 32.1 per cent of her exports to Europe, and seemingly so autarkic France as well, whose European exports amounted to 64.1 per cent. Europe, therefore, is a body whose industrial nucleus has more vital economic ties (imports of raw materials and foodstuffs, exports of finished goods) with extra European countries than with the periphery, which is relatively unimportant from the economic point of view; but all these peripheral areas, Central and Southern Italy, Greece, Spain, Scandinavia, etc., as well as the nuclear areas bordering on or connected with Germany, cannot prosper if Germany suffers economic collapse or atrophy.

2088

It is, therefore, readily apparent that European integration, the very interdependence of Europe, is tantamount to the integration of the entire western trading community. Anything less is retrogression into a vain pursuit of economic self-sufficiency with the concomitant atrophy of trading opportunities and accentuation of inequalities of standards of living.

The high objective is the political union of the Atlantic Community which is still the largest trading area of the globe and in which are interlocked interdependent Europe, the British Commonwealth and the United States.

To pursue that ultimate goal calls for purposefulness, but also for great elasticity of method and tolerant urbanity. The statesman who will lead the way will have to wrestle with innumerable known and unknown difficulties. By the time he has reached his destination he will have shed whatever excess baggage of formulas and blueprints with which he set out on the road.

The goal is the unity of the Atlantic community. That community is a reality, just as communist Russia and contested Asia are the great realities of the East. A maze of economic agreements, defensive alliances and political pacts now covers, albeit untidily and oddly, the Atlantic region. Beneath it we can dimly perceive new forms of political organization. It was the comfortable delusion of an utopian philosopher that the need creates the organ, and that necessity, recognized by intelligence realizes itself inevitably. Circumstances obstruct as much as they favor new developments. The record of the past tends to determine the present--until circumstances intervene. The final answer to the unique challenge now confronting the West must be given within a brief span of time by this generation of western peoples.

COLONEL CLABAUGH: Gentlemen, I thought as I listened to Dr. Strausz-Hupé that he was touching directly or indirectly practically every one of the problems of the present course. Now is your opportunity to subject him to questions.

QUESTION: Will this council of ministers in Europe about which you spoke as having been recently formed have the power to tax?

DR. STRAUZ-HUPÉ: No, thus far the council of ministers which has been formed is a consultative agency. It has not executive power. It is still, I would say, merely a shadow of a future European central executive agency, and the ministers in the council are first and foremost the representatives of their Governments.

QUESTION: What countries have accepted and joined that council of ministers so far?

DR. STRAUSZ-HUPÉ: First of all the nuclear countries, that is, the countries of the Brussels Pact--Great Britain, France, Belgium, Holland, Luxembourg, and four other states. There are nine at present. I think the others are Norway, Denmark, Portugal and Italy.

QUESTION: You stated the need for the political unification of these countries. Would you care to venture a guess as to whether European countries will get together politically or not?

DR. STRAUSZ-HUPÉ: Again that depends very largely on circumstances. As you well realize, all the concessions we are now winning in Europe spring primarily from two circumstances: first, the common emergency created by the war; and, secondly, the common emergency created by the pressure of Russia. Those two extraneous forces which press upon Europe have made for unity. What will happen when the wounds caused by the war have healed, what will happen when Russia lifts her pressure is uncertain, although the countries of Europe for the first time in their history--or at least for the first time since the Holy Roman Empire--have learned practical cooperation. I think an institution such as C.E.E.C. will remind Europeans forever as to what can be done by integrated effort. Nonetheless, just because of the inequalities as regards political and economic systems, because of those inequalities there will be always centrifugal tendencies. Certain nations will decide to go their own way. But under present circumstances, especially as the result of pressures by the Soviet Union and perhaps also a growing sense of insecurity, Europe is learning cooperation.

Then there is on the horizon a third development, very indefinite at this moment, but nonetheless discernible: common opportunity for Europe in Africa. I think an increasing number of Europeans are beginning to realize the frontier of Europe is in Africa, and, since some of the most important members of the European Union also happen to be the great colonial powers in Africa, it is possible that the development of Africa may provide an area of productive cooperation.

QUESTION: The Marshall Plan runs out about 1952. Would you discuss the possibilities and probabilities of their needing further aid from the United States of some sort similar to that after that date?

DR. STRAUSZ-HUPÉ: I think the year 1952 is very largely an arbitrary date. I think it was a date set primarily to have something definite and specific to give Europeans a goal, to force them to have goals and to set them; and, secondly, it was a limit chosen in order to calm the fears of the United States Congress and the American public. I don't think that anyone alive, not even John Maynard Keynes were he alive, could say with any categorical assurance what is going to happen in 1952 in Europe. I for one don't believe that the situation will have substantially changed, except perhaps as regards the

most pressing needs, but needs will still be there, especially as I do not see that by 1952 it will be possible to adjust one of the most important problems facing us in Europe, namely, the redirection of that trade of Western Europe which formerly had gone to Eastern Europe, which, as I tried to explain in my paper, will go there no longer.

QUESTION: Sir, I would like to ask a question as far as we in the United States are concerned, in other words, when we get all these industries in the other countries going full blast again, what effect is that going to have on us over here?

DR. STRAUZ-HUPÉ: I would say very serious effects. I foresee a sharpening of competition. I think that competition is presently with us. I think we are already feeling now in certain areas the pressure of European competition, and, as Germany gets on her feet again, it stands to reason that Germany will bid again for the only market which she has outside of Europe, which is South America, and which also happens to be our great market. It is such considerations as these which, both in Europe and in this country, seem to suggest the development of Africa as a potential market, not only for Europe but for the United States, and might provide an area of cooperation for Europe and the United States. There is no doubt at all that the United States, too, will have to adopt policies in the long run modeled after those of Britain in the Nineteenth Century. If the British in the Nineteenth Century would have insisted upon the same type of trade balance as we insist upon, if the British had handled their foreign trade in the same manner as we have done, the British Empire would have ceased to be a powerful factor, not in World War II, but in approximately 1885.

QUESTION: I would like to follow that up, if I may. Do you know whether or not labor unions now are cognizant of what you have been saying and are they starting to put pressures against any further aid?

DR. STRAUZ-HUPÉ: I think on the whole they are not. Of course, it varies. I mean you have the labor unions in very powerful industries which do not fear European competition, either in the United States or abroad, as, for example, in our highly efficient automobile industries. There the trade union leaders seem to feel that we can deal with competition everywhere simply because we are efficient. I had a talk some time ago with an economist close to Mr. Ruther and he, on the whole, seemed to favor a revision of our tariffs in favor of Europe. Then again, there is a certain resistance. For instance, in the watch industry, we see the very interesting phenomenon of a member of the Administration which stands squarely behind the idea of the European cooperation and ITO (International Trade Organization) and which pronounces itself again and again in favor of the idea of free trade, coming to the support of the watch industry of Massachusetts--the Waltham Watch Company, which saw itself threatened by foreign competition--and took

the stand--I am referring to Secretary Tobin--in favor of a protective tariff which will protect the Massachusetts watch industry against un-American Swiss watches.

QUESTION: With the precarious financial position of Austria since World War I, what do you think the future will be for Austria within the scope of the Marshall Plan and after?

DR. STRAUZ-HUPE: Well, of course, there we first have to begin with the position of Austria as such. Austria as created at Versailles was an economic impossibility to start with, an urban area of three million people, a country very rich in scenery, imbalanced industry, and a picturesque but unproductive agriculture. Now a country of that order, of course, couldn't exist, and all the troubles between 1919 and the Anschluss were primarily due to the economic absurdity of that creation. So I feel that Austria will always be economically in difficulty. The alternative is along the lines of the Anschluss with Germany, that is, trade with the large German market or the integration of Austria into a Danubian Union. United States foreign policy will have to consider most carefully what will be the place of Austria in Europe, because Austria, though only a small country, is strategically immensely important to Europe. Austria is the geographical heart of Europe.

QUESTION: Would you outline the picture of Spain in the economic picture of Europe today and what you think it will be in the future?

DR. STRAUZ-HUPE: I must admit, sir, I know very little about Spanish economics. I think the problem of Spain is only in part an economic one, although Spain can contribute export surpluses to Europe. As a matter fact, as you well know, Spain is, I think, with Belgium the only country in Europe which has a surplus of hard currencies and stands in relatively little need of foreign subsidies. Spain can make economically a large contribution to Europe. Some say Africa begins at the Pyrenees; I think Europe begins at the Sahara. You cannot simply exclude Spanish civilization and say, "There is an unpleasant little man called Franco, and therefore the Spanish people are not part of Europe." The Spanish people, perhaps as far as creative genius is concerned, are among the foremost two or three peoples of Europe. Some means will have to be found which assures the Spanish people that they will not be subject to another civil war, be it under the most noble and appealing ideological slogan.

COLONEL CLABAUGH: We have been accustomed to thinking that in any future war economic warfare would not be as important as it has been in the past because of the comparative self-sufficiency of the world powers and also the relative scarcity of neutrals, but in view of what you said about the East-West trade, the fact that East-West trade was a so much larger percentage of the trade of the eastern countries than it was of the western countries, would you comment on the possible role of economic warfare in any future war?

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2192

DR. STRAUZ-HUPÉ: Although this transcends somewhat my own field, Colonel Clabaugh, I am very glad to do some thinking out loud on it. I think that economic warfare today is primarily anticipatory warfare, that is, the role of economic warfare is anticipating actual warfare and when actual warfare breaks out economic warfare should already have done its job. I think if today nations resort to economic warfare after the fighting has begun, then they confess that they have been guilty of grave oversight because the goals of economic warfare now have to be attained before the war begins. I think there will be always some marginal areas where preemptive buying may do something. There will always be certain areas within which economic intervention can disturb the organization of the opponent, but I think those will be relatively small.

As far as Western Europe is concerned, we are waging economic warfare of a kind, which is, of course, very difficult, because on one hand we have, for example, the British who like to avail themselves of East European raw materials and, in turn, are very often forced to contribute to those economies' economic utensils and even military utensils, which we would rather see them keep at home. But I think it is a choice between two evils. We either have to supply what they need ourselves or let them get it where they can pay the price, and, in some instances, the price is heavy. But there can be no doubt that we have been pursuing economic warfare in Eastern Europe, that is, we have been trying to keep that trade down to an acceptable minimum, not so large as to strain their economic potential, not so small as to endanger the economic position of our partners and increase the economic burden upon us.

COLONEL CLABAUGH: Thank you again, Dr. Strausz-Hupé.

(3 May 1949--450) Mr. Butts.

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