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THE AMERICAN SCENE TODAY

Mr. Leo Cherne

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Reviewed by: Colonel Tom W. Sills, USA

Date: 2 September 1959

INDUSTRIAL COLLEGE OF THE ARMED FORCES  
WASHINGTON, D. C.

1959-1960

THE AMERICAN SCENE TODAY

24 August 1959

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## THE AMERICAN SCENE TODAY

24 August 1959

GENERAL MUNDY: The subject of our lecture this morning is "The American Scene Today."

As we begin the school year, it's appropriate that we take a good look at the position of the United States in the world. We have often heard it said that the only thing that we can be certain of in life is change itself. Certainly we are living in an ever-changing world, and it takes an alert and a studious person to keep up with the many changes that are taking place.

Our speaker today is a distinguished student of world history, and he is eminently qualified to tell us how these changes affect the well-being and the security of the United States. From his biography you have learned that he is a devoted public servant and an outstanding author and lecturer. A man of many talents, he is also a noted sculptor. Just three weeks ago there appeared in Life Magazine a picture of the sculptured head of Boris Pasternak which is his latest work. I am also proud to count him as one of the best friends that the College has. He has talked here since 1939.

It gives me a great deal of pleasure to present to you the Executive Director of the Research Institute of America, Mr. Leo Cherne.

MR. CHERNE: General Mundy, General Houseman: It's something of a shock to realize that exactly 20 years have passed since my first exposure to the officers who at that time attended the Industrial College of the Armed Forces. I refer to one personal incident because in many ways it's very relevant, relevant in examining some of the main currents involved in an examination of the American scene today.

Actually my association with the Industrial College began in 1938. At that time the then Assistant Secretary of War charged with industrial mobilization, Louis Johnson, was persuaded that the Czechoslovakia crisis would, within a very short time, involve the United States in war on the European Continent. There were those around him who were convinced that the United States would be involved in the European war before the end of 1939. Because of that conviction, the Industrial College turned to the Research Institute to assist in the preparation of the final industrial mobilization plans for an eventual M-day. In 1938 began a hectic process of re-examination of all of the plans and concepts which had been assembled since the National Defense Act of 1920.

We were called upon to undertake that task and to play a key role in advising American business of its responsibilities in the event of industrial mobilization, because Congress had failed to provide an appropriation to the Industrial College or to the Army and Navy

Munitions Board for that urgent undertaking. And so as an organization concerned with assisting some 30,000 of the Nation's leading businesses in adjusting especially to governmental affairs, we undertook the responsibility of assisting in the final revision of the plans and annexes and in conveying those details which could be discussed to American business.

Exactly 20 years ago I found myself in a sleepy New England village at the request of the Assistant Secretary of War. My purpose there was to present the content of the Industrial Mobilization Plan of 1939 to the leading businessmen and industrialists of New England at the New England Council. I spoke some 45 minutes and at the conclusion of my address explaining the Industrial Mobilization Plan, sat down on the platform.

There was no applause. One leading New England industrialist raised his hand and proposed a motion. He moved that the New England Council censure the officers of the organization, especially those responsible for having invited and address so unrealistic, so unwise, and so un-American. I sat for one hour and a quarter as the group debated whether the New England Council would be formally censured for a presentation to it of the plans of the United States Government for industrial mobilization in the event of war. I am sure that only my presence and some small reserve of courtesy toward a speaker defeated the motion, because the defeat of the motion was by a very small

margin indeed. This occasion came some 30 days prior to 3 September 1939.

In some respects it is my judgment that we are in a similar interval of unrealism. Before I address myself to that, I'd like to quickly examine some aspects of the economy.

The near-term outlook is a very pleasant thing to look at for any economist. For business in this late summer of 1959 there is very little cause for complaint. Leaving aside for the moment the steel strike, we find industry and trade operating in high gear practically everywhere we look. With industrial activity at new highs, unemployment has again been reduced to under 5 percent of the labor force and is no longer a critical national problem. And if the steel strike is settled before October, Secretary of Labor Mitchell will not have to eat his hat. You may recall that he promised to do so if unemployment by October 1959, is in excess of 3 million.

On the consumer side of the economy, new records are also being set monthly. High employment means increasing consumer income, and the public is spending this new money at a fantastic pace. In fact, judging by the fast-rising installment credit figures, it's spending a good part of next year's income as well. Barring an extended steel strike, the coming Christmas season should produce the highest retail volume in industry. Auto industry forecasters are beginning to

talk about 7 million cars for the 1960 model run. New homes are being built and sold at peak rates.

Business is spending money at a faster clip also, for new industrial plants, new shopping centers, for more modern machinery and equipment, for rebuilding inventory. We are apparently in the beginning stages of another wave of heavy capital spending by business such as triggered the boom in 1955 and 1956. In this free economy of ours prospective capitalists have been responding to the favorable business climate in an almost incredible way. New business ventures are being incorporated at the rate of nearly 100 every hour of every business day. There were 120,000 new corporations formed in the first seven months of this year, as against 80,000 in the average year. In the nature of things many of these new businesses will fail or otherwise dissolve, but as an index of confidence of the business community the figures are quite impressive.

Are there any clouds on the business or industrial horizon? The steel strike, of course, is one; and it's a big one. Our surveys at the Research Institute show that even if the strike were to end tomorrow-- which it won't do --many companies will face a shortage of steel by the end of September. The reason is that it will be four to six weeks after the strike ends before finished steel products, rolled and cut to customers' specifications, are again flowing normally from the mills to steel

use. And this is a longer period of time than many of these users can wait and than an increasing number now find possible. By Labor Day we will have reached that critical point at which more businesses daily find themselves without adequate inventory for their present productive needs.

But this, barring an extraordinarily long steel strike, which could set the economy into a tailspin and which in my judgment will not happen, will be a temporary problem at worst. The net effect will be simply to sharpen the boom in the month after the eventual settlement. Whatever happens in fact, it now appears that most or all of 1960 will see business at continued high levels.

Beyond 1960 there is more uncertainty in the outlook. There's a strong likelihood that by early 1961 at the latest business inventories will again begin to be out of line on the high side, and that productive facilities in many industries will be reaching the stage of some overproduction, and another recession may well be in the making. And if it is, it's unlikely to be any more severe or any longer in duration than the two which preceded it--the recessions of 1953-54 and 1957-58.

It's impossible in a discussion of the economic picture to ignore the question of prices and inflation. For over a year now, until just a very few weeks ago, wholesale and retail price levels have held remarkably stable. Actually on second thought, that's not so remarkable when we remember that for a good part of the time demand was at depressed levels.

Now, this period of stability has led to a growing tide of reports and opinions that inflation may not be much of a problem after all; that we may have this price thing licked. Well, we don't have it licked. While inflation in the old-fashioned classical sense, of rapidly spiraling prices and a precipitous fall in the value of the dollar, isn't in the cards in the near future, and may never be, the cold fact is that business and the consumer will soon be living again with the sort of creeping 2 to 3 percent annual rises in the price levels that were the rule a few years ago; and we will see the start of this rising trend before the close of this year, in our judgment; and it has already been at least heralded by the not insignificant increase in the cost of living which was just announced last week.

There are some economists who see this rising price trend as the most serious single threat facing our economy. There are others who see it as a boon, stimulating economic growth and encouraging business investment. In the area in which you are concerned it's apt to be neither of those two. It's apt to be a secondary problem, with the primary one with which you will be increasingly concerned the rate of growth of the economy as a whole.

But there is one thing wrong, and badly wrong, with this picture of a free, healthy, and comfortable economy. What is wrong is that it is too limited a close-up look. When we draw back a little and look

at the larger picture, we find that this prosperous and comfortable society is actually living on the edge of a precipice, and almost totally ignorant of the fact that it is doing so.

Now, let me explain to you what I mean by this and the implications that it has for the United States and our position in the world today and tomorrow.

As I have said--and all of the data to which I have referred so far spell out--we are living in an economy that is free and comfortable. In the past it has been possible for us to retain, even in what we consider hard times, most of our freedom and most of our comfort at the same time. But in the modern world this is becoming less and less possible. More and more we are faced with choices that involve giving up some of our economic freedom or some of our comfort. Not only are the American people unwilling to make this choice, but they are to a great extent totally unaware that they have it to make.

An example: A year and a half ago the Rockefeller Brothers Fund prepared a very thorough and sound report on the military aspects of international security. One of the prime recommendations of that report was that the United States should budget for national defense each year at least \$3 billion more than the year preceding; and it suggested that the cost of defense would have to rise at that rate for each year at least until 1965.

I know that all of you pay considerable attention to the Defense Department appropriations, perhaps not for the best reason, but nevertheless you're sensitive to them. And so you know that there was no \$3 billion increase from fiscal 1958 to 1959, or from 1959 to 1960; nor will there be any from 1960 to 1961. Instead, the President, the Defense Secretary, and the Congress are joined in insisting that our defense costs be kept at approximately the present \$41 billion level.

Now, there's no need here, and no time in any case, to review the facts on the basis of which the Rockefeller study reached its conclusion. It's certainly safe to say, though, that there's been no basic change in the world situation which could make these conclusions any less valid or the need for this adequate defense fund any less urgent.

Another example: The Draper Committee has just, toward the end of last week, again stated that our minimum budget for military aid to friendly nations should be \$2 billion. The President has asked Congress for 1.6 billion, and Congress seems disposed to grant 1.4 billion--fully one-third less than the recommendations of the Draper committee.

A third example, not directly military but just as much a part of our global defense position: The Draper committee and other responsible groups have asked that a Development Loan Fund be established, with an annual appropriation of an essentially modest \$1 billion a year for five years. This is not even an appropriation, since it becomes

part of a revolving loan fund. The funds loaned by the Development Loan Fund could go very far toward bringing the peoples of the still-developing nations of the world into the democratic camp and out of their neutralist or even antidemocratic posture. But the Secretary of the Treasury and the Budget Director have said that this fund is of low priority; that it would keep us from balancing the budget. And it would. And the economy bloc in Congress of course agrees with this point of view, and the President does not strongly oppose it.

So there we are, at least from the point of view of these jaundiced or prejudiced eyes, the richest nation of the world entering a period of unprecedented prosperity, more comfortable than we have ever been before, yet more in danger of losing our prosperity, our freedom, our comfort than we've been in a very long time because we can't afford to defend it. We would rather be comfortable today and risk the precipice tomorrow.

Now, can we really not afford the additional billions of dollars that these proposals call for? There's no precise answer to that question. The answer is not susceptible to an economist's measure. The answer is very much more a political and psychological question than it is an economic or budgetary question. But to the extent that it is budgetary, the Treasury's economists have already determined that at the present rate of consumer income and corporate profits, tax receipts

this year will be several billion dollars more than was budgeted. Even though spending will also be higher, there is a real likelihood of a \$1 or \$2 billion surplus for this fiscal year that has just started. Next year there is a real possibility of a whopping surplus--of course, accidentally, in an election year. And so the debate has started. Should we cut taxes first, or reduce the national debt, or do some of both?

Now, there's not really even a whisper from Congress or the Administration or the Department that perhaps a significant portion of that available money be spent to maintain our position in the world.

The reason for this is not hard to see. I have been critical of our lawmakers in these remarks and even of the President. But the real culprit is the American people themselves. We are a people who really love our comfort, who have made it a national hobby to beat the tax collector, who love to vote against appropriations, whether it's a local school board budget or a budget for adequate defense and an adequate foreign policy. Somehow a change has to be brought about in this dominant factor of the American scene today, and it was really to this that the study of the Rockefeller Brothers Fund addressed itself.

Now, will the change come about? Frankly, I'm rather pessimistic and becoming more so. Here's a clipping from the "Wall Street Journal" of last Thursday, 20 August. It needn't be pointed out that the "Wall Street Journal" is one of our most influential newspapers, because it's

read by people who are the opinion makers in our business and financial community, because it's believed by these people, and with good reason.

The headline of this story reads, "Administration expects Ike-Khrushchev talks to help curb outlay." I'll read just two sentences, which set the tone for the entire story. It's a first-page story. The top title is, "Weapons Shakeout."

"The Administration is counting on the forthcoming Eisenhower-Khrushchev talks to aid its effort to hold down defense spending. 'After all, we're no longer waiting for war to break out in Berlin any day,' comments a top Defense Department policy maker."

Since I don't know who the top Defense Department policymaker is who is quoted, he may be in this group.

Now, not only have we talked of lessening tension when, in fact, all that has happened is that the Soviets have won another round in the sparring, and a very substantial one, in my judgment; but now it seems that the Russians' latest victory in bringing out this exchange of tourists at the summit is to be used as an excuse for handing them a much more tangible victory--a relaxing of our defense posture.

Now, perhaps there was no way of avoiding these visits. Perhaps even they will make a positive contribution to our search for a basis for a lasting peace. Perhaps history will show that we've really entered a new phase; that we have passed the turning point, as the first

releases indicated. I'm always worried about turning points, because I'm never quite sure, and the indications are never quite explicit, which way we're turning.

But there is a fact that we deal with. The fact is that today this Soviet technique of diplomacy by tourism is posing one of the most dangerous threats we have faced in modern times. Compared to this the German program of encouragement to isolationist and pacifist groups before World War II was a penny ante game.

The fact is that these momentary dramatic mirages of K blur so substantially the oft-referred-to concept of the long haul--the arduous, protracted conflict, the genius that the Soviet has and has increasingly developed for the orchestration of crisis, as Robert Kintner has called it--and he, I understand, will be addressing you in the week following Labor Day. The real contest is the contest in the rates of growth, in the economic and industrial vitality and muscle of these two giant societies and of the nations which are linked with them.

I'd like to quote a few observations from the Director of the Central Intelligence Agency. Allen Dulles this spring said the following: "As long as the principles of international communism motivate the regimes in Moscow and Peiping, we must expect that their single purpose will be the liquidation of our form of society and the emergence of a Sovietized world order."

He then continued: "During the past seven years, through 1958, Soviet industry has grown at the rate of 9.5 percent annually. This is our reconstruction and deflation of Soviet data," Mr. Dulles added. "Our own growth rate for the seven years through 1957 has been 3.6 percent."

These data did not include the recessed year of 1958, which pulled that average closer to 3 percent.

Now, the Soviets, with lower standards of living and consumer goods, plough back almost 30 percent of their entire wealth into capital investment. We are content with 17 to 20 percent ploughed back.

But the difference is greater than that, because that smaller amount that we plough back is for enormously different things than those for which the Soviet ploughs back 30 percent. They turned out 1 automobile for every 50 of ours last year. It gives us a great deal of satisfaction. Primitive people. They turned out four times as many machine tools as we did last year. They're not quite so primitive. They just don't happen to see the reason for providing their citizens with automobiles. The members of their new class, the bureaucracy, have automobiles. There is no shortage for them.

"Khrushchev forecasts that our future industrial growth will be only 2 percent a year," says Allan Dulles. And then he continued: "If this is true, the U. S. will be virtually committing economic suicide."

Now, we have made a projection at the Research Institute. If the Soviet rate of growth drops to 8 percent annually, and if ours jumps to 4 percent each year--incidentally, that's adding a great deal more percentagewise to ours than declined to theirs--if both of these happen, Soviet production will be more than 66 percent of ours in 1970 and will be 90 percent of ours before 1980; and will exceed ours, if those percentages were to remain constant, in the early 1980's.

Now, whatever the exaggeration of Soviet promises and predictions and plans, the underdeveloped world is watching and believing Khrushchev. A few months ago our Government learned to our acute discomfort that President Kubitschek of Brazil was circulating a memo that the USSR in the not-too-distant future would overtake our lead in industrial production. By 1980 the document being circulated by Brazil's President estimated that our annual gross production would be \$865 billion and the Soviet's \$1,561 billion annually--almost twice as much. The significance of this is that the President of Brazil believes it and will circulate it.

Of course it's utter nonsense. The problem is serious enough as it is. But a very substantial part of the world is believing even the exaggerated and unattainable premise which the Soviet Union is using as propaganda.

Now, don't underestimate our enemy in measuring our own society. Or, as Allan Dulles put it when he warned against comforting illusions which serve as false tranquilizers. Bear in mind that the Soviet Union has advanced its 1972 targets to the year 1965, and this they mean. Their targets by 1965, just to take a few of the vital sinews of their industrial might, include the following:

By 1965 they expect pig iron production to be up 65 percent, iron ore up by 179 percent, steel up by 56 percent, chemical products up 300 percent, cement 152 percent, oil output up 200 percent, meat 217 percent, dairy products 225 percent, furniture 240 percent, natural gas up 500 percent; gross industrial production 1958-1965 up 80 percent. And the most careful examination of their data leaves no particular room for comfort in the expectation that they will miss these targets by very large margins, not unless there is an unforeseen and wholly unexpected development within the Soviet world.

They boast, incidentally, that they will achieve the shortest work-week in the world--30 to 35 hours--a 5-day week by 1965. Our projection is that our average hours in the United States will be in excess of 35 a week by 1970, not 1965.

You will learn more about the scientific challenge--just one startling but important statistic. The United States graduated 53,000 engineers in 1950. In 1958 we had fallen back to 32,000 engineers. In that same year the Soviet Union graduated 70,000 engineers.

Here is the crisis. Our economy could not possibly be more prosperous than it is today. Its rate of growth is adequate, or it's more than adequate for a peacetime society. If there were no Soviet Union, that rate of growth in fact could be moderated somewhat in order to bring the inflationary pressures under better control than they are today. But with the struggle, the continuing struggle, with the Soviet Union, our rate of growth is wholly inadequate for the purposes of in the long run meeting the challenge of the Soviet Union. And the nature of the disparity in the rates of growth will make us increasingly susceptible to the siren song of peaceful coexistence, and will make us fall sucker time and again to the illusory, momentary promises of peace to be found in meetings at the summit.

We face some traditional dilemmas. The American scene today and its struggle to preserve freedom confront these critical dilemmas: I think you will find that most of them will be at the very heart of your considerations for the next few months of the many areas which you will be examining.

1. We are engaged in a war that only our adversary is wholly committed to fight. The economic aspects of this war for national survival is basic to the political, military, psychological, and other elements of this struggle; and the success of these other strategies depends first on the degree of economic substance provided; and we are unready to provide that economic substance.

2. As a free people, we are hammering out vital economic and political policies in a marketplace of inadequately expressed aims, inadequate leadership, a largely uninformed electorate, and buffeted from pillar to post by self-seeking pressure and political groups. Yet, as in any war, we can only plan and fight well if we know our war aims, and if each of the instruments of a complex society plays an interrelated role in the achievement of those aims.

3. We have been attempting to protect and serve each separate agricultural, industrial, and financial piece of the jigsaw that is our national economy and at the same time fight and win a worldwide economic war; and that just isn't possible. There are elements in this warfare to which the traditional aspects of a market society will simply not prove an adequate response.

4. We are appalled at the high cost of government, when the fact is that the costs need to go higher. The Federal tax burden can never be lower than it is today, not so long as we are involved in protracted conflict with the Soviet world. If we are to carry on a full-scale military, political, and economic war, on a long-term commitment, the Administration must be bold enough to ask, and Congress must be far-enough seeing to grant, sufficient funds to do the job. Equally important to the amount of money made available is to give permanent economic status to our entire economic warfare program.

5. We are an international power, and yet we still carry some of the burden of the cultural and economic lag that flows from our having been so long an isolated, self-sufficient, and self-satisfied nation. Much of the American business community and even more of the American people do not understand the importance of world trade and world economic health to our own economy and to the war we are fighting. In one sense foreign trade is our most important industry.

6. We have an acute shortage of diplomatic, managerial, and technical skills; yet all three are urgently needed for our efforts at home and abroad. A trained Foreign Service means much more than trained diplomats. We have to make foreign service more attractive for economists, agricultural experts, engineers, public health specialists--people with all the many skills that are needed. To direct this field force and plan the strategy for the campaigns of economic warfare, we need something equivalent to a Board of Economic Warfare to guide our effort.

7. We are mere children in psychological warfare; yet this is fast becoming one of the most important factors in the larger struggle. In the psychological aspects of economic war though the Soviets have only recently entered the field, their pinpointed, psychologically guided economic assistance has enabled them to get more mileage out of their limited funds than we have received from our much more extensive programs.

To carry out the struggle, in my judgment we need a free world academy to teach the techniques of political, economic, and psychological warfare to the business people, the technicians, the agricultural experts, the doctors, the public health officers, the exchange groups, and the tourists, as well as the diplomats who carry the struggle abroad. I shuddered when I learned that we have 10,000 American tourists in the Soviet Union this summer, because I have all too vivid a knowledge of what it is they learn and what it is they say when they come back. I am constantly amazed at the great skill which enables an American tourist with no knowledge of the Russian language to determine after four days in Moscow that the Russian people are happy with their government.

8. We are the leading proponents of the advantages of free enterprise, and yet we make pitifully little use of American business enterprise in certain tactical areas of our world economic programs. The importance of redesigned tax laws, of extra incentives for profit-making foreign investments, as well as Government contracts for specific projects by private enterprise should be considered.

9. We are a noncolonial, anti-imperialist nation; yet we are deeply involved in the positions of our colonial allies; and we yet know little of the complexities which bedevil them, as well as the complexities which bedevil the restless peoples with whom they are concerned.

In economic terms, it is time we put the full weight of our influence and leadership behind the formation of more large regional economic organizations. In areas such as Latin America, the South Pacific, and the Near East, such multination free market areas will be the fastest and surest way to promote the growth of local industry and trade and the will to resist the blandishments of the Soviet bloc.

10. We are both a moral and a self-righteous people, and yet we do not see that these are not the same thing. If we are to succeed in countering the Soviets, we must drop our occasionally stiff-necked, moralistic attitude toward other peoples of the world.

Now, these are but a few of the contradictions that are involved and that we must resolve if we are to counter the Soviet challenge and preserve freedom. These, in my judgment, are the dilemmas which lie beneath the economic, the psychological, the political posture outlook in the future of our society here at home. The most tragic contradiction of all is that history has shown that we can fight well and win only when we have first lost. And yet we do not know that in this war there is much that we have already lost, and that ultimate victory becomes more, not less, difficult with the passage of time; and yet we must not lose!

I have talked to a number of people who have returned from the Soviet Union in the last two weeks. They in turn have talked to every Russian they could approach, through translators or through their own

language resources. I have yet to find one American traveler who has found one Russian citizen who heard Nixon's address at the close of his visit to the Soviet Union. And I have yet to see one correspondent for an American wire service or newspaper write so much as one line on what the reaction was among Russian citizens to Nixon's address. We compliment the Vice President for his skill and his courage, and he had plenty of both; and have failed to determine whether in fact both were wasted by his being duped into talking into a dead microphone. This, too, is symbolic of our posture, our faith, our total naive good will.

We are reasonable men, and because we are, it is fundamentally incomprehensible to us that we are not dealing with others who are reasonable men. We are faithful people, and because we are, we constantly expect that at some point a face-to-face confrontation will bring about companion faithfulness in our adversaries.

If it does, everything I have said has added to unnecessary alarm. If it does, we may indeed enjoy the fruits of this prosperous society with great comfort and no anxiety. But if it does not, then I suspect that the alarm which I have conveyed, the anxiety which I feel, and the jeopardy which I see I have at best most inadequately conveyed to you.

My deep appreciation to you for the opportunity to exchange these thoughts and opinions at the opening of what for you will be a most

valuable interval of months and what for the Nation will be a contribution of even greater value. Thank you.

COLONEL SILLS: Gentlemen, Mr. Cherne is ready for your questions.

QUESTION: Mr. Cherne, you mentioned that the American people are real paupers, in your opinion, in psychological warfare. Has the Institute done any work or come up with any recommendations for possible programs that would help inform the American people so they wouldn't be such paupers?

MR. CHERNE: Unfortunately, in a free society particularly--this is true in all societies but in a free society particularly--there is no substitute for leadership. Any program that we have examined, any that we have ourselves proposed, any such as the Rockefeller committee study, or the Presidentially requested Gaither committee, all in the final analysis require leadership; and the leadership which is particularly at this juncture required leadership which must come from the executive branch of the Government.

In that respect we have been heartened to observe on a number of levels that the President has in fact exerted leadership in a number of areas in American life in recent months more vigorously than he had previously exerted. I cannot, however, say that from the point of view of my own prejudices his particular expression of leadership on this

cold war front seems likely to bring about a public awareness of the need for urgent action. And I do not expect, nor can I imagine anyone who really in fact does, that the exchange between Ike and Khrushchev will result in a greater public awareness of the need for action.

QUESTION: We have already heard today from two speakers that one of the important and probably the principal problem facing us and the Nation in our survival is the rate of growth of our industrial might. Yet on the horizon we see things that would more or less limit this growth, such as surpluses, somewhat our failure to be able to compete in foreign markets. In view of the fact that our foreign markets have declined over the past few months in this year, what would be your recommended program so that we can continue this industrial growth and cope with this problem of surpluses, inflation, and the competitive price aspect?

MR. CHERNE: There are two approaches. I think I know which one I prefer. It's pretty academic, because it isn't possible, I think, politically. But the two approaches are, one, the semigarrison-state approach--one which involves national leadership in a presentation to the American community and to the American Congress of a legislative program designed to produce both the growth and the balance in our society needed to sustain this kind of effort; and the creation of those instruments of emergency policy, such as the Board of Economic

Warfare to which I referred, under whatever title it would emerge, that would bring into balance and use some of the things which today are impediments. For example, the use of surpluses as weapons in this warfare. This has been proposed session after session and just doesn't get anywhere.

That is one alternative. That involves a legislative approach to a long-term economic and political struggle. The other approach is one which relies upon individual cooperative enterprise and labor functioning toward that goal. That one would involve an even more vigorous Presidential presentation of the dilemma and requirements and request to the communities that they apply their energies within the limits of national goals.

I addressed myself in essence to the second one previously when I indicated that I do not now see the possibility of that happening. I do not foresee the possibility of the first one being politically acceptable in our society today. Consequently I must honestly say, I do not have any recommendation which presently seems feasible, such as would bring about a significant increase in the rate of growth and in the application of that growth to the programs required for national survival.

Now, this is as close to bleak pessimism, I suppose, as any speaker can present; and yet I would be dishonest if I fatuously invented a conception and indicated that there were a possibility of it being accepted.

QUESTION: I'd like to ask one question along this line. We heard your statement about a Soviet growth of 9.5 percent or 8 percent where the United States is growing at somewhere around 3 or 4 percent. We have attained a great portion of our growth, whereas the Soviet Union, you might say, is an underdeveloped country. Can they continue their 8 percent? Or, when they get to somewhere near a proportionate growth, will it drop off? In other words, the first 5,000 feet of a mountain is a lot easier to climb than the last 5,000 feet.

MR. CHERNE: I think your question is a very valid one. There is no doubt whatever that as they get to the top of the mountain, the going is tougher. Of that there's no doubt. At the same time, their rate of growth has not been moderated. It has, if anything, been modestly increased.

They have at their disposal one enormous advantage. This is a totally regimented society, capable of articulating its aims and compelling their observance. The one moderating pressure in fact is apt to be not the one which would lessen the rate of growth, but one which would increase the portion of that growth designed to satisfy the increasing hunger of a civilian consumer community.

Now, this I do foresee. In the absence of conflict, the growing bureaucracy of the Soviet Union, the growing hunger of a nonrevolutionary class for just plain comfort and luxury, will increasingly apply

its braking momentum.

There is, however, a counterbalancing fact. I have made no reference to China. That's a very complex problem in there. Whatever tendency there may be toward luxury or toward relaxation in the Soviet Union I suspect in the years ahead is going to be moderated significantly as the specter of the Asian giant grows larger and larger on the borders of the Soviet Union.

Here for us there is comfort. There are elements of this which may provide us with the thing which breaks the log jam. But at the same time it is apt to have a prodding, constantly energizing impact on the Soviet Union.

So that in the long run I visualize increasing difficulty for the Soviets. It may well be that they will drop below 8 percent. I would love to see it 6. But we can't take that much comfort from a double rate of increase of ours even if they fell to 6.

QUESTION: Mr. Cherne, you made numerous references in your presentation to the fact that we are countering the Soviet challenge. You also made some references to our economic policy and the fact that it has certain psychological implications. Would you relate the two in terms of a statement as to what your concept is of our economic strategy to achieve our economic objectives, as distinguished from what we should have as a strategy to achieve the initiative rather than the defensive?

MR. CHERNE: If I understand your question completely--and it's a very complex one--I'd like to rearrange it in order to present what to me is a feasible answer; and it may be that this is exactly what you are asking for.

I suppose my fundamental unhappiness is that everything we are involved in flows from the fact that we are countering Soviet strategy. I believe there is no possibility, not even a sound theoretical one, that a posture based largely on counteraction can in the long run be a victorious strategy. And consequently, my own strong preference is for a policy which is not counteractive, for a policy which is as uncomfortable to the Soviet Union as their policy is to us.

Very frankly, in an interval in which we see the policy of containment weakened, and the policy of massive retaliation increasingly academic, if I had my way I would reverse ground completely and genuinely pursue a course of policy which was one talked of but never seriously considered--a policy of liberation. It is my judgment, strong judgment, that a policy which constantly threatens Soviet sovereignty over the captive European states is the only policy which can in fact redress the edge which the Soviet Union has.

Everything we do now makes life easier for the Soviets. Everything they do makes life miserable for us. This to me is intolerable. Consequently I am one of a group of people--I have very little company,

more company here, I suspect, than I am likely to find elsewhere in Washington--but I am unhappy with a whole series of steps, speeded up radically in recent months, designed to assure the Soviet Union that its sovereignty over the present captive states will not be challenged by the western world. In this direction lies disaster for us.

QUESTION: I realize that you talked about the American scene, but in the total forces that we are now dividing you didn't say anything about the contribution of the Europeans, South America, Africa, and so forth, that could be made to the Western World. Could you say a few words about that?

MR. CHERNE: Yes. Without involving myself in a mass of data which, frankly, is unworkable for a brief answer, I will.

The margin of safety for the United States is very substantially increased when there is added to it the industrial production of Western Europe particularly. The raw resources of a significant portion of the balance of the world are still at our disposal.

That, however, becomes a great deal less dramatic when to the Soviet Union there is added the industrial resources of the captive states and the growing, yet-to-be-achieved, giant force available in Communist China, if in fact it is to be harnessed within the Soviet world. Nevertheless, the picture is far less bleak presently and in the immediate few years ahead when you total up the resources of both of those worlds.

Here, however, the economic advantages are to some extent lessened by the political disadvantages in the areas which are involved. Africa, a Western European area until now, is an area which will increasingly involve major difficulties for the Western World in the years ahead.

The Latin American world is rapidly becoming a primary target for the Soviet Union. If I had the time, I would speak in some detail of the extent to which they have achieved important goals in Cuba, for example, 90 miles from our own shore. Politically we are not strengthening our position in areas which have been unchallenged areas for the West, with one important reversal. Communist action in Laos and Chinese action in Tibet have dramatically reversed within the last six months Asian neutralism and almost a closed Asian mind where western policy is concerned. Here thus far has been the one great gain as a result of Communist action for the Western World.

QUESTION: What would be the effect on our industrial productivity if we were permitted to trade freely with the 300 million Chinese?

MR. CHERNE: I, frankly, don't know. There is no question at all that the Soviet Union and China both could be significant purchasers of American industrial production. My own inclination is that this would be a sizeable long-term economic and military disadvantage to us.

You will undoubtedly see that Mr. K will play this particular siren song very capably, very enticingly, when he visits the United States. I do know that some major American corporations have already advised their executive staffs, including at least one corporation that expects no visit from Mr. K to their plant, who nevertheless advised their executives to be courteous, polite, and helpful in the course of Mr. K's visit to the United States. There is eagerness on the part of certain industrial circles for trade, especially with the Soviet Union, because that trade is more meaningful now. Communist China is not in the position to buy much at the present time from the United States, though it does need a great deal.

This would for a short period of time be a stimulant. This would increase the rate of growth somewhat. But it would be at a tremendous hazard, because it would enable the Soviet world to achieve further industrial strength which its own resources presently cannot quite attain.

This is a difficult question, but I happen to be against trade of almost anything with the Soviet World, because I do not believe there is such a thing as nonstrategic commerce with a Communist country.

COLONEL SILLS: Mr. Cherne, our time has run out. On behalf of all of us I want to thank you for coming here today and giving us your current thoughts on the American scene today and the many problems that we face. Thank you very much.