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DEPARTMENT OF STATE AND ECONOMIC MOBILIZATION

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Honorable Willard L. Thorp, Assistant Secretary of State for Economic Affairs, was born in Oswego, New York, 24 May 1899. He holds the following degrees: A.B., Amherst, 1920; A.M., University of Michigan, 1921; Ph.D., Columbia, 1924; LL.D., Marietta (Ohio) College, 1935; LL.D., Amherst (Mass.) College, 1949; LL.D., Albright (Reading, Pa.) College, 1950; Social Action Churchmanship Award, 1950. He was instructor of economics, University of Michigan, 1920-21; instructor economic and social institutions, Amherst, 1921-22, professor of economics, 1926-34. He was on the research staff of the National Bureau of Economic Research, 1923-33; chief statistician of the New York State Board of Housing, 1925-26, director of the U.S. Bureau of Foreign and Domestic Commerce, 1933-34; member of the Federal Alcohol Control Administration, 1933-35; director of the consumers division, National Emergency Council, 1934; chairman of the Advisory Council, NRA, 1934-35; economic adviser to the Secretary of Commerce, 1939-40; director of Economic Research, Dun & Bradstreet, Inc., 1935-45; editor, "Dun's Review," 1935-40; Trustee, Associated Gas & Electric Corporation, 1940-46; chairman of the Board, General Public Utilities Corporation, 1946-47; trustee at Amherst College, 1942-48, 1949-; Board of Governors, American National Red Cross, 1949-; member of the Pan American Railway Congress Association, 1949-. In 1945 he became deputy to the Assistant Secretary of State for Economic Affairs, and remained in that position until 1946 when he became Assistant Secretary of State for Economic Affairs. He was a member of the U.S. Delegation to Paris Peace Conference, serving as special adviser on economic matters, 1946; special adviser on economic matters at the New York meeting of Council of Foreign Ministers, 1946; U.S. Representative on U.N. Economic and Social Council, 1947-50; alternate representative to U.N. General Assembly, 1947-48; acting alternate governor, International Bank and International Monetary Fund, 1949. Mr. Thorp served as second lieutenant, U.S. Army, 1918; member, American Economic Association; (vice-president, 1935) American Statistical Association (president 1947); Social Science Research Council; director, General Public Utilities Corporation; member Chi Phi, Phi Beta Kappa, Delta Sigma Rho. He was the author of "The Integration of Industrial Operation," 1924; "Business Annals," 1926; "Economic Institutions," 1928; and a contributor to "Recent Economic Changes." He edited "Economic Problems in a Changing World," 1939, and was coauthor of the monograph "The Structure of Industry," 1941.

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GENERAL HOLMAN: Gentlemen, our talk this morning brings us back to the series of lectures on the key mobilization agencies of the Government. The subject today will be "Department of State and Economic Mobilization." Our speaker is the Honorable Willard L. Thorp, the Assistant Secretary of State for Economic Affairs.

Mr. Thorp has a distinguished record as an educator, a businessman, an author, an editor, an economist, and more recently in the field of public affairs. He has served the Nation with distinction as a representative of the Government in many important international conferences and as adviser and consultant in the field of economics and in commerce and banking.

Mr. Secretary, it certainly is an honor for us to have you with us this morning; we realize you are taking time out from a busy schedule to come over here. We very much appreciate it. It is a great privilege to welcome you to the Industrial College today.

SECRETARY THORP: I want to talk about a number of international problems that are created by the process of mobilization. I won't have time to take any one of them and do a thorough job on it. I hope we will have some opportunity for questions later, when maybe I can fill in on any points that you wish.

I should like to start by reviewing where we were as of the end of last year in the economy of the world. In the first place, looking at the United States, we had experienced a most extraordinary decade. The United States suffered no damage during the war, although there had been a great deal of diversion of effort. After the war it survived the problems of readjustment and went through the period with only a brief recession in late 1948. The decade was a period of great expansion in capacity and productivity.

As a matter of fact, if you want to see capitalism at its best, look at the United States in the last decade and you will see it, because in those 10 years we moved ahead in our economic production in this country so that the standard of living of the average citizen-- although, of course, no one is average--has advanced about 30 to 35 percent. That advance in the United States output in the one decade was as much as the total economic production of Russia, twice as much as the economic production of the United Kingdom, and three times as much as the economic production of France.

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And at the end of the period, to top it off, you might say, there was a real industrial boom. In the last quarter of last year we were running at between 20 and 25 percent above the rate of production of the year before, which is really quite a step up on what was already a fairly active economy. So, as of today, we have a tremendous economic machine in operation in the United States.

Europe had to recover from the setback and the destruction and disorganization it suffered during the war. But there again in the last five years, specially the last three years, they have had a spectacular increase in their productive capacity. Sometime during the last year, Europe caught up with the prewar level and moved on into new levels. The same boom that had taken place here in 1950 appeared in Europe, so that Europe was also running about 25 percent at the end of the year above its rate of production in 1949.

In Latin America there has been a much more uneven situation; in general there also has been a period of expansion. In the Middle East the states are not yet in a position to make much economic contribution internationally, but at least within the area they have made some. They have quite a different form of organization and standard of living from what had existed, especially in the emergency of Israel. Of course, the discovery of oil has greatly affected the economies of the countries in which there was oil. Much of the rest of Asia, I would say, has tended to deteriorate economically. The economies of countries like India are in poorer shape now than they have been in the past.

Now, given this kind of world picture, there suddenly is superimposed the absolute requirements of rearmament--the necessity of diverting a substantial amount of the economic activity over into armament production, while a lot of people in many categories are taken out of productive activities and put into the military services. This comes at a time when, so far as the United States and Europe are concerned, there is already a high level of economic activity. Therefore a major economic problem is created by the necessity of reorganizing the economy and doing this in a way that achieves the result desired, namely, giving the military forces the materiel they need, and, of course, doing that without too greatly disrupting the civilian economies.

So far as the United States is concerned and its international relations, we have a certain number of international problems which are the very key to our being able to move ahead. The first one is our requirement for raw materials. The flow of goods to the United States is something that it is exceedingly important for us to have well arranged. We are not a self-sufficient country, as you all know. There are many things which we must get from abroad.

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The production of raw materials in the world has not expanded so rapidly as manufacturing capacity has expanded. Even without the rearmament effort, we might have been hitting shortages in certain raw materials, because of the expansion in industrial production that has taken place in the last several years. The United States, which never used to have any problem in the matter of lead and zinc, for example, was already faced with a new problem about the supply of lead and zinc, and even as a longer-range problem of copper and iron ore.

Then there are the special cases where our former sources have been cut off. Manganese is one of them. We had been getting a great deal from Soviet Russia. Later on there was tungsten, for example, which had come normally from China and from Korea. So we have these special cases to worry about.

We have, then, a basic problem to face. There probably are not enough raw materials to meet the requirements of military production and keep the civilian economy going full blast. In the last quarter of last year not only was the industrial demand making the situation tight, but people looking forward to rearmament were buying and building up their own inventories. Businessmen, quite properly--nothing to stop them--were trying to get stocked up with the raw materials they would need in the future. Then the United States Government also put a much greater pressure on its stockpiling effort than it had been doing over the earlier years. So all these things together hit the raw materials market and ran the prices up anywhere from double to five times the level at which they had been before.

Now, this in itself, is helpful in its effect on increasing the supply. It has made it much more profitable to produce raw materials, and the result has been that in things like rubber the supply has increased. The supply of rubber has been stepped up because at the high price it was worth while for the natives, who otherwise might not have been doing it, to get out and tap the rubber trees. That has brought larger supplies into the market.

But there are other things that have not been helped by the higher prices. Manganese is one. There we have to move in with a real effort on the part of the Government. The amount of manganese that we get from India has been stepped up tremendously through purchases by General Services, from 200,000 tons to 400,000 tons, and now it is running about 800,000 tons. Two enormous manganese projects in Brazil are now in process of development. It will take a couple of years before they will be yielding manganese, but they will greatly reduce our dependence on long oversea hauls so far as manganese is concerned.

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In dealing with the raw materials situation, there are three elements to the problem. The first is that you have to cut back on their use. That is being done by DPA. There just isn't enough, so you cut back in two ways. You say, "There are certain products that cannot be made any longer of this material. You just can't make any more brass door knobs. If people want door knobs, they can have wooden ones or glass ones. They can't have any more brass ones, because we should not be expending brass in that way."

Then there is the approach to the use problem at the other end by saying, "We will allow only so much copper for this industry or that industry and so much iron and steel." An order is just coming out that tells how much iron and steel the automobile people will be allowed to use in the third quarter of this year. That produces another cutback on the demand.

On the other side of the equation, you also endeavor to step up the supply. This is a matter first of the price. A high price will encourage supply, although it may have other less desirable effects. Supply may also be increased by long-term contracts. There are many producers who will increase production if they can be sure of a market; but they don't want to do it if they think they may get into production and then find that the price has fallen out from under, and that there is no place to sell the product. So we are gradually moving in the direction of using long-term contracts. This isn't now. You may have noticed that the United Kingdom has just signed a 23-year contract for aluminum with Canada. This is the kind of pattern that is developing for the future. However, we have never contemplated any contracts of that duration so far as the United States is concerned.

Then there is a third aspect of the problem, which is particularly international. Some of these commodities we control because they come primarily from the United States. There are other commodities which other countries control. Therefore you can have a scramble for short materials among countries. Even if you don't make brass door knobs in the United States, maybe some other country will make even more brass door knobs, and so far as the free world is concerned, you have a wasteful use. Therefore we also have set up some international machinery to try to encourage supply, get some common standards of use, and to deal with the problem of international allocation.

This international machinery stems back to the time when Mr. Attlee came over here last fall. Shortly afterward he was followed by Mr. Plevin. Both of them stressed the raw materials problem. Very interestingly, a cable came over from London listing the subjects that Mr. Attlee wanted to talk about. He wanted to talk about Far Eastern policies about the organization of the North Atlantic Treaty, and about raw materials. Those were the three key things that he was concerned about. But when he got over here, it appeared that he wanted to talk about sulphur and zinc

and cotton linters and one or two other commodities, which are largely items that they get from the United States.

After some discussion it became clear that we all have a very difficult problem in connection with raw materials which are matters of world interest. During the war we and the United Kingdom dominated the world raw material picture. We ran it because we controlled the shipping. We made our own plans as to where things should come from and where they should go. We said to the other countries, "You jolly well will follow this pattern or you don't get any shipping." We had a neat, tidy, effective sanction to use.

At the present time, with this curious state of affairs in the world where we are not at war and we haven't an exact list of who our allies are, there isn't any effective sanction that can be used. We have to move at the problem by developing with the countries most concerned an agreed policy with respect to the material in question. So we set up a series of international committees to deal with individual raw materials. These are now functioning here in Washington. Each committee has on it perhaps half a dozen leading producers, if it is something that is produced rather generally, and a half-dozen leading consumers. That means that you have maybe 80 or 90 percent of the supply and demand represented in this conference. So the consumer countries that are griping about the high prices and their declining balances and the producer countries are both present. These committees are going forward very vigorously, to see what they can agree on in the way of getting more efficient use and even expanding the supply of various commodities.

It is a little hard to predict where they will come out. On sulphur the committee has already reached the point of coming up with a program involving an international allocation of sulphur in terms of figuring what they think should be the amount for each country. The wool committee, which has a very tough problem, has about half a dozen different approaches to allocation before it. The molybdenum-tungsten committee, I understand, is pretty close to coming up with recommendations to the governments as to how to deal with that problem.

The minimum that this procedure may do is to get the various countries to understand each other's problems and therefore at least provide some multilateral way of putting a bit of pressure on them to take common action. The most we can hope for is that the countries will agree on a program or formula that will work through allocation in some cases, so that the raw materials will go where they are immediately needed and won't be wasted.

In the raw materials field there is a substantial amount of action going on. Up to now I would say that no country has had to cut back seriously at least, on its military effort and on its key civilian effort because of a failure of raw materials. This issue has gotten into politics

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in England. I might say that the charges that have been made as to the United States behavior have been completely erroneous with respect to the present situation or a probable future one. We are concerned about achieving a sufficient and reasonable distribution of raw materials, so that the British economy as well as other economies can avoid a complete collapse.

As to goods coming into the United States, our first concern is the raw materials field; but we also have the problem of dealing with goods going out of the United States. The reason for that is--we are not going to be in a position to meet all the demands from outside and from inside for quite a long list of commodities. The foreign demand will be substantial since many foreign countries, because of higher prices of raw materials are going to have large supplies of dollars on hand. A major shift is taking place in countries like the Philippines, for instance, which a year ago was asking for help with respect to dollars, but now is having the dollars roll in because of the high prices of raw materials. Indonesia has suddenly shifted from being a dollar deficit country to being a dollar surplus country. Most of Latin America is in the same situation. These countries to which we are paying the dollars will in turn want to spend that money here. They will want automobiles and agricultural machinery and power plants and a whole series of things which by and large are or will be in short supply.

The record during the war was that our exports continued to flow out during the war in larger volume than before, but in spite of that, we didn't begin to sop up the dollars. Many countries piled up big reserves. Exports like cotton cloth and food and a large number of items that were not particularly in short supply or controlled in connection with the military requirements were purchased by foreign countries. At the present moment we are having a great expansion in exports because the countries are buying here. Therefore we have a problem on items that are in relatively short supply as to what extent we should reserve them to the United States for use in this country, and to what extent we shall recognize the requirements of foreign countries.

That brings us, then, to what are the justifiable requirements which foreign countries may have which give them any reasonable claim for goods from the United States. I suppose we can forget about the items that are not significant and that are not strategic and are not important to us. For those it is perfectly fair to let the foreign countries come in and purchase as much as they are able to buy in competition with our own consumers. On this we don't have to make any decision. But on goods that are in short supply we do have to make a decision, because we will have to allocate. In some cases we not only may have to allocate them, but it may be so important that they go abroad that we will have to establish a set-aside procedure that will insure as much goods going abroad as we want to go abroad.

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As to the foreign requirements, the priority ones stem out of the foreign rearmament program. It is clear that the major military production job is going to be done in the United States, just as the major production job on almost anything is done in the United States. But, on the other hand, it is also clear that to the extent to which we can get France, the United Kingdom, Germany, and Italy to produce some of the military equipment that is required, to that extent we reduce the burden on our own economy. We ourselves have always done a certain amount of the production for them, but some of the additional production, which we hope they will do, requires help to others in the way of goods and materials.

England, for instance, has a program for stepping up military production; but to do it she needs almost 10,000 machine tools. That is what the British are waiting for to set in motion a whole series of production items that they are all ready to make when these machine tools arrive. But also in this country machine tools are one of the bottlenecks in getting from the point of letting armament contracts to actual production. Therefore there is a choice that has to be made, an allocation that has to be made as between the machine tools required for the United Kingdom and the machine tools required for the United States, both of which are for use in military production.

Obviously, machine tools that are going to be used for unimportant things like hairpins or some gadget or other will have to go way down the list, and we will have to postpone them for a while. In this kind of situation, in order to get the maximum military effort in the free world, we will have to do some allocating with respect to the places around the world where military production can take place.

Right along with that as to priority is the equipment and materials needed for expanding the production of raw materials throughout the world. If, as in India, we have a situation where stepping up the manganese shipments to the United States requires some improvement of the railroad lines that bring it down to the ports, then the railroad line improvement becomes a matter of very high importance so far as the United States is concerned.

Beyond these two situations of requirements we have some others that I would call lesser objectives, but that we do want to accomplish. For example, we have been trying to get Europe back on its feet. A good many of the countries have done extremely well. As you know, on the first of January all assistance to the United Kingdom except on military items was stopped. On the other hand, there are some countries, like Greece, Austria, and Germany, that have not gotten on their feet as yet; and, in order to carry them on through, there will have to be continued support to their economy.

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Then there is the question of the extent to which in these countries, where they have been living on a much greater scale of austerity than we have, they can take the military production out of their civilian effort. Compared with their standard of living, of course, our standard of living is very high. We can postpone buying new television sets for years and no one in the United States will suffer. It seems to me that we do have a problem of how far, given the temper and the morale and the character of the governments of Europe, we can allow a declining standard of living to set in, without having consequences that are relatively important to us. At any rate, that is a consideration that we have to take into account.

Another consideration is that we have been trying to get these countries back on their feet, so they will be self-supporting. But they may have to cut back on their exports in order to divert more into their military production. If that goes very far, we will have to start all over again some day on another recovery program. So one has to watch the extent to which you can undercut the effort of making these countries self-supporting.

Finally, we have a whole series of countries that are not involved in the joint military effort, but countries where there are political problems, ranging all the way from Indonesia and India to some of the South American countries, countries where our interest is to keep them from going Communist. In these countries they are not threatened so much with military attack as they are threatened by the fact that, if things are too bad there, internal revolution will set in. In order to deal with that, one does have to hold some degree of hope for improvement before them; and that means some economic development. It doesn't have to be assistance of the kind and at the speed that we supply to the nations that are engaged in rearmament, but enough so that they know that there is motion taking place, so that these various countries will have caught the feeling that there is a possibility of getting out from their present poverty-stricken condition.

Of all these considerations, rearmament is the main one; but recovery and the maintenance of the standard of living and economic development all have to be considered and weighed in the problem of allocation of that part of our finished goods which proves to be in short supply. The interdepartmental organization problem centers largely, of course, on Mr. Wilson's shop, where they are responsible for the economic arrangements. The basic decisions needed are as to which are the things which must come first.

This whole situation that I have been talking about is, of course, a complete reversal from what has been going on in the world over the last five years. In the years since the war we have been having a steadily easing situation on the flow of goods. Countries have been taking off quotas and tariffs. In general in the world there has been less and less government restriction and government control with respect to the flow of goods. However, at this point of time, we are moving very rapidly back,

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and we must move back, into controls with respect to the raw materials situation and the finished goods situation. One of the most difficult sets of judgments to make is that set of judgments as to the relationship between our domestic requirements and the foreign requirements. It is a problem with which we in the State Department have a great concern, because we feel a special responsibility for maintaining as best we can a free world and doing as much as we can to strengthen the fight against communism.

There is one other element to the commodity problem that I think is worth talking about. Probably most of you know about it already. That is the use of controls with respect to commodities for the purpose of economic defense. I have discussed the problem of expanding our own efforts against the Communist world. Obviously, it is just as useful to slow down the Communists' expansion as it is to speed up our own, because military strength is a relative matter. Therefore, starting at the time of the Czechoslovakian coup, we began a policy of beginning to influence the flow of goods to Russia and the satellites.

The policy, as it was set up at that time, was not to completely stop the entire trade. We did want to stop the flow of goods from the United States which would contribute to the Soviet war potential. It was a kind of selective process, if you will, whereby you picked out certain things that were of strategic significance, and stopped the flow of those goods. Since that time we have, through an interdepartmental group been building up export-control lists--and applying them--of particular items which we felt should not be shipped to Russia and its satellites. At the time of the Chinese aggression it was extended more drastically with respect to China. Now in that case we have virtually a complete embargo.

But, obviously, it does no particular good for the United States to set up this kind of program by itself. The Soviet Union never got very much from us. Its largest source of imports was Germany and, next to that, the rest of Europe. And so at the time we started out over two years ago to develop the United States policy, we discussed it with other countries and said, "Now, look. This obviously will be of some interest to you. We want to put this on a common basis."

When we began talking with the individual countries, we found that country A would say, "We would like to do it, but we won't unless country B will do it; because if we stop sending our products and some other country does it instead, all we will have done is to hand the market over to another country." So it requires parallel action.

Over a year ago a committee was set up in Paris, which went to work on developing an international list of things which would not be shipped

to Russia for parallel action. As of the last six months great progress has been made and now we have over 90 percent of these items on a list which has been discussed between ourselves and the other countries.

The element that is so difficult about East-West trade is the fact that trade is not just a one-way operation. The western European countries get 12.5 million tons of coal from Poland, and for that coal they send to Poland a variety of things--fish oil, cotton textiles, and so forth on the one hand, but also some aluminum and various other items that really are strategic. We have the problem of whether or not to say to another country, "You must stop sending these things to Poland" if the result is going to be that Poland says, "Sorry. No more coal for you." Twelve and one-half million tons of coal is quite a lot of coal. If we have to ship it to Europe from the United States, it is going to be exceedingly difficult; and it would cost, if it comes from the United States, about 25 dollars a ton. Trade is a two-edged business that has to be calculated out rather carefully on a net benefit basis.

MacArthur has kept goods going from Japan to China up until very recently, for very obvious reasons. He calculated that it was to his interest to send cotton cloth to China and get coking coal back; that this was a worth-while transaction and very much of a net gain so far as Japan was concerned. This is what makes it very complicated to have any very exact rule that says that this and this and this must not be shipped, because of the retaliation and cost that is possible.

Parenthetically, I might say that one of the things that makes this picture look so bad is the character of statistics. I will give you just one illustration. There were charges made that from Hongkong had been going to China aircraft and locomotives. Well, this sounded terrible and we began looking into it. This is what we found; In the Hongkong statistics there is a line which reads; "Aircraft, locomotives, motor vehicles, and other means of transportation," and there was a block of several thousand dollars of shipments under that heading. When we looked into it, we found that the entire shipment was bicycles. But, so far as the public is concerned, there is no way that anyone could tell but what this was aircraft and locomotives. "Iron and steel products" include not only machine tools but hairpins as well. We now have a large staff in several government departments studying such facts and breaking them down in detail to find out the extent to which strategic items are actually included.

This also is involved in the general problem of raw materials. To the extent to which we can properly handle the trade with the Soviet Union and the satellites, we not only may increase the supply to ourselves, but we also can curtail the ability of the Soviet Union to expand. However, do not put too much reliance on that, because the USSR is not particularly dependent upon foreign trade. Its foreign trade is only about one percent of its national income. It is not so vulnerable

as Germany was and even our complete embargo during the war against Germany had limited effectiveness in reducing its capacity to carry on, as you know.

The commodity situation of which I have been talking is, as you can see, relatively out of balance, and the tremendous new demands have naturally led to rising prices which have very serious effects on any economy. It means that people like all of us here, who presumably have relatively fixed incomes, take a terrific beating. It also means that people who save money, look forward to spending it less advantageously. All of this throws the economy badly out of gear and destroys the willingness of people to hold money for the future, because, after all, they see it getting less and less in purchasing power. Therefore the inflation problem, the rising price problem, is a very important one.

In the international field, there are problems created by our efforts to keep prices stable in the United States. I think it is very important that we do keep prices stable in the United States. But to the extent that we do, here is what happens: We have set a price here on tungsten under the formula for keeping the price level stable in the United States. Tungsten is very scarce. The price of tungsten has gone above our American price. It means that anybody except the stockpiling people, who don't calculate things in stabilization terms, who goes out and buys tungsten in a foreign market and brings it back to the United States, is going to take a loss on it. When the foreign prices do not have a ceiling and the United States prices have a ceiling, there is the possibility that many items that we need will go above our ceiling and then be bought by Brazil, France, or whatever country it may be, and our people will just not be able to buy it unless they are willing to bring it into this country at a loss.

There are three ways of meeting that problem, and I suspect maybe we will use all of them in time. One of them is for the U.S. Government to buy, absorb the loss, and bring it back and put it into the United States economy. The second is to take our price ceiling off. The third is to force some absorption from domestic margins.

There are some situations where the first of those is the obvious thing to do. Let me give you an illustration. Take copper from Chile. Let us say that we hope to get from Chile 10 percent of our copper requirements, but it will take two cents more than the American ceiling price to do it. We are much better off in our economy if the taxpayer can pay that two cents difference on this 10 percent than if the whole 100 percent is moved up two cents in order to bring in that little bit from Chile. On the other hand, if you take the case of wool--it being very largely something that comes in from the outside, you might well decide that this was a case where you had to break the price ceiling. You may have a case where perhaps the price to the consumer can be held but there can be absorption along the line. There are very real

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problems in connection with price control where you have price control in one country and don't have price control in other countries.

One other problem is interesting. It can perfectly well happen that in the United States we have our price control, and let us say that Mexico does not. Prices may then go up in Mexico. Therefore the fellow who wants to buy an automobile in Mexico must pay much more for it. Obviously, in that kind of situation the businessman is going to send as many automobiles to Mexico as he can because there is no ceiling there and he can make more money on them. If the price level in other countries gets too far away from the level in the United States, it may become necessary, in order to control the situation, for us to put some restriction on exports to prevent too many goods from going out of the United States. And, of course, to the extent to which goods go out of the United States, that means that you and I are left running around with dollars trying to spend them and there will be fewer goods for us to spend them on, and therefore our price level will have more pressure on it than would otherwise be the case.

What does this all add up to? It adds up to this kind of picture, looking ahead, the pattern we are hoping to achieve. It means that in the United States for the next two years we are going to be diverting such an amount of our activity to rearmament that you and I as consumers will suffer somewhat, maybe by as much as 5 percent or so. But after two years we will be adjusted to the necessary military effort. We have a continuing upward trend in our production in the United States due to our increased productivity. We as consumers will have a break in the trend for a couple of years and we will be getting less of the total than we are now. But then after two years, we will get a resumption upward of the consumers' goods trend. We will continue to carry the now overload on the economy of maintaining and perhaps continuing the expansion of the military. So far as the United States is concerned, that is the pattern that we are trying to achieve.

In the European countries the pattern is very much the same, except that the hope is that there won't be so much of a dropping down, just because their economies do not have the same degree of flexibility of capacity as we have and they are nearer the minimum load. So far as the rest of the world is concerned, there probably will be not only a flow of more goods, particularly from the United States and particularly in the kinds of things that are not critical, but they will also be piling up dollars in substantial amounts. So we will have a new economic situation internationally, looking ahead, in which there will be perhaps, after a three-year period, 10, 12, or 15 billion dollars in new gold and dollar assets in foreign countries, which will represent money which obviously can be used at the appropriate time in the United States.

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This fact has two significances. One is that it means we will probably have less pressure from foreign countries for dollar assistance. The other is that we will have a problem at some point in the future in order to avoid these dollars from abroad suddenly flowing in and upsetting our economy. That means that the controls we are speaking of with respect to foreign transactions and foreign trade may have to go on somewhat longer than might otherwise be expected.

So, speaking of the economic problem, we are in the process of developing controls and machinery, as I have indicated, that is very complicated, but which we will need to have if we are to be successful in mobilizing not only our own efforts, but those in most of these other countries. It does look as though it is possible for the process to be carried through without excess disturbance of the world economy; and that perhaps after two years or so we can begin to move forward again with respect to what is the essential purpose of our economy--to increase the flow of goods and thus improve our standard of living.

Now, if I may, I would like to have a few questions.

QUESTION: To what extent can this program that you have outlined with respect to other countries be continued without additional legislation? What I am thinking about is that the Defense Production Act will expire at the end of June. Presumably it will be renewed; but, with the whole political climate that we have right now, the getting of any new legislation is tough. To what extent might that hamper this program that you have outlined?

SECRETARY THORP: I think there are many steps in legislation that are required, because this program is one in which we have to control, make allocations, and do a degree of economic planning in the use of resources, which requires the Government to have authority which it normally does not require. It also requires the Government to have funds, particularly for purposes like the development of additional sources of strategic materials, building up stockpiles, and things of that sort.

We must have the renewal of the Defense Production Act, which is the source of most of our internal authority. Then there will have to be also a Foreign Assistance Act, which will probably go to Congress this next week. It will be a single act bringing together what has in the past been the Military Assistance Program, ECA, and the Point Four Program along with some other special items, like the program for Palestine refugees. This act, which is going to Congress in one bundle, involves both military and economic assistance.

This can be illustrated by the study that is going on with respect to the island of Formosa. Every time an increase is made in the military program for the island, we have to make a change in the economic program for the island, because it may require some roads to be built, or an increase in the so-called common-use items, like petroleum and so forth. The different estimate as to the number of people who are there also affect the government budget and government service. So what happens is that military assistance and economic assistance are interlocked. We have put both together in one bill for presentation to Congress.

QUESTION: Mr. Secretary, what sort of agreement do you get from big business on this program? This may not be a good example, but it portrays what I am trying to get at: The National Roads Conference, made up of representatives, if I understand it right, of oil, automobiles, highway building, and machinery manufacturers, is interested in expanding our foreign market. It seems to me that originally their intended purpose was just the contrary to what we are trying to do now. Where do we stand about that?

SECRETARY THORP: It depends on the attitude toward rearmament of the business group concerned. Of course, you all know the degree of conflicting opinion that there is on that point. In most business groups, starting at least today, there is a very firm understanding of the fact that we have to do things about rearmament. Then the next stage is the fact that we have to do this, if possible, without disrupting any individual field. There is complete agreement everywhere in the country, so far as I can tell, that we ought to do it on a pay-as-you-go basis. We have set up a pay-as-you-go program, but it has bogged down because everybody thinks that it should be the other fellow and not he who should pay. Everybody is agreed that in general it should be done, but thinks that his particular program is different.

You get the same thing, of course, with business groups. The automobile people say, "Why should you cut us back on the amount of steel that we can use unless you cut back A, B, C, and D?" That is bound to happen. But to the extent to which there is recognition of the importance of the program, and provided it is handled well, business people are reasonable.

Of course, some of them benefit out of this. For example, I spoke of the opening up of manganese deposits in Brazil. One is being developed by the Bethlehem Steel Company and the other by U. S. Steel; and to both very large loans are being made from government funds. There is a lot of domestic expansion of new plants and so forth in very attractive forms for businessmen. So there are some pretty good, substantial carrots in this business for large parts of the business community as inducements to go along with it. But in total it disrupts the economy, and from every point of view it is uneconomic and undesirable. One has to admit that, but still we have to do it.

QUESTION: I am wondering whether this accumulation of dollars in the countries of South America and the Far Eastern countries is actually in keeping with the Point Four Program's objective--to increase the productive capacity of the countries--or whether it is just going to create more demand for consumer goods that later on will create political and economic headaches in those countries.

SECRETARY THORP: It is only quite recently that this money has been accumulating. It is interesting to note that many of these countries are now asking for loans for economic development projects to supplement the aid funds. My guess is that they will take as much as we will be willing to make available in terms of materials for economic development. But the problem is, we are short of turbines. They want turbines. Even if they have the dollars, they are not going to get all the turbines they want.

My guess is that this will enable us to put some pressure upon them. To some extent we can be rather thankful, as a short-run matter, that some of these funds are being siphoned off into consumer goods, so there will be less pressure on the durable goods part of our economy. Of course, the countries will vary greatly as to the good sense with which they permit their accumulated funds to be used.

QUESTION: Mr. Secretary, we had a United Kingdom spokesman here the other day and a question was put to him about the volume of British goods flowing into Hongkong. He very adroitly tossed it back to us by saying that we were responsible for a great deal of that flow, through Japan, and that most of the British goods were bicycles and things like that. Would you comment on that?

SECRETARY THORP: Well, he did that by playing a statistical trick on you, probably. If he took his 1950 statistics, he was right, because up until somewhere along well into the fall there was a tremendous flow from Japan. As a matter of fact, much Japanese stuff was going to China and a lot through Hongkong.

There was also a flow directly from this country that was very considerable. It was not allowed to go if it was on our embargo list. That embargo list has, I think, about 200 commodities on it. Since last summer, we have tightened up, so that now we send to Hongkong only what we calculate is needed for certain essential items like food and so forth to meet the requirements of the people of Hongkong themselves. So there is a very narrow flow of goods going to Hongkong today.

Of course, that is a British colony and it is a little tougher for them. They feel a responsibility for it. But it is a fact that, starting last fall, we cut back on shipments to Hongkong very drastically.

Many of these situations move awfully fast. You have to watch and not get caught on past figures on one thing or another, because that just isn't the present picture. The present picture is quite different in terms of rates and of situations from what it was last year.

QUESTION: I would like to ask you some things about this wheat to India situation. Why are demands being made that we make that an outright gift? And do you think that is going to have any effect on the relations between Pakistan and India?

SECRETARY THORP: I will start off with the second part of your question. So far as Pakistan and India are concerned, Pakistan had quite an erratic record in the last three years about its production of wheat and rice. It had to back down on what it expected to export. Two years ago it cut off all trade with India. Until a month ago there was supposed to be no trade at all between the two countries. During that period Pakistan agreed to sell all surplus wheat to Japan and Germany. They entered into contracts for over 200,000 tons. Actually, Pakistan shipped a little over 100,000 tons on these contracts and then canceled the rest of them on the basis that the crop had not done so well as had been hoped. So that certainly, as of last year, the most that India could actually have gotten would have been that 100,000 tons. And even with the most favorable crop circumstances, the very most would be 300,000 tons that could have been shipped from Pakistan to India.

The wheat that Pakistan can spare will flow now. Pakistan and India have settled their differences economically. They still have the Kashmir dispute, but they have settled their foreign exchange rate problem, which was the one that had hung up the trade. But even 300,000 tons would not have much effect. India has had to bring wheat in from abroad, I think it is, something like 5.7 million tons. She hopes of that 5.7 million tons to get over 3.7 million from us, using her own dollars for 1.7 million tons. So 300,000 against 2 million doesn't much more than help a corner of the problem.

Now, as to the grant versus gift question, the Indian situation is merely this; Here is this tremendous country. It is not a Communist country. It is not what we would think of as an entirely capitalist country. It is an independent country. It has a curious point of view with respect to its attitude toward the West. It is cooperative to some extent, and yet has a real nationalist, antiforeign feeling, like so many of the Asian countries.

India has one of the very lowest standards of living in the world, but it accumulated some pounds of sterling during the war. However, this is not enough to carry her through a development program. Our

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feeling is that, if we could give this wheat to India, so that she would not have to take the cost out of limited savings, then she could move ahead with a program which would really advance her economy and give her a much better chance to maintain her independence.

Furthermore, if we make a gift of this wheat to India, our Government is going to say, "We are giving you this wheat. You are going to sell this wheat through your rationing system." That is what they propose to do. "Therefore you will get rupees for it. Those rupees will be put in a special fund; and, since, after all, you have done nothing to earn those rupees that you collect from the sale of the wheat, you and we will administer that fund of rupees to improve the basic agricultural picture."

By that process we then give wheat to India. The consumers in India pay for it. It is not a matter of their not having the money; there just isn't the wheat there. The consumers in India will pay for it in rupees. These rupees in turn will be used for agricultural improvement, and the economic situation will really pick up.

There is a political aspect to this also; namely, that in Asia the Communists describe us, quite effectively, as being either warmongers or imperialists, as having no real interest in the people there at all. It was our hope in the State Department that this opportunity would be taken by the Congress as a way of symbolizing to India the fact that we do have a concern for them; in fact symbolizing to all Asia that we can be counted upon as a friendly nation, a helpful nation. We feel that it would be an exceedingly valuable political step to take.

COMMENT: You have given us a very encouraging picture of what will happen two years from now about our standard of living going up. Then also you said that the production of raw materials had gone ahead slower than the industrial development. It seems to me that we have a program now of very rapidly expanding our industrial development to take care of both our military effort and the peacetime economy, and that it is a little questionable whether we can continue expanding our raw materials production. And so I am a little bit worried about whether we should continue to take such a high percentage of these vital raw materials here in the United States for our military production.

SECRETARY THORP: I think that is a caution worth mentioning. But the high prices should be helpful in stimulating this raw materials situation. I am hoping--I guess I have to talk about this as a hope, but I am quite sure that it is going to happen--that the problem of getting these raw materials is going to be pinned on someone, somewhere in the Government, who will have the job to do.

At the present time it happens that DPA has a finger in the problem, as well as the Export-Import Bank, ECA, GSA, and we at the State Department. All of us are "facilitating" the process, but nobody is responsible for the process. This is an important new problem, and I do think it has to be pinned on someone.

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Every once in a while, a new problem emerges. I think it is very significant that the British Government has just taken all the different parts of the government that have problems relating to raw materials and pinned them on one man. He is a cabinet officer and is called the Minister for Raw Materials. I don't think that has ever happened in government before. There it is in the British Government. We ourselves, I think, must have somebody who is tagged with this job.

During the war we had several separate corporations whose job it was to do that. We started with the Board of Economic Warfare; then FEA had the job of foreign procurement and foreign development. We don't have that in our present machinery. I think we ought to have it. Probably it is the hope that we may do it through some such device, plus the fact of high prices, that permit me to be a bit optimistic on this raw materials problem. But it is a problem, and one should not be too optimistic about it, particularly since we at the present time are fumbling badly in terms of organizational responsibility to deal with it.

COLONEL BARNES: Mr. Secretary, I regret very much that we have to bring this conference to a close. On behalf of all of us, I thank you for this most interesting, clear, and helpful discussion. Thank you very much.

(17 July 1951--350)S.