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IMPORTANCE OF ECONOMIC CONCEPT IN WORLD AFFAIRS

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DR. REICHLLEY: Gentlemen: From your perusal of the daily newspapers, I am certain that you are well aware of the minutiae of the international exchange of goods and services. As senior government personnel interested in national security, you are gradually becoming aware of the interrelationships of logistics and strategy. This morning we want to discuss the interrelationships of economics and international relations. To develop this idea we have called on Dr. Arthur Burns, an outstanding economist and author, whose profession is in the field of international relations. It gives me pleasure to introduce the Dean of the School of Government of the George Washington University. Dr. Arthur Burns.

DR. BURNS: General Vanaman, Dr. Reichley, gentlemen: The topic I want to discuss this morning, the "Importance of Economic Concept in World Affairs," is clearly a large topic and I can touch upon only a few of the trends that have been going on in this field for several years. I think it is accurate to say that in the field of international trade and international finance we have had a revolution, not only in the trade and finance of this country, but in the general international economic scene. It has been a revolution in economics in a century of war and revolution, and the changing pattern of economic life internationally has in part contributed to these revolutions and wars. More important, the revolutions have affected the trends and changes in international economic relations.

When we look at the position of the United States in world economic affairs today, we see that this country is the world's leading exporter of manufactured goods, as well as a great exporter of raw materials. It is also a great importer, and above all, it is clearly the world's banker and the world's almsgiver. The present position of the United States, with its enormous trade, its enormous financial resources, and its policies of foreign aid, contrasts sharply with the earlier international economic role of the United States. If we take some period not too far back, say at the turn of the century, we can see dramatically our changed policies and position. Fifty years ago this country was not deemed insignificant internationally, but certainly it was not predominant. Today it is predominant in both the international economic and financial fields.

Since the close of the last war we have given and loaned some 25 billion dollars to many countries of the world. I suppose we could say we have given that amount, because the loans, I am sure,

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will eventually be converted into grants of one sort or another. We have contributed vast sums to international financial organizations; we have been and are now expanding in this field. We have provided technical assistance to build up the economic life of various parts of the world. These things--providing huge amounts of money, contributing to international organizations, and giving technical assistance--would never have been proposed 50 years ago. Some of the changes, leading to present policies, are the general subject of my remarks this morning. If we go back to the period before World War I and look at our domestic economic position and our international economic policy, we find a condition of utmost simplicity, compared with our present situation.

Before World War I international trade and finance as a matter of policy generally were considered to be within the province of private business. Government had very little to do with the financing or the direction or control of trade. The business was in the hands of importers and exporters. They bought and sold according to their advantage, and that ended it. To be sure government was not indifferent entirely to foreign trade; our Government protected domestic industry through tariffs and we were developing a fairly high tariff policy even at that time. The Government also insisted upon equal rights to our foreign traders, and from time to time sent the appropriate military force to assure that equal rights would be accorded them. In the field of foreign investment, this Government took the position that it was a private matter, and itself did not indulge in foreign investments of any appreciable amount. As a matter of policy, however, it did insist upon the protection of American foreign investments abroad and again, from time to time, took steps to assure that those investments would be protected. In short, American policy was to leave the matter primarily in the hands of private enterprise and step in only for the protection of what we regarded as vital to our international economic interests.

Often we have been criticized as being isolationist, in an economic sense. I think the term "isolationist" is not entirely appropriate, because we did have a firm, extensive foreign trade, and some parts of the country were vitally interested in and dependent upon foreign trade--both exports and imports. But compared with our recent position, it is probably accurate enough to say we were somewhat indifferent to foreign trade and financial problems at that time. The reasons, I think, are clear enough. For one thing the geographic expanse of the country absorbed the interests and the energy of the population as a whole. Its mere size was sufficient to divert interest away from foreign matters to our own problems. And certainly, at that time we were geographically isolated. Both the Asiatic and European Continents seemed to be, and in fact were, far away, given the modes of transportation of the period.

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The geographic basis of our indifference or isolation is a well-known matter, and I think an important part of the explanation of our policies at that time. Moreover, the fact that we had a great underdeveloped area made it possible for us to be relatively independent of Europe. We did import some necessary manufactured products; we did export some surpluses; but our main interest was in the development of the industry, the agriculture and the mining of this country. The opportunities for domestic investment and expansion were numerous, and, generally speaking, these investment prospects gave little time to think either of international economic or financial problems.

So far as our economic interest in foreign trade was concerned, I think it is fair to say that before World War I we looked upon it chiefly as a means of getting rid of troublesome export surpluses. Cotton, tobacco, and wheat, at one time, were in surplus in this country. Foreign trade was chiefly a means of getting rid of them. This point I think is important, first, because our basic approach to foreign trade was far different in 1900 from today, and, second, because our own wealth and resources gave us an attitude different from countries elsewhere. These countries were not exporting surpluses to get rid of them; they were exporting things they really needed in order to get the foreign exchange to buy other things they needed. Foreign trade for us was a matter of getting rid of price depressing surpluses, an attitude that still prevails in some quarters up to the present time.

There were other reasons for our isolationism. In the old days Europe was regarded as a source of insecurity and trouble for this country. Today, however, we speak about Europe being essential for our security, essential for our defense. To say in 1900 that our frontier was on the Rhine would have sounded nonsensical. The attitude towards Europe, in short, was one that regarded it as a possible source of trouble, even a threat, and not as a basis of our own security.

Most people had gladly left Europe to come here because of troubles they encountered there. By and large they wanted to forget Europe and concentrate on this country. Thus we developed a rather passive, somewhat indifferent attitude and policy towards international economic matters and, to the extent that we were interested, we regarded them as chiefly in the province of private business and not a governmental problem as such.

The international economic attitude and policies of this country were in marked contrast to the attitudes and policies and the position of the western European countries at the same time. If we go back far enough, not to 1900, but to 1800, Europe was essentially self-sufficient

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in foodstuffs and raw materials. By 1900 it was a dependent area, dependent upon the rest of the world for a very large portion of both its foodstuffs and raw materials; this is even more nearly true at the present time. What happened in Europe generally was that a region relatively highly populated, with relatively scarce resources, began to develop a huge industrial system. With that industrialism went a further expansion of population, until Europe simply outgrew its own resources. Consequently, France, Britain, Holland, Norway, and other parts of western Europe became more dependent upon foreign trade and upon the stability of foreign trade and the stability of international finance. They could not take the attitude of indifference, of isolation, that we took, because their livelihood was involved. The protection of their foreign investments, and the extension of spheres of influence in colonial areas to provide them with safe and secure sources of raw materials and foodstuffs were essential. Europe's dependence upon world trade can be seen in the fact that, for example, Norway and Great Britain derive from one-third to one-half of their national income from overseas activities: their export business, their import business, and their international financial relationships.

The growth of European industry depended upon a complicated system or network of trade. Being a great manufacturing area, Europe exported manufactured and semimanufactured goods to many parts of the world and in return obtained enormous amounts of food and raw materials. In particular, western Europe was dependent upon a triangular trade arrangement among Europe, the United States, and the Far East. Europe generally exported more to the Far East than it imported from the Far East. Europe bought more from the United States than the United States was willing to buy from Europe and, at the same time, the United States bought more from Southeast Asia than it sold to Southeast Asia. Our great purchases of rubber and tin, and a few other commodities, account for this imbalance. Thus the dollars that we provided Southeast Asia in our purchases from it were the dollars which Southeast Asia in turn paid to western Europe for purchases of finished products, or in settlement of balances with Europe. That triangular trade was very important, and Europe gradually came to depend upon it. The Europeans obtained substantial amounts of dollars in the old days indirectly by way of this triangular process. When that process is disrupted severely, Europe is in a difficult position, and some of its present difficulties stem from that fact.

What I am stressing here is this: The industrialization and the tremendous growth in population made western Europe an economic dependent. For a long while Europe was able to support itself because it could export enough to various parts of the world to get the exchange to buy the food and raw materials it needed. It is

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still dependent upon this highly sensitive network of trade and financial relationships. It is clear that such development, contrasted to our own independent expansion, caused Europe's interest in international trade and finance to be much greater than ours in the decades past.

Specialization and dependence upon foreign trade contributed to Europe's well-being and also to its insecurity. The well-being of Europe and that network of foreign trade could be maintained only in a world that was relatively tranquil. World War I very badly disrupted the fabric; it at least temporarily shattered the network of trade; it caused numerous financial difficulties; it caused the partial liquidation of Europe's assets abroad which had provided them with funds; and it left Europe economically and financially weak. The great troubles of the 1930's to a large extent could be attributed to this disruption of world trade and finance occasioned by the First World War. I say partly, not entirely, because something else was happening which was aggravated by the disruption of World War I: The other parts of the world which had been the suppliers of raw materials and foodstuffs for Europe, gradually became industrialized themselves; chief among them was the United States. When other parts of the world grew industrially, their dependence upon Europe for industrial products declined. But note this: Even though this country and other non-European areas of the world became somewhat less dependent, and often very independent, of Europe, Europe continued to be dependent upon the rest of the world, because it needed food and raw materials.

The disruption of war and these industrial changes going on in the world meant in the long run that the European international economic position was weakening and, as shown above, in the 1930's that weakened position became obvious. Now, to be sure, the troubles of the 1930's came partly from World War I, partly from these long-term changes that I have briefly mentioned; but also from one or two other things. The United States tariff policy certainly hurt the economic position of Europe, because Europe must export to live. Our tariff policy made exports to the United States difficult.

The second point is that during the 1920's Europe depended heavily upon American investments. During that decade American investments came to around 800 million dollars a year. This provided dollars for Europe and for other people as well--amounts which at that time were quite sizable. Moreover, American tourists provided substantial amounts of money to Europe--dollars that helped Europe to buy food and raw materials.

The big increase in the United States tariff came in 1930. The decline in American investments abroad came in 1930, and the

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depression of the 1930's in this country kept tourists and their dollars at home. Thus some extremely important sources of the exchange that was vital if western Europe was to maintain itself, practically vanished in a short period of time, and the European economy went into a deep depression. I need not go into the details of what happened during the 1930's but simply to indicate that their financial difficulties generally led Europe to all kinds of strange controls over trade and finance. Not only were tariffs raised almost everywhere, but quotas were imposed and exchange controls were adopted. Foreign trade became locked in a vise and lost the old freedom and flexibility characteristic of the period before World War I.

I think the international economic difficulties of the 1930's had these effects: They made us generally much more aware of our importance to foreign countries and to their economic well-being; and they made us realize more clearly the interdependence of our foreign trade relationships. That is, we finally became aware of our international economic importance and, consequently, our responsibilities.

The troubles of the 1930's and all the controls over trade and finance that came with them were aggravated of course by World War II. The European economy was almost shattered as a result of the conflict. The accumulating difficulties of European countries in the several decades before World War II suddenly hit them at the close of that war. From an international economic and financial point of view, Europe and a good part of the rest of the world were bankrupt at that time. It was at this point that American economic policy went through some revolutionary changes mentioned at the outset.

There are many different aspects to this policy of ours in the postwar period. For one thing, we had the belief--at least it seems to be implicit in our policies--that, with our support, the international economic and financial organizations could restore Europe to a high degree of prosperity.

That notion led us to support the International Monetary Fund and the International Bank for Reconstruction and Development. I think the International Monetary Fund has turned out to be one of the greatest disappointments in American economic policy and in economic cooperation. It has not made an advance for some 18 months. The International Bank only began making substantial loans in the last year or so, several years after it was set up. So you see, one of our policies--to re-establish normalcy through these international financial organizations--did not bear fruit.

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Another general approach to the international scene might be called humanitarian--giving vast amounts of money for postwar international relief. This was admittedly just a short-run policy, designed to tide Europe over until the international organizations would set Europe on its financial and economic feet again. Important as that policy was, it was not supported by the growth and expansion of these international financial organizations.

The general point is that we seemed to think that by providing contributions to the large international organizations, and by providing relief money abroad, and by making a loan to Britain, Europe would obligingly recover. The policy assumed that the well-being and prosperity of Europe would be to our advantage. It was clearly a good insight on our part. It was a big advance from our viewpoint 50 years back. There was also the feeling that by providing these funds in relatively limited amounts, the prosperity of Europe and other parts of the world would make unlikely any future war. The notion that prosperity is conducive to peace, that depression and disruption are conducive to war, seemed to be an integral part of our thinking at this time.

On that point I would like to make just a few comments. Our attitude in this respect seems to assume an economic interpretation of war. That was, and still is, a very popular notion. Many people readily agree that war somehow starts because people are fighting for their economic interests. At one time the explanation was probably quite sound. In the nineteenth century, colonial powers fought colonial wars to get raw material sources and to protect their markets and investments. The economic interpretation of war finds a good deal of support in the experience of the nineteenth century. I think it finds very little support in the experience of the twentieth century because, with the great dependence of nations upon foreign trade, world-wide conflict is virtually suicide. An interdependent world economy thrives best in peace and is threatened with disaster in war. I think that is abundantly clear from this last war.

Another point, too, is that war today confers no economic advantage, even on the victor. It used to be that "to the victor belongs the spoils." It now seems that to the victor belongs the bill--the bill to shore up his allies and rehabilitate his former enemies. We have spent more for this purpose since World War II than we borrowed to fight World War I. It is quite clear from our own experience and from the experience of the other combatant nations that there is no economic gain from war and, that being so evident, I think it follows that wars spring from other purposes and other motives--not from economic gain.

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I said a moment ago the close of the war found us assuming fairly substantial responsibilities for the rehabilitation of western Europe. A new development, however, caused our policy to shift very markedly: That was the intransigence of Russia. As our country became alive to the fact that Russian expansion was under way, the problem of policy shifted to the "containment" of communism. How did we go about it? Again, chiefly by adapting our economic policy to attempt to stop communism. In a sense we thought we could buy off communism, or at least we thought we could buy allies. The idea seemed to be that communism arises out of difficult economic conditions. Therefore, through the Marshall Plan we provided billions of dollars to our friends to restore their economic systems, in the hope that communism would be stopped. This was presumably based on an economic interpretation of the origin and spread of communism.

Personally, I think this is a dubious interpretation. By this I do not mean that the money we spent was spent unwisely—not at all. A very substantial amount of American aid was necessary on economic grounds. Europe is a dependent economic organism and somebody had to provide it with the exchange necessary to buy imports at a time when it was not able to produce enough to get those things for itself. Aiding Europe on these economic grounds I would say was appropriate; it was farsighted policy; but to regard that kind of aid as the principal way in which we should combat communism rests upon a rather simplified view that communism is the outgrowth of difficult economic conditions. As I said, I think this view dubious.

If communism thrived and grew out of difficult economic conditions, then how can one explain the fact that the most prosperous European country at the close of the war, Czechoslovakia, went Communist? It was a country whose average income was higher than any other country in central Europe—and yet it went Communist. Let us take a look at another country, namely, Afghanistan. I am not sure what the per capita national income figures are, but Afghanistan is generally regarded as one of the poorest countries in the world. At the same time it is one of the most anti-Communist countries in the world.

There are other comparisons of a similar kind that could be made. It does suggest that there must be something more to the growth of communism than economic conditions. Take this point—we have put into Europe roughly 25 billion dollars in the last six years. European industrial recovery has been substantial. The industrial output of western Europe is considerably above what it was prewar. By all outward manifestations, Europe has had a remarkable economic recovery, and our aid has been the primary factor. Yet, in the elections of 1951 the Communists still polled the largest single-party vote in

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France and in Italy. There has been no appreciable diminution of Communist strength reflected in the polls over the last four or five years despite the fact that the economic recovery of Europe has been in many respects rather phenomenal.

However, our officials have been claiming that communism is stopped, that communism is on the decline, and that our financial help brought that about. The election returns, I think, were a very rude shock to these people. The point I am making is that we rested our case too heavily upon our economic support, our economic contribution. Again, I am not denying that we should have contributed heavily to the recovery of Europe. But it was a serious mistake to regard that economic help as the principal method of containing communism.

The emphasis on our economic responsibilities and our economic help to Europe probably diverted our attention from more important policies, noneconomic policies, for the containment of communism, and the achievement of our other foreign policy objectives. Economic help, economic policy, is important, but, on the record, I think, it did not deserve the great importance commonly attached to it by this Government.

When we look at the development of American economic policy over a period of 50 years, we can see numerous changes, ranging from a policy of general indifference to one which involves our assuming responsibility for the economic health and welfare of western Europe and other areas of the world as well.

Our policies in the international field have changed greatly. What about Europe's? By and large the Europeans' interest has not changed a great deal. Fifty years ago they were dependent upon foreign trade for their livelihood; they still are. The Socialist Government in Great Britain is just as difficult in negotiating economic agreements as the Tory Government. The reason is found in Britain's dependence; this is a source of its insecurity. We are much less dependent and much more wealthy. Therefore we can and have experimented somewhat lavishly in international economic policy. We pledged our faith and dollars in international organizations which were unable to handle the job at hand. Another phase of our policy resembles a humanitarian movement. Finally our foreign economic policy was assigned the task of containing communism. The changes in our foreign policy have been necessary in many respects. We have had to participate and to assume responsibilities. The major trouble is that in assuming these responsibilities we thought that economic policy could accomplish more than was possible. As a consequence, we have in many respects failed to develop other policies which might have been more effective.

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COLONEL BARNES: Dr. Burns is ready for your questions, gentlemen.

QUESTION: Would you comment for a few minutes on the effectiveness of cartels on the European economy? Do you think the Europeans have a detrimental effect on the economy and, if so, do you think anything could be done about it?

DR. BURNS: In the first place, as you know, the European economy is pretty much a network of cartels. My general impression is that in many respects they are detrimental to European recovery, because it seems to me that if there would be a little more of old-fashioned free enterprise and initiative, the productivity of Europe would be vastly increased. One of the disappointing things about the European recovery has been the very slow increase in man-hour productivity. I would attribute that, in part at least, to cartel arrangements throughout Europe. Now, what can we do about that sort of thing? I just don't know. We can't tell the British to break up their cartels. We can only do that to countries we have defeated in war; and I don't think we are doing a great deal even in that connection. Those are internal matters of policy. We could have exerted some pressure to break them up a bit or liberalize them some, as a condition for getting some substantial financial help. That is probably as far as we can go, and I don't know if we could have gone far in that direction.

QUESTION: Sir, along what lines should foreign policy be shaped, in order to contain communism in Europe?

DR. BURNS: Since I made some disparaging remarks upon economic policy, I suppose I opened myself up for that kind of question. I do not know in detail, but I would throw out two general points:

First, we have, I think, missed the boat by not encouraging, as a condition for substantial aid, the development of strong governments in Europe. The classic case, of course, is France. One simply runs out of numbers for the French Governments since the close of the war. I think there are ways in which that kind of political instability could have been corrected, at least in part. It would have required a hardheaded, hard-boiled attitude on our part. After all, when funds are given or lent, the lender or giver can in a variety of ways impose certain conditions. That should have been one of them. I agree there would have been a lot of opposition here and elsewhere to it, because when I say a strong government, I mean just that. Communism in France or in Italy or in Belgium is primarily a matter for those particular governments to keep under control, and a strong government could do it. We have not insisted upon strong governments. That is one thing we could have done. We probably should have done it. We are probably making a move in that direction now.

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Second, propaganda is important in many respects in this anti-Communist fight; but I think our propaganda has gone off on the wrong tangent. Our propaganda is partly a matter of showing the blessings of democracy and enterprise in this country; in the number of automobiles, radios, TV sets, per capita income, production of meat products, and so on. All of that is boasting about the material benefits and comforts enjoyed by this system. When that is being dinned into the ears of impoverished people, the result probably will be envy and mistrust toward this country. Some of the information coming out of Europe suggests that even from some of our allies the percentage of the population strongly anti-American is just as high as in the satellite countries. The propaganda probably should have played upon the traditional European fear of Russia. That would have been a potent kind of propaganda. It should have connected up native Communist groups with the Russian bear. By doing that, by tagging them as foreign groups allied with Russia, our propaganda efforts might have had more impact upon these people than that which told them how well off we are. Those are two things—one is political, the other is propaganda. There are probably other ways we could have acted. These two appear to me as obvious steps.

QUESTION: Dr. Burns, you pointed out that we have made long strides from the isolationism of the 1920's and 1930's. There is no question about that. Vast sums have been voted for European aid and military assistance is being given to all those programs--yet there are things that are being done in Congress that make one wonder if we are really willing to cooperate in an economic sense with the rest of the world. For example, one of the programs that we have hoped would do so much in the postwar world was the proposed international trade organization. At Geneva in 1947 and at Havana in 1948 there was a great hope for this organization; but pressure in Congress from private groups has been so great that this cause has been completely lost. Another example is the trade renewals program which came up late in the spring. That program would have done considerable to reduce tariffs. However, the act that was given the Administration by Congress is so weak that in my opinion it would have been better for the President to veto the act. The Defense Production Act is another example. This gave the Secretary of Agriculture authority under certain conditions to impose an embargo on certain products of considerable interest to European countries. So, we have this obstruction of imports on one hand, while on the other hand we encourage western European countries to stop selling material to eastern Europe. Now, that trend in Congress is very disturbing to me and I wondered if you would like to comment on the possibilities of our measuring it up a little more toward cooperation in the economic field, especially from the military aid and other aid programs.

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DR. BURNS: I think you expect more consistency in policy than in fact is possible. It is true that Congress has as a matter of tradition opposed large imports. That view is strong and probably will remain strong. I think when it comes to international economic cooperation, we will find generally that we don't cooperate very much with regard to importing goods from abroad. We will cooperate, and have cooperated, tremendously when it comes to giving away our exports.

QUESTION: But it is in the latter field that we should have the long-run legislation, to help Europe stay on its feet, isn't it?

DR. BURNS: Yes, in the long run, if Europe is ever to become relatively solvent, it will have to ship enormous amounts of goods to us in order to get the dollars to buy what they do from us. In terms of our national income we are very low on our imports of goods from western Europe and from England. I don't see much hope that Congress will do a great deal to encourage imports. The few instances you mention clearly indicate the sentiment of Congress on that point. But look at our international policy in general now, compared with 50 or even 25 years ago. We are more liberal on our import policy now than we were in the 1920's. Certainly we are now relatively free in providing enormous amounts of aid abroad. Twenty-five years ago the only foreign aid we gave was an occasional small sum for disaster relief, for an earthquake occurring in Japan or some place. Now, without too much objection, we give four or five billion dollars a year. I say that is enormous cooperation, as well as a lot of money. Look at the thing on the whole, right now, compared with 25 or 50 years ago, and you find the degree of cooperation enormous. Perhaps in time even the remnants of economic isolationism found in Congress might subside somewhat. I am not too hopeful in the short run--eventually, perhaps it will.

QUESTION: I would like to get your point of view as an economist as to whether it is absolutely essential to have strong military forces in order to insure the economic stability in building up the economic resources of these countries as well as our own.

DR. BURNS: Well, not necessarily; it depends on the rest of the international scene. If the Russians were in the mood to behave and not try to expand--in short if political tranquility prevailed throughout the world--then these great military establishments here and abroad would be a waste. They would be diverting resources from the production of civilian goods and capital goods for a high output in the future. So there is no general answer to your question. Given the fact that Russian expansion is very manifest, then I say that the support and building up of very sizable military establishments in Europe and here is absolutely necessary. If building up the European

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economy is not combined with making it militarily secure, then Europe could be a nice ripe melon to be plucked by Russia. Then all the funds and resources we put into it would simply go, almost overnight, if the Russians move. In one sense, to insure our investment in Europe we have to build it up militarily, even though it means in the end a retardation of the economic expansion of Europe.

QUESTION: It has been my opinion that the money we have put into Europe to stem communism was very important; but along a little different line from what you just stated. Had we not put that money into Europe to help those nations when they were desperately in need, we would have left the door open for Russia. They had to apply to someone for aid, and we just stepped in ahead of Russia. Isn't that a fact?

DR. BURNS: I disagree with you. I don't believe the Russians after the war, or even now, had or have the potential to provide aid. The only place where those people could have gotten aid was from us. If they didn't get it from us, or if they got it in much smaller amounts, they would have had a much more retarded economy than they have. They would have been forced to lower their living standards. There wasn't the alternative to take aid from us or if we didn't give aid to get it from Russia. In the areas Russia has taken over, I think instead of taking aid those areas have provided aid to Russia.

QUESTION: But wouldn't that have put them into the Russian camp and gotten Russia over them because they were weakened and were more likely to fit into the Russian realm than they would in ours?

DR. BURNS: Are you saying that Russia, if we had not given aid, probably would have moved in militarily and taken them over?

QUESTION: I think they would have. They have taken over everything else they could get without going to war about it.

DR. BURNS: Yes; but some of those places they took over they did under their interpretation of agreements we made with them. We didn't make such agreements with them about western Europe. Russia is in the satellite areas partly by invitation, but the agreements did not include western Europe. In 1946 were the Russians sufficiently powerful, did they have enough potential back of them, to run the risk of possible war by occupying all of Europe? I think not; they probably knew if they made such a move that we would be in there after them.

QUESTION: Dr. Burns, you speak of the desirability of having required that these European countries put their houses in order, as their end of the bargain, when we were giving them this aid.

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We could have gone further and required that they cooperate among themselves. They are doing that to some extent. Would you comment on the extent to which Europe could go, in recovering economically, or even getting on its feet, through some sort of united effort in reducing trade barriers?

DR. BURNS: That would help a great deal; and not only trade barriers but other things, which are probably more important. There have been steps taken in that direction. It would greatly aid western European countries in their recovery to reduce financial, administrative, and legal barriers in trade with one another. That would not solve the whole problem, but it would help a lot, because western Europe remains a dependent area.

QUESTION: Collectively? Are they still dependent?

DR. BURNS: Collectively, they remain dependent. I agree with you that through financial arrangements and reduction of quotas or reduction in tariffs they would put themselves in a stronger position; but they would still be dependent on the purchase of raw materials and food from abroad.

QUESTION: With the development of the undeveloped areas of the world, we must presume there will be significant industrial development in areas which will take away the markets upon which Europe depends. In the foreseeable future, can Europe ever recover unless something is done to incorporate eastern Europe or some area which will better balance out the combined economy?

DR. BURNS: I think that with the industrialization of other parts of the world the relative importance of Europe will continue to decline. That happened when we grew industrially. Other parts of the world have grown and, if we go through with Point Four, still other parts of the world will grow industrially. It might be that Europe's aggregate volume of trade will not suffer; it might even gain as industrialization spreads to other parts of the world, provided political issues are satisfactory for trade. But I would say western Europe's relative economic position will continue to decline. Certainly its potential for expansion is much less than the potential for industrial expansion in South America, let us say. As those other areas grow, relatively, Europe will continue to recede in industrial importance.

QUESTION: From what you said, it seems that from a long-term view we are holding up a sinking ship--we are pumping out water a little faster than it is coming in. If it is a long-term proposition it is disheartening. I wonder what our future is on the programs we are embarked upon now.

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DR. BURNS: I wish I knew. Europe, of course, has recovered a great deal. Its foreign trade has increased substantially. It might become somewhat less dependent upon us as time goes on; but I think certainly if the Europeans are to continue for a long period of time to have a big military program, they will need substantial financial help from us, indefinitely, perhaps.

COLONEL BARNES: Dr. Burns, there are about twice as many hands here still coming, but we don't have time today for them; which proves to you how stimulating your discussion turned out to be. We handed you a terrific scope, but you dealt with it exactly along the lines in which we are chiefly interested. We are very grateful to you. Thank you very much.

(14 Nov 1951--350)S./VJM

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