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ROLE OF THE DEPARTMENT OF STATE IN ECONOMIC MOBILIZATION

22 May 1952

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Publication No. L52-152

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

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GENERAL HOLMAN: Gentlemen: Mr. Willard L. Thorp, the Assistant Secretary of State for Economic Affairs, has once again been kind enough to come here to talk to us about the "Role of the State Department in Economic Mobilization." For this we are very fortunate indeed because I know of no one who follows the economic situation in foreign areas and on a global basis more closely. Coupled with this, Mr. Thorp has a great deal of experience which he brings to us as an educator, as a businessman, and as an economic research analyst. He has a record of many years as a distinguished officer in the Government. This makes the fourth time that he has visited the Industrial College. We have always been very glad to have him with us and he has always brought us up to date in this particular area.

Mr. Secretary, we are honored to have you with us again and we appreciate the fine support you have given us over a period of many years in our educational program. It is a real pleasure to have you speak before the two colleges this morning, sir.

SECRETARY THORP: If you look at the postwar period and try to pick out the main phases in United States postwar foreign policy, you get a rather interesting picture of the way in which emphasis has shifted from time to time as to what the key problems seem to be. Working in the economic field, I am likely to be a bit biased as to the significance of economic considerations. However, I do think that almost anyone looking over this period would agree that immediately after the war, a major problem that we had was the economic one of getting the war-devastated areas back on their feet.

The first postwar programs were the international programs under UNRRA. These programs were in large measure a matter of sending food and clothing to countries which sort of took a pauper's oath and said they couldn't get along without help. It was really a relief operation. That was, from the point of view of American dollars and from the point of view of American effort, our biggest immediate postwar program.

It then became clear that the problem was much more than a problem of relief. It just was not enough to keep on sending food and clothing. The Congress also said, "We want to see a program looking ahead." I don't think it is often realized that the Marshall Plan was not only the result of a basic economic situation but also of a real congressional demand. I was handling these problems with Congress, testifying on various programs where assistance was called for, and Congress even

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were saying more and more, "Look, where is this going to take us? How much is it going to need? How long is it going to run? We want to see the whole picture put together."

Therefore the emphasis shifted from a relief program to the European Recovery Program, which was one covering more countries, involving them in certain commitments and obligations, and in general providing for more than relief. It provided actually for rehabilitation--for assistance in getting their production up.

The next stage--unless I bring in the special Greek and Turkish cases, both were economic--of major evolution in our foreign policy was a strictly political one, that was the North Atlantic Treaty. This Treaty came because the Europeans felt so insecure. They had no kind of commitment from us with respect to support if they were attacked. The North Atlantic Treaty as a treaty was a political agreement that if the Europeans were attacked, we would regard it as an attack upon ourselves.

That obviously led to the next step, that since we had become so involved in the European picture so that an attack on Europe was to be thought of as an attack upon us, then we had to look to the problem of the defense of Europe. This came at the same time that we had the knowledge of the progress that had been made by the Soviet Union in the atomic bomb. Therefore, we moved on from the North Atlantic Treaty to the North Atlantic Treaty Organization and its supporting program of Military Assistance. That, of course, after Korea, became an even more important program.

So our major postwar steps started with the economic moved on into the political, and then moved into the military requirements and strategy field. Last fall the circle became complete. There had been developed a military plan by the various people responsible internationally for developing it. The Prime Ministers of the French and the British Governments raised with us the fact that this was a splendid program, but it was not within their economic capabilities. So we started as of last fall a NATO review of the military requirements in the light of economic capabilities.

I like the word--I am sure you are all familiar with it--that was developed. Nobody wanted to say that economic capability should be given priority or that the military requirement should be given priority, so they developed the word "confrontation." When two things, confront each other, there is an indication as to which one is the more important. So last fall we got back again in our international planning and so forth, to recognize the economic side as an important element in the over-all picture.

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I say all this because I think it merely illustrates a fundamental point, that is, the economic situation, the economic capacities, the degree to which countries are organized and willing to put their resources to work, is an essential factor in any mobilization program.

There is a limit obviously to what can be done in reaching any particular objective. There is a limit to how many roads you can build in a year; there is a limit to how many schools you can build; there is a limit to how many divisions you can equip; there is a limit to how many divisions you can maintain. Now that limit, of course, is a varying limit, depending in part upon the economic capacity of the country and in part upon what you might call the morale and general point of view of the people in the country. There is a degree to which any given population, unless it is stirred up almost to the point of fanaticism on an issue, is willing to tighten belts, to take unpleasant measures, and there is a very real limit on the extent to which parliaments are willing to enact measures that will be unpopular. Therefore, the economic conditions and the standard of living become an important part in turn in effecting how much of the total economic base may be available for mobilization. At any rate, the economic element has again come back into the picture very strongly, both in defining the capability base on which we can do our political and military planning and in affecting directly the element of morale and political stability.

The State Department comes into this picture because I have not been talking about just United States mobilization; I have been talking about the free world mobilization. This necessarily means a very important degree of working with other countries.

The State Department is by law responsible for foreign relations. But that doesn't mean that it carries through and operates all matters bearing on foreign relations. As a matter of fact, the State Department is a central viewing point in the Government, trying to see that the total Government acts fairly consistently as to policy in its foreign relations and also fairly consistently towards particular countries. But the Department itself--except that it operates in the passports field; it operates in the Voice of America; it operates the Technical Assistance Program--except for such particular programs, in general has to look to other agencies of the Government for many of the things that shall or should not happen.

I made a list one time of the agencies in the Government that I had been in touch with over a period of time. It was a staggering list, all the way from the Library of Congress on some copywriting issues which were up with a foreign government to the Bureau of Wild Life where there was a problem with respect to the migration of some wild animals from Mexico.

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The State Department therefore is in a curious kind of position with respect to foreign relations. What happens is that we have to spread ourselves pretty thin over a great many committees, following a great many things that are going on, many times finding that there is no foreign relations problem involved and other times finding that there is one involved; then endeavoring as best we can to see that the foreign relations angles are kept consistent. You can't go to a particular country and urge its people to make a particular concession along one line at the same time that you are hitting them over the head in some other field. If you really want to get action out of them, you have to direct all of your policies in that direction.

I could talk about our State Department operations generally and I will be glad to answer any questions on them in detail, if you wish. However, I would rather talk today about what are the major problems that we have been involved in with other branches of the Government, and then summarize rather quickly what has been necessary with respect to getting our posture right and getting other countries to follow the lines that we want.

First, I want to talk about the basis of mobilization, the flow of goods. There had been a tremendous increase in capacity and a tremendous increase in production from 1946 to 1951. However, the fact remained that when on this very busy economy in the United States, with relatively full employment, and the greatly improved economies of Europe, the rearmament program was imposed, the net result was a series of shortages. Therefore, you have a whole series of problems, the same ones in a sense that we had during the war.

The problem obviously is how to deal with a situation in which you don't have enough raw materials and where also in some cases you are going to have to cut back on finished goods. I presume you have heard about how controls have operated in the United States, but the problem is not just an American problem. Obviously, it made no sense if we put on a severe restriction program in the field of copper--we will say--if it is being wasted in other countries, at least relatively speaking, so that we are unable to get the amount that we need.

The problem has only a limited number of directions in which one can go. The first thing you would like to do is to increase the supply, and for that there now is the agency known as DMPA, in what was Mr. Wilson's shop, which is engaged in trying to expand supplies in other countries as well as to develop expansion in this country. But increasing supply has been a slow process. In some cases the higher prices which were allowed, as in the case of tungsten, have helped, but nevertheless expansion of supply has been relatively slow.

The steel expansion program is now beginning to show results; the aluminum program also. These were tremendously important programs.

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Temporarily, they have had a lot to do with the fact that we have had shortages during the last year or so because we were plowing so much steel, so much of our capacity for making machine tools, and so forth, into increased capacity. The result of the industrial or expanding capacity is just beginning to show now in the production figures.

Of course, the main thing that you have to do, if you are quickly moving in on the shortage problem, is to cut down on various uses. We have done this and other countries have done it. There is a long list of things that can't be made in this country now or that can be made only in some percentage of what were made before. We put on some direct controls and some indirect controls. We made it harder for people to buy things on the installment plan. We made it harder for people to start building houses by toughening up on restrictions on credit.

The same process has been followed in most other countries. In England they have done it in a rather interesting way. They cut some of the allowances of raw materials but they also put a 100-percent tax on a lot of items. Sure, you can go out and buy these items but you just pay double for them. The net result obviously is a cutback in the demand for those particular things.

Then, even after one has cut back on the allowed use and increased the supply as much as possible, that still can't be exact enough to assure you of the basic objective. Therefore, you have to put on priorities on the number one things you want to do, namely, to make certain that the necessary materials flow into armament production. The priorities therefore are necessary and were put into use.

Now actually it was not difficult to set action in motion to deal with the situation within the United States. We set up the DPA organization. We had special legislation. We worked with industry groups, and so forth, and the Defense Production organization was able to work out defense use allocation and priority supply problems so far as the United States was concerned.

But where it became difficult and where the problem involved us in the State Department, particularly, was when it became an international problem. You may be interested as to the first evidences of it as an international problem. That was when in the fall of 1950, there suddenly began to be a number of callers on the State Department saying, "We are not being able to buy the sulphur that we need." Sulphur became the number one international problem in raw materials. That was because during the war we had developed new techniques for getting sulphur out of Louisiana and Texas by blowing steam down and bringing sulphur up, laying it in piles until it is cooled. It is, with very little processing, ready for sale at a lower cost and with better grade sulphur than

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was found in any of the normal deposits or methods before. So we had really taken over the world supply of sulphur. The great industrial and agricultural expansion and the beginning of the rearmament expansion stretched the capacity of our own facilities to produce sulphur. For many countries sulphur is vitally important, particularly because sulphuric acid reaches through so many commodities and because it is important in fertilizer. A country, such as New Zealand, would feel it couldn't survive without fertilizer. So the international sulphur problem was a very serious one in our foreign relations, country coming in and saying, "We have just got to have more sulphur." None of them knew that the others had the same problem; all of them suspected that the United States was hogging the sulphur for its own use and cutting them off completely.

When Mr. Attlee came over here in the fall of 1950, on his agenda along with such major items as the development of the North Atlantic Treaty Organization, were certain commodities--sulphur, zinc, cotton linters--that he wanted to discuss while he was here.

Obviously, from the American point of view, we had problems when we controlled the supply and even greater problems when we didn't control the supply; we had to buy from other countries. This is especially true because, with our priority control machinery and our efforts to hold prices down, it was very difficult for us to go out and compete in the world market where raw materials prices were going up very rapidly.

As a result of that over-all picture, there was set up a really unique organization, the International Materials Conference, the like of which I don't think has ever been set up before. What it really boiled down to was an organization in which representatives of the countries which were the chief producers and the chief consumers of any given one of these products, the key ones at any rate, were brought together and they were told, "You are the people who produce and need this product. You must know the extent to which there are problems in connection with it. For Heaven's sake, work together and see if you can't resolve the problems." It was the most informal organization there ever was set up. From the United States point of view, it has been amazingly successful because it meant--to take the sulphur case--that these people came in and put their requirements on the table along with everybody else. We came in and told them the sulphur picture and then all worked out a reasonable division of sulphur among all the countries, one which we could accept and which they accepted. Nobody got all that he really wanted, but nevertheless each could understand why he got the amount that he did get, and that it made sense in terms of the total picture. Actually on a few commodities, the Conference did determine what would be a fair share for various countries to have, but on most commodities they merely looked at the problem and exchanged information on how to deal with limitations on use and increases in supply.

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But these problems were not always settled easily. One of the most interesting ones has been the copper problem. We get a large part of our copper from Chile and a year ago we wanted to work out with that country a basis on which we could be assured of our supply of copper from it. The Chileans, on the other hand, were very eager to get just as many dollars as they could for their copper. There was no telling at that time what the market possibilities might be.

Our price ceiling in this country for United States copper was 24.5 cents. We worked out a deal with Chile a year ago by which it would get 27.5 cents and that we would get 80 percent of the copper that was produced by the American companies there, which are the main producers of copper. That left roughly 20 percent, maybe 25 percent--counting in the other sources--for Chile to sell freely.

Chile went ahead and worked out its foreign exchange budget on the expectation that it would get 27.5 cents for that sold to the United States and 54 cents for the remainder. Actually, the other countries were not prepared to pay 54 cents. There were other sources. The British get most of theirs from Canada and Rhodesia. The Chileans had more and more trouble disposing of it and their foreign exchange situation began to go sour. Copper began to pile up in inventory. Last week they told us that they weren't satisfied any longer with the 27.5 cents and that they thought they ought to have a higher price from the United States. They would be perfectly willing to have a single price, maybe 35 cents for an all-world price for copper.

This Chilean copper is a small part of the total in the world, but it is important to us. However, you have this kind of question: Our producers are getting along all right at 24.5 cents, and if the world price goes to 35, then what happens? Do we let the American price go up to 35 cents? And what happens then to our price stabilization program?

This kind of problem demonstrates how our domestic policies and our foreign policies get all tangled up together. The State Department in this instance has had to look at this problem along with many other agencies of the Government. The solution was announced yesterday; it is rather an interesting one.

The solution is that the United States Government is in a sense withdrawing from interference so far as importing copper is concerned. It is saying to American buyers of copper, "You can go out and buy copper at any price you want to pay." A manufacturer of brass here will be free--when the regulations are actually out--to go down to Chile and buy copper if he wants to at any price he wants to pay. Prior to this, he couldn't pay over 27.5 cents. When he brings that copper back, he can pass 80 percent of the extra cost above the American ceiling on into his finished goods costs. Under the normal operation of price stabilization, this would permit some finished goods price increase, depending on how the cost added up in his final price.

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This means that Chile now has its copper to sell. It has no commitment from the United States to take any of it. It will become a regular market operation. The ultimate price of copper may well be 27 cents; it may well be 35 cents. This will depend upon the demand for it and how willing people are from various sources to go out and buy it.

We are still continuing our limitations on the use of copper. You can't go out and buy copper and use it frivolously. Copper is very short in the world. But to the degree a businessman is permitted to use copper, he can go out and buy it in Chile at whatever the price is. This may sound as though Chile can set the price at any level it desires. This is what the Chileans have been trying to do. They have been trying to set the price at 54 cents but haven't been able to sell. They may try to set it at 35 cents. Obviously, in time the price will be set at a point where people are willing to buy or take up that much copper.

I have been talking about the flow of goods in items of raw materials. There is the other side, the extent to which we are willing to send finished goods to other countries. There was a very real problem on machine tools when the British said, "We must have additional machine tools to tool up our factories for rearmament." And we were short of machine tools. Should we say to the British, "You stand in line and after we get through with tooling up ourselves, you can come in and get some." Or do we want to get them going as quickly as we can. There is a similar problem with power plants and transportation equipment.

In both the problem of raw materials and of the allocation of finished goods, I must say by and large we have done a job which has led to a surprisingly small amount of international ill will. It is the kind of thing that can get people very much enraged, but there has been enough equalization of shortages and enough explanation of them, so that by and large we have managed to get through the shortage period without a great deal of bitterness.

The economic problem, while it may seem basically to be one of the flow of goods, is also a matter of the ability to make payments. The cash position of a given country controls its ability to mobilize as much as the supply of goods. I don't even need to point this out in the United States. You know that one real, over-all control in the United States that determines the speed of our mobilization is the appropriation of funds. It is the amount of money that is available to be spent.

This capacity to pay limitation becomes particularly true when you begin to think internationally about these problems because all countries need to get certain things from other countries. It may be raw materials that is most important. In most cases their capacity to get these things from other countries is related to their ability to pay.

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This has been a dominant element in the post-war period and has been really the underlying reason for American financial assistance.

The Marshall Plan was a process for providing payment for a series of commodities which were needed by the European countries. We didn't give any money to the European countries. They never actually saw the money. We picked up the check. The goods were ordered and were delivered to them. The long-run problem of course, under the Marshall Plan, was how does Europe recover so that its people can pay their own checks--so that we don't have to pick them up?

That is a matter of their own ability to earn their own way. Primarily they have got to meet their payments problem either by getting less goods or by earning more foreign exchange or by getting some kind of assistance. This problem was being licked under the Marshall Plan. You may remember that a little over a year ago the British announced that they would terminate their requests for Marshall aid assistance and they did. For a number of months they were on their own, paid their own way, and everything went perfectly all right. I don't have any question in my mind but that most of the European countries, perhaps with the exception of Austria and Greece, could probably have paid their way by this summer, which is the time when the Marshall Plan would have been over, if it hadn't been for the necessity of imposing on them and on us this expanded rearmament program.

The rearmament program hit them in at least two ways. In the first place prices of raw materials went sky high; this meant that--so far as countries importing raw materials are concerned, particularly countries that normally paid for them in manufactured goods--they had a much greater problem of settlement. In our own case our trade, of course, is relatively unimportant in our total economic activity; but, I think if you compare it with prewar you would be surprised to discover that for the things we are importing into the United States--raw materials, coffee, sugar, tin, and so forth--the average price is three times the level before the war. For the things that we send out from the United States, the average price is two times the level before the war. There has been a much greater increase in the prices of raw materials.

Now for us this is not an important problem. But for a country like England whose pattern of trade is very much like ours--importing raw materials and sending out manufactured goods--this kind of shift in what we economists would call "the terms of trade" puts a much greater burden on its ability to pay. The British just don't have as much foreign exchange to buy the things they need as they used to have because of the price situation.

Secondly, the armament program itself means that in a country like England the people are shifting factories over to armament production

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which used to be busy in export business. These are plants in the engineering industries, as they call them there, which were their big exporting industries.

So these two forces have come into play. As you know, these and some other forces have meant that the sterling area, of which the United Kingdom is the center, began to lose reserves at a terrific rate. Their whole balance of payments, their ability to buy abroad was thrown way out of kilter.

This is a problem in which we have had very real interest, which we were hoping to solve, and which we were solving. Now it takes this new form. It is going to be relieved in part in a rather interesting way; that is, by the degree to which we are going to participate in one way or another fairly directly in the European rearmament program.

I am talking now not so much about the direct sending of military equipment over there, although that relieves their burden to some extent, but I am thinking of it in economic terms. The extent to which we help in the INFRA structure creation in these countries, and we are going to pay for part of that, represents dollars that they earn or at least that they receive. To the extent to which we have American troops located abroad--and there presumably will be more of them rather than less--you add technically, I suppose, to the dollars spent by American "tourists." The tourist earnings on the part of Europe have been an important way in which they have earned dollars. And to the extent to which either troop pay is spent in Europe or they live on European butter, European fruits and so forth, a new factor comes in and helps on this balance of payments problem.

Then, of course, as you know, we are also planning and are beginning to proceed with some procurement of military equipment in Europe. This really means that we are going to be able to pay in dollars for military production which is done in Europe, outside and beyond its own budgetary ability to finance. All these will help in meeting the immediate problem that these countries have.

The longer-run problem, however, ties back to the general problem of our commercial policy and the fact that we are going to have to let these countries earn their way, give them assistance, or cut down on our exports to them. Their commercial policy on the part of the United States has a very real bearing on the long-term economic health of these areas.

I don't know that it is appropriate for me to go into this at any length today, except to say that politically speaking there are many problems with respect to increasing the amount of imports which come into the United States, the way these people earn dollars by sending

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us goods. Economically speaking, that is the most desirable solution of the problem. Therefore, one is faced with the problem of finding a way that is politically acceptable and still meets economic requirements.

In the mobilization, then, that I have been talking about, the key economic objectives have been a more steady flow of goods and an effort to deal with the payments problem. Both of these are very essential. I would like to point out, however, that if you look at the same problem of mobilization in area terms rather than in functional terms, certain different angles appear. In the first place, if you think in area terms, there are three different areas in which policies have a somewhat different effect.

The first is our policy vis-a-vis the Soviet bloc. Here our policy is to restrict their mobilization by economic means as much as we can. To the extent by which we limit their mobilization, we retain in the free world for our use many of the resources that would go to them otherwise.

The east-west trade problem is a special problem in this field of mobilization. It is a fascinating problem. In the United States we have been in a special position and it has been rather difficult for people in this country to appreciate the position of many other countries. Under our regulations we have cut off trade in items that help increase our military potential and that leaves a good many items that are not related to military potential in which there could be trade. But the fact is that American businessmen have been unwilling to trade. Therefore, with the uncertainties with respect to carrying on such trade, it has virtually dried up.

We do have a complete embargo on trade with China but we don't have it with respect to the Soviet bloc. On the other hand this hasn't hurt us particularly. It did for a while in manganese and we had a very difficult time building up alternative sources of manganese, but we have succeeded in doing it. India has expanded its shipments tremendously; we also have various other sources that have been developed.

There are odd things involved that sometimes one doesn't think of as important. When we made trading with Hungary difficult, we discovered that one of the biggest items that was affected was feathers. We received complaints from Army supply officers in Europe who just felt that the Army had to have these feathers from Hungary--feathers which could not be gotten from anywhere else. You probably know why they were needed. I am sure I don't.

Our need for feathers and the like is nothing as compared with the situation for the European countries. These are areas where they really feel that they must have coal from Poland, coarse grains from eastern Europe, and fertilizer and timber which isn't available elsewhere.

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The problem therefore requires a judgment as to whether the shipment of some particular item going to eastern Europe is more significant from the point of view of the Russian strategic picture than the item which would come back in the trade.

We have a list of strategic items that under no circumstances are to be shipped and on which we have obtained international agreement, but there are a number of things in an intermediate category on which one has to make this judgment. The problem is particularly difficult in many cases where, if the goods are not obtained from the Soviet area, they have to be obtained somewhere else. That is part of the reason why we have been sending in the last year so much coal to Europe, although it is not the only reason. Economic policy can be viewed in several ways. First it can be viewed in terms of the Soviet area; second, you can look at it in terms of countries I would call our military partners. They are all the countries I have been talking about mostly up to now, discussion of supply and payments. In the third case you have a whole series of countries that are to a lesser extent, or perhaps not at all, military partners but yet are not in the other camp. They are primarily the underdeveloped countries. Here our problem is to keep them working with us, to maintain their morale, to prevent them from moving over into the Communist line-up. This is quite a problem, too, because they have economic ambitions and political instability and our policies have a very great effect on their attitudes.

The over-all problem of maintaining good relations with the countries that are our friends, or that are at least not our enemies, is perhaps the heart of the problem that the State Department has to worry about. One of the things that we particularly have to worry about is the extent to which one gains or loses by trying to push this or that country around. Many American citizens have the notion that all the United States needs to do is to point a finger in a particular direction and other countries will go in that direction. They want us to twist arms; they want us to put pressure on; they want us to withhold aid or one thing or another as a way of achieving this or that specific purpose.

I wouldn't want to say that this is not frequently what is called for in this or that situation, but I would like to say this, that there is frequently a very great danger of creating resistances when one endeavors to push in a particular direction. In many countries there is nothing that is more difficult for their government to do than to say, "We propose to take this action because some foreign government-- the United States or any other--says we ought to do this." One of the embarrassing things to those of us in the State Department is that the more successful we are in getting countries to do the things we want them to do, the less it can appear that we had anything to do with it. We are really successful if the thing gets done without the United States appearing in any way as having anything to do with it. Whenever we are

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out in front, we are very likely to cause resistances, and governments lose their popularity and fall if it becomes evident that they are pushed around by a foreign government.

I have never found it very effective in going before the American Congress and saying, "We ought to do this because we had a note from a certain government that says we ought to do it." That doesn't get us anywhere and people are just the same way in their reactions in other countries.

One of the ways of getting things done that has proved to be very useful, although sometimes it seems like a nuisance, is the multi-lateral approach. I cite the Materials Conference as a case in point. We got everything that we were entitled to get in the field of raw materials out of the Materials Conference, but it was done multilaterally so nobody ever said, "The United States is running this show exclusively in its own interest." I won't say no one ever said it. That was in the Russian propaganda. The Russians said that it was our instrument. But none of our friends ever said it. For each country, because an international agency said it should cut down on this and produce this, it went much better.

Of course the key thing--and this is really very important--is that in our efforts at mobilization we can't go very far beyond what we are prepared to demonstrate ourselves. This is one of our very real problems at the moment.

It is true that we are easing up on our allocations of raw materials in this country. We are relaxing; the Defense Mobilizer would like very much to say to the American people--in fact he is inclined to say-- "Things are getting better. We have passed the worst. The consumer is going to be better off from here on."

I think this is probably true in our situation. At least it doesn't look as if it was going to get worse. I am not sure we have had any appreciable sacrifice up to this point. So far as the average citizen is concerned, we are going pretty well. We have managed to absorb all the armament effort without you or one having to go without particular things that we want. I personally can't remember any case of going to the store and being told I couldn't get this or that because it was not available.

What has happened is that we had considerable inventory on hand and this with allowable production may keep the channels full. Actually, the American people have not been spending as much of their income as they normally do. Ordinarily the American people in total save 3 or 4 percent of their income a year; during the past year they saved nearly 10 percent. That is an unusual phenomenon and it has helped to ease the situation in the markets.

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What does this mean for foreign relations? If we start telling each other in the United States how well off we are, how little we are suffering from the rearmament program, and how little sacrifice is involved in it, it becomes much more difficult to go to the British and say to them, "Now your tight belts have to stay that tight or should be even tighter." And say to the French, "You have to set your taxes up higher" although the tax burden is higher than ours by percentage of national income. Our policies and their policies are interrelated. One of the problems is how to determine "burden-sharing." Although it is the agreed basis for the various national programs, no one has ever been able to interpret that word. But the idea is important. In other words it is important for us to be in step with other countries in respect to the programs that we carry on and where we are asking them for action. The demonstration by us of our own activity is, of course, much more effective than any words that we may issue.

Therefore it always is important in maintaining good relations with other countries, for us to be very much concerned with our own American procedures and what we say about them, the way in which we present our own program. The problem is how to present it properly--fairly and honestly--to the American people, and how to present it fairly and honestly to the foreign countries, and at the same time keep both our domestic policies and our foreign policies in operation. These are a few of the headaches that the State Department has to worry about continually in this general process of economic mobilization.

QUESTION: I understand that we need manganese pretty badly. There are considerable quantities of it in northern and southern Brazil. Are we developing commitments with Brazil through which we can secure continued sources of manganese from those areas?

SECRETARY THORP: Yes. One of the two big deposits in Brazil is being developed by United States Steel and the other by Bethlehem Steel and we are giving the United States Government support with respect to them. The engineering work is now about completed on those projects, and therefore they are up for final judgment as to how feasible they are. There is some question as to whether both of them are necessary, but it is a definite part of our program to develop Brazilian manganese.

QUESTION: Mr. Secretary, it seems to me that many of the international economic ills you have mentioned are due to the fact that these countries are trying to control their currency--in other words peg them at artificially high rates. Would you care to comment on an absolutely free market on our currencies?

SECRETARY THORP: This is a wonderful area you are opening up for discussion--the issue as to whether foreign exchange rates should be fixed or whether there should be what is known as floating exchange

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rates. After all, trade between countries is greatly affected by the price level in countries. Trade is in large part a function of price levels and the relationship as determined by whatever the foreign exchange rate may be.

The difficulty that we have had, during the instability of the postwar period, was to allow the exchange rates to operate freely; this might well have added such an uncertain element that the net result would be that it would discourage trade rather than encourage it.

I think the key problem in most countries today is not so much the foreign exchange rate as domestic policies bearing on the domestic price levels. But it certainly is true and I would agree with the implications of your question that a wrongly fixed exchange rate creates a bad situation. If you have a stable price level in countries "A" and "B" but suppose the price level is double in one country what it is in the other and the exchange is 3 to 1, obviously trade isn't going to take place in any normal way.

We have at the present time a rigidity in the foreign exchange situation which, by implication, means that the domestic policies controlling price levels should be such as to facilitate foreign relationships. I would think that when the countries are able to do more in the way of trading and are more nearly in balance, that more flexibility may be desirable in foreign exchange. One of the problems in the economic world today is that there are too many areas where there isn't sufficient flexibility. We are finding it in our own economy--prices, wages, agricultural prices, lots of things tending to be fixed and this gives less freedom for adjustment.

QUESTION: Mr. Secretary, one of the many problems facing us is the integration of Germany and perhaps later Japan into this free-world mobilization. I was wondering what kind of headaches you foresee in that future development?

SECRETARY THORP: The integration of Germany is basically an easier problem than the integration of Japan, I think, because Germany is enough like other countries and its costs are enough like other countries so that in the economic world it will be an accepted competitor you might say. So far as Germany is concerned, it looks now--although, of course, the financial agreement isn't finalized, but if it takes the form that it has now tentatively--as though Germany is going to be relieved from much of the cost which it had in carrying the occupying forces, and, while Germany itself will then have to put money into supporting its own developing forces, it will at least have foreign currencies coming in as we, the British, and the French begin to pick up the checks for our own troops in Germany in our own currency. So the German picture as an economic picture, I would say, is not an immediate threat.

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The Japanese picture is really the difficult one because if you add up the attitudes toward Japan they would add up to something like this: You must not trade with China because China is Communist, and we have an embargo against China. We don't want Japanese goods coming into the United States because they are such low-cost goods that they will disturb us. We have no program for giving economic assistance or support to Japan, but we love you very much and we want you to be politically very good pals of ours.

This is somewhat the way we are looking at the Japanese picture today and I think this is going to be one of our real problems. The main outlook for the Japanese is the degree to which they will develop trade. They can do a great deal in Asia. One of the difficulties has been that they have been trading with this area, much of which is in the sterling area. They have been piling up sterling which they haven't been able to spend. There is not enough they can buy that is available. They could buy rice but the rice bowl area isn't operating very well at the moment. They have piled up about as much sterling as they want to hold.

I think the economic problem of Japan is a very important one and a very difficult one--one with which we have done a great deal on the political side but we haven't done much on the economic side.

I think it will probably hit us at two points: (1) What will we say when they come along and say, "Look, we can no longer afford to pay 30 dollars a ton for American coal when we can get it for less than half that amount from the mainland. Therefore, we are going to start trading with the mainland." This is problem number one. Number two is, when they start sending goods into the United States, are we going to put a tariff on tuna fish? The Japanese tuna fleet is beginning to come back and their tuna fish is coming back into the market. The San Diego tuna industry expanded a great deal during the past few years. It now looks as though Congress is about to raise the tariff on tuna fish to protect the San Diego tuna fleet. If the tariff on tuna fish is raised it will wipe out one of the sources of economic strength for Japan.

COLONEL BARNES: I am sorry, gentlemen, but we promised the speaker we would excuse him at this time in order that he may attend a meeting.

On behalf of both colleges, Dr. Thorp, I thank you heartily for this extremely interesting and informative discussion. Thank you very much.

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