



THE INTERRELATIONSHIP OF THE  
ECONOMIES OF THE U. S. S. R. AND  
THE EUROPEAN SATELLITES

Captain John D. Burky, USN

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Reviewed by: Colonel P. B. Klein, USAF

Date: 17 May 1960

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4 April 1960

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CAPTAIN BURKY: General Mundy, Gentlemen:

I have been looking forward to the opportunity to appear again on this platform to discuss with you the Interrelationship of the Economies of the USSR and the East European Satellites. I am looking at your smiling faces and I want you to know that it is not just because you are such an alert and scintillating audience that I really have a confession to make. So, if you will excuse me, you know I hate to make this confession, but, ever since Professor Cooper downed three glasses of this stuff, I have been wondering what's in it. This is my chance to find out. I guess the water floats on top. (Takes a drink of water.)

Last week our newspapers carried a picture of Piotr Yaroszewicz, the Deputy Premier of Poland, who was visiting with President Eisenhower. Perhaps you saw that. It reminded me that last December Piotr Yaroszewicz returned home to Poland from the December meeting of the Council for Mutual Economic Assistance. He told his people about the grandiose plans for economic integration of Poland and the other satellites with Russia, and he said to his people, "At the end of the 15-year plan Poland will reach the development level and life of the economically most developed European countries. In this period," he added, "the Socialist camp will gain basic preponderance in the peaceful competition

with the capitalist world."

Do you think those were idle words just for home consumption? Certainly not. Research reveals the disturbing truth that very recently, say, in the past two years, a tremendous amount of integrated economic progress has occurred in the East European satellite nations and under Communist planning. Present indicators are that there will be further economic integration of a very successful nature in the near future, and probably with very serious implications for us.

My objective this morning, then, is to evaluate the nature and significance of these economic ties between Russia and her East European satellites, those seven little nations that only a few years ago were part of an intense and violent worldwide struggle to maintain freedom.

Now, I'm not even going to discuss Latvia, Estonia, and Lithuania, those three little countries which were so loved by Mother Russia that she gathered them into her ample bosom--and they haven't been seen since! I won't talk about those brave Finns who died on the shores of Lake Ladoga, and I won't even more than mention Yugoslavia, because she is kind of dangling now in a Communist purgatory between East and West.

#### Visual Aid #1

I am going to concentrate on the seven little stepchildren of postwar communism in Europe. They are Poland, East Germany, Czechoslovakia, Hungary, Rumania, Bulgaria, and little Albania.

In this East European area we find many diverse languages, seven

basic ethnic origins, and four main religions. And their economic levels range all the way from the highly industrialized countries of Poland, East Germany, and Czechoslovakia up on the North, down to little Albania on the South, so backward that her GNP is less than the annual sales of Macy's Department Store.

These seven little countries are all fiercely nationalistic, as you know. Traditionally, there has been no unity among them. Any one of them would sell a neighbor short at the drop of an intrigue. In fact, this has been going on since the old days when men fought with battle axes, the married men, that is--they fought with battle axes. I don't know about the others. My first clue--I have to note that time.

Seriously, though, atheist communism itself is not a unifying factor in this area. This is attested by the fact that never more than 20 per cent of the voting populace of any of the satellite nations has ever voted Communist, and then only as an expression of anti-Nazi feelings at the end of World War II.

There has been only one common aim of all the countries of this area, and that is a burning desire to modernize like Western Europe. But even in this they have been frustrated. Strangely, their standard of living today is not quite what it was in 1913, and their per capita consumption of food is less than it was in 1910--believe it or not.

Why, then, was Soviet Russia so interested in these East European sore spots as they lay shattered and destitute at the end of World War II?

Do you think she was just taking on more trouble? Lord knows, Russia had plenty of troubles about that time.

#### Visual Aid #2

Let's take a look at the area. Physically, it adds up to 393,000 square miles of territory, and 98 million people--almost half the size of the population of Soviet Russia herself. Their aggregate natural resources very neatly complement those of the Soviet Union. And the combined gross national product, which I estimate today to be about \$80 billion, is roughly 40 per cent of Soviet Russia's. In the aggregate, their varied economies represent about one-third of the production of the Soviet Empire.

You can see that, properly exploited, their aggregate economic potential could provide great strength and be very important to the Kremlin in any kind of an economic struggle.

Now, for strategic purposes, let's depart from our conventional map of Europe and look at it from the point of view of the Kremlin.

#### Visual Aid #4

As Stalin gazed westward over Europe, he must have licked his greedy chops as he viewed this broad belt separating free Europe from Russia, not only for defense but for offensive strategy as well. For, if this area could be controlled to his liking, you can see that it would be a powerful trump card in his expansionist plans.

We can see that from this angle the seven captive nations provide

Russia with advanced positions penetrating deep into Europe. Note that the wedge formed by the satellites affords not only a penetration of Central Europe but positions Communist forces on the flank of the Scandinavian countries on the North and Greece and Turkey on the South.

Well, they say that a girl's geography usually determines her history. That's the way it is in this case. It is obvious that geographically the seven little countries of East Europe are of strategic importance to the Soviet Union. We can expect that she will use these countries again and again as Soviet pawns in her game of international political chess.

But I'm getting ahead of my story, gentlemen. Let's get back to Stalin.

Decisions reached at Yalta and Potsdam enabled the impoverished Stalin to impose his iron will over the shattered East European territories newly taken back from the Axis Powers. They were, as you recall, Rumania, Hungary, Bulgaria, and Yugoslavia. Communism's expanding foot was in the door! And, in four short years, while the West was pre-occupied with other things, Stalin parlayed his temporary wartime authority into complete mastery of all East Europe--albeit over ineffective British protests.

This, in the words of a refugee, Polkovnick Pug, is how it was done:

#### Visual Aid #5

Little Albania was taken over by Soviet-controlled Communist partisans when the Germans withdrew in late 1944, and thus has the distinction of

being the first nation to disappear behind the Iron Curtain. (Chains clanking.)

Bulgaria, invaded by the Red Army and weakened by a Communist coup d'etat in 1945, was completely dominated by the fall of 1946. (Chains)

Undermined by the Red Army of occupation and the Russian-dominated Allied Control Commission, both Rumania, in late 1946, and Hungary, in the summer of 1947, fell behind the Iron Curtain. (Chains)

Polish resistance was systematically liquidated by the Red Army, which then eliminated all opposition to Communist control--and thus Poland became locked in Russia's deadly embrace in 1947. (Chains)

The Soviet take-over in Czechoslovakia is the classic example of Communist subversion and treachery. The Red Army entered Czechoslovakia to "liberate" the country from the Nazis. Mr. Benes, the recognized head of the post-war government of Czechoslovakia, thought it would be possible to cooperate with the Communists in a coalition government based on free elections. You will recall that the coalition government was all the Commies needed to take over control of information, the police, and the army, and then to produce a cabinet crisis and stage a coup d'etat which, backed by the threat of Soviet troops, sucked that great little nation under the Iron Curtain early in 1948. (Chains)

The Soviet Army never yielded its occupation of East Germany, and that area, satirically enough, became the so-called "German Democratic Republic" in 1949. (Chains)

Thus, you will see, the Kremlin's colonial empire in East Europe was created by the bad faith, the duplicity, and the cruelty of the so-called Red "liberators."

Gentlemen, the refugee is genuine enough, but the chains were by the courtesy of John Burky. They are 8, 10 by 15, and they are now surplus and available to the highest bidder.

But, seriously, I wanted to put this in, because I think it is important to us to understand how Russia moved into a vacuum after World War II, so that we can see how that area, forgotten by the West, has been developed by Russia in the intervening years.

Having subdued Central Europe, Stalin was faced with a new problem. He now had to feed his half-starved seven little stepchildren, who, as you know, were bled white by the ravages of war and by his own systematic looting immediately after the war.

Then, to complicate matters for Stalin, the United States in late 1948 embarked on its Marshall Plan to restore some economic sensibility to Europe. You will recall that, in an openhearted gesture, we invited Russia and her East European satellites to join in this endeavor. Several satellite countries hopefully accepted. They thought maybe something would come of this. Poland and Czechoslovakia even went so far as to prepare delegations to go to the opening meeting in Paris. Unfortunately for the world, Mr. Molotov and a trainload of Russian experts arrived first in Paris, seemingly to prepare to negotiate. But you remember that they stayed only a few days, then packed up and left. And, immediately thereafter, reportedly on telephone calls from Moscow, all of the little satellite

nations were informed that it was a big mistake, and they hastily withdrew their initial acceptances to participate.

Their bitterness, though, must have been pretty apparent, because Moscow felt the need suddenly to compete with the Marshall Plan. A shift in policy was discerned, a shift from open looting to a subtle program which was ostensibly to help the satellites build up their economies. They did it in this manner:

Early in 1949 a body was formed, called the Council for Mutual Economic Assistance--known as COMECON, CMEA, or CEMA to most Westerners. Of course it was known as the Molotov Plan in those days, but no one has ever been able to figure out how much Mr. Molotov actually had to do with it.

Its announced plans were "broad economic collaboration," which foresaw that member countries would "coordinate their economic plans, establish joint investment programs, and begin joint production programs--from the point of view of setting up a division of productive forces according to the requirements of each country and its natural and historic conditions."

Through the Molotov Plan the Soviet Union actually did begin to give some aid to the countries of East Europe. And then economic integration took its first faltering steps.

The subsequent period, 1949 to 1953, was one of substantial industrialization in Eastern Europe. But it suffered from one major defect--

apparently each one of the new Communist gauleiters in the area determined that the safest system would be to follow the Stalin Soviet example in every last detail. Each country tried to build up a complete industrial complex, to produce its own steel, its own machinery and manufactured products, its own chemical industry, all without any regard to the natural resources or economic justification. It was just like Virginia deciding to make its own steel and its own automobiles while Michigan installed cigarette factories. No one apparently bothered to add up the total material requirements, which far exceeded the total bloc resources, and thus doomed the plan to failure before it ever started. The planners over there at that time were rather second-rate, I think, and they had the idea that the magician could just keep pouring the water—you've seen the trick--out of the pitcher indefinitely without ever bothering to fill up the pitcher in the first place.

Moscow sat back and integrated the economies of the satellite nations in only one particular area. That was armaments production--and then for the benefit of the Soviet Union again. The area-wide development that was originally envisaged by CEMA fell by the wayside in this rush of the Communist gauleiters to build socialism individually under Stalin.

CEMA officials apparently like life as much as any of us, and wisely limited their activities to the promotion of intra-bloc foreign trade. The resulting shift of trade, which forced the satellites to become increasingly dependent upon the Soviet Union and each other to keep their artificial

economies--I hate to say this, but I am going to say--viable (with apologies to Frank Milner) is shown on this chart.

#### Visual Aid #6

This chart shows the total foreign trade turnover of the Sino-Soviet Bloc in the period 1948 to 1958, during which period the total value rose from \$6.8 billion to 16.2 billion. Within that period, the trade inside the Soviet Bloc went up from \$2.8 billion to \$12.6 billion, rising percentage-wise from 41 per cent to 78 per cent. Of course there was a corresponding decrease in their trade with non-bloc countries from 1959 down to 22 per cent.

The West again remained preoccupied, and once more aided the economic integration of the Soviet colonial empire in Europe.

The next phase of CEMA's existence began after Stalin's death in 1953, which brought to a head the crises that his crazy conceptual policies had generated in East Europe.

The continued exploitation of the satellite countries, the development of uneconomic heavy industry, the alarming deterioration of their agricultural production in the face of a rising population, the continued lack of desired consumer goods, and the worsening of living standards had all reached a critical stage, which culminated in the workers' uprisings in Czechoslovakia and East Germany in 1953. Something had to give, and CEMA came forward with the answer.

By this time CEMA was released from Stalin's personality, so,

fanned by these continued crises, CEMA really came to life in the next session which convened in Moscow in March of 1954. This meeting, quite naturally, stressed the necessity for raising living standards and for obtaining more economic cooperation and coordination between the member states.

The planners went to work. There was feverish activity throughout the area. They tell about the Soviet commissar who burst in on one planning activity there. He got hold of the head engineer there and he said, "You are behind in the plans. You are holding up everything. You are behind in the plans. Why haven't you got the plans out?" This poor fellow had had just one too many commissars breathing down his neck, and he got mad. He jumped up, and he said, "I'm behind? I'm behind?" He said, "You haven't given us the basic planning data yet. It is you who are behind. I am not behind. You are behind." Of course, they couldn't countenance that kind of stuff. The commissar drew himself up and said, "Just a moment, fellow." He said, "I'm here to talk about your behind, not my behind." Eventually the plans were completed.

The new general line which they expounded in 1955 emphasized, as expected, higher industrial growth rates, without neglecting consumer goods or agriculture. This obviously required greater economic cooperation and efficiency. Regional coordination seemed to be the answer.

The promise of greater economic cooperation began to take more concrete shape at that time, when all governments except Bulgaria agreed

to synchronize their new long-term plans with the forthcoming Soviet sixth Five-Year Plan, which, as you know, was to run between 1956 and 1960. The new plans were to be coordinated on the basis of a new international division of labor.

I want to stress, because I think it is overlooked in most Western capitals, probably the most significant step yet in the interrelationship of the economies of CEMA member nations.

For the first time, natural resources would be taken into account with, for example, emphasis to be placed on the development of the oil industry in Rumania, the aluminum industry in Hungary, and the chemical industry in Poland and East Germany. Czechoslovakia was going to play a major role as a producer of heavy machinery for all countries of the bloc, and there was going to be a general division of manufacturing responsibilities for the family, with due regard to economic factors and to the available resources. As an example, Poland was going to produce medium tractors for herself and for the entire bloc, while importing the small and the large tractors, which, by delineation, were to be made by other nations.

CEMA even further accentuated its halting growth in stature by forming temporary working commissions, composed of technical representatives of planning commissions and ministries of all member states. They were to meet and study area-wide plans for economic progress in specific functional areas (like, let's say, ferrous metals, or transportation,

or electricity) and then make proposals to CEMA for consideration. After CEMA had adopted a plan, then each country was to prepare its own economic plan in consonance with CEMA's overall wishes.

But, once again poor old CEMA ran into trouble. When the national plans were submitted to the Council in May of 1956, it was found that, when added up, they fell far short of providing the necessary fuel and raw materials to insure success. The means of meeting targets was obviously lacking.

The raw material, fuel, and power shortages stemmed from a general reluctance among Communist planners--and this includes the USSR--to invest in their long-term extractive industries. You see, such large, long-term outlays of capital are relatively unattractive to Communist planners, who are all dealing with a shortage of money, and a desire--almost a necessity--to show some kind of spectacular results.

But--and this is the important thing--this time the problem was recognized, and it was dealt with. It was another significant step in economic integration which was generally overlooked at the time by the West. As I recall, we were pretty much concerned at that time about the new power steering and power brakes on our automobiles.

Well, as expected, this solution proposed by CEMA in May of 1956 favored the Soviet Union. Russia had troubles of her own, and she agreed to supply only iron ore to the satellites. Otherwise, they were to develop all of their own resources and their own industries, and to seek for what

she naively termed "hidden reserves." They had been seeking these hidden reserves for a long, long time, so they were not going to be forthcoming overnight.

The Polish case typifies the basic difficulty in large-scale planning such as they were going through. You see, Poland was already straining, by Sunday shifts and forced labor, to provide coal for the empire, and suddenly CEMA imposed even new requirements on Poland. Well, it was just too much. The result was the Poznan uprising of June 1956. It was this same sort of pressure that brought on the more violent revolution in Hungary in October of 1956.

Yet, once again, it reacted favorably to Moscow. She was badly shaken, as you know, by this anti-Russian expression of her undernourished little stepchildren, and she set about with far-reaching steps to make family life more equitable for them. Nineteen fifty-six and Nineteen fifty-seven, in fact, I think, marked the real turning point toward economic progress in this area. CEMA was strengthened when the temporary functional commissions were made permanent, with headquarters distributed throughout the capitals of the CEMA-country nations, rather than being concentrated in Moscow, as they had been previously. Loans were made to Poland, East Germany, and Hungary to fix up their industrial plants. The East German contribution to the maintenance of Soviet troops was cut in half in mid-July of 1956. Repayment of Polish "debts"--I put debts in quotes because I don't know why they owed any money to Russia--to the USSR

was postponed for five full years.

The Gomulka regime in Poland was permitted to reduce coal production and exports in order to normalize its mining operations. It was decided even to modernize the Polish coal mines. The equipment was to be the joint responsibility of Polish, Czech, and East German producers of mining equipment. Soviet credits also were granted to all the satellite nations.

But, most significantly, at the end of 1956--and again this was something that was misunderstood in this country--the USSR announced revision of its sixth Five-Year Plan. Similar revisions were already under way in all the CEMA countries. There is evidence that CEMA played a leading role in picking up the pieces of Russia's shattered European colonial empire in 1956 and 1957.

The new Russian Seven-Year Plan, which runs from 1959 to 1965, was made public in September of 1957. Commander McEnery is going to discuss that with you in more detail later. A Polish proposal for what they called broad perspective plans running clear to 1975 was adopted by CEMA and detailed planning through the 1965 period was begun. It was all to be coordinated with Russia's new plan. This was the point we missed when we gleefully saw Russia change to her new Seven-Year Plan. By 1958, in fact, vigorous progress toward economic integration was under way. Low budget, I guess.

Well, gentlemen, CEMA has finally come of age, and its effects may

be far reaching so far as Western ambitions are concerned. It has further expanded its permanent functional economic commissions to bolster the two weakest spots, agriculture and transportation. Now it looks something like this:

Visual Aid #6-1/2

The Council for Mutual Economic Assistance was established, as you see, in April of 1949, consisting of a Council, a Secretariat, and a Conference of Deputies. But these technical commissions were not formed until 1956, when they formed the number that you see down here (indicating). However, it wasn't until 1958 that transportation, construction, food, and consumer goods entered the picture. They now have permanent organizations of top planners, and they are not just second-raters, either. They are located in these various places, working the year around, preparing detailed economic plans for the whole CEMA area.

Recently CEMA meetings have been attended by First Secretaries of the Central Committees of the Communist and Workers Parties, and even the heads of government. Such names as Gomulka, Novotny, and Kadar seem to lend "class" to their meetings. And their expert economists and planners have recently been contributing their best talent. Mid-1959 saw the completion of detailed economic plans running through 1965. These long-range perspective plans I mentioned are due at the end of this year.

More important, though, are three new elements in their planning:

Visual Aid #7

(1) Economic division of labor among member countries, which I mentioned. I think this is still the most important step they took.

(2) More attention is being paid to the principle of equality among the member nations. Whereas Russia used to simply dictate to them, now there does seem to be a certain amount of discussion back and forth. Sure, they are all Communists, but nevertheless they <sup>open</sup> can/their mouths without losing their teeth, nowadays. They couldn't do that before.

(3) The recognition of the desirability of speeding the development of the less industrialized CEMA countries.

In other words, you see there is now a real regional consciousness.

But, even if these new CEMA principles are upheld, their practical implementation presents some real problems:

(1) There is always the problem of measuring and comparing real costs and determining what is the burden of investment, when you are doing any planning in this type of a society which never does ~~really~~ know what its costs are.

I had a discussion with Mr. Alkimov, who is the Commercial Secretary of the Soviet Embassy here. He formerly was on a commission which determined the costs of the products that they have. This was shortly

after we saw so much publicity about the microscopes that they were selling in this country, which were being sold in New York even below the cost of materials to produce them in this country. It made quite a splash in the headlines. You probably recall it. I questioned him, and, whether he was so far ahead of me that I didn't get the point or not, I don't know, but, when we got all done, I was convinced that he didn't have the faintest idea of what those things actually cost them. We all know that they price them politically. But, as far as what the actual cost was, I don't think he had the faintest idea. They just don't have the means of keeping records like we do.

(2) Then there is the problem of pricing, which is an ancillary problem, and it affects every aspect of CEMA planning and trade. I am not talking about this kind of pricing to us but pricing for the goods that they trade between the member CEMA countries.

(3) That brings on another problem, which is the settling of their international accounts with no common unit of account. Everything, theoretically, is based on rubles, but, as you know, there are at least two values of rubles, and in Poland there are four different values of zlotys, and there is no common denominator between Polish zlotys and Czech korunas, or whatever it is that they use. So they have an awful time keeping their accounts straight, as I understand it.

(4) The Soviet Union also still enjoys considerable leverage with her CEMA countries because of her greater economic resources, and

she very often uses this to bludgeon them into unanimous decisions.

A good example is the case when Poland refused to drop its automobile industry. The USSR just simply put a ban on the purchase of Polish automobiles by other CEMA countries, holding the club of withholding resources over their heads, and she made her desire stick. Now Poland doesn't have an automobile industry.

(5) Also there is the quality of planning which in this type of enterprise is going to have to be of a really high order to improve the situation in the face of continued national interests and jealousies. Over there I think they call it chauvinism. Somebody the other day told us that that was almost as bad as deviationism, and I agree. I have been accused of being a revisionist, myself. It will be difficult for the USSR to press its stepchildren too hard, however, with this economic leverage, to get them to surrender their national economic sovereignties so soon after the period they went through under Stalin, and their memory of what happened then. If she does, these stepkids might decide to run away from home.

Speaking of running away from home, during the Hungarian revolt, one of the party workers took advantage of the general upheaval around there and he ran out on his ugly wife and four kids. But he didn't get very far. He was apprehended and hauled up before a stern Budapest judge who berated him something awful. He says, "Here you are a member of the Communist Party, and right when things are tough here you should be

helping us, and you ran away, and you left that poor wife of yours and four kids. You are nothing but a dirty deserter." The fellow hung his head, but he said, "Judge, those are pretty hard words. I don't think you've seen my wife. Really, I ought to be classed as a refugee, not as a deserter."

What are the future prospects for CEMA? CEMA does face formidable problems, that's true, but there are factors that make success feasible.

First, the advantages of a fairly coordinated economic union will soon become obvious to every individual who is then enjoying a better standard of living. They want the same things that we do. They have proved it time and again--a home, possibly a washing machine, maybe even a Volkswagen, like Roy Compton's. But, essentially, they are fed up with war, and they want a better standard of living.

Another chance for success, I think, is the fact that, whereas extreme nationalism and local animosities have always defeated progress in the past, now, for the first time, the external actions of each nation are pretty firmly controlled by Mother Russia. None of these petulant stepkids today is in a position to step out and choose and try to whip one of the other children. So, ironic as it may seem, Russia may be in a position to achieve a unity that we have never before seen in the Balkans.

You see, Russia controls her little stepchildren by their dependence on Russia for raw materials and markets, as this tape I have will tell you:

Poland is a Soviet hostage in other ways. This is Noworogod, near Krakow, in Old Poland, a new city of 100,000, built for a new industry. The Lenin steel mills started in 1950, during the Korean War, to meet Stalin's demand for more steel. Now Poland's biggest plant, it employs 17,000 workers and pays one of the highest average wages in Poland, and is a key to Polish industrialization. But 80 per cent of its iron ore comes from Russia. When the Poles act up, as they did in 1956, the ore slows down and so does the mill.

So you see Russia can easily force each one of her satellites to contribute for the benefit of the whole family. So, if Russia chooses to continue this new spirit of equality which she has evinced, I think we are going to see some real improvement over the sad lot of the East Europeans in the past. This may be in time sufficient to weld this area into strong economic unity and might greatly then enhance the overall economic capability of the entire CEMA area.

As Tito once said: Any country which gives more than 20 per cent of its trade to Soviet Russia is caught in the Red orbit. The time is rapidly approaching when it will be well nigh impossible for any one small child to run away from Mother Russia no matter how unhappy that child might be with the family lot.

Well, what has economic integration accomplished to date? I think the most obvious thing is this reversal of trade from West to East. All these satellite nations in the past were Western-oriented before World

War II and conducted 75 per cent of their trade with the West. Their people traveled freely in Europe and their culture was oriented in that direction.

Today we see the exact opposite. Travel is limited, and their trade, as I showed you, is practically all with Russia. This is the picture of trade in 1937 and now, 1957.

#### Visual Aid #8

Note that only two East European countries, Czechoslovakia and Poland, traded at all with the USSR before World War II, and then only to the tune of 1 per cent. Today you will notice that their trade with Russia is about one-third of their total foreign trade. The more dependent satellites, like Rumania, down there in the last line, go as high as 63 per cent of their trade with USSR. So I think they are caught in the Red orbit.

How much progress have these stepchildren made under the guidance of Mother Russia?

#### Visual Aid #3

The satellites have quadrupled their pre-World-War-II steel production and now produce about one-fourth of the production of the Soviet empire. Incidentally, the cross-hatch here is Russian production, and this other is satellite production. The two of them equal 100 per cent.

Coal has been more than doubled and now represents about a third of the Soviet empire output.

Electricity is eight times greater than it was pre-World-War II, and again represents about a third.

Forty per cent of the cement in the Soviet colonial empire originates in the East European satellites.

Crude oil production has been doubled since prewar days and now represents about 10 per cent of the entire output of the Soviet area.

Similar increases have been made in a number of other things. Just how, now, are these economies interrelated?

In general, Russia provides the iron, the cotton, the wheat, the raw materials, and some machinery, principally to the less industrialized countries.

In return the satellites furnish Russia with machinery, shipping, instruments, all kinds of rolling stock, consumer goods, locomotives, freight cars, and all kinds of industrial items. This is all arranged in bilateral agreements on a quota basis, in accordance with CEMA recommendations.

The economic capacity of the East European satellites is also a strong factor in Russia's drive to win uncommitted countries to her bosom. That is the subject of another lecture, and I won't go into it now, except to say that it is all done on a coordinated political basis, initiated in Moscow and implemented through CEMA and other organizations.

It is interesting that about one-third of the Communist technicians

now roaming Asia and Africa are from satellite nations.

Although the political stability of the satellites might still be questionable, I don't think there is any doubt that they are making great economic strides. Their industrial growth averages 6 per cent a year, and there is no doubt that they are providing effective support to the ambitions of the Soviet Union, by their contribution of technical skill, natural resources, and manufactured products, in a well-coordinated plan.

Khrushchev even dreams of a close-knit empire--A United States of communism, he calls it--that would spread from the Baltic to the Pacific and from the Mediterranean to the Arctic. All state boundaries would disappear, and each country would contribute its specialty, just like we do in the United States, in a completely integrated union.

#### Visual Aid #11

This is the way Mr. K. envisages his empire. I won't run through the list of things on there, because they are too many, but each nation is providing its specialty, or will, when they get going, with Russia providing essentially the raw materials which will control her seven little stepchildren. CEMA has been greatly strengthened and expanded, and has already outlined the economic tasks for several years ahead.

Long-distance pipelines are already under construction, as you will note, to take Russian oil to Czechoslovakia, Hungary, Poland, and East Germany. Oil refineries in Slovakia are to be among the biggest in Europe.

Among the CEMA speedups is an electric grid, which will be rushed

to completion in 1963 to tie East Germany, Poland, Hungary, Czechoslovakia, and parts of Rumania with Soviet electric grids in the Ukraine and the East Prussian areas.

Soviet iron ore deliveries to the East European satellites are going to be more than doubled by 1965 to help increase their output to nearly three times the present production.

Every CEMA country will have its assigned mission, except Russia, which, as the core of this empire, is going to remain essentially self-sufficient in all things.

Do you think this new, planned economic integration will work?

Admittedly, most of the plans have not yet been fully tested, and there are many hurdles to overcome. But, for the first time, the planning is on sensible economic grounds, and the very best available talent is there. So I think that improved standards of living are going to show up in the very near future.

Furthermore, Russia is so all-powerful that independent action by any one of the satellites is virtually impossible. Who would want to fight the system at this time?

I am afraid it will not take many years of this kind of successful integration to tie all of those nations completely to the Russian empire.

What does this mean for us?

We know that 98 million people are being denied freedom, that their religious worship and their education are closely controlled by alien forces,

that their governments are subservient to a foreign power and represent a minority of the population in every case.

Of course, we in the West have allowed this to happen--almost by design. Now, the seven little stepchildren finally have an opportunity to grow big and strong. Unfortunately, they also have an opportunity to throw that weight and that strength on the Communist side of the ledger in any economic or even military struggle.

What must we do under these circumstances? I don't have a complete answer. I don't think anybody does. But I do know that successful economic integration--and believe me, the stage is set for it--could mean the eventual disappearance of these seven little stepchildren for whom we profess sympathy, and the emergence instead of a huge and powerful Soviet economic bloc dedicated to our own demise.

Fortunately for the West there are many problems in the Soviet camp. I have described some of their mechanical difficulties. Partly through this very awkwardness they wind up in the position where Soviet Russia charges her satellites occasionally 10 to 15 per cent more for goods than she pays for the same goods she buys from Western Europe.

Also they have been forced to pay up to 18 per cent more for Soviet goods than they could pay for equivalent and available goods from Western Europe. The stepkids don't like this kind of stuff.

On top of these difficulties, of course, there is the natural resistance to collectivization, frustration at state ownership of everything, and a

natural animosity to having any foreign minority regime, for which the Poles, the Czechs, and the Hungarians, in particular, have no respect whatever.

So there are chinks in this monolithic myth. And, if we are serious about our future, I think we should exploit them.

The best way I know to exploit these openings is through an increase of trade, wherever possible, with the East European satellites. I don't know exactly how it is to be done, but I think we have to use every, single opportunity for trade, travel, and news to prove to them that our system and our goods are better, and that we can provide for an improved standard of living for those people.

Our Western allies, particularly West Germany, are already helping, in a haphazard way. Western Europe does today almost a billion dollars worth of trade with the Soviet bloc. The trouble is that we are dealing, economically and individually, with a tightly controlled empire that will sell wheat when its people are starving or buy cotton when its own mills are glutted in order to upset the West.

We do have the economic strength, if we act as a bloc, which we haven't been doing. It is up to us to accept this challenge to our way of life, organize to combat it, and use our superior, coordinated economic strength to take the economic offensive and crush the intruders who are now beating at our gates.

I think Mr. Dillon took the first step in that direction last December.

Somehow we have to go beyond the Inner Six, the Outer Seven, and other types of defensive organizations, and weld all of the Western industrialized countries into some sort of an economic bloc that is consciously slanted toward a dissolution of the Communist empire, by peaceful economic and cultural means.

I think a good place to start such an economic offensive is with the nations of East Europe. Their only hope for escape from communism's clutches is Western reorientation on a peaceful basis, before they become so integrated in the Soviet orbit that Khrushchev's dream of a U. S. of communism becomes a reality.

In conclusion, gentlemen, it is my hope that each of you, through your studies leading to the final problem, will be able to offer some concrete, positive steps designed to unshackle those seven little stepchildren from their foster mother's strangling apron strings.

CAPTAIN BURKY: I have been informed by Colonel Klein that the clock up there is about ~~five~~ minutes slow, so that makes me feel good. Gentlemen, I am now ready for questions.

QUESTIONS: John, I was a little confused by your reference to the presence of the Chinese in this situation. You mentioned that some "Chinks" were developing.

CAPTAIN BURKY: I was about to say that you had me confused. I didn't think I had mentioned the "Chinks." I see that I did. Actually,

the Chinese do sit in on all the CEMA meetings as observers. While they are not part of the bloc, they are on this side of the world and the European satellites are on the other side, the Chinese do sit in, and there is a certain amount of coordination of the foreign trade of the Chinese People's Republic--if that's what you call it--and the CEMA nations. Evidently the CEMA nations have invited anybody else to join. You don't have to be a part of that bloc. We could join if we wanted to, and Austria could join, West Germany could join, if she wanted to.

QUESTION: I noticed a striking similarity in the organization, plans, and so forth, that you put on the board, to the Common Market arrangement, in other words, on a commodity basis. They have a secretariat and a council, and various/geographic locations and cities. Is there any relationship between these terms of concept?

CAPTAIN BURKY: Well, I don't know. The Common Market concept came along so much later than CEMA, so I wouldn't say it was set up with any idea of being like the Common Market. I don't know if the Common Market was supposed to be like CEMA, but CEMA was started in 1949, in a sense simply to counter the Marshall Plan. It was set up with a secretariat, this nice looking organization centered in Moscow, just for window dressing, at the time. With Stalin at the helm, there wasn't an awful lot they could do. It was only after they had 2 or 3 very disastrous times, in 1953 and 1956, that they decided that they had something there and should make use of it. This is one reason that we in this country

haven't paid too much attention to CEMA. There were so many years when CEMA was nothing but, first of all, window dressing, and then, second, just a way to promote their interbloc trade and turn it inward so that they could pull these countries into the Soviet orbit. It wasn't until 1956 that they even organized the technical commissions. They didn't make them permanent until 1958, when they added the last three. And it has been only in the last two years that they have really had some say. This started really back after the troubles of 1956.

The heads of government got behind this thing. It's like your military posts. At your military posts, if you've got an order and you're supposed to do something, if the skipper is behind it you are a lot more liable to put some weight and energy on it than if you know he really doesn't think much of it. Usually the vice premiers and all the heads of the planning commissions of the various CEMA countries attend the semiannual meetings of CEMA. Then they go back to their own commissions and work the year around making these detailed plans that are just now getting organized.

QUESTION: John, don't we tend to maybe overestimate the importance of these orbits? It seems like everything we try to do we botch it up, and everything the Russians do they plan really brilliantly until these chinks develop. For example, look at how closely oriented Cuba is to us, and we are having a hell of a time with those people. A lot of our foreign aid that we give away in the form of the Marshall Plan aid

or ECA aid is backfiring all over the place. We are building things that they don't have the capability to handle, and we wind up making enemies. How can we presume that they are doing everything so good when the identical things that we are doing are turning out so bad?

CAPTAIN BURKY: Well, I don't give them any credit for any real brilliance. They started after World War II with just systematic looting of the countries, as you know. They just took everything that would move-- took it out of there and took it back to Russia, whether they could use it or not. In 1949 they started building up these fake Soviet examples of industry in USSR when they didn't have the natural resources and didn't have the economic justification for some of the heavy industry they tried to put in. That again was dumb. They only turned to that because, as a result of the looting they really had strife on their hands.

So then they did another very foolish thing. When they finally switched to intra-bloc trade--and this was partly our fault--that got a real push when the Korean War was on and we had embargoes on strategic goods, which prevented a lot of other goods from flowing into that area from the West. So again they weren't too smart. It was just all they could do.

But now they have started some economic planning which I think could be very effective. We have to remember two things, I believe. One is that all of these countries have had their bellies full of war. They are always fighting or somebody is walking over them to get somewhere else, it seems. They are at peace now, whether they like it or not. One program

I heard described it by saying that Poland is a nation of tired heroes. They are tired, according to some information, fighting for liberty and justice, and all that, and want to be just peaceful and lead a better life.

Now, the planned integration that they are accomplishing is bound to make economic sense. Gosh, we do it in our own country. There is no reason that Hungary shouldn't, if she has oil fields, produce oil. And East Germany, which has a lot of good technicians and is a highly industrialized country, should continue to develop her chemical industries. These are all just the natural consequence of things.

The other thing that I think we should remember is--and this is hard for me, being an American; it's hard for me to realize that I am always trying to get at the damn Russians one way or another, but--that most people in East Europe have an entirely different attitude. The Poles, for example, hate the Germans more than they hate the Russians. They have suffered more from the Germans. Down in Bulgaria and in that neck of the woods, they are just afraid. They are as much afraid of the Greeks and the Turks as they are of the Russians. Practically all of them have had just as much difficulty with the West as they have had with the East.

I think there was initially a more receptive attitude. Although they were Communists, and they didn't like a Communist regime to be imposed on them, there was a more receptive attitude to anything that would bring law and order and allow them to enhance their standard of living.

Now, for the first time, after fighting among themselves for centuries, they've got one guy there who is so strong that they can't start a war every week. They also have somebody so strong that she is in a position now, for the first time, to force the countries to do what is economically correct, providing the planning is good enough. That's why I said the planning has to be of a really high order.

They have made just as many mistakes planning up to now as they did in the past. I don't know if that answers your question. I think it expresses some of the differences between our operations and theirs.

QUESTION: John, these countries have never had a history in the past of any rapid growth, and apparently, from what you say, they really have quite a growth now--6 per cent. The people could very easily get to like that. Is there any indication that the people are really beginning to become satisfied and are going to learn to like this?

CAPTAIN BURKY: Wally, you have touched on the thing that frightens me. The interviews I have read and heard all seem to follow one standard pattern. They ask the people: "What about your freedom? What about your politics?" They answer: "I am not interested in politics. Let somebody else run the government." Whether they really mean that, or whether they are just saying it, I don't know. But there is evidence that they no longer have slave labor and policemen jerking you out of bed at three o'clock in the morning. That seems to be pretty well gone.

Again, that's not any brilliance on the part of the Soviets. They just

learned they weren't getting anywhere by that method, and they have turned to something better.

From what I have heard, people don't seem to care too much about politics if only they can have a little freedom and enjoy a little better standard of living. Of course this 6 per cent started from a very low base. There wasn't much left in that area after World War II when the Russians got through looting there.

So the thing that frightens me is that in, say, 15 years or 20 years there will be a political apathy in these countries and the people will be more or less satisfied with the fact that they are enjoying a better standard of living. I don't know if their growth rate will continue at 6 per cent. Again I say, for the first time they are doing some sensible planning.

I mentioned one of the foolish things we might do would be to build a cigarette factory up in Michigan. That's what they were doing before. Now they are not doing that any more. One weakness is that they are not tearing down the ones they have, but they are now starting to operate on some sensible economic grounds.

Of course, the big crop that Russia holds over them is the fact that she is providing the raw materials. It's just a drop in the bucket for her-- well, it's more than a drop in the bucket, but it's just enough so that Russia isn't hurt by the actions of any one country. But in one country-- I showed you the big steel mill--80 per cent of the iron ore comes from Russia. For any one country there is immediate economic trouble if it

does try to break out.

QUESTION: I'd like to hear a little more about your recommendation on the economic offensive. You said that they have a chance now to go some place, and they are going some place. Then you turn around and recommend that we launch an economic offensive. It seems to me like this will leave us in a position where the United Nations people will stand up and say, "Why, you dirty so-and-sos! We are just about to get started and you come in and wreck the economy and drive our living standards down." Could you tell us what you were thinking about on this?

CAPTAIN BURKY: You remember I covered myself. I said I didn't have a complete answer. This is difficult. I don't know exactly how you do it. Perhaps Sandy does, but he's not telling right now. What I meant was this: Everything that they are doing now to win uncommitted countries is on a coordinated basis, pretty tightly controlled. We all know that. Our opposition consists of a thrust here and some defense here, all uncoordinated, and sometimes even working at cross purposes with ourselves.

What I was suggesting was that we have to somehow organize--I don't know how to do it--I think Mr. Dillon is working toward it--our Western bloc, which has such great economic superiority, so that we will keep thrusting at these East European satellites and trading with them, advantageously to them, or at least offering to trade with them advantageously, and providing them with movies and cultural exchanges,

much as we are doing with Russia now, so that we will have a chance to reorient them toward the West, rather than the way they are now, toward Russia.

I think it has to be on a coordinated basis, so that we don't wind up competing with one another price-wise, let's say, but that we are always willing and ready somehow to organize so that we can buy a surplus that they might have, like the Russians do. Right now we have no mechanism for that. That's what I meant.

COMMENT: This is an observation, John. I notice you talk excelled in one thing. We are going to have a better record of how we are going to lose this war than they have of how they win it.

CAPTAIN BURKY: I agree.

QUESTION: I am a little confused on your suggestion for economic trade with the satellite countries. It seems to me that the satellites are almost as much a part of Russia as the republics themselves, in that the governments are supervised from Moscow, and Moscow shows no reluctance at all to keep these governments in force, by armed support if necessary. So I do not understand why economic trade with the satellite countries is a method of destroying communism. It seems to me that, in any area of trade with the satellites, we are increasing their economic position, which in turn increases the economic position of the USSR. Would you clarify it, please?

CAPTAIN BURKY: You've touched on the nub of the whole problem.

You don't just walk in and trade with them. Of course, we could have, I think, years ago. But, it's tough to say we are going to trade with them and do it. What I had in mind was that, somehow, we've got to try some sort of penetration that will reorient those people back to us. I am convinced that our goods are better.

For example, they make cars in Russia. They make them in Czechoslovakia. They don't make them in Poland any more. I have read some interviews with several--not very many but several Czechs. They don't want a Russian car; they don't even want a Czech automobile. They want a Volkswagen, made in West Germany. I think that our goods are better.

If there is some way that we can further increase their standard of living, by putting better goods in there, superior goods, that will make them look back toward the West, this would have to be preceded, maybe, by trade missions, and then, I would hope, cultural exchanges, perhaps. This is just a hope. Perhaps we could reorient their thinking back to the West so that they wouldn't remain politically dormant. If we were fortunate, maybe in 15 or 20 years, we might find that, instead of this great big Soviet bloc, without even any borders in there, there would still be, let's say, a Poland, which would like the United States and would not be willing to go to any war against the United States. That's just a hope.

STUDENT: When you use the word, "reorient," that's probably where I am confused. I don't think that we necessarily need to orient the satellites in favor of the West, because they hate the Russians, perhaps as much as

we do. They hate them enough so that they have rebelled against them. They may not be pro-West, but they are certainly anti-East. Unless you reorient the governments pro-Western--and the governments are Communist--I don't see the point. Maybe we get more Hungarian uprisings. Or where do we go?

CAPTAIN BURKY: Well, as I indicated previously, before World War II these nations definitely were Western oriented. About 75 per cent of their trade was with the West. They looked to the West and participated with the West in cultural exchanges. Now they don't. We have the iron curtain. You heard those chains come down. They are just shut off from us. The danger that I see is that with 10 or 15 years of this they will be enjoying a better standard of living. It is just unfortunate, perhaps, for our side that Russia has the raw materials to supply them, and they are now in a position of producing some of the goods that Russia needs. So that economically they can get welded into one unit.

Now, my only hope would be that we can get them thinking back toward the West so that there would be enough people who would be politically active that somehow, through coups or some other way, they might disrupt one of these Communist regimes, or do as Gomulka is doing in Poland. He has a regime which is subservient to Russia, that's true. But, my gosh, from all I have read, it is not anything like Soviet Russia thought it was going to be when they first let him come to power. They had him in jail for several years. They brought him out only because he

was the one man they could depend on to still be Communist. He represents a strong element of opposition. They took a definite chance in letting him come back in power. They brought him out of prison and put him in. He quelled the uprisings in return for being released. When he was put in this position of power he made his nation subservient to them, but on certain conditions. And they backed down on everything he demanded.

So I am only hopeful . It's just a nebulous outline at this time. I am only hopeful that we might, maybe not recapture but, at least, give those nations of East Europe enough of a sense of freedom that they would not be a part of a big and pretty strong economic bloc working against us.

QUESTION: I noted in the press in the last week or so that Mr. Khrushchev is anxious to take the initiative, or seize the initiative, at the forthcoming Summit Conference. One of the things that he proposes to do is to do away with the Warsaw Pact. Since it is mainly military oriented, it is bound to have economic implications. Can you give us your ideas of what economic problems may arise if he actually goes ahead with this proposal between the seven little stepchildren and Mother Russia?

CAPTAIN BURKY: I have wondered about that. It might be the first break we have had in a long time. Economically I don't think it is going to make an awful lot of difference in the very near future because of the way they are coordinated. I can't really answer your question. This is so new, and I am only hopeful that it will do something. That's about all I can really say on this.

Gentlemen, our time is about up. I have a tape recording I'd like to

have you listen to, to show you that working up this lecture was not all drudgery. I was very well supplied with rum and cokes while I was working this up. A song, a parody on "Back in the Saddle Again," which will please all you Texans, developed out of this.

Back in the satellites again  
Out with Khrushchev and his friends  
Where the filthy Communists meet on the usual graft and greed  
Back in the satellites again.  
They're riding the people once more  
They have been since 1944.  
Now no one sleeps at night and the only law is bite  
Back in the satellites again.  
Singin' "Can it be they are coming after me?"  
It's back to Siberia again.  
But they can't see, I wanta be free  
Back in the satellites again.

End of program.