COMMUNIST FOREIGN ECONOMIC OFFENSIVE

21 March 1961

CONTENTS

Page

INTRODUCTION--Captain Edgar S. Powell, Jr., USN, Member of the Faculty, ICAF..... 1

SPEAKER--Mr. Leon M. Herman, Specialist in Soviet Economics, Legislative Reference Service, Library of Congress..... 1

GENERAL DISCUSSION..... 16

NOTICE

This is a transcript of material presented to the resident students at the Industrial College of the Armed Forces. As such it represents the views of the author and not necessarily those of the Industrial College or the Department of Defense. Members of the College may quote it only in student reports or publications for use within the College. Other persons may not quote or extract for publication, reproduce, or otherwise copy this material without specific permission from the author and from the Commandant, ICAF, in each case.

Publication No. L61-171

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

Mr. Leon M. Herman, Specialist in Soviet Economics, Legislative Reference Service, Library of Congress, received his A. B. degree from Long Island University in 1932 and his M.A. degree from the University of Chicago in 1935, where he specialized in studies of the Soviet area. He was with the Department of Commerce from 1942 to 1957, at which time he left his position as chief of U. S. S. R. section to assume his current job. In his present position, Mr. Herman studies current economic developments in the U. S. S. R. with particular emphasis on trade, foreign economic activities, and industrial potential. In 1949 Mr. Herman translated P. Lyashchenko's "An Economic History of Russia, " for the American Council of Learned Societies. In 1955 he contributed the chapter on foreign trade in G. B. de Huszar's "Soviet Power and Policy." Some of his most recent writings include "The Sharp Edge of Soviet Foreign Aid," "New Leader," February 1960; "What You'd Be Doing in Russia," "Nation's Business," December 1960; and "The Labor Force," in a symposium entitled "Inside the Soviet Economy," published in the "Saturday Review," 21 January 1961. In the summer of 1960, Mr. Herman traveled through the Soviet Union for a period of four weeks as a member of an economic group sponsored by the C. E.D. The group traveled under an exchange arrangement between the C. E. D. and the Academy of Sciences of the U. S. S. R. This is his first lecture at the Industrial College.

COMMUNIST FOREIGN ECONOMIC OFFENSIVE

21 March 1961

CAPTAIN POWELL: An important segment of our study in economic capability for international conflict is the lecture on "Communist Foreign Economic Offensive."

Here we will examine the Communist trade patterns to see how the economic strength of the Communist bloc is used as a weapon in the cold war.

To assist us in this study we are fortunate to have Mr. Leon M. Herman, Specialist in Soviet Economics, Legislative Reference Service, Library of Congress.

You can see by his biography that he is indeed well qualified to discuss our topic this morning.

Mr. Herman, it is a real pleasure to welcome you to the Industrial College of the Armed Forces and to present you to the Class of 1961.

Mr. Herman.

MR. HERMAN: Thank you, Captain Powell. Fellow Students: Our topic this morning is the "Communist Foreign Economic Offensive," or Soviet bloc economic capabilities for the cold war. The amount of time we have for discussion is what? One hour? This would be an enterprise difficult enough to give pause to any sensible man. But anybody schooled in the tradition of Soviet statistics doesn't discourage easily. He knows that you can always adjust your statistical record to match the performance.

I am sure you all remember the story of the chairman of a collective farm who was slowly walking to deliver his report to the annual meeting. He wasn't very happy because he didn't have any cheerful news to report. Then he talked briefly to his statistician. The statistician gave him some hints on how to report his information. With the aid of this hint, the chairman announced that he had great news to report: "Comrades," he proclaimed "50 percent of our annual plan has been fulfilled 100 percent."

So, if we don't quite cover everything, I am sure we will be able to find a reason for it.

As we look around the world today, it is easy to see that the men in the Kremlin are not national leaders in the ordinary sense of the word. In fact, as national leaders we know their credentials are not very good. They are something else. Ever since they were put there as the heirs to the great powerhouse that Lenin built up, they have regarded themselves as men of destiny. They are here not to study the world, as Marx said, but to change the world. They are here to see the world through a very important change, they tell us. They have to see it through the transition between the stage of capitalism, which must be left behind, and the stage of communism, which is ahead of them. And only they, of course, know the road to this wonderful stage.

As strategists, of course, they know that before you can make capitalism disappear you have to make the capitalist West somehow vanish from the face of the earth, preferably, as they like to see it, by exploding from within. They will supply the pressure necessary to help it explode from within, because, so long as the capitalist West exists and prospers, it somehow spoils their behavior in the world. It minimizes and reduces their freedom of action in the world. So long as the capitalist West exists and prospers, and "infects" the rest of the world with its passion for economic betterment, you just can't make history as easily as you would otherwise. And, so long as the capitalist West behaves as it does, with a spirit of self-confidence and generosity, somehow, you can't point to it as the specimen of a dying social order. It looks and acts glowingly alive.

It also spoils the Soviet claim, which you hear often, to the effect that to achieve progress in this day and age somehow you must sacrifice freedom, that freedom, in a sense, is the price of progress, and that a nation must surrender self-government and open discussion before it can achieve a rapid rate of growth.

On this issue, of course, all Communist leaders have agreed since time immemorial: The West has got to go! The only detail on which they disagree from time to time, as you well know from your reading, is on precisely how the West should be made to explode within and disappear. Each major Communist figure over the years had his own theory. Marx, you may remember, predicted that what would happen would be a process of social polarization in which the rich, few in number, would wind up at one pole, and the very poor, getting progressively poorer, would wind up at the other end. The tension produced by this polarization process would tear capitalist society apart, so that

finally the vast majority of the poor would overwhelm the handful of the rich and you would then have the emergence of the perfect human society enjoying a state of communism.

This should have happened of course, sometime during the 19th century; but it did not. Accordingly, Lenin changed the details on the forecast of how the West would disappear, he produced another formula. To him, the end of the West looked much closer and much simpler, because he had been successful in converting one country in Europe--not the ideal country, not an advanced industrialized country--such as Marx had based his hopes on, but a good sized country, to communism. This country would now be used to inflame, provide the spark for, Western Europe, where the proletariat was strong and numerous, and allegedly ever-anxious to convert his country to communism.

This was the way Lenin expected that the West would explode. Russia, the weakest link in the chain of capitalism, would supply the revolutionary spark for Western Europe. That was, you remember, good enough a theory to hold to for about perhaps five years, until that, too, became untenable.

Stalin presided over the operation for many years, for three decades roughly, and in the course of his term of office, he had several theories on the subject, which we need not go into. But I do want to mention the last one, because it leads us into the present discussion. During the last few years of his life, Stalin produced a very ingenious theory as to how the West would be brought to its knees. This of course remained official theory so long as he was alive. He explained it in his last published essay.

The Soviet Union has been successful, he said, as a result of World War II, in chopping off Eastern Europe, and finally in getting China to come its way. The result is that they now have a large block of territory, one-fourth of the world, under direct Communist rule. This he called the "parallel" world market. Capitalism no longer has a single world market over which to sell its goods freely. Since capitalism, he said, arguing as a Marxist, depends on markets, we have constricted the area of its operation. As a result they have to constrict production. Once you begin to cut back production under capitalism, he argued, some things follow. You have unemployment, you have social distress, and you have the discontented masses of workers. This is one force he felt he had released to do its work within capitalism because of this "parallel" market.

The second force he was counting on was competition from the former belligerents, Germany and Japan. Here were two countries, powerful commercial rivals, who had not had access to the market yet, in the early postwar years. They would become more productive, they would become more commercial-minded. They would fight the others for a share of a much smaller market. The result would be commercial rivalry, sharp competition, worker discontent, and finally war among the nations of the West, revolution, and from there on, of course, nothing but dancing in the street as far as the Communist side was concerned.

This theory apparently had persuaded him to view the whole non-Communist world as a single mass. This was his reason not to intervene in its economic affairs, as the present people are intervening.

The trouble with his forecast was that in the first place it wasn't borne out by events. Mikoyan remarked sadly at the Twentieth Party Congress that, "Somehow modern capitalism isn't quite as simple a phenomenon as Stalin felt it was. It's a little more complex." In the second place, Mikoyan complained, it wasn't very useful because it simply committed you to stand by while the non-Communist world is growing stronger rather than weaker.

But this was only part of the concern. Mind you, what worried the people who were around behind Stalin while he was alive, as we can see from the literature now, was that Stalin was missing, as they saw it, a wonderful opportunity. After all, these people were always extremely history-minded. They were watching a world which was passing a revolutionary phase, from their point of view. This was the period of the liberation of millions of people from a former state of colonialism. There was revolution in the air. Yet somehow the Soviet bloc was not deriving any benefit from it. This could not be expected to go on indefinitely. Revolutions have a way of working themselves out. This was the time to take advantage of it, and Stalin was letting an opportunity pass him by.

Specifically what they worried about was this: Suppose some of these underdeveloped countries, not all, but a few, managed to stabilize, to develop an administrative and a financial structure, and then proceed to repeat the experience of the European nations of the 19th century, to catch fire economically as they did, to experience an economic take-off. Suppose they began to expand their internal market, began to provide opportunity and make education both possible and worth while--in short, repeated the whole experience of the West during the 19th century, the experience that made communism irrelevant. It was in this process that capitalism demonstrated that it was capable of adjusting to change,

of sharing the benefits of productivity, capable of living with a countervailing set of social forces (as it is sometimes described) in which every part of the community gets its share, without unbearable tension, without exploding from within.

This would have been only half of the calamity as far as the Soviets saw it--for some underdeveloped countries to stage an economic take-off. From the literature we can see that they went beyond this point. As they increase their economic activity the new nations would also become a larger market for the West. As a result the enemy itself, the capitalist West, would benefit from a higher level of activity among the underdeveloped countries. There you had a prospect for the Communist strategists which was a fate worse than death, namely, that communism would in time become irrelevant, the Communist world would remain where it was, uninspiring, stagnant, and by-passed by history.

It was these negative considerations, as I say, that produced the compulsion on the part of the post-Stalin leadership to intervene economically within the non-Communist world. Khrushchev began to call attention to the fact that in the world at large today we have a situation which is similar to a situation within a country under capitalism. There are the "haves" and the "have-nots," the rich at one end and the poor at the other. Why can't we get in there, he wondered, with any weapon at our disposal and exploit the social conflicts for our benefit, to jog history a little bit along and make sure it goes in the right direction?

Once a decision is taken in Soviet practice, as you know, they usually go all the way. If an old policy fails to work, you produce a new one by standing the old policy on its head. Immediately after Stalin died, you remember, they began to throw their weight in all directions to see how quickly they could make up for lost time.

When they began to assess the pay-off for the promise of economic intervention, it looked very good to them. We know now, for example, that there was something of a debate within the Soviet leadership. It was obviously a suppressed debate. We never heard the "other" side. We only heard the arguments of the other side demolished by the leaders who remained in power. But the debate was there and the resistance was there, and for a while they argued. The people who were against throwing a lot of resources behind this kind of economic intervention argued that this was a dangerous game from the Soviet point of view. "We can understand," they said. "The need to bolster neutralism. That makes sense. But we must remember that these countries are also capitalist in their social organization, these neutral countries are not Communist. When you help them economically you actually support

capitalism. You help them stabilize under their capitalist forms of production." The official answer ran about like this: "The trouble with you comrades is that you think and reason as economists. You forget that you are primarily political leaders, that you are shapers of history, that you are men of destiny. We must not forget that we are now back working and acting on Leninist principles." Whereas "Leninist principles" anywhere else might mean to return to some form of relaxation of the control, in regard to the underdeveloped world Leninism in fact means more aggression.

This is true for the simple reason that Lenin had always seen a special revolutionary magic in the fusion between the Russian revolution and the colonial East. He was always hoping that somehow if he could reach into and capture the underdeveloped world--China especially fascinated him--he could explode the West by way of the unbearable tension exerted against them through the underdeveloped areas. The return to Leninism also meant that they had to follow precisely what Lenin did internally, within Russia.

How did Lenin behave internally, say, in the early 1900's, when he set out to organize the Bolshevik revolution? He was not an economist. He was not a trade union man. He didn't believe, as the British trade union leaders believed, that the function of a labor leader was to make life a little better for all men on this earth. He knew that the workers were simple. Left to their own wishes, all they wanted to do was to improve their lot by obtaining a little more in wages, work a little less in hours. This is all they aspired to. Lenin had to live with that. So he went and mingled among them, associated himself with their economic demands; but not because he believed in them. Because he wanted to be with them. He had something important to teach them. He wanted to bring them "political knowledge," to tell them that their basic problem was political not economic, that life would not be better just because they would work a few hours less or get a little bit more pay, that they would have to stage a revolution, turn society upside down, and then they would live as history meant them to live.

So he accepted the economic platform of the workers in order to go along with them. He organized and led strikes. But all the time he was there only for the purpose of "arousing their political consciousness."

This is exactly what we have, say the present Communist leaders, in the outside world today. The underdeveloped countries have certain economic aspirations. They think that building a steel mill or an irrigation network will solve their problem. The men of the Kremlin will go

along with that. While they are there, however, they will teach the new nations the important political lesson, namely, that to grow rapidly they will have to do what the Soviets do. They will have to reorganize themselves on the basis of a system of coercive, dictatorial economic controls. They will have to control consumption--and thereby create savings at a rapid pace. They also have to, in order to get everything out of the capitalist nations, organize a permanent cold war against them, as the Soviets have.

The Soviet leaders feel that they must use this opportunity for teaching them the facts of life, because, as they see it, the situation in the world at large is no different from the internal class struggle.

It reminds you of a Hollywood script writer, who was assigned the job of writing a script on the well-known story "Bengal Lancer." All his life he had written nothing but cowboys and Indians stories. He didn't know how to approach this one, until he had a talk with a former British colonial officer, who told him that, from his experience, the Bengal Lancers were just cowboys in cork hats. Once he caught on to this, he produced a wonderful script based on a familiar situation.

Once they get into these societies with the offer of economic aid, they have a better basis, a better claim, for teaching them a few political lessons. They had tried, by the way, earlier to drive home some political lessons, before they went into the economic aid, but it didn't sound very convincing. They were on the outside looking in, empty-handed, reminding these countries, in so many words, that what the capitalists were doing to them was very dangerous. They also issued such warnings in Europe, you remember, against the Marshall plan They clamored loudly that this is a form of slavery, somehow, that it won't work, that it will rob the recipient nations of their sovereignty. But it is not very convincing when you have nothing more concrete to offer, and people suspect that you don't have the resources to do what the other side is doing, and that it is all a case of "sour grapes."

To get themselves away from this uncomfortable position, the Soviet leaders of the post-Stalin period made their decision to intervene.

Now we'll talk briefly about the capabilities of the Soviet bloc to intervene economically in the non-Communist world. We can't, of course, go into any great detail on this subject, but it is always important to bear in mind that the Communist form of economic organization is one in which they have never had any difficulty in providing export

"surpluses" for strategic operations, operations considered politically important. For example, when they wanted to force through the collectivization of farming, or when they had to support autarchy, or military preparedness, they were able to "find" the necessary surpluses, extracted from the economy by cutting the standard of living in order to provide purchasing power, to provide the foreign exchange with which to import the needed commodities from the outside world.

The Russians have always exported goods whether or not they could meet the domestic demand for these articles in full. They exported grains, you remember, from time to time, when there was a serious lack of flour and bread in the country. They exported petroleum; they exported steel, at a time when their own needs were not fully met. Today, as you know, they produce about 125,000 passenger cars a year and they export about one-third of them. Why? Because a decision was taken by the top command that an industrial, mature country must do certain things in the outside world, must show the productive side of its face.

So, when we ask ourselves the question whether the Soviets have enough resources for carrying on their very costly program of economic aid and expanded trade, we have to bear this in mind--that they have learned how to divert from the domestic economy over the years, that they have made certain that nobody cries out. No consumer in Russia will speak up in parliament or write a letter to the editor saying that they ought to keep all the 125,000 cars at home for the 60 million families. Then, maybe after about 500 years or so every Russian family will be able to get a car.

The capacity to divert goods into export is one consideration. The other consideration, of course, is more practical. The Soviet economy is committed to rapid growth, and has in fact been growing rapidly. In some of the statistics that I sent on in advance you will find a table which shows Russian economic growth relative to the U.S. You have to have a framework against which to observe growth, and we have observed this against the United States.

They have grown, of course, in the areas where they wanted to grow. The area which interested them most, was the area of basic industrial production, heavy industry, capital goods, rather than consumer goods. In this area they have created some "synthetic," surpluses, first, for export within the Soviet bloc. You remember that since about 1945 the Russians had cut off Eastern Europe from their normal market, for all normal commercial contact, and therefore,

because of that break, they had to supply Eastern Europe with critical imports that they used to obtain from the West. Well, there wasn't really enough to go around, to meet their needs in full. By working their priority system, the Soviet rulers provided at least a token shipment of the kind of industrial goods the satellite countries most urgently needed.

Based on these two facts, namely, that the internal economic resources of the U.S.S.R. are growing and that they have had some experience in the industrial supply of the bloc, (especially China since 1950), this gave the Soviet leaders the confidence that a little more diversion of goods from domestic consumers, as the economy grows would not strain them too much. These are leaders, as we know, who have total control over what is shipped outside. There is no danger, in this setting, that some individual manager of a factory might become enamored of some market and might try to export something that he thinks he can sell at a good price.

Foreign trade, like every other important economic activity in the Soviet Union, is a government monopoly. So long as they make sure that they keep this operation under control, they can prevent it from becoming too large or burdensome. They export, for example, no more than 3 percent of the total national product. Russia to date continues to place her exports selectively in areas which will pay off politically, and yet on a scale on which the economy will not be unduly strained.

So much for the general considerations as far as economic capability is concerned. We can't do much more than that. Now, we may view briefly some of the features of this economic offensive. What does it consist of? For our purposes there are the two main channels along which they are intervening. They are intervening through trade and through economic aid.

The story of trade can be told briefly. This was the first channel of the economic offensive. The present leaders soon came to realize that Stalin had tested an idea which wasn't very practical, namely he tested to see whether by withholding economic contact with the outside world he would inject further tensions and therefore produce the explosion he was waiting for. This didn't pay off. Russia suffered a serious setback economically during this period, simply by reason of being out of contact with the West in the area of machinery, meaning civilian machinery. There were a lot of new things technologically that the Russians didn't know existed in the outside world during the first 10 years of the postwar period.

I remember when the British manufacturers of fishing trawlers first got drawn into the act and began to be plied by the Russians with orders. They reported that the specifications the Russians were writing for fishing trawlers showed that they still had the image of the fishing trawlers of two decades earlier in their minds. They had lost that much contact with the areas of technology that were not directly related to armament.

So trade had to be reactivated, and quickly, during the first half-year after Stalin's death. This was done. Every Western European country was approached with the offer of a new bilateral trade agreement. This was the old theater of operations. These were countries they knew how to deal with, their traditional trade partners. Russian trade had long consisted, as you know, of exporting raw materials and foodstuffs to Western Europe--timber, grains, ores, fertilizers--in exchange for machinery. This structure was easy to reconstitute.

It was a little more difficult for Soviet authorities to get themselves into a more active position vis-a-vis the underdeveloped areas. That was more or less new territory. New ground had to be broken, because Russia traditionally had little interest commercially in these areas. There were about a half-dozen commodities she needed from the underdeveloped world. They were natural rubber, wool, cotton, cocoa, tea, and from time to time, tin, i.e., before China stepped up its production. This trade was not on a bilateral basis; there was no quid pro quo. She would appear there chiefly in the capacity of a procurer. She would come to Malaya to buy rubber for cash sterling, and she would disappear, with nothing to sell in exchange. Or she would come to Ghana and buy cocoa, pay in sterling, and disappear.

Here she had the problem of somehow establishing her commercial contact on a more durable foundation. This took a little doing, and they fell back on the use of the traditional bilateral trade agreement. I will come to this a little later, when we attempt an evaluation of the economic weapon, to see where the difficulties lie. There is no doubt that the U.S.S.R. moved fast and established herself as a commercial factor in these areas, and even began to produce something in the way of a flow of industrial exports. To this day, by the way, most of Russia's industrial exports to the underdeveloped areas are related directly or indirectly to various economic projects she has underway in these countries. Typically, for example, she is sending to India the set of equipment that they need to build the Bhilai steel mill.

But one characteristic remains quite strong in Russia's trade with the underdeveloped areas. I have looked at some statistics comparing 1960 and 1954. This is the beginning of the drive, compared with the current stage. There you have this curious phenomenon, that, whereas Russia has increased its exports to these areas threefold, she also has increased her imports from these areas threefold, and the result is that the imbalance remains. She still buys more from these countries than she sells them, reflecting the basic commodity structure of her economy, in which she simply has larger requirements for imports from these countries than she has surpluses for exports to them.

Well, so much for trade. The part of the economic offensive which is far more dramatic, and from which Moscow expects far more results, as we all know, is the economic aid program. When this first burst upon the world, you remember, it took most of us by surprise. We applied the standard tests that we apply to a market economy in the West, namely, we asked whether Russia really had these industrial surpluses to spare. We knew the requirements of the Soviet bloc for equipment were great, that many of their requirements domestically, in the civilian economy, remained still largely unsatisfied. We naturally asked: "Where will she get these surpluses needed for economic aid?"

We always tend to forget the unique make-up of this society, its permanent state of mobilization. It puzzled us for a while, but it didn't take us long to focus on their response, to see that this was a very serious enterprise, and a carefully selected one, as viewed by the men in the Kremlin. With their power to direct, they had the kind of commodities and the kind of industrial know-how that would produce an impact, and pay off well in this area. Economic aid, as they saw it, was full of great political promise.

Today, if you have seen a recent summary of the Soviet economic aid program, you will have noted that she has a total line of credits to the underdeveloped countries that runs about $4.8 billion. Of this, one-fourth, or $1.2 billion, consists of military credits. The latter has always been an important element of the Russian foreign aid activity. In fact, in some countries this was the foot in the door. This was typically the case in the Middle East--in Egypt, Syria, and Iraq. The first get-together between Russia and these countries was in the form of an agreement on a military credit. The total we said was $4.8 billion. The number of countries involved is not very large. If you have seen a recent summary you will find that there are about 12 countries involved in the Russian economic aid program. These 12 countries are spread over four regions. In our own hemisphere there are two, Cuba and Argentina. In Africa there are three; in Asia four; and there are three

countries in the Middle East. This is as far as the geographic research of the operation goes.

As far as prominent recipients of Russia's economic aid are concerned, the three countries most favored, at the top of the list, are India, the UAR, and Indonesia. The UAR would come out first if we include the military credits. India would come out first if we counted only the economic credits. By now, of course, some projects have been in operation long enough so that we have some impressions of what the highlights are. The two big most prominent highlights, which dominate the whole landscape, are the Bhilai steel mill in India and the Aswan Dam in Egypt, the first already in partial operation; the second, just getting under way.

One prime object of this program is to demonstrate that the Soviet Union has the capacity for industrializing other nations, or for contributing in an important way to their industrialization. This, in token form at least, has been amply demonstrated.

As compared with the West, the Soviet program is not large. Roughly, we may think of it as equal to about one-tenth of the amount the West contributes. The Soviet bloc pumps into economic aid annually about $700 million, and the West provided some $7 billion a year. Add to this the fact that the Western program has about 60 or 70 countries in its scope, and the Russian program is focused on some 12 nations.

It is interesting, I think, to note that India is a very heavy recipient of Russian aid, and, if you sometimes wonder whether some of our economic programs make sense, you may ask yourself the question: How does Russia explain this to China? These are the two countries that are engaged, as we see it, in rather serious competition, in working out a demonstration effect, as to which is the better way to economic progress, the voluntary or the coercive, and Russia must have great difficulty in explaining to China that somehow all this assistance to the other contestant helps the Chinese cause.

There is this to be said about Soviet economic aid, and this is something you must not lose sight of, namely, that they actually believe, and you can see from the writings of their specialists on "imperialism" (of the non-Communist world) that economic aid to the underdeveloped countries will do them no good, that this is not the way to real, viable progress. Somehow, as the Soviets see it, economic aid from the outside will in fact produce more discontent rather than contentment. They expect economic aid to build up forces for conflict within these countries

that will tend to tear each other apart. For example, when the Soviets render aid to a country, they usually support the state sector of the economy. In all of these countries, as you know, they have mixed economies. Typically, a country like India or Indonesia will have a mixed economy, with some productive properties owned by the state and some by private interests. The Russians feel that when they support the state sector against the private sector they are strengthening the sector they favor, and, ultimately, when the society progresses further in its "contradictions"--and for the Marxists there must be contradictions--the strength will be on the right side, on the state side. The state sector is the harbinger of socialism.

Also, when they provide economic aid, they usually direct it into the area of industry. This increases the proletariat. When you increase the size of the proletariat relative to the rest of the population, you are increasing the repository of revolutionary attitudes, the class capable of revolutionary action. These are the social elements who will produce the final political revolution promoted by the Russian leadership.

Perhaps it is in these terms that they explain their action to China that what they are doing to India will make that country more divided, more frustrated, doomed to travel the revolutionary road. Perhaps China is persuaded; perhaps not.

Now, then, what does the Soviet Union do when it enters into a country with economic aid? You remember we said that the economic aid is really the opportunity, the open door, and that the political education is what they are after. They are, after all, Leninists. They believe that the condition of men is determined by the operation of certain economic forces, but, before men begin to act in concert with these economic forces, history has to instill something into their minds. They have to have political ideas. It's an old Marxist axiom that an idea, once it is absorbed by the mass of people, becomes a force for historical change. It is therefore the function of the Marxists politician to get into these countries as a friend--and then, as a friend, tell them exactly what they need to know about the outside world.

What they have to teach these people, in the first place, is the nature of the enemy. The enemy is the West. The West, they tell them is intrinsically opposed to industrializing more countries. Or they will say: If they (the West) do pretend to industrialize you, you will see that they will always avoid heavy industry. They will advise you to concentrate on processing your own raw materials, to work on consumer goods. Why? Because this is the road to continued independence. The West doesn't really want you to attain true economic independence.

They also have to demonstrate to the new nations that the West underpays on the raw materials they buy from them and, at the same time, overcharges on the finished goods which they sell them. In short, they tell them that the West likes the present international division of labor, by which the people of the less-developed regions are the hewers of wood and the drawers of water, while the West produces the fancy stuff, the machinery. And the terms of trade are always unfair; the exporters of raw materials are always the object of exploitation.

They also always agitate against high interest rates they say the West is charging. They also tell the new nations: All the West wants is your raw materials, and a chance to sell you something and to get fat in the process. But some day the West will invent synthetic raw materials, and they can point to some evidence of fibers, and they won't need you. They are just fairweather friends. To be strong and independent, you must do politically what we have done. You must organize yourselves on the basis of a permanent dictatorship. This they consider a very strong card in their hand. Sometimes I wonder when they will begin to use it with a little more discrimination. So far they have not.

Once they accused Stalin of having viewed the whole non-Communist world as one lump mass. Now they look at the underdeveloped world as if it were a single entity, failing to distinguish between the more advanced and less advanced nations in this large group.

I remember that not too many years ago a team of Russians came down to Argentina and requested an interview with President Frondizi. An interview was arranged. They had a very urgent message for him. The message they came all the way to deliver to him--they had been to a trade fair in Uruguay--was to beware of private investment, because, as they told him "this is the back door to colonialism." He heard them out politely. All in all, the interview lasted about 15 minutes, during this time he never asked them to sit down.

This is an example where they have taken a message--which works, I am sure, in some countries--and delivered it to the wrong address. You can't tell this to some countries that haven't yet organized their own political apparatus, new countries in Africa, perhaps, that simply don't know what it means to be fully in charge of their own economy, to write their own laws governing foreign investment. They haven't written those laws yet. They haven't tested them. In those countries it may work. But I am sure such scarce tactics will not work in a country that knows it is getting some of the newest and most modern industry organized or expanded with the aid of private capital from abroad; on the basis of a grassroots relationship, not government to government but industry to industry.

Such investments work quietly, almost the way the grass grows. Any self-confident new nation can control the foreign investor and also get him to help to add materially to the national wealth of the developing country.

I am sure that the campaign against private investment doesn't pay off equally in all countries. But this is only part of a broad drive the object of which is to "teach" these countries that what they must do ultimately is to deny the capitalist countries direct access to their own economies.

This is on the negative side. On the positive side, of course, the Russians also have a few things they want to convey to the new nations "as a friend." They must demonstrate to them that not only is it important to know who your enemy is, before the final clash comes, but it is also important to know who your friend is.

When you read in the Soviet publications a description of their economic aid program, and if you are a Russian citizen who, not reading anything else, you get the impression that the West has finally been persuaded somehow to get out of all the underdeveloped areas, and that now the new nations get their economic aid only from the Soviet Union and its captive allies.

While they have the ear of their clients in the poorer countries they want to demonstrate to them that the one element lacking in an underdeveloped economy is capital, and there are two ways of getting capital. You get it either by importing it from the outside and paying the price which the capitalists put on their capital, or else you extract it from internal resources. The Russian experience has demonstrated how a society can organize itself for economic growth under a dictatorship. This involved the restriction of consumption, through fiscal policy, with total control over wages, total control over prices, in such a way that the leadership knows almost every month how much will be consumed of the national product, and how much will be set aside for investment capital. This is indeed a plausible way of building capital. You extract it from your own people, and you have no interest charges. The only limit is the endurance of your own population. If your people begin to get restless, then you know you have to do what dictators have always done.

It's almost like the story of the farmer who was mixing a little bit more of sawdust every day with the oats that he fed to his horse. He was quite successful, up to a point. Just before his mixture consisted 100 percent of sawdust the stupid horse went and died. It was a clear case of a total lack of interest in scientific experimentation.

CAPTAIN POWELL: Mr. Herman is ready for your questions.

QUESTION: Sir, do you attach any significance to the fact that the Soviet Union military arrangements for the underdeveloped countries always loan rather than grant? I don't know of any grants they have made in that area.

MR. HERMAN: The issue of loans versus grants is often discussed by the Russians. I am sure there is a practical side to it and there is a psychological side to it. The practical side, of course, is that this is a practice to which the Russians are more accustomed within the bloc. In the bloc, the Soviet leaders work on the basis of loans on which they give them little time to repay. China, for example, never received a great deal from Russia in terms of extended credit. She got some hardware, some industrial goods on credit, but she had to pay up within the next two, three, or five years, at the most.

They are used to being paid for their gifts. In all of these countries they had certain commodity requirements. Take typically Egypt. They have always bought some cotton, although they produce a lot of their own. They like the raw material to be quid pro quo for the equipment. But, from the psychological side, you can see the way they use it for propaganda. They think that they are in a better position with an underdeveloped country to which they extend a loan. They make it, of course, very favorable, and they make the interest rate low, but at the same time they say, "We don't come to you in the guise of a rich uncle. In fact we are a little richer now." They use this to belittle the posture of the West, saying, in effect, "The West plies you with charity and expects you to behave like a poor relative."

I say it is a mixture of these two considerations. That's about the only significance I can see. But when a country is ready to use violence against its neighbor, when it finds somebody it would like to attack, Russia is not averse to making friends by encouraging military action. The fact that she has no surplus resources at the moment will never be a deterrent. The arms will turn up, because, if the Soviet economy has one genuine surplus, I am sure armaments are the one.

QUESTION: Would you address yourself to the question of the difference in techniques with respect to giving aid and assistance, namely, we in the West try to do this on an analytic, systematic, and businesslike basis, to determine first of all, whether the country has a need for whatever it is they would like to have, and I understand that the Soviet Union

is not quite so businesslike and is willing to do almost anything without respect to whether there is in fact a bona fide need?

MR. HERMAN: Yes, there is that kind of distinction, and it's real. In a sense the Russians have taught us a lesson in this respect. When technical aid and economic development first began, you remember, the one big operating agency with experience in the field was the World Bank. The Bank would use standard procedures going into a country where a project was suggested to them. They would use the banker's typical yardstick, namely: Will there be a market? Will there be a profit? Will it be in the final analysis cheaper than importing from abroad? I suppose it is still a good test where strictly economic considerations are concerned.

But you must remember that on the basis of that yardstick the opinion of the World Bank was that India did not need a steel mill in 1953, that it would be cheaper to buy steel in the world market at going prices than to amortize a property of the size of a steel mill. This was the Western position for some time, until the Russians got into the act. One day at a private dinner party the Russian Ambassador whispered a question to the right man in New Delhi, whether they would like Russia to give them a steel mill, now that the West had turned them down. The answer was yes, and things have been popping ever since.

You must also bear in mind that by now, compared to the one Russian steel mill, the Bhilai steel mill, the West has helped India with three steel mills. There is a fourth one on the cards. So we use some techniques that are not completely applicable in the underdeveloped countries, but we are willing to learn. I am sure we have learned a lot, and some of the lessons were taught to us by Russian practice, simply because they were on the sidelines, you remember, for a long time, while we were getting in there with both feet and doing our best.

Well, as long as we keep the door open to new ideas, techniques, as long as we keep the door to opportunity accessible, the West will make mistakes and learn from them, and do better in the future.

QUESTION: Would you comment a bit on how Russia's need for foreign exchange influences her economic policies? For example, on the original crabmeat slave-labor order many years ago, one of the main reasons I think, that we were looking for this backward approach was because we thought that she had this great need for foreign exchange and were attempting to cut some of it off. Will you comment on how she stands on this, and how this influences her policy?

MR. HERMAN: Yes. One of Russia's weaknesses, in fact, in this whole new posture that she is striking vis-a-vis the underdeveloped world is the fact that she had always kept her commitments to foreign trade at a minimum. It isn't as bad now as it once was. In the interwar period, Russia strictly considered trade as a strategic liability. As they saw it, you find your country surrounded by capitalist countries that are stronger than you, you open your doors wide to their trade, and before you know it they will overwhelm you. They will kill your infant industries. You know all the arguments that go with it. The tendency in Russia during the interwar period, especially after the big buying splurge of the first Five-Year Plan, was to restrict foreign trade; and restricted it was. It was trailing off very rapidly toward the coming of World War II, and she was building self-sufficiency and importing, as the official policy put it, in order to cease importing and to make herself less dependent on imports.

She now suffers, in a sense, from this particular practice of holding back on her involvement commercially with other economies. She suffered from it very acutely at the end of World War II, when suddenly she found her empire enlarged and within this empire she had countries from Eastern Europe, all of whom had been more active traders than had Russia. No country in Eastern Europe can claim to be self-sufficient, as Russia can. Poland was highly dependent, Czechoslovakia was highly dependent, and yet Russia did not have the wherewithal, the export surpluses, and she had to pretend that she did, because these were all countries governed by Communist minorities, and you didn't hear any outcries over that. But it certainly produced strains within the Communist empire, because of the need of these countries for contact with the foreign market and because of Russia's failure to provide a full substitute for their former commerical partners.

Because of this restricted size of her commercial operation, she was always short of foreign exchange. Russia, typically, say, in the interwar years, would have an import program. This amount, say, is what you have to bring into the economy that isn't there now, whether it's raw materials or new ideas in technology. Once you set up this import program then you develop an export program, most of it things that you really don't have in surplus, but things that will sell abroad, that will be sufficient to pay for your import program. So she was always walking the razor's edge as far as foreign exchange is concerned.

We certainly did reduce her purchasing power in this market first and in the world at large by cutting back on crabmeat, but it was just as effective as the size of the operation. Crabmeat brought the Russians

$2.3 million a year at the time we cut them off in 1951. Altogether, she was selling in this market at that time about $38 million worth of goods at the time this thing happened. It was a rather limited reduction in earnings.

But, to this day, Russia still would do a bigger job in foreign trade, and would do it with less strain, if she had not artificially restrained her foreign commercial operation. Later on we might find a little more time to talk about it for a minute or two. This is one idea that I failed to put on the record. I hope we can come back to it.

QUESTION: In your reading, sir, have you detected the reason for the exodus of the Soviet technicians from Red China, and what this may mean?

MR. HERMAN: The fact that there were more technicians at one time than there are now, I am sure is on the record. That's verifiable. The fact that they left at a particular time in large numbers was also confirmed by the Russian press. They've discussed it openly, but of course, never just as a straightforward fact. Russian information media never put down a fact and let it stand at that. They also provide the interpretation, the implication of this fact. Or else they were afraid if they didn't somebody might draw his own conclusions.

The conclusion they pointed to, the meaning they ascribed to this--and it didn't convince too many people--was that Russia has been very heavily involved in technical aid to China. There were many going programs, but now these programs were completed and China was continuing on her own. During this period they trained their own people, therefore there was no longer any need for the good Russian specialists there.

This simply left the facts stand as they were, and it is probably up to us to interpret this, as to what it means. There is obviously some tug-of-war going on in the background, in which one side tries to demonstrate to the other that "you are dependent on us for industrial development or industrial ideas and techniques," and the other tries to demonstrate that "you are dependent on us for numbers--after all, who else has got millions of expendable people to throw away?" This is part of the operations that go behind the screen, among the people at the bargaining table. But precisely how much weight it carries, I would not dare to say.

QUESTION: Mr. Herman, would you comment on the performance of the Russians under these economic aid loans? For example, we are well a-aware of their performance on the spectacular projects, like the Aswan Dam and the Indian steel mill. On the other hand, as I understand it, in Indonesia they granted a $100 million loan in 1957, but in 1960 Mr. Khrushchev

announced that an additional $250 million loan would be given, but that the moneys from the 1957 loan had not been forthcoming as of that time.

MR. HERMAN: You are right. There is an element of repeat publicity in this whole operation that the Russians are very anxious to exploit. This they do very well. In fact I think theirs is a national psychology that understands the stage operation better, or rather finds it more satisfactory to work with staged effects rather than to let events follow their own course. Somehow, when things take their own course in any Soviet operation, it becomes a pretty sloppy course. But you put it on a stage and throw a spotlight on it, and you create an illusion that is quite exhilarating. Meantime, the rest of the world is watching you, and the performance somehow becomes better all around.

I think we must not make the mistake of assuming that some foreign aid operations are less of a spotlight affair than others. They are carefully screened and watched. Actually whenever Russia goes into the outside world, even with a routine export product, a farm tractor and nothing more, she knows that she is under the world's spotlight. It's got to be better than anything offered to the lowly consumer at home.

In the Russian factories, where I went about last summer, we could see that those we came to visit that were on our itinerary were all factories that they were proud to say were producing a good part of their output for the export market. Some would say 50 percent, some would say 25, 30, or 45. These are the show places. They also showed us some of their quality control, one was in the watch factory. They also showed us the export product quality control. This is always a little more ambitious than the rest. Any project designed to be carried out in the outside world is a project by which Russian reputation and Russian know-how will be judged. She sends nothing but highly qualified people for jobs of this character.

In India there was an accident some years ago, when the first Russian chief engineer went down to help with the Bhilai mill. He was drowned while duck hunting, according to the official account. When we read his obituary, this proved to be a most impressive person, probably the No. 1 man in Russia in the business of building steel mills. He had built the last five modern Russian steel mills. They sent him and nobody else to a foreign operation like India. Unfortunately, he died. But you can't say that the Russians didn't try their best.

What happened in Indonesia has not given the Russians a black eye. I think you are right, the first credit of $100 million, granted in 1956,

was a long time in being implemented. I certainly haven't read enough in depth on this particular country to be able to put the blame on one country or the other. I rather suspect that--subject to correction, I would say--the Indonesians were probably slow in coming up with a project on which this money could be used. But the moment Russia got closer to Indonesia politically, by taking her side on the issue of the territorial dispute she had with the Dutch over New Guinea, things began to pop a little bit more.

There was one project that I know of that gave them a prolonged headache in Indonesia, but it involved Eastern Germany rather than Russia. The story is that Eastern Germany undertook to provide them with a sugar mill, and did. The only trouble was that the sugar mill they delivered was a mill for processing sugar beets rather than sugarcane. There was some embarrassment there, but they snapped out of it. The Czechs came in, made some adjustments, and that was effectively quieted down.

On the whole there are very few embarrassing developments. This kind of enterprise is very carefully controlled. For example, when they sent the firebricks for the furnaces of the Bhilai steel mill, somebody told us, they arrived wrapped in tissue paper, every brick in its own wrapping.

QUESTION: When you talked about the relationships with other countries, underdeveloped countries, you mentioned our business-to-business approach, and yet in some of these smaller countries the countries themselves are in the business that we have to contact. So, in essence our businesses are working with governments, and the Soviets are working with governments. At least that's the way it appears. Could you discuss this, please?

MR. HERMAN: You are right. The problem is anything but simple. We can't say, as we did for a while, that we were not in the business of supporting government ownership and government production in some of these countries. There were some hot debates within the Executive and the Congress about it, too.

Again, experience teaches you that you can take a position which is noble and which in your own environment seems right to you, both practically and policywise, but, when you find yourself on a spot, abroad, working with conditions that prevail and with the people and institutions as they are available, you can't always transpose these familiar principles.

I think that we resisted for a while the idea of building a pharmaceutical plant for the government of India, but on this subject we changed our position, too. This is one of our operational problems. This is one of the areas in which we have to learn steadily; our thinking is not quite adjusted to it. When we say, "Let there be more private enterprise," we feel that that's a workable objective, and you can do it. Let the private investor invest, and let the government stay out of it. The trouble is that in some of these countries, newly organized, newly emerged, there is no private capital, there is no private enterprise, and the government is both the source of capital and the source of talent for management.

You have to learn to work with these given conditions, and we do. I am sure there is not the problem now that there was before. But there is in this whole underdeveloped area, as you know, an evolving situation. India today is a little different from what it was 10 years ago, and the same is true of a number of underdeveloped Latin American countries. We believe, and we can confirm it as a fact, that as major industries develop in these countries, sometimes by government action, they engage organically in the course of their expansion other industries that either serve as subcontractors or consumers of their product. Such new industries may be in private hands, and in these areas there is fertile soil for cooperation and support on the part of our private enterprise.

When you talk to an Indian politician or an Indian statesman, he is very anxious to get private foreign investment. He wants only as much government participation as is necessary, and the rest via private deals. It was from an Indian diplomat, in fact, that I first heard this type of private cooperation described as a grassroots operation, in which a domestic business firm deals directly with a foreign business firm and there is no fanfare, no posturing, no spotlight, and no press conferences.

I think this is a promising area, but we cannot take the position that we will work on this grassroots approach only. And we haven't taken such a position.

QUESTION: Mr. Herman, I would like to get your reaction to this comparison of the fact that the West and the free world give 10 times as much foreign aid to these underdeveloped countries as does Russia, and yet they seem to get a lot of mileage out of the little they are giving. Are there some special angles that you think we might learn from them, or perhaps the mere fact that we are giving too much may create confusion.

MR. HERMAN: Don't let them hear you say that in Congress: that we are giving too much and that we are thereby creating confusion. You

may find too many people who are ready to agree with you. The problem of the amount and the impact, of course, is something you can't answer very readily. They do seem to get their mileage. Of that there is no doubt. But part of the reason, of course, is in the concentration of their effort. Remember I mentioned that there are only 12 countries involved in the Soviet program, and I also mentioned that actually 3 countries out of these 12 form an area of major concentration. I wanted to stress this. This is something I had in my notes and never got around to. To measure and weigh the Russian economic weapon, its effectiveness, its reach, its sharpness, its deadliness, I think you must remember the fact that a lot of Russian hopes are riding on this operation. It isn't just another weapon. You must remember that the Soviet leaders are people who believe in economic determinism, namely that societies evolve under the pressure of economic forces, that people do what they do as the result of the economic pressures upon them.

The Communist ideology says that the economic sphere is a decisive sphere in human relations. What counts ultimately is who has economic strength, what counts ultimately, what influences human actions is the economic setting in which they work, and the economic force at their disposal.

Accordingly, when they throw in the economic weapon and interpose their weight between the underdeveloped countries and the developed countries, they are not just interested in another avenue of influence. I think this would be belittling what the Russians expect to get out of the economic weapon. To them this is the decisive weapon. This weapon will not only make friends for the Russians--this is a limited objective--not only will it point up Russia's capabilities, not only will it remind these countries of Russian rapid growth; this economic weapon is also supposed to start a series of developments in each country, in all countries together, in accordance with which the leaders of these countries will undergo a change in attitude, first being impressed by the fact that only the Russian totalitarian way can be made to work for a very poor country, and finally being impressed by the fact that the West must be expelled altogether from their economic life.

It is this large ambition, the exclusion of the West, that the Russians intend to obtain by means of the economic weapon. I am prepared to say that it will ultimately not give them what they want. Ultimately their hopes will be disappointed. I can't see that economic aid will work as a destructive force, as they see it. I see that for all the assurances that the Kremlin rulers have from their specialists, the darn thing may work, and the new countries may begin to stabilize. These countries may get a taste of

prosperity in their mouths, and when they do that, then the recipe of revolution, the remedy of improving things by standing them on their heads to see if they work better, will no longer hold its strong appeal. It is quite different when there is frustration and when there is hopelessness.

The Kremlin is working on the assumption that in these undernourished areas they have a natural breeding ground for communism. They hope that if they work the game properly they will so cultivate this breeding area that it will cause us more trouble every year. I would say that doing our work as we are, on the basis of our simple faith that people desire most to improve their lives, that they believe in economic betterment--this is a slow enterprise but it is a promising enterprise--we can probably get more out of the economic aid operation by demonstrating how the emerging nations can have both economic progress and human freedom.

QUESTION: What are the Russians doing, if anything, toward getting a stable international currency? In view of the rumors we have heard about the increased production of gold and perhaps some large discoveries of gold, what can they do in the international market in terms of throwing more gold against our dollars, and spending more dollars, and stabilizing their currency in world trade?

MR. HERMAN: This is something that we all ponder fairly regularly. It seems to me that there is no leverage there for the Russians to do too much. They have a large gold-mining operation. They have large gold reserves. They always have had. They have a kind of mystic faith in the power of gold, especially when they were alone, surrounded by a world of capitalists. Lenin was a great believer in gold. "Hold on to it," he said. "Eventually you will be able to buy anything for gold." Stalin inherited this faith in the magic of gold and Stalin didn't part with it very much. In fact, one of the very first surface symptoms of Stalin's departure from the scene, along with the deeper symptom we have been discussing here, namely, their more active intervention in the economic life of the non-Communist world, was the readiness of the new leadership to part with some of the gold.

It wasn't until 1954 that Malenkov began to unload some gold in London on a large scale, and they sell now at the rate of about $200 million worth of gold a year.

The particular question you raised as to what they can do vis-a-vis the dollar is not very promising from their point of view. It is true that

they have the gold, and it is true that they can sell it at any price, but as a seller they are always interested in the highest price, and if they proceed to dump their gold, the latter goes down and the dollar goes up, because it is the lack of supply of gold, you remember, that created this temporary flare-up, the "gold rush," as it is sometimes called, just before the present Administration took over.

The Russians liked what was happening then, when an ounce of gold went up to the price of $40. In general, the Russians actually foam at the mouth when they discuss gold and its price. This to them is one of the sharper weapons that the capitalist powers have used against them, chiefly the United States. America dictates the price of gold, they say. Because of this American dictate gold is now worth $35 an ounce, just as it was in 1934, while the price of commodities went up threefold since that time.

What could they do when the dollar was taking a beating, psychologically, and gold was going up? If they stepped in, they could only worsen the situation. They would like to see it go up higher, but, if they bring in their gold it will only increase the supply and therefore decrease the price.

I haven't seen any area yet, and I have talked to other people, where the Russians could somehow complicate the world situation by dumping a lot of gold. If they were convinced that they would not have to face the rest of the world next year and the year after, if this were the "final battle," I'm sure they wouldn't hesitate to give away gold, sell it, or bribe all people they could with it. But as long as they believe that the world is stable, and as long as they have a seller's interest in gold, I can't see what they can do.

QUESTION: Mr. Herman, I wonder if we can change the subject just slightly and talk about black gold instead of gold gold. We see this oil appearing on the world market, at least offers of it, with increased frequency. In your view is this likely to become a dependable source of foreign exchange, or will it seriously disrupt the present markets that we know?

MR. HERMAN: Yes, the subject of black gold deserves a special lecture by itself. It deserves an hour or more, because it is a very promising area from the Soviet point of view. In fact I had something in my notes to the effect that to the Russians this is ideally the area where their foreign trade operation and foreign aid operation merge and work for the best results from their point of view, and to the greatest

disadvantage of the West. In oil, they are engaged in a kind of double-pronged attack. On the one hand, they enter the market with large supplies of oil. With these added supplies of oil, they can bring down the price. Remember, you can never bring up a price with added supplies, unless you are a monopolist, and of course Russia isn't in a monopoly position, either, in gold, or in black gold. They can complicate things for the oil companies by bringing the price down, thus forcing them to sell it cheaper. They can also, by means of their foreign aid and general influence in the underdeveloped countries, make their life more difficult by supporting the oil-rich countries' demands for a higher share in the oil profits.

In other words, they can increase the cost of the oil companies to extract the oil, and thereby they can restrict or limit their profits.

They have used the two edges of this weapon fairly effectively. They consider this, I think, to be the richest area for doing precisely what they do in the economic intervention operation in general; namely, to stage an economic presence and with that presence demonstrate to the less-developed nations who their "class enemy" is. In this case, the "enemy" are the oil companies.

To them, this is a very useful enemy to take on. You do not lose very many friends by declaring war on the oil companies; they are so few in number. What's more, there are so few areas in the world that don't have a grievance of their own against the oil interests, even among the Western European nations. And the Russians have made friends in Western Europe from time to time by offering an alternate source of supply. They have made it uncomfortable for the oil companies by persuading some local governments to use Russian crude oil to be refined by the Western oil companies.

In this area the Russians are pressing very hard. It's a rich source of purchasing power, as you indicated, and they need foreign exchange. They can't count as much on foodstuff as an export as they used to in the past. Above all, they are interested in using the oil companies as a symbol of monopolies, a symbol of the West, and in indicating to the countries in which the companies operate concessions that their only remedy is to press these companies as hard as they can, try to raise their share in the profits of the concession, and Russia will support them.

The point is that temporarily all of these things can be made to pay off. But, when Russia stays long enough in any area, as she has in oil, things begin to change. Recently there has developed a rift, which

I think, is still partly underground, between the Russians and some of the Arab countries. The oil-rich Arab countries are becoming aware that they are the most likely victims of the present Russian oil drive toward Europe. The Russians have recently announced, to the dismay of these oil-exporting countries, that they used to have 20 percent of the oil market in Europe before World War II, and they intend to regain it.

The point is an arrangement of political friendship can get complicated by the emergence of a hard material conflict of interest. It is my belief that the more they become involved in this operation of foreign trade and foreign aid the more they will discover that events have a way of unfolding despite their careful planning, that they cannot continue to deliver on the promise of all things to all men as they did when the operation first got underway.

CAPTAIN POWELL: Mr. Herman, I am sorry our time has come to a close. It has been a real pleasure having you here this morning. Thank you for an outstanding contribution to our course of study.

(24 August 1961--5,400)O/bn/dm