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THE FORMULATION OF FOREIGN ECONOMIC POLICY

28 March 1957

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Dr. Willard L. Thorp, The Merrill Center for Economics, Amherst College, was born in Oswego, New York, 24 May 1899. He received his A. B. degree from the University of Michigan in 1921, and his Ph. D. degree from Columbia University in 1924. In addition, he received his LL. D. degrees from Marietta College in 1935, Amherst College in 1949, and Albright College in 1950. He was instructor of economics at the University of Michigan in 1920-21, instructor of economics and social institutions at Amherst in 1921-22, and a professor of economics at Amherst in 1926-34. During his teaching days he was also on the research staff, National Bureau of Economic Research, 1923-33; chief statistician for the New York Board of Housing, 1925-26; and director, U. S. Bureau of Foreign and Domestic Commerce, 1933-34. In 1934 he was a director, consumers division, National Emergency Council, and from 1934 to 1935 was chairman of the advisory council for NRA. From 1935 to 1945 he was director of economic research for Dun and Bradstreet, Inc., and was economic advisor to the Secretary of Commerce, 1939-40. In June 1945, Dr. Thorp was appointed Deputy Assistant Secretary of State for Economic Affairs and was a member of the United States Delegation to the Paris Peace Conference, as well as being special advisor on economic matters at the New York meeting of the Council of Foreign Ministers in 1946. In November 1946 he was appointed to the position of Assistant Secretary of State for Economic Affairs. He was alternate United States Representative to the United Nations Assembly, 1947-48; Acting Alternate Governor, International Bank and International Monetary Fund, 1949, and has been United States Representative on the United Nations Economic and Social Council since 1947. Dr. Thorp is a member of several economic and statistical associations, and is the author or editor of some half dozen books on industry and economics.

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COLONEL ECKLES: Our speaker this morning is the Honorable Willard L. Thorp, the former Assistant Secretary of State for Economic Affairs.

Dr. Thorp has served his country on many occasions. He attended the Paris Peace Conference after World War II, and was a special adviser to the Council of Foreign Ministers' meeting in New York in 1946.

His subject this morning, "The Formulation of Foreign Economic Policy," is one that we are all vitally interested in.

Dr. Thorp, it is an honor for me to welcome you back to the College and to present you to this year's class.

DR. THORP: I don't suppose there's any place in the Government that's been reorganized as often as the State Department, with probably as little results. I think every time that I have known a practiced executive who has come into the State Department, he has felt that there ought to be some way in which foreign policy could be more readily determined and more predictable in its operation. I remember one time when the device that was selected was the idea that if we could only take each country and prepare a little book relating to that country and lay out in the book the policies that this Government had toward that country, then when any problem came up, someone could pull the book out, open it up, and there would be the answer; and this would greatly reduce the strain and effort and difficulty and inconsistency in the operation of foreign policy.

Well, there's a very simple reason why it's difficult to bring order out of chaos. The reason is merely that the problems which come into the State Department--and most of the problems, believe it or not, come in and are not manufactured in the State Department--these problems which come into the State Department come in with such a special combination of elements that the operation of foreign policy tends to be a tailor-made rather than a routine kind of operation.

Take a case about which I know nothing and therefore can speculate about very freely--the present problem that is being struggled over,

namely, what should we do about the Polish delegation that's here in Washington? I assure you I know nothing about this except what I have read in the papers, and therefore it's a good problem for me to speculate about.

The President said some time ago that we wished to help support Poland in its efforts to free itself, as far as it could, from the dominance of the Soviet Union. We've had a policy--I don't quite know what it means in specific terms--of "supporting liberation" that has been expressed over and over in this country. And so, more or less at our suggestion, the Polish Government, the present one, the Gomulka government, sent over to this country a delegation to talk about getting some economic assistance from the United States.

You might think that since we have been in the economic assistance business for quite a long while, with a lot of different countries, one could just look up the precedents and decide what should be done. But, as a matter of fact, there is an interesting variety of elements that enter into this problem which make it not quite so simple. I don't know whether all of these have been put forward or not.

The problem is in large part one of deciding on an amount; and here there is a wide range of possibility. The papers had talked about the U.S. officials thinking that about 25 million dollars might be a reasonable amount to provide. According to the papers, the Poles have asked for $330 million of aid. This breaks down into $200 million in food and agricultural products and $130 million in the form of a loan to be used for machinery--mining machinery, textile machinery, and agricultural machinery.

What kinds of considerations enter into this problem? I can't list them all, but can suggest a few. In the first place, Poland is a Communist country. To a very substantial degree, it is within the Soviet orbit. Whom will we be helping? Will we be helping the Poles, or will we be helping the Soviet Union? If we build up Poland, is this working in the direction of liberation or will this make Poland just that much more important to be kept in the Communist bloc? This is a political problem and not an economic problem.

There are also some interesting economic issues. I can well imagine the Department of Commerce, or maybe the Department of Justice, because the Alien Property Custodian is located there, coming in and saying:

"Now, look. After the war, the Poles nationalized the American property that was in Poland. They have never paid the American owners for it. We have never been able to work out a settlement. And so before the United States makes any loan to Poland, we jolly well had better get some kind of settlement on this American property that was nationalized by Poland."

This is a reasonable suggestion. Part of the functions of the Government is to protect American property abroad; and where do we stand if a country which has seized American property abroad comes over and then we give them aid?

Then in comes a representative from the Department of Agriculture and he says:

"It certainly would be fine if we could send some cotton and wheat over there. I think this is a good idea. After all, we have surpluses and this would help get rid of them. It's a nuisance to us to have all this extra wheat and cotton around. We would be delighted. Of course, Congress would have to authorize some more money, because we have run out of money for foreign disposal on a reduced price or credit basis; but that's your worry, not ours. But this request for agricultural machinery we're not so sure about. If we improve the production of agricultural products in Poland, then perhaps they will have more to export and will take away from us some of our foreign markets. The food is fine, but the agricultural machinery is not so clear. We'd better not help improve their productivity in agriculture."

The Department of Interior comes in and says:

"We're having a wonderful time at the moment shipping coal to Europe. One of the things the Poles want is some coal mining equipment. This 30 million tons a year that we are now sending to Europe might then be cut back. That would mean some unemployment in the coal mining areas in the United States. Let's not send coal mining machinery, because that would create a real problem here at home."

Then in come some of the other political area people in the State Department and they say:

"You are saying that India can have only $50 million, maybe $75 million. Are you thinking now of letting Poland have $300 million?

This is just going to mean that every country will say to itself: 'The way to get money from the United States is to tie up with the Communist bloc.' What kind of trouble are we going to have with India or Brazil if we find ourselves being very generous to countries that are more or less in the other camp, whereas the people that are either friends of ours or the people that are neutralists can't get anything like the same consideration from the United States? This is going to raise the devil with our whole foreign aid program if it gets distorted so that a lot of aid goes to the countries that are not particularly cooperative with us and therefore much less aid goes to the countries that are cooperative."

I could keep on spinning this out, for the problem has still more complications. However this is probably enough to indicate what I mean when I talk of problems not having a routine character. Many of them have a lot of angles. This is the number one basic fact that everyone working in economic foreign policy has to have in mind. You've got to have a fluidity in your position, because in each case a number of different objectives are present and they have to be balanced. You can't set this up and put it in an electronic machine and have the answer to the problem come out at the end. There are just too many special decisions to be made.

Even in the areas where you think you have everything nicely tidied up, problems suddenly arise that make life difficult. I suppose one of the really fixed things in economic foreign policy at any given moment of time, at any rate, is the tariff level in the United States. But a terrific amount of work has to go on continually in connection with the operation of these tariff levels, and sometimes the fact that levels are set does not answer the problem.

For example, we have a tariff on crabmeat coming into the United States. All of a sudden someone comes around and says:

"The tariff law says that nothing can come into the United States that is made by slave labor. We understand that the Russian crabmeat now being imported is the product of crabs which are captured by Japanese prisoners of war that are still held by Russia and are working on the crabbing ships or however one gets these particular crabs."

The problem then is not just a matter of tariff calculation. It becomes one of: Are the alleged facts true? If so, is a Japanese prisoner of war to come under the category of slave labor or not?

When one is talking about economic foreign policy, or any element of foreign policy for that matter, there is no possibility of saying: "This is it." This is a moving body of treatment of problems. But we can say certain things about it nevertheless. You can say that we have certain objectives. If you want to break the notion of policy down into objectives and how you try to get there, there are certain objectives in the economic field that would be fairly well agreed on in general. They can be stated in very general terms, but for every one of them there would be people that immediately would want to add a lot of parentheses, conditional clauses, and footnotes.

In general any country--certainly it's true of us--tends to have as a basis for its foreign policy an extension of its notions about domestic policy. That is, in foreign policy you can't deviate very far from the fundamental notions of your domestic world and your domestic life. You can't argue abroad along one line that is obviously inconsistent with what you do at home.

It happens that at the moment we're fairly satisfied with our own economy. Of course, we do keep on improving it. New pirates develop every once in a while and we finally pass legislation to put them in their place. Then some more clever people come along and discover ways of taking advantage of the system and we move in on them. We are continually having to work at it to make our economy reasonably fair and equitable. But nevertheless we have some fundamental notions as to why the American economy works so well.

Number one is that goods and services flow around very freely in the United States. We do not allow the States to put up barriers to prevent the flow of goods back and forth. So the retailer in Massachusetts can buy shoes from the manufacturer in California. This particular transaction is a twist on earlier history, but this is the way it's happening nowadays. But goods can move freely. There's no problem about it. By and large we say: "This is good. This lets the people who are most expert make the things that they can make best." We think this is a good idea and has made possible more extraordinary economic progress.

As a very general proposition we hold to this same idea in our foreign economic relations. We think it would be a good thing if American goods could go all over the world and be sold anywhere that people want to buy them. With some reservations we think it's probably a good thing if foreign goods come into the United States. So this is one general objective in the economic field--a fairly free flow of goods.

Then we have another, namely, that it is very important to have sound methods of settlement--a good currency. We talk about a sound dollar. We get all excited if price levels fluctuate very much. We recognize that if you want to do business, you've got to have a currency that is readily available and fairly stable. And so in the international field we would like to see foreign exchanges and currencies and methods of settlements that will be conducive to carrying on economic relations without major monetary uncertainties.

Then we are a fairly orderly sort of people and we know that our economic system is dependent upon a good legal structure, providing a definition of duties and responsibilities and a way of enforcing contracts. And we would like very much, as far as international relations are concerned, to have this same method of defining and enforcing economic responsibility across national borders. But this is a little difficult, because there is no way you can require somebody in another country to conform to American legal principles. He conforms to the legal system in that country. To bring the different systems into a working relationship, we try to establish various kinds of treaties as between governments that will act to some extent in the way in which laws act in the United States--defining the kind of treatment Americans can expect in another country for their person, property, and income.

But to move on, we think that it is a good thing for growth and expansion to take place in the economy; and therefore we have an interest in a generally expanding world. Even for ourselves, we don't like to stand pat and say: "All right, the standard of living now is good enough. We feel that we have a built-in multiplier, a persistent growth factor, in our economy; and this we'd like to see through the rest of the world."

These are very general sorts of objectives, but they do permit one to say that these are directions in which we would like to see our foreign policy effective. But having said that there are these general objectives, it is probably quite as important to note that there are often conflicts among our objectives--conflicts as between special interests and general interests, conflicts as between foreign interests and domestic interests. The formulation of foreign economic policy becomes very largely a problem of working one's way through the various interests and conflicts that appear in a given problem. I mentioned some of these in the Polish loan case. There are a number of different interests that bear on each problem, and this happens over and over again.

It happens that our Government is organized as it should be, primarily, from the point of view of domestic problems. Most of our Government

departments are essentially concerned with what's going on with the United States. The main exceptions are the Defense Department, which has to be concerned with both what's going on within the United States and what's going on abroad; and the State Department, which presumably is the center of concern about what's going on in other areas. Therefore there tend to be continual conflicts within the Government between the State Department, and frequently the Defense Department lined up with the State Department, as against the other departments, because, of course, many problems require a choice as between a domestic situation and a foreign situation.

The Department of Agriculture, for instance, is primarily a domestic department; and yet it is very much concerned with foreign markets. We have a number of products which we sell abroad, and therefore it is very eager to sell certain ones to other countries. On the other hand it also gets involved at times in trying to protect particular agricultural groups in this country.

I suppose one of the most interesting cases of conflict was the instance where the Congress moved ahead on a problem of protection and decided that it was very important to protect the American cheese industry. This happened about six or seven years ago. When the Defense Production Act came up for renewal, one of the Congressmen proposed, and it was passed by the Congress, that as part of that act, the Secretary of Agriculture should be instructed to put quotas on the imports of cheese into the United States. Parenthetically, that was at a time when I was in the State Department, and I had the difficult task of explaining to foreign governments just what the relationship was between the cheese industry and the defense of the United States.

This was a curious situation. It grew up because during the war no cheese had come into the United States from Europe, and so we had built up in this country a rapidly growing cheese industry. In addition the increased prices of meat had shifted a lot of people over to consuming cheese. We doubled the amount of cheese per capita that we ate in about ten years. Maybe this explains in part the increased height of basketball players; I don't know. At any rate, expansion in cheese consumption is one of the major changes in the American diet. After the war the Dutch and the Italian and the Belgain producers of cheese began to come back into the American market. Our own cheese industry, very naturally, didn't like this and got protection directly from Congress.

The Department of Agriculture was in the middle in a curious way. The Dutch, in particular, said: "All right. If you won't buy our Dutch

cheeses, then we'll have fewer dollars than we expected, and so we're going to stop buying American flour. We will buy our flour from some other source." So the flour people descended on Washington, and the Department of Agriculture had the flour people saying: "Why should we take a licking to protect the cheese people?" and the cheese people saying: "We have to be protected, and let the chips fall where they may." And the State Department finds itself having to somehow straighten this out with all the foreign cheese producers, under our trade agreement commitments.

This is why my statement that only two departments were involved in foreign policy is something of an exaggeration. In this case, the Department of Agriculture was thrown right in to the middle of foreign economic policy. In fact, I think it would be more accurate to say that most problems relating to foreign economic policy are such that the State Department has no authority to act itself; and what it has to do is to get the Department of Agriculture or the Department of Interior or the Library of Congress--maybe it's a copyright problem--to take the necessary action. I never made a time study, but I'll wager that during the period that I was in the State Department I did more diplomatic work with the rest of the U. S. Government than I did with all foreign governments put together.

After all, this is to be expected. Foreign economic problems are related to transactions which have one end in the United States and the other end in a foreign country. The end in the United States is bound to have an impact on some particular American interest, either pro or con or both.

When one considers this problem of conflict among executive agencies in the Government, the first hope is that they will work it out with each other; that the State Department and the Agriculture Department will talk the matter over and come to some agreement. But this doesn't always happen. This is more likely to happen with an administration that has been in Washington for a long period of time, just for the simple reason that people get to know each other and tend to have confidence in each other. A new administration is in particular difficulty, because it brings many new people to Washington. If you're new in the Government, you're bound to be particularly worried that somebody is going to put something over on you.

The only thing I want to say on this particular point is to emphasize a point which isn't often realized, namely, the tremendous importance of

the White House in this matter. The interagency conflicts can only be settled at the White House level. These are frequently settled by the White House without publicity; and probably this is a good thing too. However, it does mean that the White House doesn't get credit for the number of interagency problems which it resolves, and the extent to which it establishes policy.

This process of reference to the White House can go too far. It can get to the point where no two agencies are going to resolve a mutual problem as long as they can pass the buck to another agency above them to settle it. Therefore if the White House is too prone to take on problems instead of passing them back and saying: "Now, you just work this out yourself," it can find itself swamped by the various departments all passing up their problems to it for its decision.

One of the interesting developments of the last ten years has been the development of interagency decision-making bodies attached to the White House and the shifting of the decision with respect to many problems up to that level, where in a formal sort of way a new agency has been set up. But in addition to these new agencies, remember that this reduction of disagreement is what the people around the White House, the special assistants to the President, spend a great deal of time doing. And probably, if you asked me where the most competent foreign economic policy is being made--because, after all, it does scatter all around--I would say, "In the White House with Mr. Hauge as the key actor," because this is where the most difficult problems finally end up within the executive branch of the Government.

Even if one has obtained some sort of agreement within the executive branch in formulating economic policy, this frequently doesn't settle the matter, because there are a number of these problems which require congressional action. This may be because they require money, and appropriation obviously is a congressional action. It may be that some treaty action is involved, in which case it has to be approved by the Senate. Or it may come to the Congress for various kinds of authority. At least, it would come before Congress in terms of appropriations providing personnel adequate to carry out that particular program. And this adds another major complication to the easy development of simple and consistent policies.

The Congress consists of a large number of individuals and it frequently is unpredictable as to how the majority will act on any specific matter. The access of the executive branch of the Government is usually

to committees. One goes up and works with the congressional committee at great length. You get to know these particular members of Congress quite well. They ask innumerable questions and you have an opportunity to work out a program with them. This means that in the House you work maybe with 25 members of the House. They become familiar with the problems and the difficulties. And they may decide 21 to 4 that some particular legislation is desirable.

Finally, it moves out on the floor of the House, and now 450 people begin to participate in the consideration. The representatives of the executive branch can not participate, and the committee is all too often unable to carry through what has been worked out with the executive branch of the Government. This is a major problem from the point of view of the executive branch of the Government.

When there is a clear leader, as Carter Glass used to be in banking, or as Senator Vandenberg was--someone like him with which the executive branch can deal and work out a program and who is strong enough to persuade the Congress--this makes it possible to have a fairly consistent program. But in many areas there is no leader of that sort. The most one can do then is to try to work something through the committee, but ammendment from the floor is very easy as a procedure. The leverage of the Presidential veto is rendered almost useless by the fact that frequently the provisions one doesn't like are passed as ammendments to bills that one wants so much that a veto becomes impossible, since the President cannot veto a section of a bill. The President has to swallow or reject the whole bill, and cannot deal except by attempts at persuasion with the parts which he doesn't like.

There is a continual battle for power between the executive branch and the Congress. These are two coordinate branches of the Government and each one would like to decide issues of foreign policy. The President always would like to have legislation giving him as much flexibility as possible. In the Foreign Aid Bill the President is always asking for 10 percent or more, which he would be free to allocate among countries and among purposes. The Congress, on the other hand, is always wanting to define as exactly as it can how the executive branch should carry out the provisions of foreign aid bills. And therefore you have a conflict of "In how much detail shall the Congress define something and how much flexibility shall the President have," which shifts back and forth from time to time.

On the trade side, any of you who have followed the Reciprocal Trade Agreements legislation know that what happened was that initially

Congress passed over to the executive branch the responsibility for negotiating tariff with only very general instructions. Since then, most every time that the act has been renewed, there have been some amendments added that have limited more and more the freedom of the executive branch in trade agreement negotiations. The act now requires the inclusion of a so-called escape clause in every negotiated agreement. In interpreting the escape clause it can no longer be interpreted as to whether or not an industry is threatened, but now it's whether or not a single businessman is threatened or part of an industry is threatened. There has been a swing back from the initial provision of freedom for the President to carry this out, to Congress defining more and more exactly the limits within which the President may act.

Beyond the problem of the different interests within the United States and the necessary adjustment between the executive branch and the Congress, there is still another element to keep in mind when one is thinking about foreign economic policy, and that is the other countries where the other end of the transaction is to be found. We are talking here about something that involves two countries. Occasionally we can set up something at the American side that will settle a matter, but all too often we have to take into account the interest of and the position of the other country. We are not entirely free when it comes to a matter of deciding how we will move on one or another of these problems.

This means that policy has to be flexible, adjusting within limits to the policy of other countries. A well-prepared group going to negotiate with another country will have a first position. The instructions would show that this is what we would really like to get; but the same instructions may tell the negotiators that if they can't get this first position, then they may modify to a second position. Perhaps there is even a third line of retreat. At some point, of course, there is an instruction that, if you can't get that far, you should cable back for further instructions. This is frequently the way one operates in an individual negotiation. It is a bargaining process.

One of the difficulties here is that it is never quite clear as to which of these several bargaining positions is the American policy. Obviously the number one position is what we want. This is our objective. This is the desirable thing. Yet perhaps the policy is the minimum which is acceptable. So far as the public is concerned, if you finally settle on number three or number two, the public may never know that you tried to get number one; it's a public negotiation like a debate in the United Nations. This is one of the difficulties in terms of having it clear as to

just what our foreign policy is, because the actual product is a series of compromises rather than of absolutes.

In many situations, the foreign government may be much more of a bargainer than we. This is one of the important things to have in mind when you are making any judgment about an international negotiation. Remember that many countries in the world are bargaining countries. They operate normally in bazaar economies and not with fixed prices. Their notion is that if the problem is to determine the value of an airplane that's been shot down by mistake, you don't start your negotiation with a reasonable figure at all. You perhaps start it at ten times the level at which you think you can finally settle. It would be a poor bargainer who didn't ask much more than he finally got.

The United States also is bound by its habitual economic tradition. We never like to put forward a claim that we can't rationalize somehow. We have some fairly skillful ways of building up claims, but nevertheless, we like to be able to argue the case. In the bazaar operation this isn't required at all. You just set a figure to start bargaining, presumably the bid and offer figures are way apart, and you finally come out at an intermediate point.

I think if within the United States it was known that the State Department had said that it was entitled to $100 million and finally settled for $10 million, everybody would say: "What a horrible, terrible negotiating job has been done." I suspect that in Russia or in some of the Far Eastern countries, they might say: "For heaven's sake, why didn't you ask for $200 million to start with? You might have ended up with $20 million." There would be no feeling that the gap between an original asking price and the final settlement price was significant at all. I have used financial negotiations to develop this point, but the same difference in approach is found in political negotiations also.

To return to the point of our policy as related to other countries. Of course, we have to keep the Communists in mind all the while, and they are becoming increasingly concerned with foreign economic policy. Up until the death of Stalin, I think it would be fair to say that the whole economic drive of the Communist bloc was to become self-sufficient, to tie together tradewise the members of the bloc. So Poland, Czechoslovakia, Hungary, and the Soviet Union found themselves trading 80 or 85 percent with each other. Clearly, the objective was to make the bloc as self-sufficient as possible.

In the more recent period we see the Soviets moving out, apparently having decided that it might be useful in a number of countries if they could establish much more active economic relations. And so they have moved in. Perhaps their trade is at its highest percentage with Afghanistan and Egypt. In Egypt it is not only a matter of their selling Egypt some military goods. After all, they took Egyptian cotton when the Egyptians didn't know what to do with it. In the case of Burma you had a very large economic transaction in the Communist purchase of rice to be paid for with Communist goods. A large credit has been extended to India in connection with the construction of a steel mill. And so this becomes a new element in the foreign economic policy situation that we have to take into account.

It is difficult to evaluate the effect of operations of this kind. In the Burmese case at any rate the immediate results seem to be mixed. The Burmese are unhappy now because the Russians have been getting their rice at less than the world market price. This can easily happen if you make an agreement for several years. Also the Russian goods coming into Burma have not always pleased the Burmese. So it's a little hard to know whether the effort to use an economic approach with Burma has or has not strengthened the Communists.

We do know that this operation has meant that a great many more Russians and Czechs and Poles and Hungarians have been in Burma than at any time before. And we do know that the Communists who are in Burma are having a new lease on life, pointing out how helpful Russia is being to them. The net effect is still not at all clear from our point of view. But certainly this new development is one which we must watch carefully. Perhaps the fact that the Russians are following our own approach, is some added justification for our own emphasis on economic programs.

Now, what are the basic requirements for carrying out economic foreign policy effectively? I think I have already suggested some of the elements needed. One I haven't stressed is that we must have within the Government the necessary technical skill to deal with these problems. That is sometimes very important.

Suppose there's a question of making a loan to Chile for the Chileans to build a steel mill. This simple problem would involve quite a number of technicians, technicians who knew something about the making of steel and the materials that were available and the power that was available and so forth in Chile. Somebody would also be needed who knew something

about the marketing and distribution of iron and steel products. Someone would be needed who knew something about the trade picture, someone who knew something about Chile's capacity to make payments if this is to be a loan. A task force of technicians would have to be brought together such as probably would never be brought together again in the next 20 years. In a sense, the Government has to line everybody up in the morning and set up new working parties every day according to the particular problems of the day. This is a major organizational problem, because obviously you don't want to have a full coterie of experts in the State Department able to handle every problem in every industry. Therefore this calls for a lot of interagency work at the technical level.

But beyond that, there have to be procedures for getting decisions made. I think one of the things we have to be concerned about in this country is the length of time that it takes between the time that someone begins to think about a Government program and when something really happens as a result. This is partly because so many of our foreign economic programs now involve money. Getting money out of the Government is a long, slow process and very unpredictable. The program may start to be planned back in the foreign country. It gets checked in ECA in Washington, gets reviewed in the Budget Bureau, goes up to Congress, and there it must pass the House and the Senate. The net result is that a program can easily take more than 12 months from the time that it's first considered to the time that it's acted on by Congress.

Beyond the point of enactment, there is likely to be a still further period of time before it actually can be put into operation. These delays may themselves cause problems. You may have worked this whole project out with a government in a particular country and then, when you're finally ready to start, that government isn't the government any more. You may find yourself with a person arriving to start a program, let's say, in education or public health or whatever it may be; and the whole basis on which this is to be done may have to be renegotiated with new people unfamiliar with the earlier programming.

Delays are not only in fields requiring appropriations. In the field of tariff adjustments, there is a long, slow process, with public hearings as part of the preparatory work. Then there is the negotation itself, which may take a good many months. Escape clause actions usually take at least a year. I think we do have to try to find ways to shorten the process of deciding the foreign economic issues.

There is still one other side to the operation of foreign policy and that is the communication of policy--communication to our Government, communication to ourselves, and most important of all, communication to other countries. I will give you one illustration which shows the kind of trouble that one can get into.

Last year I was in Japan. I found there a very common belief that one of the things that Japan was doing which was very helpful to the United States was taking some of our surplus agricultural commodities off our hands. We had negotiated one of the agreements in which we sent to them cotton and rice and some wheat and some tobacco, and for it they presumably paid us in Japanese currency. Then we in turn lent that Japanese currency back to the Japanese Government to be used in some of its development projects requiring capital. And then over the long pull either they were to pay this back to us in Japanese currency and we would use it to finance our various Government representatives and other people in Japan, or they could pay it back at a lower interest rate in dollars.

This was a very valuable agreement to Japan. It meant that they obtained commodities that they had to have, without paying for them in dollars. As a matter of fact, it was at a reduced price anyway. In addition, they would receive the the yen proceeds of the sale of the goods, and could use them virtually as a loan to the Japanese Government for use in their development program.

But they never thought of all this as being helpful to Japan. They rather had the impression that they were really helping us a great deal by taking these surpluses off our hands. As a matter of fact, I guess we would have to concede that this is a perfectly natural way for them to look at it, because this is the way we've been looking at it. A few people have said that this would help in economic development. If you look at the reports with respect to the foreign sales of agricultural products, you will see that what we are pleased about is that we have disposed of so much surplus, not that we have been helpful to Japan. In the debates in Congress, nobody says: "We should have this program to help foreign countries," except as sort of a footnote. They say: "This is a program that is valuable in the disposal of surplus."

Now, I submit this is a failure in emphasis and in communication. In this case we have clearly contributed to it ourselves. Here's something we are doing that's exceedingly valuable. This is a brilliant concept--this program--because it does use some resources which we

have which otherwise would be idle and does facilitate economic development; and yet this program isn't viewed as being something that we are doing as part of an assistance program to other countries, at least not within the countries themselves.

This problem is essentially that of the posture in which we appear in other countries. Our difficulty is that other countries tend to look at the United States as though we were somehow a crossbreed between Midas and Mars. We are Uncle Sam with money bags and rattling sabers. We do have a lot of sabers and a lot of money bags, but our foreign policy is not built just in terms of these two things. Part of our problem is to get the idea across that we take into account the interests of the other countries as well as our own.

Our foreign policy is built in such terms--trying to find ways in which the American interest, our national interest, can be furthered, along with furthering the interest of other countries. This is easiest to do, perhaps, in the economic field, because economic growth is a cumulative sort of thing which feeds back as between markets and sources of supply. But we do have a major problem of our basic relations to other countries. From that point of view one has to think about economic foreign policy not just in terms of what you and I would find as we look through the American legislation and so forth, but as to how it is viewed by people of other countries.

This means in the end that there is no sense in talking about foreign economic policy by itself. Economic policy is tied in with political policy. It is tied in with the total image of the United States which is built up through the interplay of economic policy, of international public relations, and of political actions.

Basically, then, one should think of foreign economic policy as a part of total policy--very fluid, full of continual conflicts--something in which we have fairly general objectives but in which the problem primarily becomes one of continual resolution among different objectives as represented in various parts of the Government, represented in Congress, and represented through private pressures. That is why no one can ever say: "This is American foreign economic policy." One can only say: "This is the process through which we move in the direction of certain general objectives."

COLONEL ECKLES: Dr. Thorp is ready for your questions.

QUESTION: Would you compare our economic policy which we had in the past before World War II and our present economic policy with the countries of Southeast Asia, with Indonesia, for example?

DR. THORP: I am not sure that I know quite how to focus the comparison. Our policies toward the Far East in the pre-World War II period were primarily an occasional action to keep what we called the "open door." In other words, we were trying to prevent the spheres of interest of other countries from becoming too great with respect to China. We got excited occasionally about incidents such as the Boxer Rebellion. We had Marines over there to protect our people from time to time. But I would say that as far as the Far East was concerned in this early period, except for an effort to make trade possible, we had no special policy that seemed to me at all effective or active. In this area, you don't find much policy.

Now we have a series of policies toward Asia. We have an anti-Red China program, in fact, an embargo on trade with Red China. We have a political embargo and an economic embargo both. For the rest of Asia we are involved in various more constructive programs. Our biggest aid programs are to South Korea, Taiwan, and South Viet Nam. With respect to Indonesia and with respect to Thailand we have been standing by with some Government aid, but with very little trade taking place under private enterprise. Perhaps it can be summarized by noting that an Assistant Secretary of State is specifically designated today to focus his attention on the Far East.

QUESTION: I was thinking principally of the political aspects taking precedence over Indonesian aspects in the interest of advancing the standard of living of the people. We have highlighted that we want to assist a government which is anti-Communist rather than providing aid to a government which is primarily concerned with raising the standard of living of the people.

DR. THORP: Well, I think I see more clearly now what you are interested in. We have two kinds of considerations that enter into the assistance programs. First are the countries with which we have clearly some kind of military relationship, where we are giving military aid, and where we require from them something more of a commitment than from other countries. The military assistance to this group is bigger than the economic assistance, although it is hard to classify the defense-support aid which goes into these countries since it is both military and economic. You may build a road because of its military

significance, but it also may have economic importance. A powerplant may count as defense support even though it is valuable for other reasons than providing power for an airfield.

Once you get outside of the military groupings, how do you decide about aid to the other countries? How much weight do you put on the political character of the government of the other countries? At least as far as the record is concerned, you cannot find any statement of policy that says it has to be a democratic government. The only statement of policy is that it has to be a government not under the domination of the Communists.

I suspect that there are some governments that we find it easier to work with than others--let's put it that way--and that therefore we do have some degree of favoritism among governments, or selectivity. Perhaps that's a better way to put it. But there are many people who would feel that neither Syngman Rhee nor Chiang Kai-Shek represents the highest form of democratic government that one would like to see. Nevertheless both of them are getting very strong military and economic support from the United States Government.

Actually there is very strong support for the idea that economic assistance should be judged in terms of the degree to which it looks as if it would be productive and useful; that this should be your test--the capacity of the area--and that you hope that its impact on the political situation will at least be stabilizing, so that any Communist group will have more trouble in taking over.

This is an underlying theory--that some economic progress in a country will tend to stabilize the political situation. Unfortunately, this is not the kind of thing that can be proven; and there are evidences that this does not always happen.

As to political strings, I would say that as to economic aid itself, we have done pretty well about not tying it up with political strings. We have been willing to give aid to Thailand and now to Burma without anything that I would define as political strings. The strings that are there are mostly strings that have to do with the efficient use of the aid rather than with something else that the country should or should not do.

As a matter of fact, if I may expand for a moment on strings, let me say that this is something that people by and large misunderstand. They often feel that you can get a country to commit itself to be on your

side or not, or make some kind of long-run commitment about trading policy, or whatever it may be, for an immediate amount of assistance. This is largely nonsense. Take the French case. We tried to threaten the French by saying: "If you don't go into EDC, we will have to have an agonizing reappraisal of our assistance to you." This was a straight threat--that "If you don't go into EDC, we will take away your assistance."

This was a nonsensical kind of threat, because all the French had to do was to say: "Yes. We'll go into EDC. We'd like to have your assistance." But then, having gone into the EDC, they might have held up any development of a common European army for the next five years quarreling over what kind of uniforms should be worn by this army, or quibbling over any number of other issues.

The point merely is that a commitment in general terms to carry through a particular policy can be sabotaged so easily in so many ways that it is an unenforceable contract. If you really want to have things move in a particular direction, you are more likely to get it if you don't require it. The very fact that you require it means that the influence of the people who would support this action in the country is weakened. They are said to be American stooges, because this is what the United States wants.

If you are deciding on giving foreign economic aid, or whatever other decision it may be, strings must be kept within the area of behavior that relates to that problem. The minute you try to tie on something else which is not directly related as a condition, unless it is something that can be wound up then and there, so to speak, then you are likely not to get what you think you are getting out of it. Strings are good when they relate to the use of the aid or the military assistance, the way in which the military program shall develop; but the minute you try to tie something else in that's unrelated, particularly something that runs on for quite a period of time, the string is likely to break.

QUESTION: I believe you touched on this when you were discussing conflicts that arise between Government agencies and within the State Department, but I wonder if you would expand a little bit on the difficulties that the State Department has within itself in expanding the views of representatives of foreign countries. For instance, it appears to me that many times when you are dealing with the State Department, England's representative is focussing only on their problems; but now the problem has reversed and he will reverse himself to make his problem a little bit easier. Would you care to comment on how you handle that problem or how that problem is handled?

DR. THORP: I wish I could say that there was an easy way to handle it. Problems do have several dimensions. After all, most of our foreign policy is carried out with a country, with another country. Maybe the same thing has to be done with 12 countries, but it has to be done with 12 countries; and there's no way you can handle all 12 countries at once. So that the heart of the carrying out of foreign policy tends necessarily to be a country-by-country operation, and therefore the country desk is the central point.

On the other hand, when you are trying to work out a program for the disposal of cotton or what you are going to do about the coffee agreements that are in the air, or an overall aid program, this isn't just a country problem. This may be a problem that relates back to some function of some other agency in the Government. So you have to have a coffee specialist and you have to have a Brazilian specialist. The coffee specialist has to serve San Domingo's interest as well as the interest of Brazil. And one has to keep in mind the effect on our country of an action taken with another.

Now, this is your fundamental difficulty. The problem is one in terms of function and in terms of actions. Maybe in deciding what you're going to do about coffee you've got to worry, because you might not want to do with coffee the same thing that you would do vis-a-vis cocoa or vis-a-vis sugar. So someone has to consider the coffee problem in relation to other commodities. Maybe what you want to do with respect to England would get us in trouble with respect to France. So you've got to consider the French picture.

I don't know any way to deal with this except by the process of trying to have all the political and the functional people aware of what each other is doing and each other's interests. This means a terrific circulation of papers all the time in the hope that everybody will look at them and know what everybody else is doing. The other protection is for them to have enough awareness so that when there are several people involved in the problem, if they disagree, it moves up to the point where it can be resolved by someone higher up who looks at the total problem. This process depends upon the confidence and the wisdom of the people concerned.

Moving problems upstairs is of course, a way of getting them solved, usually; but it has a special character which I think is worth tracing. Problems are often very hard for the technicians to solve, because they see difficulties of one sort or another and therefore they can't find a

solution that seems to be tolerable within the circumstances. Often the only hope of getting the problem solved is to move it up high enough so it comes before a person who does not understand the details of the problem very well. He looks at it in terms of broad considerations, and he comes up with an answer. This goes back down the line and in 99 cases of 100 the technicians then manage to make it work. Even though it may not be the best solution, it is a solution.

I might go on to say that this is a rationalization that I developed in terms of maintaining my own respect and sanity in the State Department, because many times I had to solve problems on which somebody down the line knew much more than I did, and yet he couldn't solve them. Somebody had to do it, and so first it came to me. If I could not solve it, then it would go on up to General Marshall or Dean Atcheson or whoever was the Secretary of State at the time. He would know even less than I and so he would find it easier to solve.

QUESTION: In your testimony before Congress and in a recent article in Foreign Affairs you have taken the position that the strategic trade controls incorporated in the Battle Act have outlived their usefulness and are no longer effective. I assume, of course, that you do not include in this military hard goods, but that the question is one of redefining what constitutes strategic items. Would you elaborate on your position on this question?

DR. THORP: I was in on this from the very start. As a matter of fact, I got a good many black-and-blue spots out of this issue.

Originally our development of restrictions on east-west trade came because we were then feeling that we were in an immediate speed contest with the Soviet Union; that we wanted to retard their advance as much as we possibly could and speed up our own. We realized that the Soviet had not reduced its personnel as the rest of us had, and so forth and so on. Therefore we felt that if we could only embarrass them to some extent in their further military expansion, we would gain ground and this was a good thing.

We realized perfectly well that this meant that the most we could hope was that we might delay them in some aspects of their development by a few months. We also knew that one of the results of this policy would probably be in the long run to strengthen them. In the long run, if they couldn't get porcelain insulators out of West Germany, they would develop their own porcelain insulators. I was later told that this was

exactly what happened. A member of their economic directorate said: "This made it possible for us to develop certain industries that we were not going to develop otherwise, and this has been very good for the Soviet Union." Well, this may well have been the result in the long run, but I think it also implies that during that period of time they had some trouble from our policy.

Today, we have a situation where the Soviets have built up their military capacity; and I would doubt very much whether the rate of their military progress would be related to any amount of trade. They have undoubtedly planned to get their military situation independent of foreign requirements. Therefore our original objective seems to be no longer significant.

It seems to me that it is desirable for us to begin to open up more broadly on trading, particularly in the hope that this will somewhat increase our contact with the satellites. That is the place where the possibilities of trade are greatest--with Czechoslovia, with Poland. This would seem to me something that we ought to set as an objective.

When Yugoslavia broke away from the Soviet Union, its big problem was the economic one. It had developed its trade pattern with the Soviet bloc, and the first thing that was done by the Soviet bloc was to impose an absolute embargo. Yugoslavia suddenly found itself with no markets for the goods it ordinarily sent there and no source of supply for the goods that it ordinarily bought from the other countries in the bloc. We had to work very hard, the British and the French and the Americans to keep Yugoslavia afloat. The hundreds of millions of dollars worth of goods that we sent in because we hadn't any trading pattern with them would have been somewhat less if there had been an established trade relationship.

It seems to me that in the total situation we have more to gain now than we have to lose, by trying to encourage trade back and forth. The big argument before was the military one, and I would doubt very much if that is significant any more. I am always exempting items that clearly have direct military significance, of course. These we don't trade in with a good many countries.

QUESTION: I wonder if you would care to speculate on the effect of our economic policy on Red China, on the economy, on the political implications, and the long-run effect.

DR. THORP: At the present time we have an absolute embargo on our trade with China. Japan, which started with the same sort of embargo, has gradually shifted back. They are now having the same policy with China as the Western European countries. This means not an absolute embargo, but a list of goods in which trade cannot take place. It used to be that something like a quarter of Japan's trade was done with China. They got a large amount of their raw materials--coal and iron ore--from China. Now virtually none of this is flowing to Japan.

Japan feels that the policy which it is following is primarily an imposed policy by the United States. So we have to start with the fact that this is blamed upon us and is one of the long list of charges against the United States which the anti-Americans in Japan are bringing forward.

Now, what would happen if there was relaxation there? I sat down with the top technical manufacturers in Japan and asked them this question: "What kind of markets do you think you might look forward to in China?" The first one said: "As soon as we start trading with China, we will no longer have any problems. Think of all the people there. Think of their needs for textiles. It would take care of our whole textile industry if we could trade with China." The second one said: "We are never going to sell any textiles to China. China is not going to spend her foreign exchange for textiles. She can make enough to get along, and lots of other things will be higher on her list."

Actually I suspect that the second answer is right on textiles. The overall answer is that there would be some trade, more than there is at present, between Japan and China; but nothing like what it used to be, and nothing like what most Japanese think it would be. China is going to need her own iron ore, need her own coal, for her own new industrial capacity. As a matter of fact, I am told that they have overexpanded their manufacturing industry as compared with their supplies of raw materials, and that this is one of the imbalances at present in Red China.

The chances are that China is going to try to become self-supporting. She will have some trade with Japan, but it won't be anything like the scale that is needed to take care of the Japanese balance of payments situation.

My own overall judgment, based on only ten weeks in Japan, is that probably it would be smart for us to allow the Japanese to trade with China, barring any military items, as much as they can, because my guess is that they have overvalued this. They're blaming us for it.

The simplest way to deal with the situation is to let them find out that trading with China is not going to be the solution to their problems, and probably finding out that there would be a lot of other complications and difficulties that they haven't anticipated.

Trade with the Communist countries is not an easy thing, partly because they so much overtalk what they are willing to do. The trade agreements that they enter into with other countries have in no case that I know about ever been realized, because they represent maximum possibilities, and usually something like a half or a third is actually what finally results.

There is also a point with respect to quality. I saw a Chinese Communist sewing machine which they were showing in Japan in an industrial show. It very much resembled the sewing machine that I used to crawl under when I was two or three years old. I would suspect that the Japanese would find that the Chinese, who are producing goods now largely on Soviet models, are way behind the Japanese in terms of their technological quality.

We have no great interest nowadays in Chinese trade, and that puts us in a weak position to try to urge other countries to hold off, particularly those countries whose life is dependent upon foreign trade.

QUESTION: A recent lecturer said the Soviets in contributing to the economic growth of the underdeveloped countries would probably in the long run retard or impede our own foreign markets. I wonder if you would comment on that.

DR. THORP: Well, our best foreign markets are the most advanced countries. We sell more to Canada, we sell more to England, and we sell more to Germany than we do to the underdeveloped countries. You never have a good market in a slum except for some odd things. Maybe a spaghetti manufacturer might sell more spaghetti there. But in terms of the total effect, what actually happens is that every time one's standard of living moves up, the variety of demands that one has tends to expand.

I think it might well be that percentagewise, let's say, a country which is now importing 20 percent of its total goods, might, if it went through a period of economic expansion, find itself finally importing 15 percent or 10 percent. But this is a percentage of so much larger a national income that it would actually mean an expansion in trade. I have

no difficulty, when you look at it in the large, in feeling that our trade will tend to expand as national incomes go up in other countries.

Now, this can, of course, make great difficulties in particular areas of products. For instance, there's no question but that the textile industry of the world has shifted decidedly, because textiles are one of the easiest things to produce in an underdeveloped country. The mechanized loom is so much like the old handicraft looms that it is probably easier to teach people to work in a textile mill than to work in almost any other modern form of industry. The textile industry is one that is early in the procession. So that the British textile industry is in trouble, and the Japanese textile industry is in trouble. Our own never has been a very big exporting industry, so that we haven't been affected by this development in other markets particularly, except by the general capacity situation in the world.

Obviously the world's textile requirements are going up, but this may not help an exporting country. But trade in many other products--the iron and steel products, the engineering products, the chemical products, all things of this sort--will go up tremendously. Actually, there may be some shortage areas which will develop. For example, suppose that the rest of the world used paper the way we use paper in the United States. That would be just incredible. There is India, where we want to teach the people to read. Well, if all the Indians wanted a morning newspaper, just think what this would do to the paper industry of the world. There are lots of cases where if there were an expansion, it's hard to see how we could meet the demands which might well come from it.

So I would argue on the other side. In particular cases, yes; but generally no. Generally I think we will be much better off from the point of view of selling goods if we have access to more purchasing power in other countries.

COLONEL ECKLES: Dr. Thorp, on behalf of all of us, I want to thank you, sir, for a very fine lecture on a very difficult subject. Thank you very much.

(17 June 1957--3, 950)B/ljt