

## THE FORMULATION OF FOREIGN ECONOMIC POLICY

29 March 1956

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GENERAL HOLLIS: Our speaker this morning is the Honorable Willard L. Thorp, the former Assistant Secretary of State for Economic Affairs. You have seen from his biography that he has served his Government on many occasions. He participated in the peace conference at Paris following World War II and was a special advisor to the Council of Foreign Ministers at their New York meeting in 1946. His speech this morning relates closely to the lectures which we have been having and is the very difficult one, I should think, of "The Formulation of Foreign Economic Policy."

Dr. Thorp, it is a great honor to introduce you to the class.

DR. THORP: This particular subject that I have been assigned is nonsense. I can't talk to you about foreign economic policy because there is no such thing as foreign economic policy as a separable phenomenon. Almost no problems with which our Government deals are exclusively "foreign." They all seem to have their domestic angles, and sometimes these are the controlling element in their treatment. Almost no problems with which our Government deals are exclusively "economic." There are political angles, scientific angles, cultural angles, and psychological angles. The same problem is likely to involve all or many of these elements. Finally, "policy" is perhaps the most difficult word of all. This means different things to different people. Certainly what gets formulated ordinarily is not policy but an answer to a particular problem. And yet there are elements of broad guidance which most people would call "policy."

Now let us talk about foreign economic policy. Obviously, the more or less chance location of national boundary lines has no rational relationship to economic life. They cannot be absolute boundaries, so across them, trade goes on, investment goes on, people move money back and forth, and fish swim about from one country's jurisdiction to another. Any number of economic events take place which get countries involved with each other. There must be some basis on which these arrangements can be carried out in a fairly orderly manner. I shall spend most of the time today in pointing out how difficult it is to get order in this very complicated area.

We once tried in the State Department, and I presume the State Department continues to try, to set up a whole series of little books which would be guides to people in the Department with respect to particular countries and particular problems. We struggled and struggled in drafting these guides to policy, but the trouble was that they never seemed to fit the problem that came along. There was some evidence that frequently the guide to policy was harmful because somebody would find what he thought was the answer, and, as students sometimes do in college, he would put down what was a perfectly good answer to another problem rather than to the one that had been asked him originally.

Actually, one has to think of foreign policy operation as a tailor-made process. The problems arrive in the United States Government somewhere. There are perhaps a few that are manufactured by the United States Government, but mostly these problems arrive from another government, from some business group somewhere, from some private group with a "cause," from some incident or accident, from the United Nations, or from any number of sources. Then something has to be done about it (even if nothing is done, that ought to be according to a decision rather than by default). Nearly every problem is somewhat different from any other, and so a tailor-making process has been developed for dealing with these problems. It has to be that way.

The first complexity to have in mind is that most of these so-called economic problems involve a number of different areas of expertness. There has to be available in the Government--and some way of bringing them together--a greatly varied group of experts for dealing with them.

Suppose the problem is whether or not we should make a loan to Chile for a Chilean group to build a steel mill. What kind of experts do we need on that? Obviously, we need somebody who knows something about the iron and steel industry and its requirements--whether they have readily available ores, coal, and so forth, and whether the character and size of the proposed mill is appropriate. We need somebody who knows something about the potential markets for the products of such a steel mill. We have to have somebody who knows something about the competitive situation with particular reference to foreign trade channels; what is this going to do to other places that now produce iron and steel.

We have to know something about the Chilean economy itself. Would building a steel plant there add to what seem to be persistent sources of inflation in Chile, or can they absorb this much capital without inflationary effects? What about their foreign exchange situation? How about their ability to pay back if this is to be done on a loan basis? Is this the best use for Chile's capacity to borrow? These questions require another group of experts.

Still another group of experts are required who can judge the impact of this specific action over a broader field. Will such an action lead to similar requests from other countries? Should this be a United States project or a United Nations project? In all probability, the total group of experts involved in working out the answer to this problem, and I have by no means listed all the elements which might be involved, would never function together on any other problem.

The problems are of a wide variety. I remember the first week I was in the State Department I made a list of the problems which came across my desk. There was hardly one that I had ever expected to deal with when I came into the Department. The first one on the list was: Fixing the hunting season on whales. There is an international agreement under which the number of whales to be taken each year is agreed. Referees on the whaling vessels report to a central tabulating agency. When the permitted number of whales have been caught, the hunting season is over and all the whaling vessels have to come home again. I certainly didn't know anything about this. The United States Government has to have tucked away some place a real expert on the problem of whales.

This is an administrative problem of no mean proportions. It seems obvious that, to the degree to which these experts exist and the Government recognizes the need for such experts, even though they may be scattered about the Government, it should be possible to work out the bringing of these people together to deal with the problem.

Important as it is, the development of an appropriate technical analysis is probably one of the lesser difficulties in this area. What creates the great difficulties is the fact that on many of these problems there are many conflicting interests, and these are largely between the domestic and the international aspects of the problem. When I was in the State Department I think I must have spent more time negotiating with other people in the United States Government

than I did negotiating with people in foreign governments. The problems were frequently much more difficult to work out vis-a-vis the United States end than they were vis-a-vis the foreign end. This is in part because the interests in the United States are not hypothetical but substantial and by that I mean that it may even involve life or death to various business enterprises and activities. At least, it is likely to mean more or less profit or loss.

There has been controversy going on with India about the treatment of American airlines. It entails stopover privileges and the right to pick up passengers in India. This is a significant problem as far as American airlines are concerned that go out into that part of the world, and it has implications for other areas, of course. This is not a little academic thing; this is a matter of real importance. So the airlines are very much concerned as to what is done by the United States Government in what sort of settlement is made.

This case doesn't run into many conflicting points of view in the United States but frequently this does happen. For example, the Congress tacked on to one of the Defense Production Acts about five years ago a limitation on American imports of foreign cheese. Incidentally, I had the very difficult task of explaining to representatives of foreign governments why building up the American cheese industry could be considered part of our defense effort. I never was very successful in finding any explanation on that.

The background of this case was that the domestic cheese industry had not had to face competition during the period of the war and for several years thereafter. Our own producers developed many of the foreign types of cheese and gradually foreign cheese began to come in again. Imports had risen to 4.8 percent of American consumption of cheese, and the industry asked Congress to put some limitations on further imports. Congress did in the action which I described.

In this particular case, many Americans were interested on the other side, mostly individuals interested in increasing the supply of dollars in the hands of foreign interests. Our experts and our foreign investors were interested. Those hoping to reduce foreign aid were interested. One result of the restriction was clear, because the Netherlands government announced that, if they couldn't earn some 20 million dollars by selling cheese to America, they would buy 20 million dollars less of American wheat flour. So the United States Government found itself with the wheat flour and cheese people coming

to Washington and wanting opposite actions to be taken. The Government is subject to a continued series of pressures of people from private life in the United States wanting definite and particular actions to be taken.

This, I suspect, is one of the differences in general between the Defense Department and other branches of the Government. However, even the Defense Department feels these forces in issues such as the location of where it will set up this or that installation within the United States. The pressures from this community or that community are of the same general character as come into the field of foreign economic policy.

The expression of different interests does not have to rely entirely upon the activity of outside groups. Within the Government itself, there are groups that in a sense are representative of various conflicting interests. The Agriculture Department, for example, undertakes to represent the interests of American agriculture in the Government. It is concerned with building up a strong and healthy American agriculture.

Even within the Department of Agriculture, there must be concern over our foreign policy, but it may not coincide with other interests in foreign policy. For example, we are accustomed to producing in this country more than we consume. We are accustomed to shipping abroad a substantial amount of our wheat, cotton, tobacco and many other products. The Agriculture Department is naturally interested in foreign affairs, but it is interested in foreign affairs primarily in terms of disposing of this surplus, of building up foreign markets, and in some way or other improving the position of American agriculture.

As an example of the kind of problem that arises, let us consider the case of cotton. Our policy is based on holding up the domestic price of cotton. In that connection, we have accumulated a big surplus. What is to be done with it? We may be able to figure out additional ways of using some of it at home, but obviously the easiest and least disturbing thing would be to sell it abroad. If we succeed in selling our cotton abroad in largely increased quantities, unless the price is so low that there will be a greatly increased use of cotton, we are going to cut Egypt and Brazil and India out of the world cotton market. What happens to our relations with them, particularly if we sell abroad at much lower prices than the domestic level? What seems a simple

enough thing from the point of view of American agriculture becomes complicated as soon as you begin to move into the international field.

This then becomes a policy problem in the United States Government. Here is the State Department which officially is responsible for our international affairs and here is the Agriculture Department which is responsible for our agricultural problems, and here is a problem that falls in both categories. As a matter of fact, other agencies such as the Department of Commerce, the Treasury Department, and the Export-Import Bank all have some interest in the problem as well.

Sometimes, there may be as many as 20 agencies who think they have an interest. When we started the Point IV program, which was one giving technical assistance to foreign countries as part of our general economic assistance program, we thought there were some 16 different Government agencies which were concerned about how this program would be formulated. We soon found that there were still other agencies like the Library of Congress, which was overlooked in the original invitation to attend an organization meeting saying, "We are interested in the libraries of these countries and always have an interchange with them. We certainly provide technical assistance in the form of catalogers and other experts. We ought to be in on this program."

Our Government is organized primarily on the basis of Departments that are concerned with this or that domestic problem. The Department of the Interior is primarily a domestic department; Agriculture is a domestic department; and Labor is a domestic department. But all these departments are involved in problems such as copper or oil imports, with which the Department of the Interior is greatly concerned, for example; or bringing in Mexican labor, with which the Department of Labor is very much concerned, or international broadcasting which brings in the Federal Communications Commission. They have their international involvements, but it is their job to think of the problems primarily from the domestic side. It becomes, therefore, the job of the State Department, so far as it can do so, to try to think of these problems in terms of their international implications.

It is really amazing that the Government is able to operate as smoothly as it does, given the fact that you can't find particular places in the Government with final authority for very many things. This is because the problems do have more than one angle, and so

decision must be a group action. This, as you all know, is the great problem that the businessman has when he comes to work in Washington. The businessman is used to being able to make decisions on his own. He may have to refer to the Board of Directors occasionally, but if he has been successful with his Board of Directors, this is no problem. He comes to Washington and he is head of some agency, let us say, but this doesn't mean he is able to solve his problems alone. He may think he has solved one, only to find that his answer merely shifts the problem to some other agency, and therefore it is a problem that has to be resolved between them.

There are many ways in which, within the Government, these issues get resolved. Where there are long-established and friendly working relationships between agencies, frequently the top people will get together and resolve them.

The general plan of organization, it seems to me, is this: There are technicians who know all about the problem and all the difficulties and all the complications. First, the technicians, of State and Agriculture meet, for example, and they can't resolve the disagreement between the domestic and the foreign elements in the problem. The problem is then moved up a level to people who don't know so much about it in detail and therefore don't have these inhibitions with respect to technical limitations. They may be able to resolve it. If they can't, it goes up to people who know almost nothing about the particular problem, but who can listen to some amount of evidence and make a decision in fairly broad terms. The people at the technical levels often cannot resolve the problem because each technical group will see obstacles to each other's proposals. Only when it gets up to people who see only the general objectives can it be resolved, and the technicians then make the necessary adjustments in their value judgments. So the United States Government has a fairly standard procedure of moving the problem upwards where conflicts between agencies exist.

It used to be, when the Democrats had been here for a substantial fraction of a century, that within the Government people had come to know each other well enough so that many of these problems were solved just through the fact that they were on the first name basis with each other and had worked together over a period of time. This is one of the things that does happen when any particular group has been in the Government for some time and perhaps is one of the values of not having a change. On the other hand, this may also mean that certain dominant personalities will emerge as controlling, and that the problems won't always get reviewed as widely as they should.

When the agencies are more distrustful of each other and when interagency problems persist so frequently that there needs to be a special procedure for resolving them, they become the responsibility of the President. As life has become more complex, we have developed in the last decade or so, new high level coordinating activities attached to the White House. This is a very important development in our Government procedure--the idea that when the agencies of Government are in conflict, they not go directly to the President, but that there be an agency like the Budget Bureau, or the National Security Council, or the foreign economic group in the White House that Mr. Dodge heads, to which the problem may go. These agencies being part of the White House establishment, represent the point of final resolution of controversy within the executive branch of the Government.

I don't think people have ever fully appreciated the essential part in the operation of the executive branch of the United States Government that has been performed by the White House, namely the resolving of these cases of conflict of interest. There is always the danger that, if there is such a court of appeal, too many issues will not be settled at lower levels. However, there will always be some which are irreconcilable. The choice may be between two bad alternatives. Today, the degree to which and the wisdom with which the President acts through his immediate representatives, in a clear and decisive manner on critical issues is very important to the effective functioning of the Government.

Not only is there the problem of resolving problems within the executive branch of the Government, which is itself very difficult, but many of them extend on into the hands of the Congress. While we have developed some improved techniques for resolving difficulties within the executive branch, various developments have increased the difficulty of working out common policies as between the executive branch and the legislative. This is clearly true in the foreign economic field.

The activity of Congress has a number of different elements which bring it into the field of formulating policy. First, there is the legislative process itself. It may be the approving of a treaty; it may be giving the President the authority to do this or that; it may be defining the procedure whereby trade agreements shall be negotiated by the executive branch. Many of the activities of the executive branch must have authorization and get general or even specific directions from the Congress.

Congressional action is important also because so many Government programs unfortunately require appropriations, and appropriations are something over which the Congress has complete control, except for a possible veto. On this, the executive branch has to get the legislative to take whatever action it proposes.

In the third place, there is the possibility of the Congress imposing itself through approval or disapproval of appointments, although that always has been a fairly limited element. Finally, a relatively new development is through investigations. The investigation process by Congress is a very important influence on the behavior of the executive branch of the Government.

One might say there shouldn't be any conflict between the Executive and Congress, particularly since the most usual pattern is one of single party control of both. This is all part of the Government. But the fact is that there are conflicts, and they are very vigorous. To some extent this goes back to the partisan character of the Congress. In considerable part it goes back to the desire on the part of the individual Congressman to represent either some business interest or some concern about the problem. As somebody who, having spent many hours in the witness stand before Congressional Committees, is only gradually having his black and blue spots and his scars disappear, I would insist that many of the members of Congress have a very sincere concern about the way various problems are handled but I would also insist that many other considerations seem to appear in addition to the search for the best solution to the problem.

There is a basic issue, however, between Congress and the Executive which I think is important to have in mind. If you watch this conflict between the two, in a sense it is a conflict for power. The Congress is always trying to define as exactly as it can, to set limitations on what the executive branch may do. It is trying to establish requirements and procedures. The Executive is always seeking as much freedom as possible--the word generally used is flexibility.

Take the Trade Agreements Act. First, the Congress gave the President authority to lower tariff rates within limits in a reciprocal trade agreement. Over time, the Congress has steadily added peril point procedures, escape clause procedures, special treatment of defense products, and so forth and so on. All these provisions could be done by the executive branch and some of them were already in use.

They didn't necessarily have to be told to do them by the Congress. Nevertheless, Congress wanted to write them into the legislation. The executive branch always wants fairly general authority so that it can maneuver and deal with each problem on a sort of rock and roll principle. This is particularly true when negotiations with another government are involved.

Take the East-West Trade case. Congress wanted to establish absolutely flat rules as to what should be done if certain types of goods were shipped behind the Iron Curtain by the countries to which we were giving aid. The executive branch said, "Sometimes such shipments may be necessary or reasonable. We are prepared to accept the principle, but we want some authority for the President to grant exceptions if he finds them to be justified."

This is the kind of conflict that is basic. We think of the checks and balances in our kind of Government, but actually the strength of relative positions changes from time to time. In the period that I have been watching and sometimes participating in Government action, I think it is fair to say that there has been a steady increase in the degree of governmental activity which has been directed by the Congress and less leadership by the executive branch of the Government. There are many explanations for this but the fact is that this is the trend that has been taking place.

If you want to see this whole process in operation, the supreme illustration in the foreign economic field is the legislative process with reference to foreign aid. Obviously this requires congressional action to decide how much is to be appropriated for this purpose. However, in considering how much money, it is very easy to add such steps as: What shall we require from the other party in return for this? What shall be the conditions of aid?

These considerations may go all the way from insisting on a fairly innocuous requirement such as that the United States shall have the right to have observers watch the way in which the aid is used, through to adding less related conditions such as that they must limit their trade with Russia. The conditions would vary with the nature of the question. For instance, when there was a famine in India, we finally sent wheat to India on a loan basis, with very generous terms. The question which received most attention by Congress arose because India had some rare earths which under her law couldn't be exported. There was a firm in Chicago that wanted them. How far should we

go in the law passed by Congress to say, if we were going to send wheat to India, India must agree to send some rare earths back to the United States, a quid pro quo operation. The basic question raised by such a case is: Are we sending wheat to India to get rare earths, to get political benefit from it, or what? In this case the Congress voted down the requirement that we must be given the rare earths, but they also did not give it up entirely. They wrote into the legislation a provision instructing the administrator to discuss with India the possibility of arrangements for rare earths to come to the United States. This was neither here nor there, but at least it was a way of compromising that particular issue.

It used to be true that Congress had certain strong leaders in certain fields. If you had a banking problem, there was no question but that Senator Glass was the person you talked with about it. If you had a foreign trade problem, there were two or three people you talked with. In foreign affairs, Senators Connelly and Vandenberg, at the time of their ascendancy, were the key persons to talk with.

If you are in the executive branch and are concerned with action by Congress, you testify before a Congressional Committee. The committee may finally vote 16 to 4 in favor of what you want. It comes out on the floor of Congress. Then there is a more general discussion by the members of Congress, many of whom have not gone through the detailed considerations which were discussed at the hearings. The fact that the committee may have combed it over carefully does not provide enough prestige to carry the legislation. Amendments are all too easily attached. The proposal is changed on the floor, frequently by people who haven't sat through the hearings and don't have the whole background.

I had a very interesting experience in developing Point IV legislation and trying to work it out with the Congress. After many months of work in the executive branch, we worked it over with the House and rewrote the whole legislation with the appropriate committee members. Then it went on the floor of the House and just barely slipped through, but without any significant change. It then went to the Senate, and it was apparent that House and Senate do not constitute a unit. We had to work it over once more with the Senate group, even though the program developed, as appropriation legislation normally does, in the House.

I haven't much time left and there still remains the part of the process after there is agreement within the United States Government--

namely, will it be acceptable to the foreign government? After all, in most instances, one or more foreign governments are involved in the final solution of the problem under consideration. Often, it may be necessary to get their acceptance and agreement. So again the problem of working out the final solution involves further negotiation and modification, and perhaps some degree of adjustment.

Incidentally, this raises a very interesting question about the point of: What is American policy? If you were a representative going to an international conference, you would probably have some fairly specific instructions worked out by a back-stopping committee. Depending on the kind of problem, these instructions would take different forms, but they might well say: "This is what we want. This is the No. 1 position. However, if you run into this and this obstacle, you may retreat to this No. 2 position. The absolute minimum the United States will take is the No. 3 position. If they offer anything less than that, you should withdraw, or at least not go along."

What is the American policy? It is the total set of value judgments, of course. Nevertheless, the public record could come out that we got No. 1; we might get No. 2; or we might get No. 3 as the only thing that is possible. In all probability, the public record will only show what we finally got. We don't want to say, and obviously it wouldn't make much sense to say, "We tried to get this much, but we only got this much." What any government likes to do in its public relations is to claim: "Look what we got. We got this much." It is almost impossible for the State Department to get full credit for what it really tried to do. It is obviously true in the international field that you are working with several governments and you have to adapt somewhat to the other side.

We have various ways of dealing with these matters with the different governments. Sometimes we can work out a quid pro quo--this for this. One of the difficulties about the quid pro quo is that frequently we are inclined to think in terms of quid pro quo when they really cannot be thought of as balancing each other. One confusion is when we set up a short-run act against the other country taking some long-term position.

There was no way we could buy the establishment of the European army, so far as I can see, for some price such as economic assistance. We might say, "We are going to take away your aid if you don't go through with the Army." "All right," the other country says, "we'll

go through with the Army." It then gets the aid, but a year later a quarrel breaks out about the kind of uniforms that should be worn in this army and the army never gets started. There is no way of enforcement with respect to this kind of agreement. If it is contrary to what the country regards as its interest, the chances are that the expected development will never take place.

The reverse of the quid pro quo is a sort of negotiation by ultimatum. This is also of limited usefulness. You say, "You do this or else." The difficulty with that is that any government finds itself in a very embarrassing position if it is apparent that it is being pushed around by another government. No people will support such a government. Ultimatum also undercuts those who sincerely believe in the action in the country. They then are charged with being "foreign agents."

What we are very likely to do is to set up a program with room for making exceptions. This provides a useful flexibility. The danger is that we may grant so many exceptions that we finally obscure and destroy the central policy from which you are making exceptions and the exception becomes the rule rather than the variant.

We do have some of these central keys in foreign economic policy. We certainly believe that the world is better off when goods are exchanged fairly freely so there can be specialization in different areas according to their skills and their natural facilities. I think it is pretty clear in our policy that we feel it is desirable for independent countries to maintain their independence and to improve their economic situation. We believe that some degree of improvement in the economic situation tends to bring some degree of political stability. We have these central objectives that relate to trade and aid and foreign investment. However, in individual case after individual case the danger is that the individual cases get solved without reference to the general policy or objective.

Really, what I have said is that, if you wanted to draw a graph of the formulation of foreign economic policy, you would put the problem in the center. As you recorded the development of the problem, it would look more and more like a pin cushion, with a tremendous number of different lines, or forces, or pressures coming in and trying to influence what happens in that particular case.

The Government has a special kind of responsibility in this field. Somebody has to stand up for the national interest as distinguished

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from a whole series of special economic interest. Those who are most concerned are these special interests and the general interest is not represented in our pressure groups. Therefore, the Government has the job of perspective. This is a job of broader policy and of broader judgment.

This doesn't fall on anybody particularly. It must be the Government with a capital G. It is the executive branch and the congressional branch; it is the people operating abroad and our people operating at home. This is perhaps as complicated an organizational problem as one can imagine. And yet, if you look over the period of time of the last 20 years, you will see in this field a pretty clear motion from one in which the Government left most of the activities in international economics free to move through markets and so forth to a situation in which governments--not only our Government but other governments--are a very important factor in determining what kind and what quality of international economic transactions take place.

I am just back from a trip through Asia, and I must say the Asiatics spent most of the time with me wanting to know what American policy is. I am not surprised they can't recognize it in Asia, considering the Asian newspapers and radio commentaries by which they are bombarded. But we do not always make it clear to ourselves. To be fully effective, it must be clear enough to be presentable and understandable. And actions and words must bear some reasonable resemblance.

We are challenged now in a new way in this field of foreign economic policy. The Russians are moving in, as you know, with proposals for various kinds of economic arrangements with many countries. Anyone who examines this situation can see at least one main difference, that is, that organizationally the Russians are in a position to move with much greater flexibility and with much greater speed and selectivity than we are. We don't have the totalitarian efficiencies with respect to dealing with a specific situation.

This, I think, may mean we will have to review and sharpen up a little bit some of our procedures for operating in the foreign economic field. This may mean, particularly in connection with the foreign aid program, that the executive branch will have to have somewhat freer authority than it has had in the past to move in and out of situations and to use a wider variety of economic arrangements than it has had in the past. It may need to make longer commitments than present authorities allow.

This pressure on us for improvement is probably a good thing. We haven't had to worry too much about our efficiency in the past. The American theory is that competition leads to efficiency. This will be perhaps another demonstration of the truth of the point, if competition in foreign economic relationships may lead to an improvement in the efficiency of our own operations in this field. We cannot escape the problems. We can only try to deal with them as wisely and as skillfully as possible.

Thank you.

QUESTION: You have mentioned the desirability of kind of sharpening the separate agencies dealing with this coexistence type of cold war with Russia. You have also mentioned the generalized board type of advisory committee with access to the President himself. Doesn't it appear we should sharpen up our overall coordination for this type of war? For example, have a full-time assistant to the President, with a joint staff from the interested Federal departments who could make coherent strategy so we wouldn't have to play this quite so much but where, as we go along, bring Agriculture, Interior, and all together with a comprehensive plan?

DR. THORP: I don't know how much I can say on that that would be useful. You are asking pretty close to the 64,000-dollar question, so far as organization is concerned.

The real dilemma here is that if you try to set some people off as a sort of global policy group, they may get too far away from the realities of the situation. The result is that you may get some sort of global policy worked out but it may prove not to be very meaningful when you get down to the particular case.

The problem is how to get some sort of overall judgment as to what our line should be and at the same time not separate it too much from the operating level. I think we have gone pretty far in the direction that you are suggesting now. At least within the White House we have various people who are working in terms of very broad areas. The President in the end is the central point for deciding when the decision is really on a global scale, and of course, he must have good staff assistance.

I am a poor person to ask about organization blueprints, because basically I don't have as much confidence as most people have in

organizational schemes and plans. I think it is perfectly easy to draw up the most perfect scheme with beautiful rectangles and the very nicest printing and it still won't work. And in another organization where nobody knows quite who is responsible for what, everything works out beautifully. This is because the atmosphere has developed for coordination, for people working together and recognizing the interest of other people in their problems.

I would think that at present it is much more a matter of having people aware of other people's interest and concern in problems than it is of changing the structure. We have a pretty good centralized structure in the White House, but my impression is that more agreements could be reached by departments before the White House is called into action. I doubt if a global policy group would be able to add much. It might even confuse the picture.

QUESTION: As a baby internationalist, I would like to ask if you would tell us how you answered the Asians when they asked you what is the American policy of economics foreign policy?

DR. THORP: Usually I had much more time than I can take now, and it can be quite a long story. I tried to explain that the United States believed that most economic developments were of value in both directions. When you sell something to somebody else, the fellow that buys it benefits from it and you benefit from it. There is an improved arrangement of goods when you exchange them, and both sides are happier. I tried to point out that the resources of the world could be much more productive than they were, but this involved the exchange of goods and the distribution of capital to the most efficient places; that this is something good for them and for us; not merely a selfish policy of the United States; that an effort to reduce barriers to the flow of goods and resources made a sensible world policy.

Much of what I said was merely explanatory about the United States economy itself. In Asia the feeling about the United States is fairly critical along what one would think of as the fairly standard Marxist line--we are on the edge of a depression; we can't have a good economy without a basic armament industry to keep us going; we have had a great period of growth, but all capitalistic countries rise and fall; we are on the verge now of stagnation and decline; that we have to have foreign markets to keep going since we have surpluses we must ship out in order to keep full employment at home.

It was rather unexpected to get questions like: "Is it still true that 50 families are running the American economy?" One wonders why that is the current question in Asia, until you realize that there haven't been many books on the United States going to Asia since the late 1930's. They did not go during the war. After the war, they couldn't afford to buy them. Their knowledge is very limited concerning the United States today. The last material which was widely read about the United States in Japan and India tended to be depression literature and muckraking literature. More currently, they think of us as being mostly interested in them for military purposes.

While we can't deny that we are interested in them for military purposes, the argument is whether this is "mostly" or not. Certainly the kind of evidence they had is a little difficult to answer because we so often use the military justification even for nonmilitary programs. In fact, we use it to such a degree that when it is reported to them, it seems to be the exclusive interest that we have.

QUESTION: Since the war, the United States has given away many billions of dollars throughout the world, and, although there might be some discussion of why, probably because of the United States feeling that we must feed and clothe every underprivileged person in this world. Yet in trying to get money from Congress, we try to justify this as being our own gain. Then we go constantly in the rest of the world and say we are not doing this because we are good, but we are doing it because we see some benefit to us. My question is: Don't you think we defeat ourselves by not saying we are giving you this because we like to do charity rather than that we are getting some gain out of it?

DR. THORP: This is a very good point and I think I agree with your point, except that you can't go out there and say something you don't say at home. Only the Russians are able to do that. They can talk differently at home and outside. We don't have the system to keep these things neat and tidy.

I think one has to recognize that Americans are boy scouts at heart. The Point IV program went through Congress in the end because of the support of the church groups in the United States who, out of their long missionary interest, and so forth, rallied around. This was something they felt was a good thing to do.

But it is not quite as easy as this sounds to get this idea across. We are rather different from most of these other countries, in that

we recognize that being a boy scout is a respectable way to behave. In many countries in the world, if people were walking down the street and somebody collapsed on the sidewalk, they would walk right on by for an hour or two hours with nobody stopping, without the slightest interest in that person.

In Japan a woman had a fit or something in front of the home of some top diplomatic people. The servant was told to go out and bring that person into the house. The servant refused. She said, "If you do that, you will become responsible for her. You will have to pay the doctor's bill. You will have to keep her here. You will have taken the responsibility." Finally, she had to flatly order the servant to bring her in.

As to foreign aid, I tried to explain our multiple purpose--political, economic, and even humanitarian. And I tried to point out the possible dangers of too close a relationship with the Communist countries, where the extension of their sphere of control is their armed purpose.

QUESTION: It seems to me and many of us in Defense that a lot of White House influence, not necessarily good, is exercised through the Bureau of the Budget in policy formation. I was wondering if you would give us your views on the Bureau of the Budget in policy formulation.

DR. THORP: I am not up to date on the Budget Bureau although I lived with it for seven years. The Budget Bureau has a function that is very real in terms of the area of spending, the way in which money is spent, and in terms of seeing that the different agencies are doing their right share. I have always had a question as to whether the Budget Bureau should play any important part in terms of policy decisions.

The Budget Bureau staff should be a specialized staff in management and in organization, and it is not a specialized staff in terms of theories and policies. I have had some feeling that at times the Budget Bureau has moved too far in this field. I am not sure that this was not in part because there wasn't anybody else doing the job and the President may have called upon the Budget Bureau to resolve policy problems from time to time. But now that the White House is developing its specialized policy staff, I think that the Budget Bureau should do a narrower job, but it is an important job.

QUESTION: This international trade has always been handled by international balance of payments, which I have never really understood. We have this dollar-trading area, the sterling block, and so on. Would you discuss the problem in relation to trade expanding beyond those areas toward a more free world trade and, if you care to, discuss what will happen when the Russians hop off into the pool, too?

DR. THORP: You are making the area pretty large for coverage here. There is a basic problem in the world that has come out of the war situation. The heart of it really is that certain areas increased their wealth and their ability to produce during the war and certain areas lost ground. International flows of goods and services were thrown very badly out of balance. Ever since the end of the war, the deficit areas have kept going by cutting down on what they bought from abroad and by receiving aid. This is the way the situation has been balanced.

Europe has spent in the United States whatever it could earn from the United States. However, they wanted a lot more than that--the people in Europe did--so governments put on import quotas limiting what they could buy from the United States. We have also provided them with some aid. So in this way we have kept in balance and trade has gone on with these two major adjustments.

Trade has been freer among the European countries. They have taken off most of their quota barriers against each other, but they have still kept them up against the United States. They have been able to keep their trade with each other fairly well in balance, but they still feel their dollar earnings are not enough to pay for what their people would buy from the United States if the limitations were off.

The sterling area is another grouping within which trade takes place with less restrictions. A person in India can buy things in the United Kingdom that he can't buy in the United States. This is possible because they have the means of making payment in the United Kingdom and they haven't for making payment in the United States.

By trying to encourage production and trade, the hope has been that sooner or later the sales by other areas to the United States would increase enough so that we could stop giving aid and they could stop limiting the purchases of their people. This is one of the strong agreements for tariff reduction.

My own guess is that the world is moving into an intermediate stage that is going to last a long time. It won't be the happy, free economic world of convertibility that all of us hoped would emerge after the postwar transition period. On the other hand, we are not going back into an autarkic world. We are going to be in a world of shifting controls. Some countries will be able to ease them; some countries will have to put them on from time to time. This is likely to be the normal pattern looking ahead, with trade controls tighter or loosening, depending upon how trade is going between a given country and another country.

So far as Russia coming into the picture is concerned, this is a fascinating business. What has happened is that Russia has apparently decided that she has reached the point where she will be better off selling machinery to the rest of the world and buying agricultural materials. This is probably true. The strange thing is that the Soviet system is quite efficient in building up industry. It is easy to run a factory on dictator technique but out on the farm it is a lot harder. The same techniques that operate in the factory don't seem to work on the farm. The result has been that Communism is a much more efficient device in the production of manufactured goods than in the production of agricultural goods. This throws you back to a simple economic theory, the theory of comparative costs. If this is true, the smart thing for Russia is to make manufactured goods and trade them out for agricultural goods that somebody else produces and produces a lot better.

In terms of relative efficiencies and comparative costs, we could have the situation in which the United States, the greatest industrial country in the world, found it profitable to send agricultural products to Russia and get machinery back from Russia.

This is happening, but in the rest of the world. They are buying rice from Burma and sending machinery of one sort or another to Burma. This is a new development. I don't think it will have a major impact on us economically in my opinion. We don't want the agricultural products which the Russians are buying. Its main difficulty is for Europe because Europe probably would have supplied the machinery. It doesn't matter to us much if our export markets don't expand. It will never hurt the American economy. We would hardly feel it. It will make a difference to Europe. This is a fascinating new development. The Russian development is probably a greater threat to the European economies than it is to us.

**QUESTION:** Referring to your successive retreats in dealing with foreign governments, it is hard to reconcile. Why shouldn't we have the boy scout creed pointed out to the people of the world and what our policy should be. The Communists have a policy. Shouldn't we have something to counter that?

**DR. THORP:** Yes, I think we should do a lot more talking, but not so many different speeches, not so many different kinds. One of the difficulties is that somebody sitting in India reads a speech by any one of the 96 Senators, and it is America speaking. The 96 Senators make quite different speeches. Part of the educational process is to convince people of who speaks for the United States, or that the United States must not be judged by speeches at all, but by what is done.

This is a difficult problem, how to get some sort of unified American speaking in these countries. We have had one or two exceptions where the Ambassador has decided to move in and do a lot of talking. Then, of course, you have the problem of who the Ambassador is and how he would handle it. But it is hard for us to transmit the kind of posture that we think is ourselves.

I was continually amazed in Asia by people who had notions about the United States. Let me show you one. Our policy in Japan was to break down the big cartels. We got them broken down but they are coming back again. That's another story. The Japanese thought we wanted to break down the cartels for the purpose of weakening Japan. They had no appreciation of our notion that a competitive situation means strength and better progress than does a monopolistic one. They interpreted the anti-Japanese policy in the sense of trying to weaken them, parallel to the demilitarization and reparations policy in Germany, which was clearly one to weaken Germany. This was the kind of case where even General MacArthur failed to explain to the Japanese what he was trying to do. We failed to get across the basic explanation as to why the cartels were being broken down. In fact, the Japanese feel that our various policies for decentralization, intend to weaken power centers and promote democracy, were simply efforts to weaken their whole society. We believe that decentralized government, industry, education, and power in general, is a source of strength.

**COLONEL ECKLES:** I regret our time is up. Dr. Thorp, on behalf of the College, I thank you for your very excellent lecture and question period. Thank you very much.