

ECONOMIC STRENGTH AND NATIONAL POWER

27 March 1957

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Honorable Barry Goldwater, Republican Senator from Arizona, was born 1 January 1909 in Phoenix, Arizona. He received his education in local public schools and attended the University of Arizona. He started with Goldwater Enterprises in 1929 and is now Chairman of the Board. From 1948 until 1950, he was a member of the advisory committee on Indian Affairs, Department of the Interior. He entered politics in 1949 when he was elected to the Phoenix City Council. He was reelected in 1951. He was elected to the U. S. Senate in 1952. He is presently serving on the following committees: Senate Interior and Insular Committee; Subcommittee on Indian Affairs; Subcommittee on Territories (presently hearing Alaskan statehood); Senate Committee on Labor and Public Welfare; Subcommittee on Labor; Subcommittee on Veterans Affairs; Joint Committee on Economic Report; and Select Committee on Small Business. Senator Goldwater served in the U. S. Army and later transferred to the Air Force. At the present time he is a qualified jet pilot and holds the rank of colonel in the ANGUS. He is Chief of Staff of the Arizona Air National Guard. He is a firm backer of the National Guard and is also in favor of the new military pay bill as a means of retaining qualified personnel. This is his first lecture at the Industrial College.

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GENERAL HOLLIS: Admiral Wooldridge, Gentlemen of the Joint Colleges: In the continuing struggle between the Communist bloc and the free world, the United States has sparked the revival of free Europe and other parts of the world. We did this not so much because we are kind and philanthropic people but because we have realized that our own security is eminently bound to that of the free world, both militarily and for our economic well being.

Our speaker this morning, Senator Barry Goldwater of Arizona, will talk to us on the subject of "Economic Strength and National Power." Senator Goldwater was until recently a member of the Joint Committee on the Economic Report, and has had a continuing interest in the study of the relative economic strengths of the free world and of the Soviet bloc.

The Joint Committee was responsible for the preparation of an excellent report entitled Trends in Economic Growth: A Comparison of the Western Powers and the Soviet Bloc. This document contains a wealth of information which is altogether relevant to the focus of interest of both of these Colleges, and I suggest that it is well worth your scrutiny.

My first acquaintance with our speaker of this morning was when I saw a pilot checking in last spring at Tinker Field Air Force Base in a rather beat-up flying suit with Goldwater across his chest. I thought, surely not. But, as it developed, he had just flown in in his own T-33, which is, if not a unique accomplishment in the United States Senate, at least an unusual one.

Senator Goldwater, it is a great privilege to introduce you to the two classes this morning.

SENATOR GOLDWATER: Gentlemen, it is a great pleasure to be here with you this morning. I am glad that when I met the general it wasn't the previous occasion that I had experienced at Tinker Field. When I got out of the Air Force in order to get into the Air National Guard, I took a reduction from colonel to captain. I had flown in in a P-51 one day and was standing at the desk writing out a clearance.

I had on this same beat-up suit and my gray hair. I noticed this young second lieutenant by me filling out another form. He kept looking at me and at my captain bars. Finally he said, "Pardon me, Captain, but just where did you screw up?"

I am happy to be here this morning for many reasons, not the least of which is the great pride that I have in what this institution is doing, not only for the future of our military, but, more importantly, I think, for the future of our economic system and the future of our way of life. I imagine there are many men in this room today with whom I served. I wouldn't be surprised but what there are some of you who were cadets when I was teaching squadron duties, and now you are up here ready to take on jobs of much higher responsibility.

If my talk today sounds a little political at times, I must remind you that politics have become so entwined in the economic system and in our daily lives that it is almost impossible for a person to speak on economics, or military strength, or national policy without injecting something that might sound like politics. I will certainly keep away from partisan politics, but, if I do sound a little political at times, it's just because of the nature of the subject.

Economic strength has become recognized more since World War II as an instrument of national policy than it ever was before. I don't really think that we in America understood either military force as an instrument of national policy nor economic strength as an instrument of national policy until we experienced World War II and then experienced Korea.

Of course we had Great Britain in history to look to, with her great hold on the world's economy and the way in which she exercised sea power to maintain that. We have seen sea power disappear as the pivotal source of strength--and I say that without disrespect to the Navy people present, because air power is certainly a part of their responsibility, just as it is part of the responsibility of the Army, the Air Force, and the Marines. But today we find concentrated in the United States the great sources of air power; therefore we find the great sources of economic strength. One of the reasons we have that is because of our ability to transport by air.

Now this economic strength that we have I think can be used more today in this age for peace than at any other time in the history of the world, if we understand it. If we don't understand it, if we don't

recognize the real nature of our economic strength, then it possibly can lead to war just as fast as it can lead to peace. And I feel today, as a citizen and as a United States Senator, one who is interested in military and economic affairs, that we have peace this morning chiefly because of great military strength strategically located around the world, and because of our great economic strength within the confines of the United States and the growing economic strength of a few--not enough--of our allies.

Along with this thought, I don't think there has ever been a time in history when one country required its military leaders to know economics as much as we require you gentlemen to know them today. You may wonder why I made that statement. I will get to that in a moment. But, leading to that, I think it is necessary that we recognize the three essential sources of American strength. I want to mention them. I don't want to discuss all of them. I just want to discuss one of them. We have, as you know, three basic fundamental sources of strength in this country that have made us the world leaders that we are. The first one, of course, is the spiritual strength of our people, the fact that in the Declaration of Independence we recognize that the source of all our rights and freedoms stems from God. That fact has been adhered to down through the nearly 200 years of our history, and has given us a people who are unique in history. Never before in the history of the world has this source been recognized. Now, mainly as a result of that, because of people recognizing the dignity of man, the dignity of the individual, and the application of freedom in its freest terms to the individual, we have grown into a giant and a strong economic nation--or, you might say, a material nation.

The basic difference, as you study, between our philosophy and Russia's philosophy, our enemy's philosophy, is the dialectic materialism of the Russians compared to the spiritual approach of our own. There is a danger in this country at the present that we are drifting into the material concept and away from the spiritual concept. I don't think there is much danger of it, though; as long as we have family life in this country and people growing up under the teachings of fathers and mothers, we can retain that spiritual strength.

Another source of strength is the military. I want to discuss only economics with you today. Certainly I assume that everybody here recognizes the spiritual source of our strength, and certainly everybody here recognizes, is interested in, and knows far more about our military source of strength than I do.

I think that we can safely say that, with the growing interest in materialism in this country--although I recognize it not to be an extremely dangerous thing--we must recognize that a lot of our citizens don't really understand what the free-enterprise system is and how it operates and what we must do to keep it operating. I have a little story I tell about free enterprise which is probably the quickest explanation of it.

Three gentlemen died at precisely the same moment--an Irishman, a Negro, and a Jew. They ascended to the Pearly Gates in perfect formation and hit the gates at the same moment and were met by Saint Peter. Saint Peter said, "Fellows, it's a good thing you got here today. I am in a jovial, expansive mood, and I will give you one wish apiece." The Irishman said, "Saint Peter, I want enough Irish whisky to last me all through eternity." He got that. The Negro said, "Saint Peter, I had a hard time when I was on earth. I was segregated, I couldn't get any education, and I couldn't get work. I want a big mansion with pillars in front of it. And I want 14 white servants, a solid gold Cadillac, and \$2 million." Saint Peter shook his head, but he said, "All right, you may have it." Then he turned to the Jewish boy and asked, "What do you want?" The Jew said, "Saint Peter, all I want is \$30 worth of costume jewelry and that colored boy's address." That's a quick explanation of it.

Now, I mentioned at the start the importance of you people in the military knowing about economics. I think if we look at history we can see a lot of danger wrapped up in the situation that we live in today in the United States and in other countries, whereby the very nature of the world situation is such that we have to maintain strong military forces, where we find the military budget greater than the domestic budget, where we find the military man coming more and more into the dictating or controlling of the operations of not only the military but the economic life of the country.

Historically--and you military people can't deny this--I don't say it in a critical way, I say it in a warning way--this has not worked. Historically it has wrecked a lot of countries. I think that, with the approach we are using in this country today, and which many of our allies are using, we can overcome the tendency to eventually let the military take over all operations of Government. That's why I think it is necessary that you continue your studies and your interest in economics even up to the point where they equal study of military tactics and strategy and the maintenance and procurement of equipment.

Let's not have history repeat itself as we go ahead in trying to preserve peace. Wars of the future are going to need economic power. We have won our wars of the past, although we have lost a lot of them at the peace table. We have won them through the strength of our youth and the strength of our trained military leaders; and, as important as either of those, through our ability to produce. We can produce more for war and for peace than can any other nation in the history of the world.

Speaking of history, I think it is necessary that we look at history and recognize some of the things that might be facing us today, recognize that some basic laws never change. The economic laws never change. The law of supply and demand, whenever it has been tampered with down through history, has resulted in chaos for the country that has tried it and, I might say, it has led to the downfall of more nations than has any other single source.

You can go back to the days of Hammurabi. You can go to Babylon and Egypt. I think that the most spectacular example probably would be Rome, where, through the desires of the people to lean more and more on the government and have the government provide more and more for the people, eventually the government was doing everything for the people, and they had to have controls. When they tried to tamper with the law of supply and demand, the Roman Empire fell.

It was an interesting thing to me last year during the debate on the farm bill to realize that the farm bill that we were debating, with the exception of the language, was pretty much the farm bill that started Rome on her final decline. I don't say that in a way of warning. I say it to remind you gentlemen that history has to be studied. We are not living through any different period, with the exception of the introduction of the atomic and the nuclear bombs, than people lived through on the banks of the Nile thousands of years ago when they tried to do the same things. My purpose of injecting that at this point is merely to try to point out to you that, as you progress in your studies of economics, in your application of military problems to economics and economics to military problems, you must remember that there are some fundamental laws that cannot be changed, regardless of how much you think they can be changed. Every time that has been tried, it has resulted in chaos for the country involved.

Now, our system of free enterprise, our capitalist system, our profit system, or whatever you want to call it, which I don't think is

understood as completely around the country as it could be, is based chiefly on this thing we call freedom. It is based on the freedom of the individual to invest his money and to make a profit on it; freedom of the individual to go into any business that he feels he is capable of handling--or, if he wants to feel incapable, he can still go into it. It is the freedom of people to be rewarded in proportion to the amount of work they put into their jobs--the incentive plan. In other words, it is the feeling basic in all Americans that they want to be at the top. If there are five stars at the top, they want five stars. That is why there has always been keen competition in American business and American life.

Now, when governments step in and say, "You can't produce that; you must produce this; we will compel you to spend more and to save less; we will tax you and take away the great part of the extra earnings you make as the result of extra work," beware. Gentlemen, as you go on through life, when we people on the Hill start talking like that, you come up and tell us we are off base; tell us to get back on the track.

This free-enterprise system that we have here--and you've heard this time and again--has produced more than any other system in the history of the world. It has produced it because of this freedom, because of the fact that people can invest and do invest, and can make profits, and do make profits, in spite of the fact that making profits today is frowned upon by some of our later-day thinkers, who would rather see us in a socialist path than in the old path of free enterprise and capitalism, or profits. Many people have the false conception that the Government can provide this wherewithal, this capital. One thing you have to remember in connection with our system is that money can be printed, but capital has to be saved. Money can be printed, but capital has to be saved. Now, the ignoring of that fact has resulted in some present problems in our economic system.

I am at the present going through the economic problems and virtues of our own country before going into the same fields in other parts of the world. One of our biggest problems at the present time is inflation. Inflation is nothing new. It is really nothing serious or dangerous, if it doesn't get out of hand and out of bounds. We can expect a normal inflation of the currency in this country, I would say, an inflation of something like 1-1/2 percent to as high as 3 percent, varying with the years. That has been historic down through the years. When we begin to lose control and inflation gets out of hand, we find

ourselves in the situation where we were late last year, when we were short in many areas of supply and extremely long in money; and where bidding started to take place in the market place, so that the Government had to step in, in one of its few rightful roles, to regulate the credit and the discount rates, so we were able to slow down and get the economy back into some semblance of balance--to where the building supplies, in particular, came back into some semblance of order.

One of the results we have had in this recent inflation--and let's not kid ourselves; we have had it--has been an actual reduction of available spending money in this year. You will read in the economic report which one of the committees I am on puts out each month that consumer buying power, as displayed there by disposable income--which is income after certain deductions have been made--is about 2-1/2 percent higher now than it was this time last year. When you realize that the cost of living index has gone up 3 percent, you see that we have about 1/2 percent less money to spend. You add to this the fact that enthusiasm in the past 24 months has created an ability in this country to produce about 4 percent more consumer goods than we produced a year ago, and we find ourselves in a little bit of imbalance. I don't think it is serious. I don't think that 1/2 percent, or 1 percent, or 2 percent, or even 5 percent is anything to be concerned about. It does show you what this subtle inflation we have had has done to the available capital for the coming year.

What caused that? Here again we are in this situation because we put some unnatural forces to work in what should always be a natural operation. We had two basic causes of this weakening of our currency, or inflation. One was the unwarranted increase in the steel industry with no accompanying increase in productivity. In fact, an actual decrease has occurred in the American man's productivity during the past several years. That resulted in only one thing, higher prices in the steel industry, which has more effect on the prices of things in America than has any other basic industry. When we add to that the fact that Congress, a year and one-half or two years ago, raised the minimum wage rate from 75¢ to \$1.00, when it should have gone only to possibly 94¢ or 96¢, we put those two factors together and find this inflation that we are confronted with today.

One other problem we have which has been a result of the false concept that the Federal Government can do a lot in the field of economics has been our continued deficit spending. Today we have the largest deficit that we have had in the history of our country, and we are faced

with the probability of its getting even larger. That has no great immediate effect unless you are a retired person, unless you are living on some annuities or on some retirement plan. It raises havoc with that type of person. It is a future danger. However, any recession or any adjustment of the economic system at the present time, with such a large deficit, could result in rather chaotic conditions.

This, of course, has come about, as I said, through the fallacy of Government spending, through the idea that the Government can spend this country into prosperity, the idea that the Government can relieve depression completely. I will show you the fallacy of that. I made a study of the effects of Government spending between 1932 and 1939, using 1932 as 100. No indexes that I used, with the exception of personal income--and that came about as the result of the normal inflation that we have--reached 100 until the actual threat of war occurred in late 1939. During that time the Federal Government spent about 52-1/2 percent of its total budget on what we would call props or crutches under the economy.

One of the dangers of this approach is that there is no way to measure the effects of Government spending, and there is no such thing as profit from Government investments. In business we go out and invest our money, and at the end of the year we can look at it and see that X number of dollars produced X number of dollars, and a certain amount of that profit went back into the stream of capital. But the Government takes money and invests it in war equipment, which is material and hardware for war. That does not remain in the United States entirely. It does not have any earning capacity. So we can't say what effect Government spending has, other than to say that \$44 billion goes into the blood stream of American commerce, which is not true when you break it down. We don't know exactly what the effect of Government spending is, except that a continuation of it under deficit conditions can raise all manner of havoc with the entire approach.

To show you that this is not just an idea that is carried by American economists, there was an interesting little editorial in The Economist, which is printed in London, in the February 9 issue of this year. I will just read one sentence. It points up what happened in England and what could happen in any free country if this is continued.

"The dilemma is that the expenditure of the nation's means on other things, on consumption, on social programs and the concerns of government, including defense, has not left room

enough for the necessary high volume of investment in production."

In other words, there has not been the volume of savings to finance it. That type of spending results in lowered savings; it results in lowered private investment; and it will ultimately result in government operation of business if it is not checked.

To solve these immediate problems that we have here with us today, I would like to just make these suggestions:

We should first confine the Government to its proper role in the--I don't like to use the word manipulation so I will say--control of the currency, to the use of the Federal Reserve powers, to the best of their ability, to put checks where checks are needed, to open the valve a little bit when an opening is needed; but not to assume that the Federal Government should be the great grandfather of all American business, that it can make up for the mistakes of American businessmen, that it can punish the man who is too successful and reward the man who is not successful and who should not be successful because of lack of ability. I think the Federal Government should immediately balance the Federal Budget and keep it in balance and, in keeping it in balance, reduce the deficit; and, in so doing, increase the purchasing price of the dollar.

When we have come into some kind of order out of that, I would suggest that we reduce taxes. If we do those things which are perfectly normal, which should be expected by any government, particularly your Government and mine, then we increase the incentive to American youth to go out and earn money. We have put a lot of road blocks in the way of young men today who want to go into business. The unusually high tax rates, the low profits, and the increasing graduated scale of taxes on profits are great hindrances to the young man in business who can make money, but can't make enough to pay back the banks and at the same time buy new inventory and new equipment. Reduction in this field, along with the other things, I think will do more for the economy of this country and for the peace of the world than anything that could be done at the present time. I don't think it can be done in the immediate future. It is probably an operation that will take 2 or 3 years; but I think we should have been in it before this, and it should be started.

One more area we have to explore in talking about our own economic situation is our allies' present and potential possibilities.

I don't want to go into this in great detail, except to point out to you the graphic example of Germany as what can be done in a country that goes to the capitalistic or free-enterprise incentive route. Germany has had one of the most remarkable recoveries in a postwar period of any nation in the history of the world. In fact I think it is safe to say that there has never been a nation in history that equalled Germany's output and ability to produce since World War II; and she was practically devastated. Today she has become a major factor in world economies, and she will continue to be so. We want to keep her as an ally, not just because of that, although that is one of the reasons, but also because she understands what we are talking about when we talk about our system of economics. And naturally we want to keep her for her great military ability.

England is a country that we have as an ally and must keep as an ally. She will be our natural ally at all times. She has had trouble getting back into the operation of a free economy. She has been in it; she has been out of it. I think she would like to return to it, but there's that old temptation. Once you've slept under the money tree and had those bills drop in your lap without working for them, it's pretty hard to get out and move in the sun where you have to work. I hope England is back on the right track. With some help from us she can continue along the path to economic recovery.

France, one of our historic allies, unfortunately has been rather slow in the development of a domestic economy comparable to what she had before the war. I believe that can be blamed more on her internal politics than on any lack of understanding of what will produce economically for her.

Our other allies are either in the condition of England or approaching the condition of Germany. Those are our chief sources of outside strength. Those are the ones I just wanted to touch on briefly.

Let's get into the field of Russia and her satellites. I am taking a correspondence course at the War College. They don't want us to call it Russia, but to say "enemy forces." But Russia is kind of quick to say, and there's no need to kid ourselves.

Russia has the potential of being the world's greatest power. She has everything materially in her favor. Russia's great population, plus the fact that she has more natural resources than any other one country in the world, makes us admit that she could be the world's No. 1 power. But she is not, for two reasons. One is her system of

government, which is communism, and the other is her system of business, which is socialism, with government planning, central planning. We can't ignore Russia in the economic field. On the other hand, Russians are not 20-feet tall. They have not come the great, great distance that many people in this country would like us to believe they have come. They still have a long way to go to catch us.

I want to cite you my reasons for saying that. In 1951 to 1956 the government planned that production in Russia would improve by about 9 percent per year. Since the five-year plan started in 1928, there has been an average increase of about 7-1/2 percent each year. In 1951 to 1956, instead of reaching 9 percent, I think we are safe in assuming that she reached maybe as high as 7 percent, and maybe as low as 6 percent. Let's be pessimistic and say 7 percent. I don't think, in view of the fact that Russia's increase in productivity decreased after World War II, instead of increasing, that we can expect her to maintain that high, increased ratio. I think it will probably level off at 4 percent, or maybe a little higher--maybe lower, but 4 percent is a pretty good figure to use. If they can hold 7-1/2 percent right on across the board, and if our increase drops from 2 percent to 1-1/2 percent, which it has done, by 1970 I think we can say that Russia would equal the United States in economic power. However, if they hold to the 4 percent, which I believe we can expect them to do, and if we maintain our 2 percent annual increase, which we certainly should do, then by 1970 their economy would equal only about three-fifths of our own.

To give you some more reasoning on that, there is a very excellent report of Dr. Nuter--I know most of you have read it--from the University of Virginia. He went to Russia and studied their system as broadly as an outside economist could. He published some of his findings in U. S. News and World Report in a recent issue. To give you an example of some of his findings in basic parts of their industry;

In steel in 1913 they were 21 years behind us. In 1955 they were 29 years behind us.

In electric power in 1913 they were 13 years behind us. In 1955 they were 16 years behind us.

In coal in 1913 they were 45 years behind us. In 1955 they were 47 years behind us.

In petroleum, crude petroleum, in 1913 they were 14 years behind us. Now they are 34 years behind us.

In natural gas in 1913 they were 32 years behind us. Now they are 52 years behind us.

Getting into some of the areas where people can buy:

In cement they were 19 years behind us in 1913. They are 32 years behind us now.

One of their greatest troubles over there has been transportation. It costs them 40 percent more per mile to transport goods than it costs us because they don't have much of a railroad system. In 1913 they were 33 years behind us in the production of freight cars. In 1955 they were 69 years behind us. Transportation is probably Russia's greatest hindrance in developing a real economic system, outside of the fact that the economy is pretty much state controlled.

There is one conclusion we can come to in analyzing the differences between Russia's economy and ours, and that is that she cannot now nor in the immediate future produce for war and for peace at the same time as we can--in other words, make butter and guns at the same time. It would be my rough guess that, if she continues her present increase in economic production, and if she continues under her present leadership, who are a bit on the overoptimistic side, we might expect some kind of world trouble between 1965 and 1970, because she might feel that she was strong enough then to risk the chance.

I don't offer that as a military wizard. I merely offer it as one who has been interested in the economies of both countries and who realizes that when the day comes that Russia feels she can beat us she is going to be over here. She does not have that strength now.

The satellite situation is one that is not encouraging to the Russian bloc. When the end of World War II came, she made trade agreements with the satellite nations to produce consumer goods for Russia. The heavy equipment production was retained for Russia alone, and consequently the satellite countries are now suffering terribly because of the fact that they have no heavy industry to speak of operating in their countries.

I think this can operate to our advantage. Many people say we can't trade with the satellite countries. I don't make the broad

statement that we should start immediately, but I do think we should seriously consider the advantages of trading with the satellite countries if we can assure ourselves that a minimum, and preferably none, of the materials would ever flow into the country of any enemy of ours.

Now there is an interesting point that comes up as we discuss Russia's potential, and I offer this merely as a hypothetical case, as something that you gentlemen can think about--because it can happen. I have grown to believe that anything can happen. You just don't say it can't happen. There is a possible alternative for Russia which has come to my mind within the last several years. We have to make some assumptions in arriving at this.

First I think we have to assume that communism is no longer a motivating force in their desire to be a world power. Don't take this as my gospel. I am merely citing something that I think could happen. We recognize that they have two-thirds of the world's people under their philosophy. They have gone about as far as they can go with the means they have employed. Let us assume further, if we say that is correct, that the only thing Russia is concerned with and interested in is world leadership. She tried to get it through the Communist method and has failed up to the present time. In wanting to become the world leader, she remembers what Stalin said--I think it was in 1924--to the effect that he would take the Western World without firing a shot but by destroying their economies.

Let us assume all of those assumptions have been accepted, and then say that they adopt capitalism instead of socialism. There is every evidence in the world to point to the fact that Russia today is accepting capitalism in some facets of her economy, particularly in farming. We find incentive systems being used throughout the factories. We find incentive systems being used for engineers and scientists. Those are things that came out of our concept of conducting a business.

Let us assume that at the same time that they make a flip-flop to capitalism we continue our rather drunken stagger toward socialism in this country. Again I remind you that I am merely suggesting this as a possible alternative. If that happens, if Russia is introduced to freedom by adopting capitalism in an increasing order, and if she would eventually say that if this is good in economic fields it is good in political fields, we might some day see the formulation of a constitution in Russia and freedom creep into her political philosophy.

If we allow our economy to become socialized and if we continue to look to the Government for sources of strength, it is not impossible to conceive that we can wind up by being the socialist country. What would happen? Russia would be the world power, which is just what she wants today.

There is one other avenue you can depart from in arriving at that rather wild-eyed assumption. That is that, if Russia does continue to go into capitalist ways and does develop a free country, a free republic, it will take many years to do that. Then we will have the situation of two great countries in the world, the two leading powers, having identical economic systems and identical governmental systems--if that could ever come. The question comes to mind, gentlemen: Don't we get back in the old situation where we might have to go to war to maintain economic power in the world? So we are in a situation like the one in which the snake eats its tail. You don't know where you wind up.

To summarize and to look at the world situation economically, as American know-how spreads around the world, as American machinery and equipment gets into other hands: There is no question that world production is going to increase. Competition is going to get stronger.

For example, I have been visiting Mexico all of my life. I remember in 1949 that the president of Sears Roebuck down there told me that 93 percent of the merchandise came from the United States. When that gentleman retired two years ago, I think he said that only 27 percent of the merchandise was coming from the United States. I have seen peons working a Warner and Swazey lathe, and all they had to do was, "Una, dos, tres, cuatro," and out came a shotgun barrel. It doesn't take a lot of intelligence to push buttons. So we can expect to find our own markets diminishing as we supply these machine tools to the rest of the world and as the rest of the world's economic systems take on our production-line methods; as we say to the people of the world who live in formerly uninhabitable sections, "Our medicines, our medical know-how, will let you live in these jungles, will let you live at these altitudes, will let you live where you couldn't live before." We are encouraging the increase of population and we are encouraging at the same time the demand of that population for goods; and it is only natural that they look to their own countries.

You may say, "What is going to happen to the United States standard of living if that happens?" If we do nothing about it, the tendency

will be for our standard of living to come down and for that of the rest of the world to go up. That to me is the great challenge that faces America. It is going to tax our abilities. Certainly it is a challenge to our scientists and to our engineers to develop better methods of production and to improve our equipment, to make more automation possible, and certainly to overcome what is one of the major problems facing our whole economic system, which is to recover more materials from poorer sources of supplies. You know through your studies that we have gone a long way toward depleting the natural resources of this country.

I can remember the day in Arizona in our copper mining when 10 percent to 15 percent, or possibly 20 percent, copper was not unusual. Today our mining is mostly done on copper bodies that go below 1 percent; so we are beginning to scratch the bottom. But the bottom is a great big, fat bottom, and we have to encourage people to get into the engineering of it, we have to encourage capital to get into the investment of it, so that we can go deeper and get more of these materials, even though the source is poorer and poorer. Of course we have to develop new sources of supply, new natural resources.

It is a challenge to workers of this country to increase their productivity. I don't think this is any time in our history when the working man can go back, because we have the workers of the rest of the world that have had a taste of our way of life and they want to improve themselves.

It is a challenge to the Government to recognize more and more its proper place in our economic world and to stay out of it unless it is in a proper action.

It is a challenge to capital to provide more investment so that the economy can continue to grow.

It is a challenge to the American people, more than it is a challenge to any other body, to know our system and to respect it and to adhere to it, no matter how beautiful the siren call of socialism might be or how wonderful it might sound. They've got to plug up their ears and sing the American song a little bit louder as they go by those black rocks on which those sirens sit; or we can get ourselves into trouble.

This certainly includes you, who are the military leaders of tomorrow. I want to close by reiterating what I stated at the first.

I don't think there's a group of people in America who have more responsibility on their shoulders than you people here today who are going to be the generals and the admirals of tomorrow. I think far more responsibility rests on you than on us, the members of Congress. I say that because I am convinced that in my lifetime and in the lifetime of my children, and probably in the lifetime of their children, this country is going to concentrate its economic efforts and its personnel efforts toward the maintenance of peace. To do that we must have a strong economic system and a strong military system.

You gentlemen will be the ones in the next years who will be coming up to the Hill to ask for money and to explain why you need it. I hope that, as you formulate your budgets, you keep in mind the fact that this is a life-long partnership now. It is not a war that has ended and has relegated you back to the dark days of the 1930's and the 1920's. It's a war that is never going to end in your lifetime or mine. It's a war that is going to challenge the best efforts of you and the best efforts of the citizens of this country to see that the military stays in its proper role, that the citizenry stays in its proper role, and that the economy of the country is maintained at a very healthy and high level of development.

It has been a pleasure to address these few remarks to you. I understand that questions are in order. I will be willing to answer any except on the black book we got from Mr. Brewster in Portland.

CAPTAIN MOTT: Gentlemen, Senator Goldwater is ready for your questions.

QUESTION: Senator, you suggested that the one avenue for Government influence in our economy, which is certainly a problem, is control of the currency. I should like to ask you to comment, sir, on the reasons why the Government control of currency apparently failed to stem the difficulties in our economy between 1929 and 1932.

SENATOR GOLDWATER: Well, we didn't have the full set of controls that we have today. We didn't have the Federal Deposit Insurance Corporation. We didn't have the Securities and Exchange Commission. The Federal Reserve operation was authorized, but it was never used; nor would it, in my mind, have been much of a restraining factor in the 1929 trouble. I don't believe, either, that, because we have Federal Deposit Insurance now, and because we have SEC, and because we have

a much more active Federal Reserve, we could have changed it much-- or let's say that we could not have had any more impact than I related through the spending of 52 percent of the budget.

Some of these so-called built-in protectors will protect certain areas, but they are the areas where probably the protection would be the least felt, particularly in Federal Deposit Insurance. In the amounts that they insure we don't find much saving at the present time. In SEC the economy has, I think, outgrown Wall Street and Wall Street's effect. You recall back in the late twenties that everybody who worked with you or for you had the Wall Street Report in his hip pocket as soon as it came out and he was going home to find what else he could put on margin to get a few more shares of stock. When the crash came in October 1929 it very seriously hurt people. Today we find great trust in the stock market. The union funds, much of the 4-1/2 billion dollars of the welfare funds, are invested. You find educational and religious trusts invested in stocks, where they don't particularly care about gains--what they are interested in is income. So, with that situation, I doubt that Wall Street itself would be much of a factor in starting a recession or a depression in this country.

That is the area we control mostly.

QUESTION: Senator, in the New York Times this morning James Reston referred to you as taking the lead in the movement against compulsory unionism. Is this the role that you believe the Government should take against organized labor?

SENATOR GOLDWATER: I believe that some element of Government has to take it. We now have on the laws in Section 14 (b) of the Taft-Hartley Act the right for the states to take that role. Eighteen states in the country have enacted so-called right-to-work laws that in effect say that a man can't be denied employment for membership or nonmembership in a labor organization.

Putting that in the national scene--and I am very much interested in having that happen in this country--I think it would be the most healthy thing in the world that could happen for the labor movement to get away from compulsory unionism in any form and to get back to voluntary unionism. Of the 51 member nations of the International Labor Organization, we are the only nation that in law spells out any form of compulsion that you have to belong. There are five other nations that, by elimination or neglect to mention it in their laws, we might say, have it

in their laws. But the great majority of the nations of the world have laws against compulsory unionism, and they have the greatest percentage of their labor forces working as members of unions.

I don't think it is right under our concept of government to tell any man that he has to belong to this organization or that. I think it certainly infringes on the First Amendment, on the Fifth Amendment, on the Ninth Amendment, and on the Fourteenth Amendment. If we continue it, I think it is going to work a hardship to our concept of freedoms, and I think it is going to be a hardship to the unions. I would rather see union leaders--and the majority of them are good men--not like what we have up here today--spending their time on improving their unions than see them spending the time they do on political activity. This has no relationship at all to wages and hours.

In fact I am told that in these new buildings of union organizations there are not even negotiating rooms. So they've gotten away from the original concept.

I didn't know the New York Times had that in it. I will have to read it. I don't usually see it.

QUESTION: Sir, I gather from your talk that you feel that if the economies of those other nations develop we will have more competition and therefore our economy will be depressed. There is another view which says that as their economies improve they will be better able to buy our products. This has to do with the values of the natural division of labor. I wonder if you will comment on that as a possibility.

SENATOR GOLDWATER: There are two comments I would like to make on it. I don't want you to get the idea that our economy would necessarily become depressed. I said if we don't do anything about continuing our technological advancements, and so forth, that our standard of living will remain the same or go down to meet the rising standard of living of the world. That could or could not affect our economic system.

As to the idea that as other nations develop their economic systems they can buy more from us, that is true up to a point. But we are also growing. Our population will be 200 million by 1975, and we are going to have a problem of producing more and more for our own people.

Then we have the problem of depleting our natural resources while the great majority of the world has not even begun to touch their

natural resources. So the proposition that you make would be true in some areas, but I don't think it would have any great effect. I think we would retain the same imbalance in trade even after those effects were felt.

That is one of the theories of the open-door tariff policy which I don't exactly agree with. We have an average tariff of only 8 percent and yet we are competing with countries that have average tariffs of 20 percent and higher against our goods. The problem is to continue to improve our own ways of doing things and keep ahead of the world. Let them copy those things, but tomorrow come out with better ones--keep building better mouse traps.

QUESTION: Sir, I recognize that it is difficult to assess the spiritual force that we have. I will ask this question in relation to conditions which exist now on the Hill and existed last year, as far as the racketeering is concerned. Why is it, since we have such a large, forceful spirituality within the United States, that it requires a senatorial investigation team on the highest governmental level to ferret out racketeers and crooks, and that only after that does it become apparent that the action changed long before?

SENATOR GOLDWATER: I think you have asked a question that involves two areas there. If you don't mind, I will answer it one and two. The first relates to the gas-bill incident, last year on the Hill. I happen to be a member of both committees, the one studying racketeering and the one studying lobbying and campaigning. We are about to finish that one up. Now, in any group, even in this group, when you get 10 men together, 1 or 2 of them are going to have a little lower moral standards than the others. I don't think we can ever hope to have everybody in this country on the same moral plane. Because of that, we find in Congress people who will take money. We find it in the state legislatures. We find it in the city councils. But I will say this about this Congress, that, after spending a year investigating these things, I think that they are away above the average in that respect. I don't think that the tendency to take bribes exists on the Hill. Remember this: Take my job. It is worth \$132,000 for six years. Who is going to imagine that they can bribe a job like that with \$500 or \$1,000, or \$2,000? Anything above that would be known immediately.

I don't think it is any great problem in this country. I don't think we have to write laws against that particular thing. I have come

to the conclusion, for instance, after a year of study of this, that, instead of trying to restrict campaign expenditure, we ought to throw the door open and spend all the money we want; we should just limit the amount each individual can give, and make reporting a little more strict than it actually is.

The average American is a very honest cookie. He isn't going to try to cheat you, and he doesn't expect you to try to cheat him. It boils down to a moral problem. If you want to be crooked, that's your own business. We can't write a law in the world that says you can't take a bribe, because, as long as they are printing that green stuff downtown and they can pass it around; as long as they are printing money in this country and they have tin cans, that kind of thing is going to go on.

The second question is on the present investigation into racketeering in labor unions. That has been known for years and years and years. We had no idea of the extent to which it went. For instance, I have been concerned for a number of years with just one small problem of the whole major problem, which goes on in every one of the towns you live in. It is this particular bit of racketeering, if you want to call it that.

Take the plumbers' union, and the plumbing contractors. They get together in, let's say, Phoenix, where this case is. They form an association. They call it by some other name, but that's what it is. The union belongs to it and the management belongs to it. You come into town. You are a plumber and a card carrier. You want to open up a little plumbing shop. You first have to belong to the association. You find that joining that association is pretty hard. In fact, they can keep you out. You say, "The devil with them. I'll start without it." You go out and take a contract to do some plumbing. You call the hall and ask for six plumbers. They say they can't send them to you because you are not a member of the association. Then they work to the end that they control and regulate bidding. Let's say there are five of us, and we are plumbing contractors. You fellows say, "Barry, it's your turn. You tell us what you are going to bid on this and we'll bid higher."

This is the kind of collusion and restraint of trade that has been going on, which I thought this committee would basically concern itself with. When we talked about the establishment of this subcommittee, the Governmental Operations Subcommittee was investigating purchases of military uniforms. They kept getting back to one fellow in downtown New York. No matter what direction they took, here would be one

fellow downtown in the garment section in New York. They found paper unions, they found paper manufacturers. They found a lot of shenanigans going on. They reported to our Labor Committee. We formed this joint, select committee which has made the disclosures. We think this job will take the better part of two years. I think what will come out of it will be laws that, as you suggest, we have known should have been enacted a long time ago.

Mind you, when you start to enact laws to regulate and control an organization as big as organized labor in this country, you run into the same trouble that we ran into in the days when we found big business too big and we had to regulate it through the Sherman Anti-Trust Act and other antimonopoly laws. They put the enactment of those off for a long time through sheer political pressure.

Now the political pressure is coming from the group that get laws enacted, and that's the people of the United States and the union members themselves. They say, "We don't like it. Make people report more accurately. Put some controls to stop this collusion and restraint of trade." There are many requests coming in now, in keeping with the Times article, to take away compulsory unionism.

In other words, you have a pendulum here. That's the way the laws run. You have labor here and management over here. It was away over on management's side for a time, then it swung completely over to the labor side. Now it's starting back down. Our job is to make it hang straight down and not favor either side. I think those are the kind of laws we will have come out of that.

QUESTION: Senator, would you care to give us your views on the immediate future of our foreign-aid program and the longer term prospects of the program in the United States?

SENATOR GOLDWATER: Yes. I would like to divide foreign aid, though, into three parts, in doing it, which, by the way, I think should be done, and I have suggested it to the Executive Branch many times-- military aid, technical assistance, and so-called foreign aid or mutual security funds.

I think military foreign aid, military aid, will be available in reasonable amounts--and I think they are reasonable today--for the future. I think technical assistance, which is the best approach, in my mind, to helping foreign countries, will be available. It is an

inexpensive way of getting foreign governments to realize how we operate. For instance, we have people from my state in Egypt and Israel now--in Egypt to try to teach them how to clean up the Delta on the Nile. Another approach would be to give Egypt two billion dollars and let them bungle along and see if they could clean up the situation, which they wouldn't do. Through our assistance of five men they are gradually getting it done.

On economic assistance, the third one, I believe we are going to have rough sledding. It is probably the greatest area we can cut in the budget. There is more question about what has been done with that money than about any other source of funds. About \$57 billion have gone overseas since 1946. Certainly in some areas it is done well. We can't argue that. But there are a lot of questions in our minds as we travel around and see what goes on with this money, see where no progress has been made. A growing sentiment in Congress is against that type of aid. As far as military and technical assistance are concerned, I think they will remain.

The unfortunate thing, as far as I am concerned, is that the Executive Branch will not allow us to split it into three so that we can vote. I would vote for military aid and for technical aid, and I would vote against economic assistance. If it is all going in one package, I will vote against the whole package. It is more important to keep all the money we can in the United States than it is to spread it around the world.

QUESTION: Senator, I am interested in your remarks with respect to dealing with the satellites. I wonder what you consider are the prospects for driving a wedge in the chink in Poland, and what the prospects may be of getting the private businessman into it.

SENATOR GOLDWATER: I am glad you picked out Poland, because Poland is one of the most recent countries to come to realize that a planned economy won't work--in fact they have admitted that it has practically wrecked the country, along with the negotiations they had to make with Russia.

I think, if it is properly handled with the Congress, if it can be pointed out to the Congress that, through private investments going into those countries, private capital, and the development of a heavy-equipment industry, we can actually break them away from the Russian

hold, that you can sell it to Congress. If you go flatly and say "We are all for trade with the satellite countries," then you always have the group who will say, "No; we will have nothing to do with anybody connected with Russia."

I am not of the school that says to go in and do anything for the satellites. I want to see that they are playing ball with us before we play ball with them. But, certainly, if there is a chink in the armor right there now, it would be in the economic interests of the satellite countries for us to trade with them. I think Russia knows that. I think she is frightened that we might step in and let our people trade in the heavy industries with those Iron Curtain countries, the satellite countries.

I would frankly like to explore it. I think it would be a very interesting approach. Our whole aim in our propaganda warfare and in a lot of our economic warfare is right at that. It would be an interesting thing to explore.

QUESTION: My question relates to the last statement. If the Executive came to Congress and requested certain amendments to the Battle Act so that they would give it more elasticity in view of the situation, do you think Congress would be willing to follow that advice?

SENATOR GOLDWATER: I think if it were properly explained to Congress, with time spent on the explanation, and if Congress could be appraised completely by the military and by the economic leaders of the country as to the probable results, it would receive favorable action in Congress. If it merely came up as a flat suggestion, without any substantial explanation, I don't think it would have a chance today of passing.

QUESTION: Senator Goldwater, considering the Federal Deposit Insurance, Social Security, and Minimum Wage, whether it be 94¢ or \$1.00, aren't those three actually deviations from the free-enterprise system? If they are, sir, what is a reasonable amount of deviation that our country should have?

SENATOR GOLDWATER: That's like saying you can be half-pregnant. It is a very good question. There is a question in my mind as to whether we deviate in two of those cases. I have operated under the SEC through corporations of mine, and I haven't found it to be any hindrance on free enterprise at all. The only possible hindrance is that it slows you down a little bit, when you want to sell stock. It might be better for some corporations to slow down and think of their prospecti.

In the Federal Deposit Insurance I think we might have an area where we can say we have departed from the free-enterprise concept. On the other hand, if the same conditions prevail in any coming adjustment of the economy such as prevailed in 1929, the FDIC could be a great blessing to the free-enterprise system. I don't defend it entirely; I don't damn it entirely.

The Federal Government has no business in the minimum wage field. It remains for the states to handle it. The laboring conditions are not the same in Arizona, for example, as they are in New Jersey. Nor are they the same in Georgia as they are in Washington. Add to that the Davis-Bacon Act which applies to Federal construction. For instance, that Davis-Bacon Act could add \$7 billion to the cost of building this new road system. That act says that rates have to be the same all over the United States. I can see some of my people down near the border who are very happy to make a dollar an hour just being extremely happy to be making \$3.00 an hour all of a sudden.

In answer to your question, I would say that SEC does not affect the operation of the free-enterprise system. FDIC does in principle, to some extent. And Minimum Wage certainly does. We have no business in it. We ought not to extend it. It is not the amount--it is the principle. You attack the Tenth Amendment, and the Tenth Amendment is one of the cornerstones of our whole Government.

QUESTION: Senator, I would like to refer to your comments on the governmental interference with the law of supply and demand, with further reference to farm support and farm parity. Are we not doing exactly what you said was an extreme danger for any prospect of our wanting to stop it in the near future?

SENATOR GOLDWATER: There is a hope, if we ever get people who really know agriculture to talk about it. We have more windshield farmers in the Congress than in any group in the world. The farmer is a rather vociferous part of a piece of our whole population. There are probably 6 to 7 million of them. They definitely control elections in the middle part of the United States and to some extent in the South. As long as they can vote, and do vote, and will not recognize the fact that agricultural programs only add to their miseries, they are going to have their miseries added to.

I have a perfect example of what you can do. Out in my country we grow long-staple cotton. It is the first place in the world that is

growing it of the same quality as that of Egypt. We had a long-staple under 90 percent parity and they were piling up the doggondest stockpile you ever saw. Nobody knows exactly what it is. It is something between 55,000 and 250,000 bales. The boys out there decided that they didn't want the Government in their hair any longer, so they assessed each growing member \$3.00 a bale for an educational campaign. They call this cotton "Supema" and you see it advertised in the magazines and the newspapers, and they have created a terrific desire for that cloth. It's high-priced cloth--you pay \$10 to \$15 for a shirt made of it. A woman's dress costs, oh, \$39 to \$59, or even \$100. It's about \$6 a yard over the counter. They have created such a desire for that around the country now that they have asked the Agricultural Department to go down to 75 percent support of parity and double their acreage, because they can see a situation developing this year where supply will not meet demand.

That's just one segment of the agricultural empire of this country. I think it's a very serious thing to continue agricultural supports, because what we actually are doing is, we are paying the great big, wealthy farmer more and he's getting fat on it, and the one that we are trying to help is getting hurt because his products can't be sold in the market and his parity--if you want to call it that--isn't parity.

They would be much better off on a free market, but, as long as there are politicians walking around, you are going to have agricultural aid. It's a sad thing to say, but it's true.

QUESTION: This question relates to the last one, but in a different field. There seems to be growing a pressure to provide the minerals industry a similar program to what we had in the agricultural field, with somewhat different justifications--primarily national defense being brought in. Would you comment on that, please?

SENATOR GOLDWATER: Yes. When the Government tended away from tariffs they took the only protection away that the mineral industry had in this country. It was at one time or another a large source of income for the Federal Government, but now, the way tariffs are, half the mines of the West are closed down. For instance, in my state, which was a fairly large lead and zinc producer, we have one mine open. The only copper mines that operate are the large ones, and they operate under a semi-tariff situation. Of course there are no gold mines operating, no silver mines operating. The mines of strategic metals, after the supports were taken off, closed down.

We do have stockpiles for all metals that can satisfy this country for a year or two during war. But the basic philosophy behind trying to get the Government to subsidize--that's an ugly word, but it is the truth--the mines is to keep them open until such time as they can compete with foreign markets. I come from a mining state and I would much rather see us put tariffs on--not high tariffs, but tariffs at the break-even point--so that we encourage good mining.

We have a rather fantastic situation right now on the Hill. We have a 20-year supply of tungsten in this country, stacked up around the country. We don't produce much in my state. We have \$30 billion in a bill to buy more tungsten--95 percent comes from 7 producers, and I think 96 percent comes from 2 producers. Finally the owners of the mines themselves said, "Forget about it. We are tired of the publicity. We would as soon not have it." That's the way these situations develop.

A little help, in the absence of tariff, probably is all right, particularly in the field of strategic metals. But we upset the natural balance when we take off tariffs and we invite the low-wage miners of South Africa to compete with our, not high-wage, but fairly-good-wage miners in America.

QUESTION: Senator, in discussing the importance to this country of our economic power, if I understood you correctly, sir, you mentioned that one of the factors of that power was that we can now transport by air. Without detracting at all from the importance and the convenience of air transport, I have always felt that it is still more economical to transport the great bulk of our material by sea and by rail. I wonder if you will comment on that.

SENATOR GOLDWATER: I am glad you gave me a chance to clear that up. Certainly air transportation is limited as to what it can carry. I mentioned this fact, and I should have elaborated on it. Great Britain became a world power because of sea power. Now we are a great power today because of air power--not whether it is the Air Force or the Navy--I don't want to get into that fight--but the fact that we have developed a great domestic air-transportation system. That has, if you want to say it this way, given the railroads more of an opportunity to carry heavy equipment; it has released more of their equipment. We developed an international air-transportation system that has not seriously affected the passenger-carrying capabilities of the ocean liners.

I merely wanted to point out that we have had happen to us what happened to Great Britain. Before Great Britain there was Spain, before Spain there was Portugal; before Portugal there were the Mediterranean countries; before them were the countries along the rivers of Asia. The countries that can dominate the means of transportation are the world powers. That has been true historically. I don't think it is ever going to change.

That is one of the reasons why I don't think that Russia is even close to us. She has no transportation on the ground, not much on the sea, and she certainly has nothing in the air to compare with ours. That was the area I was trying to confine myself to. I don't want anybody to go away with the idea that I think we could carry locomotives across the country by air or transport great cargoes across the sea by air. I was merely referring to the fact that we are dominant in the world today mainly because of our air power.

Does that clear that up?

STUDENT: Yes, sir.

CAPTAIN MOTT: Senator Goldwater, on behalf of both Colleges and the student bodies, we certainly thank you for an excellent lecture and a very interesting discussion period. Thank you very much.

SENATOR GOLDWATER: It is a great honor and privilege to be here with you. I want again to tell you how proud I am of what this school has done and how proud I am of you fellows who are here and who are going to be our future leaders. I hope to be around when you come up to the Hill and beat us over the head for money. I will have some of the answers.

(3 May 1957--4,000)O/jds