THE INTERRELATION OF POLITICAL AND ECONOMIC CONSIDERATIONS AS THEY AFFECT THE RELATIVE POWER POSITIONS OF THE NATIONS OF THE FREE WORLD AND THOSE OF THE SOVIET BLOC

1915

9 March 1955

CONTENTS

Page

INTRODUCTION--Brigadier General Urban Niblo, USA, Deputy Commandant, Education Division, ICAF..... 1

SPEAKER--Dr. Thorsten V. Kalijarvi, Deputy Assistant Secretary for Economic Affairs, State Department.. 1

(General discussion was not reproduced)

NOTICE: This is a copy of material presented to the resident students at the Industrial College of the Armed Forces. It is furnished for official use only in connection with studies now being performed by the user. It is not for general publication. It may not be released to other persons, quoted or extracted for publication or otherwise copied or distributed without specific permission from the author and the Commandant, ICAF, in each case.

Publication No. L55-113

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D.C.

Mr. Thorsten V. Kalijarvi, Deputy Assistant Secretary of State for Economic Affairs, was born in Gardner, Massachusetts, 22 December 1897. He received his education at Clark University, receiving his B.A. and M.A. degrees in 1920 and 1923, respectively; he also studied as a Carnegie Fellow at Harvard, and received his Ph.D. degree in 1935 from the University of Berlin. He also attended Hague Academy of International Law and the Geneva School of International Studies during the summer of 1929. He was with the University of New Hampshire from 1923 to 1942, serving first as professor and then as head, Department of Government. He served as executive director with the New Hampshire State Planning and Development Commission from 1942 to December 1946. In January 1947 he came to Washington and served both in the Library of Congress as a specialist in foreign affairs and with the staff of the Senate Foreign Affairs Committee as a consultant until his appointment to his present post with the State Department on 1 September 1953. Mr. Kalijarvi was a lecturer on history and government at American University from 1947 to 1953 and is presently associated with Johns Hopkins University as a lecturer. He has written or coauthored several books on Government and world politics and is a contributor to popular and professional journals and newspapers. He is a member of the American Society of International Law, the American Political Science Association, and the American Arbitration Association. This is his first lecture at the Industrial College.

...D ECONOMIC ...FECT THE RELATIVE ...IONS OF THE NATIONS OF ...E FREE WORLD AND THOSE OF THE SOVIET BLOC

9 March 1955

GENERAL NIBLO: This morning we will consider the economic relations between the various nations of the world. A better understanding of the economic relationships between nations of the free world and also between nations of the Soviet bloc will enable us to arrive at a more accurate evaluation of the relative power positions for effective economic mobilization.

Dr. Kalijarvi will address us on the subject, "The Interrelation of Political and Economic Considerations as they Affect the Relative Power Positions of the Nations of the Free World and Those of the Soviet Bloc." As you know from his biography, he has an extensive background in this field. At present he is Deputy Assistant Secretary of State for Economic Affairs.

It is a great pleasure to welcome you, Dr. Kalijarvi, to the Industrial College and present you to this audience.

DR. KALIJARVI: It is a pleasure to discuss with you the subject of "The Interrelation of Political and Economic Considerations as They Affect the Relative Power Positions of the Nations of the Free World and Those of the Soviet Bloc." It is a subject filled with variables and imponderables which the American people and their Government must weigh, and sometimes guess at, in the continuing effort to develop an equation, or formula, called our foreign policy. This equation--by no means a simple, straight-line equation--if it is to succeed, must yield results which contribute over the long haul to the attainment of our basic foreign policy objective, namely the improvement of the security and well-being of the United States.

I have selected as the starting point a few thoughts from a recent study called "Trends in Economic Growth: A Comparison of the Western Powers and the Soviet Bloc," published a few weeks ago by the Congressional Joint Committee on the Economic Report. Some of the conclusions of this report have particular application for our discussion.

You need no reminder that relative economic strength is fundamental in the struggle between the Communist bloc and the free world. Neither morale nor political stability nor a firm military posture can long be sustained in its absence. This was one of the compelling reasons for the United States embarking upon the Marshall Plan and related measures. These were designed to assist in rehabilitating the war-torn economies of countries which we counted as our friends. And, as we now look abroad, we realize that while these efforts have been successful, there is much yet that needs to be done. But economic strength is not the sole component of national power. The economic factor is only one dimension of national and international strength and cohesion in the free world. Our task today, however, is to try to place the economic factor in the framework of the sum total of the factors--technological, military, political, psychological, cultural, and so on--which must be reckoned with in conducting our foreign affairs.

COMPARISON OF ECONOMIC POWER OF WEST WITH THAT OF SOVIET BLOC

Let us return then to the report prepared for the Joint Committee. Here are some of its conclusions, which we may well keep in mind. They set forth in terms economic the relative power position of the free world as compared with the Communist-dominated world.

1. In terms of basic elements of economic strength such as manpower, agriculture, steel production, transportation, and generating power, the present economic capacity of western Europe, the United States, and Canada combined is significantly greater in absolute magnitudes, diversity, and flexibility than the combined strength of the Soviet bloc.

2. In the period 1938-53 as a whole, the national product of the United States increased about three times as rapidly as that of Free Europe, and almost twice as rapidly as that of the Soviet Union. To a considerable extent, this difference reflected the varying effects of World War II. During the postwar period between 1948 and 1953, the national product of the United States grew not quite 30 percent faster than that of independent Europe, but significantly, only two-thirds as fast as that of the Soviet Union.

3. An examination of the various factors of production (growth of labor input, agriculture, housing, etc.) in the United States and in the Soviet Union today, gives strong grounds for expecting that the absolute

gap in the size of the two economies will widen over the next two decades, although the rate of growth in the Soviet Union might be somewhat higher than the rate of growth in the United States.

4. Economically, western Europe has been growing somewhat more slowly since 1938 than has the Soviet Union, although the growth in western Europe has been more rapid than that in the satellite countries. If the rate of growth in western Europe is not to fall even farther behind that of the Soviet Union, it is necessary to eliminate certain bottlenecks which perpetuate the inefficient use of labor, capital, and natural resources.

5. The West has tremendous economic power, whereas the Soviet bloc, through propaganda, has been hiding its lesser economic strength. It is in the interests of the United States that this be made known throughout the world, particularly in less developed areas.

6. Superiority in economic strength and economic growth are desirable ends in themselves, but they do not assure political and military security. In fact, an economy that is already largely mobilized for war can operate with great effectiveness, and for some time, against a considerably stronger economy that is not so mobilized. For this reason the Soviet bloc can bring its full military strength to bear more rapidly than can the West.

Taken as a whole, these conclusions show a vast industrial-potential superiority on the side of the West for some years to come. However, while we may derive some comfort from this thought, let me sound two warnings, and dispel any notions of complacency.

INDUSTRIAL-POTENTIAL THEORY VERSUS FORCE-IN-BEING THEORY

First, the hypothesis on which this superiority is built is currently under fire. The validity of the industrial-potential theory of national power is now being challenged. You will recall that this theory came to be understood and accepted in the United States only during World War II. Before that, as a nation we had been pretty well committed, according to some competent observers, to a force-in-being theory, although in a somewhat head-in-the-sand way, judging by our military unpreparedness at the end of the 1930's. Now, however, under the impact of our dizzying technological advances, a case can certainly be made for urging that the industrial-potential theory is itself obsolete and that the force-in-being theory should be back in vogue, because a successful

brisk day's work by the Soviet air force employing thermonuclear bombs might be capable of sending this country back to the Indians, and if the U.S. Air Force returned the compliment, Russia would revert technologically to the age of Ivan the Terrible. (If you detect a note of levity it is only because the thought is really too horrible to contemplate seriously.) I can't help but believe that the fellows in the Kremlin share this view of absoluteness, yet uselessness, of thermonuclear warfare, despite Molotov's recent remarks to the effect that world civilization would suffer, but what would be destroyed would be the "rotten social system with its imperialist bases saturated in blood--that is, capitalism."

So, we seem to have arrived at--or will shortly--what Prime Minister Churchill has called "the balance of terror." This might be regarded as the midtwentieth century version of the classical balance of power. In one sense the new version may conceivably hold a little more promise for mankind than the old balance of power concept. That is on the chance that the likelihood of a general atomic and thermonuclear war is reduced.

In any event, I would guess that the relative validity of the force-in-being and industrial-potential concepts can be debated extensively. I do not think the two are mutually exclusive at this point in history. Quite obviously, we have the greatest defensive force-in-being that we have ever maintained in the absence of all-out shooting war. Yet our diplomacy is based to a considerable extent, on the industrial-potential concept.

The policies we are following demand a strategy of coalition precisely because of all the many eventualities which the "balance of terror" or thermonuclear and atomic stalemate give rise to or make more likely, or more intensified. These eventualities include economic warfare, psychological warfare, "small" wars as in Korea and Indochina, and internal and external subversion, to name a few. They dovetail with what we have known to be Communist strategy since Lenin spelled it out in 1920 and 1921. The essence of that doctrine is that the world revolution will be carried out through indirect warfare rather than a head-on clash with the capitalist countries. Here we have a type of conflict which is far from obsolete. And our capacity to achieve victories in this theater of operations is of crucial importance.

NON-COMMUNIST WORLD OUTSIDE NORTH AMERICA FALLING BEHIND IN RATE OF ECONOMIC GROWTH

This brings me to my second warning. Western Europe is falling behind the Soviet Union in its rate of economic growth. We have noted the conclusion in the report prepared for the Joint Committee with respect to this matter.

Western Europe

I think we can all draw satisfaction from the fact that although the United States did not recognize the economic struggle being waged by the Kremlin for what it was at first, we learned fast--and won significant victories. These have been reflected in the tremendous strides in economic recovery and growth taken by western Europe since 1948. The Marshall Plan was a success--in fact, a brilliant success! I think it is no exaggeration to say that the Marshall Plan and related programs played an essential part in curbing the spread of communism in France and Italy at a time when Communist domination was a distinct possibility. But even more than that, western Europe has been able to recover and move ahead economically to the point where it now supports military strength which surely must give the Kremlin pause.

But, as I said before, the challenge is far from over. More needs to be done. Western Europe needs further stimulation if it is to avoid the danger of being industrially overshadowed. The United States must continue to foster closer political, economic and military integration in western Europe in order to develop more fully the potential strength of its human and material resources.

This is the aim of our foreign policy. This is the purpose of our leadership and contributions in NATO, of our affirmative support of the Coal and Steel Community, of our productivity assistance, of our efforts to eliminate national trade and payment barriers. And here I would like to say that further gains from these and other similar measures will depend heavily on the example we ourselves set. But more of that in just a moment.

The Less Developed Areas

In the rest of the non-Communist world, if we exclude the United States, Canada, and Japan, the economic picture is bleak. There the economic growth process has barely begun, particularly in Asia. There

is economic stagnation at an abysmally low level, accompanied by a tremendous upsurge of aspirations and pressures for fundamental changes in the pattern of life which cannot be accomodated unless more rapid economic development takes place. Unfortunately, the financial resources and skills required for such development are often lacking. Even if greatly increased external assistance were to be forthcoming, any marked economic improvement could only be sustained by limiting the rise in immediate consumption.

The promise of economic improvement is being used as a means to help meet the challenge of emerging aspirations. But we should not forget that it can fulfill these aspirations only if it is accompanied by corresponding changes in the distribution of political power, in social values, and in governmental efficiency. If these aspirations continue to be largely frustrated, I cannot see how we can avoid the long-term trend in most parts of the less-developed world toward extremism and violence.

There are, as you know, in the less-developed countries, significant regional variations in the pattern described above.

The dangers arising out of economic frustration are perhaps the greatest and most immediate politically in South and Southeast Asia, where the pressure, influence, and apparent attractions of Communist China are powerful.

Latin America has been experiencing very rapid economic growth since World War II, but living standards are still low. Threats of extremism do not arise so much from pressure for even more rapid growth as they do from social changes and inflation resulting from present rates of growth and from lagging development in a few countries.

RECAPITULATION: SITUATION IN TERMS OF STRUGGLE FOR ADHERENCE OF UNCOMMITTED PEOPLES

Let us recapitulate at this point. We find the existing situation to be one in which the economic power of the West is far greater than that of the Soviet bloc including Communist China. A vast area in Asia and Africa is inhabited by some billion people who are uncommitted to either power bloc and whose economic and social aspirations and nascent nationalism render them susceptible to a good selling job. There is no denying that the Soviet bloc has seen this opportunity and has done a good selling job. Not only has it successfully hidden its lesser economic strength through propaganda, but it has maintained the lesser strength

in a mobilized state thereby offsetting the far greater potential strength of the West, in a military sense. Thus we witness the paradox of a nation, the Soviet Union, which can equal or approximate the best in jet plane production but which cannot provide its people with modern plumbing. And to labor the paradox, isn't it a pity that the inarticulate masses of Asia who are groping for the better things in this life can be taken in by the Soviet jets?

SPECIFIC OBJECTIVES OF UNITED STATES FOREIGN POLICY

In this situation, what are the specific objectives of our foreign policy? For the purposes of this discussion I think they may be stated broadly as follows:

1. To gain the adherence to free world ideals of those peoples who are uncommitted in the worldwide struggle between the forces of freedom and communism.

2. To continue to build the strength of the free world so that its ideals can be defended and ultimately prevail, as I am confident they will.

3. To avoid making any significant contribution to the total power of the Soviet bloc.

This adds up to a Herculean task. At times it calls for the wisdom of Solomon, at other times for the patience of Job: ideals which we lesser humans can only hope to approximate. We must be consistent, make sense at all times, and strive for not more than the attainable. We cannot afford to be vacillating or capricious, or petulant. And precisely because no action we could take would make it possible to achieve the unattainable aspirations of our allies and other non-Communist countries, we need to be careful in what we set out to do.

THE ECONOMIC DEFENSE PROGRAM

One form which our efforts take in the pursuit of the foregoing objectives is the so-called economic defense program. This program, we and other nations of the free world have developed to go hand in hand with our military defense. The goal has been to contribute to the increase of the total strength of the free nations relative to that of the Soviet bloc. The method of implementation is identified in the public mind almost exclusively with the denial of strategic goods to the bloc.

("Strategic," incidentally, is a relative term meaning goods which make a significant contribution to warmaking power. It is not always easy to arrive at a judgment as to whether a given commodity is "strategic," and if so, how strategic.)

But the program is much broader and much more complicated than that. For example, another important economic defense objective is to lessen, or prevent the growth of, significant dependence by free world countries on trade with the bloc. Over the long-run, the major returns toward this objective are apt to accrue not so much from "economic defense" measures as such, but rather from whatever progress is achieved in our other, broader programs directed to solving some of the more basic economic problems of the free world.

Economic Defense Versus Economic Warfare

You will notice that I have used the term "economic defense" rather than "economic warfare." I have done so advisedly. Economic Defense is not merely a soft phrase for economic warfare. Neither is it a concept of softness or passiveness which accepts the proposition that the initiative invariably rests with the opposing side. The term economic defense may not be the most accurate or descriptive label for what is involved in the program, but I cannot coin a better one. Suffice it to say that to me "defense" seems to describe the program better than "warfare," and does represent a distinct concept. It is aimed at more precise and more limited objectives. It involves an entirely different method of execution. It is carried out internationally in a different political and military context. For instance, while our allies have been willing to accept measures immediately or proximately related to the Soviet bloc war potential, they would not be willing to accept measures directed against the general economic well-being of the Soviet bloc populations.

Now, there are some who would urge that we abandon our present policies of economic defense and engage in economic warfare with the Soviet bloc, cutting off all economic dealings between East and West. This, to my way of thinking, would be unnecessary, and highly undesirable in the light of the international political realities with which we have to contend. Such a course of action would involve the risk of precipitating the general war we wish to avoid; would gravely threaten the political and military alliances within the free world; and might even be more damaging economically to certain countries of the free world than it

would to the Soviet bloc. The selective approach embodied in the economic defense program which we have evolved with our allies is deemed adequate to safeguard our essential security interests in economic dealings with the Soviet bloc. This program is dependent for its effectiveness upon the active and sincere cooperation of our principal allies. We cannot achieve our objectives under this program either by unilateral action or by the application of coercion upon our allies. If we were to press our other sovereign partners in this effort further than they feel they can freely go, we would put the whole security trade control system in jeopardy. Finally, there is beyond the relatively narrow field of economic defense the wider and more fundamental objective of unity among the free nations which it is in our highest security interests to foster and preserve.

Economic warfare is a relatively simple concept. Its basic objective is the absolute reduction of enemy strength by denying him access to outside economic resources of every kind. Its method of operation is total embargo, mainly enforced by naval blockade, but supplemented by collateral measures such as preclusive buying, blacklisting, and financial controls. Other measures of economic warfare include the following in their extreme forms: export controls, import controls, transportation controls, transit trade controls, and communications controls. All of these can be further subdivided: transportation controls, for instance, into shipping and aircraft controls, closing of railroads and highways, closing of international canals and other waterways, denial of port, repair and bunkering facilities, and so on. Or financial controls might be broken down into measures prohibiting transfers of funds, sterilizing gold, blocking external assets, et cetera.

The carrying out of economic warfare by a number of allied nations requires the highest degree of political unity among them, so high, in fact, that it is rarely achieved except during an all-out shooting war. The limitations of economic warfare are often underestimated, by the way. Even if we were to assume that all of our free world partners on whose adherence we set store would join us in a full-scale embargo of the USSR, the economic impact on it would be less impressive than is sometimes assumed.

--Limitations of Economic Warfare--

I hold this view because, in terms of relative economic magnitudes, foreign trade plays a minor role in the buildup of Soviet bloc strength. At the present time, trade between the free world and the

entire Soviet bloc is estimated to amount to about one-half of 1 percent of the bloc's total gross national product. That is, one-half of 1 percent of all the goods and services produced in the bloc in any given year. In dollar figures, free world exports to the Soviet bloc, including Communist China, in 1953 amounted to about $1.4 billion; Soviet bloc exports to the West were about $1.6 billion. By way of comparison, the United States itself exported about $16 billion in 1953 ($15 billion in 1954) to all countries, and imported about $11 billion ($10 billion in 1954). Our exports, although large in absolute terms and, indeed, exceeding the amount spent on our booming residential construction ($13 billion in 1954), constitute about 5 percent of the national income. These figures give some idea of the relatively limited exchange of goods between the free world and the Soviet bloc.

Moreover, as long as the Soviet bloc maintains its present political orientation and totalitarian organization, it will not allow itself to become too dependent on trade with the free world. The Soviet bloc's objective is to achieve "independence of the need to import" or, stated another way, invulnerability to outside pressure. Accordingly, by and large, its military and industrial machine will be built and maintained on its own resources. It can achieve this aim because it has abundant natural resources, and it is able to shift its productive facilities and manpower, within limits, of course, but in a way that is sometimes brutally uninhibited.

On the other hand, the low total level of the Soviet bloc's imports from the West tends to understate the relative importance of the products which the bloc has obtained. The ingredient for industrial growth which the Soviet bloc seems most to have lacked in the past has been mechanical and engineering skills. These skills are embodied in the goods the Soviet bloc has been most anxious to obtain--machinery, machine tools, and the like. The Soviet bloc also has lacked copper, natural rubber, and industrial diamonds. Limitations on the export of these tools and materials probably have slowed up the industrial growth of the Soviet bloc to a modest extent during the past few years, and this is the reason why we continue to work hard on the program. But it is doubtful that these measures have, or ever could, really hurt the overall Soviet bloc economy in any vital way.

--The Subtlety of Economic Defense--

Economic defense is a much more subtle and complex idea than economic warfare. The objectives are relative rather than absolute. The broad political purpose is not to prosecute a present war successfully,

but to prevent a general, all-out shooting war. The economic purpose is to develop the military and economic strength among the allies relative to that of the potential enemy. Thus economic measures which weaken the Soviet bloc absolutely, but which weaken the allies more than they do the bloc, are not effective for economic defense. The political cohesion among allies forged in the heat of actual war is not available for the execution and enforcement of economic defense operations. Enforcement rests not on naval blockade, but on the export, shipping, transit, and transaction controls of the individual governments concerned, and the efficiency of their intelligence services. Diplomacy, accordingly, plays a much more predominant role in economic defense than in economic warfare.

Let us put it another way. The conduct of economic defense places on us the same demands of care, tact, consistency, yet flexibility, which must characterize all of our efforts in the foreign policy field. And we must not become so preoccupied with the pursuit of particular economic defense objectives that we not only do violence to the economic defense program itself, but also jeopardize the achievement of more important objectives.

Let us now look at two examples of how economic defense considerations and other kinds of economic considerations are intertwined with political and security factors: One is Denmark, the other is Japan.

Denmark as an Example

Our economic, political, and security problems with Denmark can be summarized as follows: Politically and strategically the Danes have in the past pursued a policy of neutrality, in line with Scandinavian tradition. Danish participation in NATO, the development of a Danish defense force, and Danish cooperation in Greenland are a definite abandonment of that policy. Denmark has proved itself a loyal member of the East-West trade control system, even at the expense of trade that is vital and important to it. The Danish Government now faces a difficult economic situation, as a result of which offers of trade with Soviet bloc countries seem all the more attractive. These offers become even more enticing when the West shows signs of increased protectionism. High tariffs, imposition of quantitative restrictions, and restrictive state trading are creating great hardships for Denmark, which is a very efficient producer in certain fields.

It is therefore readily apparent why, in our own security interest, we must weigh our economic actions carefully and consider their impact on our political and security objectives. In so far as Denmark is concerned, we must keep uppermost in our minds that we wish to have Denmark's continued cooperation in the free world's defense effort and that any restrictive economic action which threatens that objective should be avoided. The same interrelationship of our economic actions with our political and defense objectives extends to all areas of the free world.

Japan as an Example

Let us go to the opposite face of the globe, to Japan. The economic situation there gravely concerns the United States and the entire free world. Should the economy deteriorate substantially, Japan might well lose its freedom. A significant drop in consumption levels would create social unrest and political instability which would invite subversion from within. The country would be unable to defend itself, and would require United States military forces in and around Japan for an indefinite period. If this is to be prevented, Japan must take vigorous measures to strengthen its economy, and the free world must be willing to trade with Japan on a substantially increased scale.

Should Japan lose its free status as a result of future aggression or internal upheaval and come under Communist domination, the present balance of world power would be drastically altered. The Kremlin leaders covet Japan's industrial power just as they covet that of Western Germany.

Japan, as you may know, is about the size of the State of California. However, only 16 percent of its area, or 23,000 square miles is arable. Its population of 88 million souls is far more tightly packed on limited arable land than is the population of Britain. In Japan the population per square mile of arable land is 4,400, compared with 1,800 in Britain and 225 in the United States. Moreover, Japan suffers generally from a scarcity of natural resources. It must rely completely on foreign supplies for five of the principal commodities it requires: phosphate rock, raw cotton, wool, bauxite, and crude rubber. It is also highly dependent on imports for iron ore, coking coal, petroleum, tin, and lead.

These few facts serve as evidence of the impossibility of self-sufficiency for Japan. But this does not eliminate the attainment of a respectable self-support. Japan's large, diligent, and skillful population is an asset not to be discounted. By importing raw materials in

large quantities and exporting manufactured goods in adequate quantities, Japan can realize a margin of profit sufficient to maintain its industrial establishment and provide its people with a decent standard of life. The very nature of this solution to Japan's problem of survival, however, reveals the nation's utter dependence upon foreign trade. And this solution will be reached only if the free world markets are opened to Japan.

At this point you might well ask what this had to do with the economic defense program. The answer will be obvious if you consider Japan's economic and geographic situation in relation to the vast hinterland of Communist China, which would seem to be Japan's natural trading partner. Indeed, during 1938-39 the China mainland, including Manchuria and Kwantung, absorbed one-third of Japan's exports and supplied Japan with one-sixth of its imports. Now, less than 2 percent of Japan's $4 billion foreign trade is conducted with Communist China. Obviously, the loss of this prewar trade, along with the loss of the former colonies of Formosa and Korea, has had a grave impact upon Japan's economy.

For a number of basic reasons, it is unrealistic to expect that Japan's trade with the China mainland can ever regain its prewar importance. But there are businessmen and officials in Japan who wishfully think otherwise, or, at least, would like to test this conclusion. But Japan, like Denmark, is a loyal member of the East-West trade control system, and, together with the other countries cooperating with the United States in this system, maintains a strategic embargo against Communist China and North Korea that is much more sweeping than that in effect against the European Communist states. With the limitations on trade with the China mainland imposed by security considerations on the one side, and more importantly, by the Communists themselves on the other, Japan must look to the free world for increased trade. Which puts us right back where we were a moment ago.

What are we doing about it? Well, last month the United States began negotiations in Geneva, Switzerland, for the purpose of bringing Japan into the General Agreement on Tariffs and Trade (GATT). We have supported Japan's effort to become a party to the GATT because we feel that Japan's full accession to the General Agreement would be the biggest single step which could be taken to increase Japan's trade with the free world. We are therefore negotiating with Japan directly, and also stand ready to offer tariff concessions to third countries which negotiate with Japan, if such concessions will help them grant more benefits to Japanese exports than they could otherwise offer.

UNITED STATES CONCEPT OF THE ROLE OF GOVERNMENT IN ECONOMIC AFFAIRS

In considering the economic defense and other programs through which we pursue our foreign policy objectives, it is necessary to keep constantly in mind that our concept of the proper role of Government in economic affairs is much more narrow than that of most other countries. For us, the major normal function of Government in the economic sphere is to create a climate in which private enterprise can flourish free from artificial restraints. This basic creed is carried over into our economic relations with other countries. Our principal specific programs aim at the removal of artificial restraints on the movement of goods, services and capital, whether publicly or privately imposed. We seek to reduce tariffs, eliminate quota restrictions, get rid of cartels, do away with exchange restrictions, and remove restraints on foreign investment. We feel that the Government should interfere as little as possible with the free market.

This concept of the role of Government is not shared or understood by many other countries of the free world. To them, there appears to be a contradiction between our vast responsibilities as leader of the free world and what seems to them like the absence of bold, positive, and constructive program, except in time of emergency. This difference as to the function of Government gives rise to a certain amount of misunderstanding and disappointment abroad in regard to our economic policies. It explains why we are restricted in what our Government can do economically in peacetime. It is something that we constantly have to clarify to our friends abroad as we seek to move forward on both the security and the economic lines. I submit we need to move constructively forward on both.

THE PRESIDENT'S PROGRAM

Let us now turn to another aspect of this very broad problem, namely, the President's foreign economic program. I think this program is an important means of making significant advances toward United States foreign policy objectives in the power struggle with the Soviet bloc.

We have seen that the impressive postwar rate of European industrial activity is unlikely to be maintained. We have seen that the United States and Soviet economic growth is outstripping Europe. We have noted that further European progress depends upon breaking bottlenecks, including those inhibiting trade, notably with the underdeveloped areas.

We have expressed the hope that full-scale decisive military conflict with the Soviets may be staved off indefinitely, in part by its sheer horror. We have also noted that even full-scale economic pressure on the Soviet Union has extremely limited potentialities. We have cited the key importance of the underdeveloped countries of Asia as vital cold-war battlegrounds in themselves and also as crucial elements of continuing free-world economic growth. We have also stressed the need for adopting approaches to the problem of gaining the support of these nations which will make it clear that it is not the United States which keeps them from attaining their exaggerated aspirations.

If further aid to Europe has limited prospects, and massive aid to Asia cannot be effectively absorbed, what measures are open to us to promote economic growth and confidence in United States leadership?

One very important answer is a trade program which will:

1. Keep open the prospect of expanding trade and growing living standards.

2. Provide a week-to-week demonstration of United States willingness to join with others in the cooperative resolution of problems of vital economic concern through the GATT.

Elements of the President's Program

These are precisely the aims of the President's program on foreign economic policy, which he submitted to the Congress on 10 January 1955. The main parts of that program are:

1. Tariff reduction.--A moderate, gradual, and reciprocal program of cuts was proposed. The President requested a 3-year extension of the Reciprocal Trade Agreements Act, which now gives him limited authority to lower tariffs in exchange for considerations by other countries. Under the proposed extension he would be authorized to reduce rates by as much as 5 percent each year for three years. The safeguards are important since stability of our policy is crucial.

2. Customs simplification.--Further simplification of complex commodity definitions, classifications, and rate structures, and better standards for valuation of imports were recommended. The President also promised further efforts to improve customs administration.

3. Foreign investment. --The increased flow abroad of United States private capital, particularly to less-developed countries, would contribute much to the expansion of two-way international trade and do much to offset the false, but alluring, promises of the Communists, the President said. He proposed taxation of business income from foreign subsidiaries or branches at a rate 14 percentage points below the rate on domestic income of corporations. Another recommendation was for United States participation in a proposed $100 million International Finance Corporation to assist private enterprise in underdeveloped countries.

4. Technical cooperation. --The United States has a vast store of practical and scientific know-how that is needed in the less-developed areas of the world. United States participation in technical cooperation programs should be carried forward.

5. Encouraging international travel. --Encouragement given to travel abroad is extremely important, both for its cultural and social importance in the free world, and for its economic benefits. The President suggested that Congress increase the present $500 duty-free allowance for tourists to $1,000, exercisable every six months.

6. Encouraging United States participation in international trade fairs. --Soviet and satellite exhibits in international trade fairs in the past couple of years have been well planned to convey the impression that the USSR is producing on a large scale for peace, and is creating a paradise for workers. The United States, which has a larger volume of international trade than any other nation, until recently had been conspicuous by its absence at these trade fairs. The President's message outlined the recently instituted program of encouraging participation by United States concerns in international trade fairs. At the first fair in which the United States presented a central exhibit, that is, at Bangkok in December 1954, our exhibit was awarded first prize. Over 100 American companies contributed to this exhibit.

7. Convertibility. --Steady progress, particularly by western European countries, is being made toward our mutual objective of restoring currency convertibility, which is necessary to a steadily rising volume of world trade and investment. We believe that our total foreign economic policy can make an important contribution to the achievement of convertibility.

8. Official United States participation in the GATT. --Without burdening you with a detailed account of the terms of the GATT, I will merely note that these trade rules provide a code which minimizes the impairment of tariff reductions through ingenious restrictive devices such as quotas, internal taxes, and so on. They also set up procedures for resolving disputes. They have significantly contributed to a substantial growth of trade in the turbulent postwar period. They provide a forum for building confidence in the free-world's capacity to settle issues where there are genuine concrete conflicts of commercial interest at stake.

CONCLUSION

These, then, are some of the areas and methods through which the United States is exercising its leadership in promoting the achievement of those high levels of trade that are designed to help enhance the economic strength of the free world upon which the freedom and security of all depends. Some of the foregoing measures I have enumerated are quite pedestrian. I do not say this apologetically. After all, many of history's profound and lasting changes occurred through successive modest steps over a long period of time. The important thing was continuity and strengthening of movements. No one of the measures by itself will make for spectacular progress toward the desired end; all of them taken together, however, can have a significant impact.

The United States has available still other positive programs and instruments designed to inspire hope abroad and to have a multiplier effect in the direction of steady economic improvement. These include a modest amount of economic aid (mostly in Asia), the disposition of agricultural surpluses, the lending activities of the Export-Import Bank and our participation in the International Bank.

We should never lose sight of the fact that the United States is pushing these positive and imaginative measures in its own interests as well as in the interest of the economic well-being of the entire free world. It should be emphasized that the ends are good in themselves and not merely a defense against communism. We would be pursuing these ends even if the Communist menace did not exist.

COLONEL O'NIEL: Dr. Kalijarvi, on behalf of General Niblo and the class, I thank you very much for a very comprehensive coverage of international relations. I think you have made a real contribution.

(22 Apr 1955--250)S/mss

A67812