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TWENTIETH CENTURY TRENDS IN THE WORLD ECONOMY

5 September 1952

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DR. HUNTER: Admiral Hague and gentlemen: Yesterday morning Professor Fesler Reviewed for us developments in the field of Federal administration during the past 25 years.

We have asked Professor Davis of American University to give us a somewhat analogous review of world economic developments. The subject of trends in the world economy is one, I suppose, which 25 years ago would have aroused very little interest in this country.

We have not as a nation been extraordinarily self-sufficient or extraordinarily independent economically, with our great wealth of national resources on the one hand and then on the other hand this great internal market provided by this country with its continuously and rapidly expanding population.

Now, that situation, that condition where most of us were indifferent to the rest of the world economically as well as politically, has come to an end. The result--the developments of the past 10 years, particularly, have catapulted us into a position of world leadership, world leadership in matters relating not simply to politics but in matters relating to the world economy. We have a dependence upon the resources of other parts of the world and the economies of other parts of the world in turn are greatly dependent upon us.

So we bear that mutual relationship that leads us to give a great deal of attention in these times to foreign relations and to other aspects, military and political.

We have accordingly asked Professor Davis to give us the benefit of his extended studies and professional experience, which have centered particularly in the field of Latin America, to give us the benefit of his experience in throwing light upon world economic trends in the past generations and upon the relation of these trends to our economic position.

It is a great pleasure to have Professor Davis with us this morning. Professor Davis.

DR. DAVIS: Thank you, Dr. Hunter. Gentlemen: I speak to you this morning as a historian and, to some extent, a political scientist. I should not want you for one moment to think I am attempting to speak as a specialist in economics.

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The historian, if a proper historian, is a very humble kind of person. He understands the limitations of his knowledge and skill for the attempted analysis of all human experience which he makes. And yet that very ambitious role is perhaps the most important one which he is called upon to assume--an important role because of the very fact that it is so fundamental in these days, as in all days, to take the point of view which is based upon the prespective of time.

I am reminded of a graduate seminar of the late Professor Carl Becker, some 25 years ago, in which I was a student. I undertook a little research upon a great figure in the intellectual and economic life of France in the eighteenth century, the Marquis de Mirabeau, father of the great leader of the French Revolution. The Marquis de Mirabeau wrote one of the most widely read books in France in the eighteenth century, entitled "The Friend of Man." He later became identified with the physiocratic group of economists and wrote a great many books on economic subjects. But began "The Friend of Man," as I recall, with the remark that he was no more an economist than his cat.

I should not go so far as that in denying acquaintance with the principles of economics. But it is a healthy point of view, nevertheless, for a historian to recall what the dividing line is between the observations which he attempts to make upon economic trends and that field properly cultivated by the economic specialist. Nor would I go so far as to say that the role of the historical scholar is as all-embracing as that described by Thomas Carlyle in a book I am so fond of, the "Sartor Resartus". You may recall that the old professor in this classic work of Carlyle was professor of the history of things in general. Yet I am trying something about as ambitious as that this morning as I speak to you about economic trends in the twentieth century, for I am speaking on a subject with the widest ramifications in the whole process of historical change during these exciting and tragic years. The thing which the historian must learn to look for is what I would call the protean and constantly varying process, the multidimensional process of historical change. This it is which, properly speaking, he studies. Incidentally, if I read economists correctly--I must admit I sometimes find them difficult to understand these days--it seems to me that their research is likewise coming to give more attention to what they call the "long range," that is, the kind of economic analysis of the national product which is based upon looking at these long-range trends and assuming that they have something to do with the economic verities with which they deal. More frequently, also, they make this economic analysis in reference to the whole pattern of culture and sociopsychological behavior involved.

In studying these long-range trends, the historian soon discovers that not all submits itself to the rational process; that there inevitably

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remains an unexplained area, an area of mystery which defies a completely rational analysis--defies the resources of the inductive and deductive process, including even the calculus as it is applied to social phenomena. Such considerations lead me, in the spirit of historical humility, well understanding that I cannot explain everything, to attempt to state a few simple principles which guide my thinking in attempting to see these trends of the twentieth century.

First, I assume that in dealing with economic trends we are dealing basically with patterns of human behavior and with the patterns of culture in which they are imbedded.

Second, I assume that man is moved greatly by rational impulses in the desire for gain, but that he is not entirely so moved--that other psychological drives also motivate human behavior.

Third, I assume that these economic impulses are not always rational--in fact, perhaps more frequently, they are irrational. That what are called economic motives are frequently not rational but false economic motives. This fact came forcefully to my attention a number of years ago when I was attempting to make a little study of the economic basis of early political life in the state of Ohio. It quickly became one of my conclusions that the economic basis, the economic objectives and motives which motivated the political behavior of those days, would not stand up under the serious scrutiny of an economist. Voters were often actuated by motives which, from a strictly economic point of view, were detrimental rather than beneficial to their true economic interests. Still, they were the economic motives of their political behavior.

We have, then, these politically inspired moves, appealing to false concepts of individual self-interest, which tend in many cases to become actual economic trends, and many of them have done so in the process of history. This is a fact of the utmost importance today, when the policy of nations often rests upon economic appeals which are essentially false in the sense that they are not conducive to real improvement in the economic well-being of either the Nation or the world in general.

If I have made clear what I am trying to say, I have suggested, that, in looking at the developments of the twentieth century, I do not speak as a Marxian economic determinist. Nor do I speak upon the basis of the premises of classical economics as I understand them. Nor--and this is somewhat difficult for a historian to say--nor do I speak as a historical determinist. My view is that the values which are the basis of scientific economics and the values which are the object of most economic activity fall into no completely determined pattern--that an area of free choice always remains.

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Here is where ideas, ideals, and ideologies, the conflict of which has been so tremendous in the nineteenth century, enter to play their important role in the economic trends of the time. I shall not neglect to speak of these ideas and ideologies as part of the economic development of the twentieth century.

The world economic system prior to 1914 was one, as I understand it, which centered around the economic activity of Great Britain and its people. Britain was the center of the industrial revolution. It was Great Britain that characteristically exported manufactured products and imported raw materials and food along with what may be termed certain complementary manufactured products--those things which, in accordance with the division of labor, its own economy did not efficiently produce and which differed in some respects from its areas of specialization. Great Britain imported these from other lesser industrial centers, particularly those in Germany and in the United States.

Great Britain's power position, resting essentially upon naval power, was largely the result of its having defeated Napoleon's great effort to unify Europe by force. During the early years of the nineteenth century it gained many new world markets, receiving because of this power position which it enjoyed, what was probably a disproportionate share of the world trade.

In the eighteenth century it had begun to use the system of subsidies, the famous millions of Pitt. Great Britain continued this practice during the years of the Napoleonic Wars and into the nineteenth century. Gradually the subsidies gave way to the direct export of capital and Britain developed a system of balancing its trade by exporting capital and reinvesting the profits of that capital in those regions to which it had been exported. In this way it made of international trade a larger part of its over-all economic activity than most other nations did.

As a result there developed in the world of the nineteenth century a system of relatively free international trade, based upon the principle of free markets open to the trade of all nations. Extension of this system became a cardinal point of British policy, as you will recall. The systems included the free movement of persons, who are of course basically important in all economic activity, that is to say, it promoted free immigration and emigration. It included a self-regulating system for balancing international trade. Its ideology was based upon the moral and economic principles of Adam Smith and laissez faire.

By the end of the nineteenth century and the beginning of the twentieth century, there was, however, significant evidence of change in this basic system. New industrial centers of importance had appeared of which the greatest were those in Germany and the United

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States. But there were also other smaller industrial centers which this very export of capital and technology was bringing into being. Even Britain itself by the turn of the century had begun to export raw materials in considerable amounts to some of the other industrial centers. Moreover, alongside these changes there was developing a trend away from national policies of free trade and toward economic nationalism in Germany, in France, and in the United States.

World War I brought further change in the system. It increased very dramatically the industrial production and the economic power of the United States to the point of challenging British predominance in the world economy in several ways. Participation of the United States in World War I, as you remember, brought the now classic remark of Premier Clemenceau of France that the Allies floated to victory on a sea of United States oil. Like all generalities of course, this was only partially true. But it was true enough to suggest the great importance of the new economic position of the United States. Perhaps even more penetrating was General Ludendorff's comment upon the pitiless productivity of the industrial system in the United States. The United States also became an exporter of capital and technology after the war, as had Britain in an earlier day.

What was probably an even more significant trend away from the British centered system, however, appeared in the Russian Revolution of 1917. Here was a movement which openly defied the principles of the British system, particularly that self-regulating quality which depended upon the free flow of capital and of international exchange. Through a drastic dictatorship, that is, through the exercise of political power, the USSR attempted to regulate and control every aspect of national economy and international economic relations as well, in order to bring about a rapid industrialization and a rapid accumulation of capital within its own national economy.

Italian fascism and German national socialism are best understood, of course, as reactions against Russian communism. They differed politically, socially, and ideologically from the Russian system in many respects. But, still in some ways, they followed the same trend in the economic realm. They, too, treated international trade as a direct activity of the State, as a form of warfare. They strictly regulated and controlled international trade in what they conceived to be the national interest. They tended to subordinate international trade to national economic activity so far as they could and to make it serve the purpose, particularly, of the development of an industrialized economy. That is to say, one which could support modern technological warfare.

Finally, in the late twenties, the collapse of international credit, which had many complicated causes in its immediate background, may be seen in some respects as a kind of dramatic or climactic break in the British centered system.

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As we look at the situation in the 1930's we see, instead of the single system of world economy, one in which the process of economic change and growth revealed at least five recognizable centers of varying degrees of importance and intensity. Germany had become in many respects the economic center of western Europe. Great Britain remained one of the principal centers, declining in importance in the whole world picture, but still using the great resources of a far-flung economic empire. The United States, which had become the largest unit from the standpoint of production, did not yet exercise in the world economy influence comparable to its economic potential. Then there were the economic structures which were maturing around Japan and around the Soviet Union. This was in the 1930's

As a result of World War II, the process has shown a tendency to resolve into two principal foci: that of the United States and that of Russia. The former, together with the other nations of the free economic world, tend to form a kind of world economic system disposing of some four or five times the resources of the latter, but as thoroughly integrated into a single politico-economic system as is that of Russia.

Just by way of illustration, a recent article which I happened to notice in the "Washington Post," comparing the industrial production of the USSR as planned under the new Five-Year Plan, shows in general that, if these objectives are achieved, the production of the Russian system will be about half that of the United States, as at present, and probably just about equal to that of western Europe. Then, besides these, we have the developing industrialism of Latin America and the potential revival of the economic system of which Japan was a center. Is there a tendency for these various centers or foci to gravitate toward one or the other of the two main politico-economic poles--the United States and the USSR? Or are the centrifugal forces perhaps so strong that the world economy tends to assume a structure of many foci? Or is the trend perhaps toward one integrated economic world (and the violence of the Russian reaction, hence, a revolt against inevitable destiny)?

So far we have been considering certain facts which point to the emergence of an international economic system which differs in certain fundamental respects, from the way in which world economic life was organized in the nineteenth century. But can we identify in this process of change certain recognizable and continuing trends? I approach this question with great temerity, for it is one of the most difficult with which the historian deals. But I wish to suggest 10 trends which I believe can be seen within this over-all process of change into the twentieth century international economy.

First of all, in what you may call the old industrial nations--the oldest is Britain, which is in this sense the oldest industrial nation of Europe. In such countries you see a continued rise in

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industrial production during the twentieth century, but with a slowing rate of increase and with a growth which tends to level off in even more striking fashion in relation to the growth of population. Perhaps this is partly because of the economic policy of these nations in respect to the distribution of the national product and the distribution of wealth, policies which tend to restrict the accumulation of capital. Maybe it is partly the result of the spreading of industrialism and industrial technology around the world, and partly perhaps it is the result of revolt in the colonies which were tied into the economies of these nations. Population growth has also tended to level off in these countries. However, in the United States, in Canada, and in Russia, the rate of increase in industrial production has become much more rapid. This has occurred particularly because of technological changes but partly, also, because of the abundance of coal and iron and because of the large markets which are available in the economies of the New World and in the Russian economy.

The second trend which I would point out is that, because of technological changes, industrial centers have tended to become increasingly dependent upon overseas sources of such raw materials as rubber, petroleum, and so on, and in late years supplies of uranium, even in spite of the rapid developments of synthetic products; the result of this trend is a larger degree of real interdependence within the world economic system. The industrialism which thus came, in this process, to the far corners of the world, has stimulated industrialization in Latin America, Asia, and elsewhere. It brought not only this kind of increased interdependence in respect to raw materials, but also in respect to markets; and in the more basic sense which is represented by the Point IV Programs of the Mutual Security Administration and the Technical Cooperation Administration interdependence in the sense of recognition of the realities of economic interdependence from the standpoint of human welfare and of the creation of a more stable world society. I don't think it is entirely without economic significance in this connection that the twentieth century witnessed the great recrudescence of a Christian missionary movement--which was in many respects the antecedent of some of these more secular ways in which we have come to recognize human interdependence as basically important in an economic sense. Christian missionary activity in Africa and in Asia are very closely connected to the economic changes of a growing industrialism.

Wherever the influences of this highly capitalized industrial and urban economy penetrated, the pattern of economic life also changed--changing from a society of subsistence economy to one based upon the use of money and a high degree of capitalization in its economic activity. It changed much more rapidly in these years of the twentieth century than at any other time in our human history. In connection with this third trend, in the long run, the revolution which occurred in Russia in 1917 may have greater significance for the impetus which it gave in this direction, that is, to the spread of highly capitalized

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industrialism around the world, and its concomitant effects, than for its more notorious aspects of political dictatorship and state capitalism--state ownership and control of the basic means of production. From the point of view which may be called technological and from the standpoint of the use of capital and labor in systems of production, the developments in Russia seem in this connection to be not so much original or unique to Russia as part and parcel of this larger world trend and, in some respects, notably derivative and imitative of the process which is going on elsewhere in the world.

The fourth trend which I would mention is that of the rapid growth of the labor movement and its political and economic success. The organization of the labor supply by the workers themselves, or by those who presume to lead them, needs to be seen as one of the most important social movements of our times, as an economic phenomenon as well as a social and moral phenomenon of great importance.

In Russia the labor movement became the basis of the dictatorship. In the United States where the labor movement has, in the past at least, abjured political parties and has adhered to collective bargaining, it has gained great success during these years in achieving a different distribution of the national income, in achieving measures of social security, and in achieving greatly increased influence over the management of industry. In some countries the labor movement has been captured by political adventurers and it still remains to be one of the most productive areas for political adventure, as our good friend, the President of Argentina, has shown us in recent years. In some other areas religious organizations have acquired in these recent years very considerable influence over the labor movement.

Now labor movements have demanded and continued to secure increased industrialization. Thus they lie behind much of the economic nationalism which is so notable in the years in which we are living. The student of world affairs would also do well to study the relationship between this growing labor movement and the population or demographic trends of the day, that is, the labor supply itself. The labor movement seems to have taken on a different character, frequently, according to the trends in population growth in the area in which it has occurred.

The fifth trend is that by which the United States has, generally speaking, supplanted Great Britain as the exporter of capital and technology. From the end of the Napoleonic Wars up through World War I Great Britain probably exported some 20 billion dollars of capital, which came in large amounts to the United States, to Latin America, to the British Dominions; and a considerable part went into western Europe. After World War I the United States in general began to assume this role. By 1930 some 10 billion dollars of United States capital had been exported and the amount has increased very greatly in the decade of the 1940's. Perhaps the total amount of outgoing United States

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capital may have been as high as 40 billion dollars, if the grants and subsidies of recent years are included. I leave to the economists to say what the real amount of investment capital has been.

The causes for this rapid increase are in some respects, just as in the nineteenth century: first, a continuation of wartime subsidies, where the motive has been to considerable extent political rather than economic; second, in part it has been a response to articulate needs for capital in other parts of the world, particularly the pressures to industrialize the economy pressures which have become great in almost every nation these days; and a third cause has been the relatively obvious one of a great excess of United States exports over imports, together with a somewhat protected market, and the great efficiency and the steadily increasing efficiency of production in the United States. A fourth cause which may be recognized in this connection is the accumulation of capital within the economy of the United States in excess of the needs for capital outlay within our economy. Closely related to this latter is the pattern of distribution of income, which has tended to favor the accumulation of capital. In the case of government credits, or the taking of a larger share of the national product for use by the Government, this is the pattern of taxation, or perhaps the controlled--or is it uncontrolled--pattern of inflation. At any rate, by one means or another the Government in general has been taking a larger share of the national product and directing it toward what you may call in the largest sense the uses of capital--a large part of it is used in the national defense. And then finally, and certainly not to be overlooked among the causes which have produced this great change in the position of the United States, is its position in the power structure of the world. This position of the United States, like that of Britain in the nineteenth century, opened up to it at least the opportunity for controlling and directing what in a strictly economic sense might be considered a disproportionate part of the world's economic activity.

I have recently been reading a book by Professor Rostow of the Massachusetts Institute of Technology, entitled "The Process of Economic Growth." Professor Rostow, in this book, remarked that while it is unlikely that the wars of the eighteenth and the nineteenth centuries actually increased the total volume of world trade or that they were responsible in any way for that increase, still it was true that the British victory in the Napoleonic Wars greatly increased the proportion of that trade which was enjoyed by Britain.

Then there is a sixth trend--that of the generally increased control of world trade by the nation state. The historians who like to tell us that there is nothing new under the sun, that the more it changes the more it is the same thing (historians sometimes have a way of saying that too much) can well point out, as was done in a study of England in the twelfth century which I have recently read, that the

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germ of every one of these devices for the control and influence of international trade was present in an earlier day; that is, that there was some kind of control of international exchange; that there were things like export and import quotas; that there were tariffs upon imports and permits of various kinds employed in connection with international trade; that you saw the phenomenon of state selling, of state purchasing agencies, of the equivalent of cartels, of managed inflation, and of reciprocal trade agreements; sometimes even something like the so-called "barter agreements" of the twentieth century.

But certainly not until the 1930's did these devices begin to assume the character of the highly complex and intricate mechanism which they are today, a machinery through which--as Charles Beard remarked as early as the 1930's in his "Open Door at Home"--it was possible for a kind of engineering intelligence to manage the flow of world trade at will, as well as many aspects of national economy.

The nineteenth and early twentieth century system in which a few nations were exporters of manufactures and capital and others tended to be importers of these commodities, exporting raw materials--that system is changing rapidly, with every nation in the current days aspiring to industrial self-sufficiency and aspiring to autonomy and control of its own participation in international trade. World War I and the later collapse of world credit in 1929 accelerated this trend, as did World War II when it cut off the normal supply of manufactured goods in many of these areas.

The seventh trend during these moving and changing years is toward inflation. This is one of the oldest forms of taxation, I suppose, and not anything that is new. It is only new perhaps when it is used deliberately as a means of diverting a certain part of the national product to the uses of the state. One of the trends of recent times seems to have been toward deliberate inflation as an alternative to taxation. By this I mean its use as a method of taking a larger share of the national product of wealth and, incidentally, of effecting a different distribution of national income and of national wealth. The most striking example in modern years was that of the inflation in the Weimar Republic in Germany in the 1920's, which seems to have been motivated by a deliberate effort to effect a great change in the Nation's financial obligations, particularly the reparations coming out of the First World War.

With the increasing tendencies of these later days to relate national budgets to an analysis of the national economic product, this inflationary effect has become an increasingly important aspect of national policy, as well as a very powerful weapon in domestic policy, and with great implications for economic warfare. Just by way of

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illustration, from 1948 to 1952, these remarkable statistics which I will give you speak eloquently of the differences in national policy in this respect, as well as illustrate a general trend. As reported recently in "Newsweek," the percentage of inflation in the United States from 1948 to 1952 was to the extent of about 10; in Great Britain, 28; in France, 43; and in Argentina, 185.

The eighth trend, which I would mention quite briefly, is in respect to population. Again, we remind ourselves that economics deals basically with people and that the labor supply is one of the most essential components of the whole economic picture.

World population has been growing at an unprecedented rate--from less than 2 billion at the beginning of this century to perhaps somewhere in the neighborhood of 2.5 billion today. Whereas, for example, in the century from 1650 to 1750 population was probably increasing at a rate of .29 of 1 percent per year, this annual rate had almost tripled by the twentieth century, so that during the four decades from 1900 to 1940 the annual rate of population increase was estimated to be .75 of 1 percent, that is nearly 1 percent each year. Among the highest rates is that of the Soviet Union, although a number of other areas can be pointed to in the world in which almost equally high rates of increase can be found--some of them I am familiar with in various areas of Latin America. We may, in fact, witness a doubling of the population of the world within this century; and some population students have estimated that if the present rate of increase of world population continues--they hope that it will not--the total population of the world by the year 2250 would be some 21 billion, almost ten times the present population.

This unprecedented rate of growth is in the first place a major trend. But along with it have come other trends: the decline of free immigration, of the free movement of persons which during the nineteenth century tended to lessen some of the population pressures; a world trend toward urbanization, which has in many cases increased the natural tension between rural and urban areas; increased pressure upon outmoded land systems in many parts of the world, which has raised the serious question of whether food supply can increase adequately to provide for the larger population. The food supply still marches ahead of the population for the world as a whole; yet, the importance of this problem is evidenced by the creation of a United Nations organization to deal with the problem of agriculture and food supply upon a world basis.

I have enjoyed over a number of years a stimulating acquaintance with William Vogt whose book, "The Road to Survival," has caused so much discussion in recent years. I have been glad to see him and others drawing attention to the decreasing productivity of much of the world's surface and to this balance of population and food supply, although I can't take too seriously or literally all of his Neo-Malthusian pessimism as to the direction in which the trend is going.

The increase of population tends to increase the disparities, already acute, in the distribution of wealth and income both as between large geographical regions of the world and within national economies. In view of these trends, it seems clear that one of the most challenging needs of our day is for the kind of policy for relating the technology which we are exporting so greatly today to the patterns of culture which they are penetrating in such a way as to effect a better natural balance of population with the national economic product.

We should be skeptical, of course, about any plans advocating too great reliance upon the obvious and overly simple policy of spreading knowledge of contraceptive methods. This may in fact in some cases have just the opposite effect to that which we contemplate. What I mean is that the violation of cultural mores may defeat the educational effort. This problem is basically one of applied cultural anthropology and it is the cultural anthropologists who need to tell us how to create this relationship which will result in a natural balance of population growth with the technological changes that encourage productivity.

The ninth trend during this century, which I will pass over briefly, is that of the great increase in war. Certainly the first half of the twentieth century will go down in our history as one of the greatest periods of warfare in recorded human history. We hope that this will not be true of the second half as well. There is a great deal of discussion these days as to the significance and the relationship of war to economic activity. This question, too, I leave to the economists to discuss, except for this one observation: that it does seem that this increase of organized military activity which has occurred in the twentieth century puts the enterprise of national defense in the position of a great competitor for capital investment and calls for the diversion of a larger and larger proportion of the national economic productivity. It needs, of course, to be thought of in those terms.

And then, as tenth and the last of the trends, I come to the changes in economic ideologies and the corresponding changes in the policies of the twentieth century. Within this area of ideologies and policy, we can notice three developments:

First, the units of organization of economic activity, became larger and larger, and these national and international giants of production and distribution of wealth began in many cases to operate with a much higher sense of social and moral responsibility in the world. They came to think of this responsibility for improving the economic well being of the people living in the areas in which they operate. With this changing social philosophy of "big business" came a new concept of social responsibility in industrial relation. But in the other cases certain of the international cartels continued to operate upon

the basis of limiting production, maintaining higher prices, and thus limiting, if not curtailing, the distribution of the national product, thereby hindering a rise of the standards of life. In many cases this latter influence seems to have been closely connected with political objectives which reinforced the tendency within certain nations.

A second ideological trend is that which has grown up around the concept of state ownership and management of economic life. This tendency found its strongest expression in Communist Russia, but it found expression in varying forms in many other places as well.

A third and distinguishable tendency has attempted to maintain in general the economic ideology of the historical past, while turning to national economic planning and developing something like the concept of the welfare state within a system of free economy.

Since the war the United States generally seems to have followed a policy which is like that of the British in the nineteenth century system, at least superficially. It has assumed that an increase of international trade is in the national economic interest. For example, an International Monetary Fund was created with the enthusiastic backing and support of the United States on the principle, as stated in its most recent annual report, of "unimpeded multilateral trade and the general convertibility of currency." The same is true of the effort to create an international trade organization, an effort which has not been too successful and which in some respects perhaps you might say was almost stillborn. The Office of International Trade appeared as another effort to maintain that general pattern of a multilateral, free system of trade, based upon the self-regulating liquidation of balances in the international trade, which was the heart of the British nineteenth century system.

But this Phoenix-like revival of the British system is in some respects deceptive. The Phoenix which was reborn out of the ashes of World War II was really a different bird in many ways. Even though it seems to have the same plumage and the same general contours, I think we are beginning to see that the real import of the twentieth century system is somewhat different. It is still a system of multilateral trade and convertibility of trade balance, but is it still self-regulating? Or is it not rather regulated by a very complex mechanism of national and international control? This is a question which should be asked about it: Is it a flexible enough system to change with the changes in world economy which have been wrought by the great increase of economic nationalism and the greater extent to which national economic life has been brought under political control of, or in many cases into, direct use by the state?

Well, it would seem that in many cases it is something of this sort which has been occurring within the structure or framework of

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the multilateral system to which we have been committed. In other words, we have accepted the world as it goes in this case and have been making out of this multilateral system to which we have been committed. In other words, we have accepted the world as it goes in this case and have been making out of this multilateral system something different by adapting it to the new mechanisms and changes which have come into being. Unconsciously, and more than we realize, we have accepted the fact that things not be put back into the position of the nineteenth century.

Another question which we should ask in respect to this system is this: Is it a workable system in a world economy in which the process of growth and change has resulted in the development of two great foci of economic life? And I think when we ask the question in that way the answer to the question becomes obvious: That we do not have a self-regulated system, for that system depended upon having one central focus; and we have had within this multilateral system to accept the fact of a world economy which cannot center around one focus, but at the very least around two important foci and perhaps in the future around several.

Judging from the inter-American scene, the ideological pattern of the multilateral system which is conceived in these terms I have mentioned does seem in many cases to have prevented an actual meeting of minds upon mutual economic problems between the United States and the other Americas. This resulted, for example, in so important an effort as the economic treaty drawn up at Bogota--being riddled with so many reservations as to be meaningless. As a result there is an inevitable tendency in inter-American relations to turn to binational agreements instead of multinational agreements upon basic economic policy.

I think we should ask whether this multilateral system is one which is well enough calculated to absorb these apparently conflicting elements in the world picture today; and it is certainly a question worthy of study today whether in reality our world economic system has in fact absorbed so many of these elements which are incongruous ideologically that the Phoenix has in fact become a different kind of bird.

I think no one would question that the international world economic policy which the United States and other members of the United Nations, particularly, have evolved in some of these arrangements to which I have been referring is one which is generally, from the standpoint of the United States at least, conceived in the national interest. I think no one would doubt that the policy is conceived and developed and presented with a view to exercising the art of the possible in dealing with realities which exist within the international economy. On the other hand an intelligent view of the realities of these economic trends of the twentieth century must lead us to see that, within the multilateral

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structure, the ideological structure of a self-balancing, self-regulating system, we and all other nations of the world have in fact been moving far in the direction of accepting and utilizing international agencies of control. By accepting the fact of control of international economic activities by these national agencies, even though we continue to utilize the older ideology, we have, in fact, been moving toward a world economic system which resembles the old only in the superficial symbols which we use to describe it.

Thank you.

COLONEL BARNES: Dr. Davis will now answer your questions.

QUESTION: Doctor, I take it that when you speak of inflation as a substitute for taxation, you refer to the process whereby the Government borrows valuable money and repays its borrowings in cheap money, as exemplified by the fact that people who bought bonds in 1942 are now getting dollars for bonds which are worth half as much as they were then? If that is what you mean, do you think that policy has been deliberate in the United States?

DR. DAVIS: I think that the essence of your statement is correct. I don't believe, however, that the process of inflation is limited to the activity of the Government. It relates to other aspects of the national economy and of course it tends to effect a change in the distribution of wealth and the distribution of income.

As to whether it has been deliberate in the United States, in any case it is a question of judgment. A study of our recent political history would reveal certain cases in which we have deliberately chosen courses which open the way to inflation rather than imposing taxes. You might call this deliberate policy. On the other hand, I think you can see the national policy of some national governments today which is much more deliberate than that.

COLONEL BARNES: I would like to expand on that point a little bit; it bothered me, Dr. Davis. It seems to me the benefit that might accrue to the Government for high prices and inflation would be balanced if the Government has to pay it out due to increased expenditures. As a matter of fact, isn't it true that it is not of benefit to the Government particularly when military expenditures are involved?

DR. DAVIS: I think one other point was in my mind that I did not bring out, which relates to your question, Colonel; that is, looking at the problem of control of the national economy at the time of the great build-up of the defense program, it is reasonably clear that there are two choices. The Government's problem is to make sure the economy

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works in such a way that a large enough proportion can be diverted to military expenditures or for its own use. This may be done by controlling consumer use of goods by the device of permitting prices to rise; or it may be managed by direct controls or rationing; or it may be done by taxation. All three reduce the capacity of the consumer market, making it possible to divert a larger proportion of the national product to the use of the state. It was that use of inflation to which I was referring.

QUESTION: I thought you referred to deliberate inflation in your talk. The question I would like to ask is--I noted some time back, I believe it was Professor Rousek up at Harvard who said that it is probably what the Government wants. I wonder if the Government doesn't want it, as well as probably the majority of people. What I am interested in is, what do you think the long trend is? Is it for gradual inflation or will it be settling off?

DR. DAVIS: I speak first of all as a historian again. One thing I think is reasonably clear. So far as we know the history of the modern world, it reveals a more or less continuous inflationary tendency so far as currencies are concerned. That is true of the history of the dollar in the United States. It is true of most of the European currencies. If you look at the record of the last two or three centuries, the answer to the question of whether there is a long-time trend must be pretty generally in the affirmative.

I think I would like to use this occasion to make clear that my statement about deliberate inflation was not referring to the United States. I think that it is very questionable whether inflation in the United States has been deliberate. I was referring to certain examples of the deliberate use of inflation in national economies elsewhere in the world, which I think are much clearer than in the United States. However, if you look at the policy which has guided national budget making in this country, or if you turn to the statements of the President's economic advisers, I think you see underlying them--and it is probably in the full employment bill as well--the principle that the economy must be an ever-expanding economy. That does have certain implications of a steady slight inflation.

QUESTION: Dr. Davis, I think I am correct in believing that distribution is one of our major policies in economics, specifically, the relocation of surpluses occurring in one area to other areas. You mentioned distribution a few times in your discussion. I am wondering if you could tell us what the trend is in this over-all problem of distribution throughout the world.

DR. DAVIS: Yes, I would be glad to attempt to speak on the question of distribution of wealth and income again. I am trying to remember of course, that I am not an economist and not to venture into certain

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specialized aspects of the problem, to speak chiefly as one who likes to sit back and listen to or read what the economists say and then see if he can fit it into some larger picture. I have only one comment to make on the question. I am sure there is a recognizable trend in respect to the pattern of the distribution of wealth in the world economy. I should not like to be misunderstood upon this--I think that from this standpoint, that of the trend in the distribution of wealth, you can see a very striking resemblance between what has been happening in the United States and what has been happening in the Soviet economy. I believe we have here an example illustrating that certain economic phenomena develop irrespective of the ideologies and irrespective of the political systems which obtain; that economic systems, strictly speaking, are more alike than the political systems with which they are connected. This trend probably helps to explain why Russia and certain other countries need resort to severe restrictive measures to control distribution of consumer's goods in various ways, in order to continue to build up their capital supply. In general what we are seeing is that an expanding market an increasing industrial efficiency in the production of wealth are being tied together in many parts of the world. The United States has not been alone in seeing that one of the best ways in which to effect better distribution of wealth is simply to make larger amounts of goods of the national product available to larger numbers of people. If that is done, no matter what the politico-economic mechanism is through which it is being accomplished, it is effecting a more equitable distribution of wealth; it is raising the general standard of living.

I think certainly that the trend toward wider and more equitable distribution of income is one of the trends of the twentieth century; but there are great differences, obviously in the degree and speed with which this change is coming in various parts of the world. I think sometimes the political or economic system in certain nations has tried to obstruct this natural tendency to effect a broader distribution of the products or wealth, but the trend in general has been in that direction.

QUESTION: I wanted to pursue this matter of inflation a little further, particularly as it relates to the national debt. I was told some years ago by a historian of note that there has never been a case in history where a nation has paid off a large national debt except by inflation or by the collapse of that government. If history shows that, I think it is a good point for us in the deliberations here on industrial mobilization to take that into account. Do you agree with that?

DR. DAVIS: I can't entirely agree with the history, because I think the United States perhaps offers the exception in this case that proves the rule. I am referring to the case of our Revolutionary War which was refinanced under the Hamiltonian scheme and was not repaid at its depreciated market value but at its face value; that was after the deflationary period of the early 1780's. That debt was paid off

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in several decades, with a minimum of inflation, if any. I am not sure there was any significant inflationary effect there. I leave that to my friend, Dr. Hunter. But if there was inflation between 1789 and the time this debt was paid off during the Jackson Administration, it was nowhere like the amount of increased capitalization which was accomplished by the Hamiltonian refinancing scheme.

I think, however, that what you said is generally true historically-- that nations have tended to lessen the burden of the national debt, whether consciously or unconsciously, by the inflationary process.

I think there is perhaps one other example that should be cited in the brief period remaining. That, too, is an example from the United States. A large debt was accumulated during the Civil War, but the Civil War was followed by a deflationary trend continuing until near the end of the century, rather than by an inflationary one.

COLONEL BARNES: Dr. Davis, that brings our period to a close. You have given us a lot of valuable information this morning, and you have gathered up a lot of loose ends and cleared them up for us. It is a great help to our course. I thank you very much.

DR. DAVIS: I have enjoyed being here. It has been an exciting moment. Thank you.

(22 Oct 1952--750)S/fhl

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