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THE ECONOMIC CAPABILITIES OF THE WESTERN BLOC

A lecture delivered
at the Naval War College
on 2 November 1959 by
Professor Arnold J. Zurcher

Naval historians and strategists are accustomed to appraise the existing and potential economic strength of nations and alliances in terms of its impact upon the military potential of rival power blocs. I am neither an historian nor a strategist, naval or otherwise. I can hardly be expected, therefore, to confine myself within such limits. Even if I could, it would probably be unwise to do so because, if we may believe Premier Khrushchev, our problem in the future will be to relate our economic strength in the West to the policy of peaceful co-existence of East and West. To be sure, I would be a bit careful about using the potential mode of the verb "believe" in his case.

Nevertheless, if he should prove correct as a prophet and the future relations of East and West are to be characterized by coexistence and peaceful competition, then economics assumes an added dimension in our considerations. Besides its role in the strategy of diplomacy and its significance for military preparedness, economic strength may take on purely technical and ideological aspects. It may become important because of its relation to international trade and investment and because of its public relations role in persuading the so-called uncommitted peoples about the potential value of either Communism or freedom.

In undertaking this particular assignment in 1959, there are certain advantages which a speaker enjoys that he did not enjoy a decade ago. These advantages may be summed up in the statement that many prejudicial and preconceived notions about Communist economic power, notions that are enemies of objective analysis, have been received. Today, for example, we do not assume that the Soviets cannot create a tolerable output of commodities and services because they lack free enterprise even though we may

still have faith in the superiority of free enterprise. Today we do not assume that Russian technical skill is entirely due to captured German engineers and scientists who went to Moscow when Hitler committed suicide in his Berlin bunker. Today we do not quite believe that production in Russia depends primarily on forced or slave labor even though we are not convinced that the only slaves in Russia were those Khrushchev exhibited to Nixon on their short sail along the Moscow River. Best of all, we are today fully aware of the fact that the totalitarian system of Communism, derived from Marx and Engels, does not allow ideological Marxist values or Marxist administrative preconceptions to stand in the way of its effective operation. Whatever the ideological rationale, the operation of the Soviet system can be as opportunistic and as undoc-trinaire as any in the world.

As a result of the removal of this prejudicial debris, we are in a position to be somewhat more objective about the West's antagonist and have a better yardstick to measure the potential and the future needs of the Western alliance. In determining what we must do to check, and, if need be, overcome, that antagonist, we are at least not likely to commit the cardinal sin of underestimating our opponent, a sin of which, I suggest, the West has been guilty. Indeed, we are only now beginning to discover how badly we erred as we assay the advantages Communism has gained in certain technological directions which, though much concerned with the moon, also seem to be concerned with weaponry and national security.

I suggest at the same time, that this new objectivity about the East may eventually also save us from the obverse of the sin of underestimating one's opponent. That is the sin of overestimating him. This, too, can be serious and, despite our new-found realism, we appear to be lapsing into this sin at the moment. Thanks to certain correspondents, publicists, politicians, and, I am sorry to add, certain educators, who base their reputation as analysts and prophets on the fact that they took a 21-day tour of Russia, tilted a pony of vodka in the presence of Khrushchev or Mikoyan, and signed the register at the Metropol, we are beginning to err as much

about the debit side of the Russian ledger as we once did about the credit side. If we persist in this error, the results may not be as dangerous as our former tendency to play down Russian competence; but the error can affect adversely our educational system, the pace and quality of our armament development, and the West's internal and international economic policy.

What we require in the West today, and what we must certainly have in the future, is a balanced and objective view of our antagonist's resources and potential. And despite the current exaggerations such a view is much more within the realm of possibility today than formerly. I trust that these few remarks, whether they deal with economic comparisons and contrasts between East and West or analyze the internal economic position of the Western alliance, will contribute in a modest way to the ideal objective analysis which I have defined.

Possibly the most logical point at which to begin the development of such an analysis is with that most fundamental of all economic phenomena, namely, the rate of economic growth. This, as we are well aware, is the age of statistics and the electronic computer. It is therefore not surprising that, in dealing with the question of economic growth in the East and West, a war of percentages should have developed in which almost everyone, except possibly the economist, is engaging. Indeed, the Cold War seems to have degenerated into statistical boasting and neither side has been conspicuously modest. It is a contest, however, in which the West had better forego at once any hope of victory; for, in this kind of warfare, it is a foregone conclusion that the West cannot succeed in besting Mr. Khrushchev. He, as you know, is now a veteran boaster in two hemispheres. Beside the obvious pitfalls, this is none the less an area of discussion which is relevant to our inquiry about the West's potential; and we might, therefore, tarry a moment or two to consider the subject of comparative growth rates between East and West.

Refinement of the methods of quantitative measurement in the past quarter century and the application of statistical disciplines to national income and growth figures have produced some

results upon which we can rely. About five years ago, the Foundation with which I am connected made a sizable grant to the National Bureau of Economic Research in New York to study growth rates in manufacturing industries in America. The major study in this project, by Dr. John W. Kendrick, is just being published. Other equally significant work has been done on productivity by other Bureau members, and especially by the Bureau's Director of Research, Dr. Solomon Fabricant, and by Professors Long, Rees and Wolman. The results of these studies have produced some solid figures. According to the Bureau's findings, the growth rate in the United States has averaged a little more than 2% since the end of the war and this has been the average rate of increase from the end of the First World War to 1957. The growth rate, thus suggested, relates to output per man-hour in which proper attention has been given to the increase in capital investment and to the growth in population.

As for our allies in Europe, we know that, since 1950, their growth rate has been phenomenal. In some recent articles in *Fortune Magazine*, Gilbert Burck states that the output of OEEC Europe in 1957 was 75% of America's output. A decade earlier, that is, in 1947, these same countries had an output that equaled only 50% of that of the United States. Overall European industrial productivity per man-hour is still only about 40% of that of the United States; but the output rate is currently rising faster than in the United States: about 4% per annum as against (as already indicated) somewhat more than 2% in the United States.

The fact is that, when it comes to growth rates, the world as a whole seems to have experienced a sort of explosion since the end of World War II. I am speaking of both East and West. Western Europe's economic progress since 1950 has been little short of miraculous. We have perhaps been so impressed with the German recovery under Dr. Erhard's free enterprise prescription that we have failed to note that something similar to the German miracle has been happening all over Western Europe except, perhaps, in the Iberian Peninsula. One of the greatest plus entries in the ledger

of the Western alliance is this truly phenomenal recovery and subsequent forward movement of the Western European economy.

As against such progress for America and for free Europe, growth statistics for Russia in recent years have been equally high or even higher. In a recent report on economic growth by the Rockefeller Brothers Fund, it was suggested that the Soviet growth rate is now around five or six per cent per annum. Apparently this is a gross rate for the entire economy. Such figures certainly suggest that the Russians are moving forward at a surprising rate. Combined with other recent evidence of Russian prowess, particularly in certain fields of technology, such growth figures as these have created more than a gleam of apprehension in the eyes of Western leaders who are coping with the challenge this may imply to the future security of the Western bloc. If the figures given for Russia are correct, they suggest that Mr. Khrushchev's reiterated boast that Communism will eventually catch up with the Free World, and even surpass it, may have some scientific validity.

At the same time, in measuring the challenge of such Soviet growth figures for the West, certain considerations should not be forgotten. In the first place, the Soviet figures are relatively recent figures and they are undoubtedly affected by temporary conditions, such as the effort to overcome war damage. At any rate, these figures do not yet suggest a secular rate of growth. It is not a rate which has existed in the past. There is no assurance that it can be kept up. Moreover, the threat for the immediate future is not too serious even if such a rate is maintained for some time because the output base to which this rate is applicable and from which it is derived is still quite low when compared with Western, and particularly American, standards. So, too, is absolute productivity per man hour when compared, for example, with productivity per man hour in the United States. A few minutes ago, I pointed out that Western Europe's current growth rate, which is about that attributed to the Soviet Union, is a rate applicable to an economy where productivity per man hour is still only 40% of productivity per man hour in the United States. I need hardly remind you that Russia's per-man-hour productivity is still lower.

A few weeks ago, Professor Colin Clark, of Australia and Oxford University, one of the world's leading authorities on national wealth and income, called attention in the press to the need of proper interpretation of Russian growth figures. He declared that American economists and political leaders are in serious error when they identify a five or six per cent growth rate in Russia as a normal or secular trend. He charged, indeed, that America and the West are making themselves victims of a Soviet distortion of statistics. What has happened, he explained, is that the West has become the victim of the Soviet extrapolation of an allegedly normal or secular growth trend derived from the rate of recovery from military destruction wrought by the last war in Russia. The recovery rate was abnormally high and an extrapolation would produce a secular rate that is very high, too.

Since 1890, says Professor Clark, the rate of economic growth in the United States has been maintained quite consistently around 2.3% (the National Bureau has said it was around 2.1%). Since 1939, says Professor Clark, the Soviet growth rate, measured in productivity per man hour, has stayed around 1.6%. These, (2.1 and 1.6) in his opinion, are apparently the long-term secular growth rates in the two economies. Hence, the conclusion would be that, in secular terms, the American rate of growth has consistently been higher than the Soviet's and it continues to be higher. Soviet advantages in the Cold War and in the proposed new era of peaceful coexistence are several; but there is no reason for assuming that Communism has an advantage over the Western bloc in this vital area of productivity. Quite the contrary.

In any effort to maintain a proper balance between East and West in the economic area, we are dealing with a problem which is not merely economic but which also affects the question of organization. In other words, we must consider also whether the West can match the East in providing that kind of administrative coordination and direction which can insure the most efficient use and application of resources.

As respects this problem of organization, the Communist world appears to have a distinct advantage. Even though Premier

Khrushchev is perhaps not quite so persuasive at present as he might wish to be in countries like Yugoslavia, Poland, or even China, his control over the vast aggregate of lands and peoples making up the Soviet Union and his headship of the international Communist movement give him and his oligarchical coterie a certain advantage over the Western bloc. They can centralize disposal of resources on a continental scale and can choose what will be produced no matter what the cost. Nor do they have union trouble!

Especially are these advantages of Khrushchev's oligarchs apparent in the case of Western Europe. There the national states of the nineteenth century have, until very recently at least, remained largely unaffected by the integrative political and economic forces of the present century. Indeed, we might say that, after the First World War, Western and Central Europe, in pursuit of the Wilsonian ideal of national self-determination, actually defied the integrative forces of our time, turned the clock back, and introduced a greater degree of Balkanization than ever before, with dire consequences for mankind.

Since World War II, however, the story has changed somewhat in this area of the world. The states of Western Europe, so important to the economic strength of the Western bloc, have, as we all know, demonstrated a certain awareness of the desirability of developing systems of multinational organization. I am not referring now to NATO. That organization, after all, embraces more than the European nations and is essentially strategic rather than economic. Moreover, its form is fundamentally that of a conventional alliance. I am referring rather to the effect of the so-called European Movement upon Western Europe itself, a Movement which has sought to introduce, and, to a certain extent has succeeded in introducing, instrumentalities of integration that approach the supranational in form and that propose to establish multinational policies in the economic field that are essentially irreversible. Such has been the effect and purpose of experiments such as the Schuman Pool and the special Communities, set up in 1956, to develop a six-nation common market and six-nation atomic energy pool.

In referring to these Western European institutions, I have in mind not merely the strength in the economic sphere that is mobilized by mere unity. Neither do I have in mind merely the strategic advantage that derives from the opportunity of disposing of economic resources on a continental basis. These advantages are important; but there are additional advantages implicit in this integration movement which are even more important. Chiefly these additional advantages are derived from the fact that integration permits of the organization of institutions and the development of policies that will maximize and extend the revolution in production and distribution that appears to have set in in Western Europe since the end of World War II. By eliminating artificial limitations on the market, such as tariffs, quotas and exchange controls, and both discriminatory private and public regulations of the market, political leaders and economists hope to make both capital and labor more mobile, increase the efficiency of labor, increase the rate of investment, and generally achieve what are known as "economies of scale." The end result, it is hoped, will not only be that of augmenting the per capita income in Western Europe, but generally of improving the economic position of this area vis-a-vis the competitive system under Communism, that is, of providing more centralized disposal of resources for what approaches the kind of continental area at Russia's command or at our own.

It would be unrealistic to suggest that the Western bloc has realized the potential inherent in this movement toward European integration or even that it is certain the movement will continue. As a matter of fact, integration in Western Europe slowed down perceptibly between 1952 and 1958 and got a new lease of life only this year. At the moment, the best that can be said for this process is that it has really begun and that rather surprising concessions were made, especially by France, at the end of 1958 in order to make such a beginning. I refer to the deflationary policy which France adopted in December in order that she might bring her economy more nearly in line with the economies of her proposed partners in the Community of the Six, or Common Market, to the end that the first steps might be taken, as they were in January, to

reduce tariffs and eliminate quotas. France and her partners in the Six are, moreover, now committed to a policy of gradually realizing a common market. This seems to be an irreversible policy, one which, if finally realized, bids fair to achieve some of the economic advantages which I outlined previously for this region.

Having appraised the possible economic advantages of integration in Western Europe, we must also note briefly some of the current threats to unity in that area. Paradoxically, one of these threats to unity has arisen because of the unification movement itself. I refer to the serious schism in Western Europe brought about mainly by the British antipathy to the kind of supranational community which the Six have created and to the resulting refusal of Britain to join the Economic Community of the Six. During 1958, Britain countered the formation of the Common Market of the Six with a proposed Free-Trade Area. This was to have embraced the Six as a unit and some six or more additional European nations, including Britain — in fact, all OEEC nations. Quotas, tariffs, and other restrictions were to have been eliminated among all nations in the proposed Zone; but, as respects the outside world, the Six would have had a common tariff and each of the remaining states in the zone would have been free to develop its own commercial policy toward such outside states.

As you will recall, long and sometimes acrimonious discussions ensued. Some of the Community states felt that Britain's position was discriminatory toward them. Moreover, the Community states, and especially France, did not wish to undertake the task of mutual adjustment of commercial policies within the Community and take on British and other national competition at the same time. President De Gaulle was especially adamant on this subject. Later on, as you will also recall, following the introduction of the monetary and internal economic reforms in France at the end of December 1958, the initial concessions which the Community states made to one another were extended at the same time to all OEEC states; and these included Britain and other proponents of the enlarged Free Trade Zone (all OEEC nations).

For the time being, therefore, the issue seemed to have been put to rest. But I am sure that this is only a temporary situation. It appears inevitable that in time the Six, if they continue together, will develop an intramural economic policy from which Britain and other West European countries will be excluded and, of course, the Six in the Community will thus become a rival bloc in international commerce, competing as an entity with Britain and other Western European states. It appears inevitable, also, that Britain will want to counter the threat of this kind of bloc competition. Already, in fact, Britain and certain Nordic and other European countries are trying to develop their own looser economic bloc and apparently there is a chance that this new group will come into being. Thus, what was designed to overcome economic disintegration and mitigate economic rivalry among the independent states of Western Europe and what promised much in the way of strengthening the West vis-a-vis Russia and her satellites could easily end up producing regional and national blocs.

A second situation which jeopardizes the strategic and economic advantages which the Western bloc has gained through such efforts in integration as NATO and the European Communities is, of course, the attitude of President de Gaulle. We are familiar with the embarrassments his policy has caused NATO and the United States. de Gaulle's enemies affirm that his present policy is simply an illustration of a tendency on his part to support the concept of French hegemony in Europe associated with the ideas of Louis XIV and Napoleon. For European unity of a cooperative character, say his critics, de Gaulle has no fondness at all; and it must be admitted that many of his past utterances on that subject serve to confirm such a judgment. At best, say his critics, de Gaulle will remain a constant thorn in the flesh of Western policy, economic or otherwise.

It would be indeed a rash observer who would presume to predict where de Gaulle is going. But if his friends and those closest to him can be believed, he is no foe of Atlantic and European unity, but perhaps the most timely friend such unity could have at the moment. de Gaulle's behavior since assuming office, so his

friends insist, has been misinterpreted by his critics. That behavior is motivated exclusively by a desire to lift France out of the decline she suffered on the diplomatic and other fronts during the Fourth Republic and to restore France to a position of strength and dignity. Once that mission has been accomplished, so say the defenders of de Gaulle, we may expect him to forget or forego the peculiar sensitivity he has exhibited in recent months and play his part as a loyal, cooperative European at the head of a country that is confident once more of her own strength and influence.

That de Gaulle's heart is in the right place on this question of unity, say these same apologists, is to be discerned in his rapprochement with Adenauer, in the sacrifices he imposed on France last December in order to make it possible for her to play her part in the Community of the Six, and in his obvious determination to settle the Algerian question even at the expense of losing popularity among those Frenchmen who have supported him in France and Algeria up to now. It remains to be seen who is right.

Let us now turn our attention from the European to the American side of the Western bloc and particularly to the United States. Since the war ended, European spokesmen of the Free Nations have sometimes raised doubts about America's capacity to lead the Free World; but these same critics have never publicly expressed any doubts about America's ability to assume the lion's share of the cost of the Cold War. Somewhat less talk about America's diplomatic capacity and a little more vocal concern about the impact of the huge economic burden thrown upon the United States might have given these critics among America's friends a reputation for greater acumen as statesmen. At any rate, they might have anticipated the really troublesome aspect of America's role in the Free World alliance in 1959. This is not a low diplomatic I. Q. It is fear of America's financial and economic capacity. For the first time since the war the American treasure chest appears to have a bottom. Experts are saying that the American dollar is beginning to look less like the Swiss franc and more like the British pound. Some are pessimistic enough to suggest that the proper comparison should be the French franc or at least the Italian lira.

Undoubtedly there is some exaggeration in all this. A good deal of foreign money is still finding United States Government short-term investments attractive in the New York market; and if foreign investors were afraid of the dollar's stability, they would hardly invest. At the same time it is also perfectly clear that America's past position as the economic leader of the West has been weakened appreciably and that America's capacity to contribute economic bone and muscle to Western policy and organization has declined dangerously. At the moment there are few more important problems for the Free World to solve than that of checking this decline in America's economic capacity and insuring the continued vitality of America as a senior partner in the Western bloc. There are two aspects to this current economic weakness of the United States. The first is an intramural aspect and is the product of our national housekeeping. The word we use to describe this aspect is "inflation." We might describe the condition more graphically if we said it is our insistence on establishing and maintaining more claims by consumers domestic and foreign, on what we produce in the way of goods and services than we are able to fulfill.

Inflation has been with us for a considerable period but especially since the close of the war. It has been most characteristically reflected in the constant expansion of the basic hourly wage in our major national industries. Its principal effect, as we all know to our sorrow, has been the steady decline in the dollar's purchasing power and the growing cost in dollars both of doing business and of making a living.

Some experts argue that if we could forget the welfare of the rentier class in our society, inflation of the kind and degree we have experienced since the war might be a good thing because it produces a more dynamic economy. This may be an arguable point although I doubt it. In any case, what is not arguable is the maleficent effect of the constant inflation upon America's international economic and strategic position. We are constantly increasing the price of our potential exports and exports are therefore declining. We are experiencing increasing competition with the products of less highly paid labor abroad and our imports are

expanding accordingly. A leading automobile manufacturer reminded me the other day that, immediately after the war, his fraternity was able to look to foreign markets for American cars amounting to ten per cent of production. Now, the American auto manufacturer must concede ten per cent of the domestic market to foreign-made cars. At lunch the other day a college president informed me, rather sheepishly, that his institution had just received a generous donation for a new campus building from one of our chief manufacturers of steel. Later, on inspecting the specifications, he found that the steel for his building had been ordered from either England or Germany, I forget which.

We are also suffering from a constant expansion of the cost of arming our forces and of maintaining them abroad. Our defense dollar buys less and less. We are getting less for our aid dollar than ever before in foreign markets.

We know, of course, what the remedy is but we refuse to take it — or we have refused up to now. We know from what are virtually irrefutable statistical sources that our per capita productivity is somewhere between two and three per cent per annum, as we have already noted. Anything in the way of a wage settlement in fundamental industry like steel, other metals, autos and the like which ignores the maximum limit of this productivity factor is simply inflationary to the extent that wages exceed productivity. We know, too, that this condition would not be remedied even if the affected industry should unexpectedly try to discourage inflation by maintaining its price level. Such a policy would strike a death-blow at the income necessary for industry to maintain a high rate of investment both by ploughing back income and through the dividends it pays. This, in turn, would soon have us and the West playing second fiddle to Khrushchev. Moreover, no policy of maintaining prices in a single industry, however large, can overcome effectively the inflationary effect on the rest of the economy of an inflationary wage rise in that particular industry.

The phenomenon of inflation is an elementary one, so obvious that it scarcely justifies the time required to explain it. The effects of a serious inflation, as we know, can be catastrophic for military

and economic power. The remedy is also quite obvious. But however obvious, it is apparently politically impossible to apply it in contemporary democratic states. Let us hope that history will not record that inflation in America was Khrushchev's secret weapon of victory against the Western bloc.

The other or second aspect of this problem of growing weakness in America's international position is intimately related to the one we have just discussed. It is really a corollary. This second aspect is America's growing deficit position in her international account. Even the experts and the well-informed were shocked last September when Secretary Anderson referred to America's $3\frac{1}{2}$ billion dollar deficit on her international account during the previous fiscal year. This year it is 4 billion dollars. At any rate laymen were shocked to learn about the growing erosion of our gold reserves and the piling up of creditor balances abroad, the latter a constant threat to our gold and other reserves. It was an unusual sensation for laymen to learn of this situation. We had become so accustomed to having the dollar regarded as the equivalent of gold in international transactions and the hardest of hard currencies that it was a bit difficult to adjust to the implications of what was being said about the dollar in September 1959. Apparently our thinking will have to undergo some adjusting. Apparently we shall at least have to consider the possibility that the time may come in the not-too-distant future when America will have to scrimp to overcome a threat to her reserves and counter what would amount to a foreign "run on the dollar."

What to do immediately to counter this threat is a question that is agitating our Treasury specialists. Some observers have noted that last year's international payments deficit for the United States was about equal to all of America's aid to foreign countries. Hence the suggestion that we quit giving aid. But this would be impossible. At any rate the jettisoning of that part of our aid program that goes for arms would be a practical impossibility for many reasons. I doubt, moreover, we would want to jettison the rest although the press says President Eisenhower will recommend a deep cut in January 1960. Others, including certain labor unions

long given to a generous trade policy for the United States, say we should start raising tariffs again and extending them. But such a policy would be disastrous. It would virtually break up the Western alliance and reverse the whole trade trend of the Free World since the early 1930's. Still others recommend that Europeans liberalize their trade policies eliminating restrictions on dollar purchases, and permitting American producers to export directly instead of having to set up plants abroad and then being compelled to reinvest a substantial part of earnings because they cannot take out earnings.

Recently economists have been emphasizing the fact that capital expenditures flow out of the United States in heavy volume both on private and public account. This, of course, aggravates our deficit balance. They are accordingly suggesting that European and other nations in the Western bloc, now recovered and in a surplus position internationally, take on a larger share of the burden of investment abroad, particularly in the undeveloped countries. This latter suggestion is apparently receiving an affirmative reply. Indeed it is likely to receive an affirmative response without formal urging on our part at least as respects hard loans. Only the other day, in reading Mr. Black's latest report on the World Bank, I was struck by the relative magnitude of the credits which have been extended the Bank by the Swiss, later by the Germans and, during the past year, for the first time, by the Belgians.

There is some hope also that our allies will make affirmative responses to this need for broader sharing of credits in the case of "soft" loans. Only recently that most imaginative of Frenchmen and Europeans, M. Jean Monnet, announced that his Committee for the United States of Europe was going to urge the nations in the European Economic Community to adopt a three-point program for assisting the undeveloped nations. One of these three points was an increase of investment funds. Calling this plan a "European Marshall Plan," he indicated that the aim of the program would be to raise living standards in the less developed nations by 25% in ten years.

Another development is a proposed new world lending agency for "soft" loans. Following about a year of discussion among officials of the World Bank and others, it appears likely that a special affiliate of the Bank, to be known as the International Development Association, will be set up to make loans to less advanced states. The purpose of the IDA will be to make long-term loans for development repayable in local currency. The United States is anxious to obtain such a unit not only because it can take care of non-commercial credit but also, and especially, because it will offer European nations for the first time an effective instrument through which they may cooperate with the United States in making "soft" loans.

Assumption by our partners in the Western bloc of a more generous share of the world financial responsibility which the United States has been discharging in the past fifteen years will undoubtedly help to alleviate the present deficit position of the United States in international economics. To that extent it may help solve one of the graver threats to the economic soundness of the Western bloc. But the true remedy for America's difficulties lies here at home. It is simply better financial and economic house-keeping. It is, in short, keeping down inflation.

In discussing America's current international economic plight I necessarily touched upon the problem of economic aid to the undeveloped and erstwhile colonial areas of the world. This subject is important enough to warrant somewhat more extensive treatment.

As already suggested, the strain of "soft" loans and gifts of various sorts constitutes an appreciable drain upon the economy of even the strongest state in the Western bloc. Moreover, the abuse to which such loans and gifts are sometimes subjected by the recipients can well occasion despair and a sense of frustration on the part of the giver. Far too often the proceeds are used to overcome deficit balance-of-payments position on the part of the recipient countries, thus helping to rescue the recipient from the consequences of having lived beyond its income.

But whether we like it or not, there is really no alternative for the Western bloc of nations than to take seriously their respon-

sibility towards the undeveloped lands. This they must do in their own interest. Those lands and peoples are essential to tipping the balance in favor of the Western cause in the great contest with the East. They are essential for perfectly good economic and strategic reasons. One need not develop those reasons on this rostrum.

How to approach this problem of helping the undeveloped lands move forward technologically and economically is, of course, the \$64,000 question, or perhaps, considering the current newspaper headlines, we had better get another figure of speech. We cannot very well make a greater effort in favor of some countries than in favor of others; for all areas are important. However, as respects America, we probably have a primary duty toward the nations to the south of us; and there, up to now, we seem to have fallen down rather badly.

Since Vice President Nixon's trip, we have become a bit more realistic about our Latin American policy. I expect we shall now pay some heed to the perennial demand that we help stabilize their raw materials on the world market. To aid their development programs, we are likely to expand the lending facilities of the Export-Import Bank — indeed, we have already done so, — and, despite the policy of Mr. Waugh and his colleagues who are good firm bankers, make our loans somewhat "softer" than heretofore. In April of this year, moreover, we agreed to a charter for a new Inter-American Development Bank which is also expected to carry some of the future lending load which Export-Import and the World Bank have refused to carry because they properly insist upon commercial credit.

In bringing this discussion to an end, I think we should remind ourselves that the contest which will decide the issue between East and West does not lie wholly, or even mainly, in the economic domain. It lies rather in the moral and ideological domain. Especially is this the case if we can assume that the contest is to stretch over time and not approach the character of a hot war. If that assumption is correct, the doctrine of coexistence, so persuasively developed by Khrushchev, can become an ideological

Trojan Horse if we are not too careful. Out of the doctrine of co-existence, unless we are careful and unless we effectively discipline Western public opinion, there can develop a virtual paralysis of Western efforts to maintain defensive equilibrium with the Communist world, thus assuring the Soviet Union and its satellites superiority over the West and bringing about the condition against which we have struggled so manfully and, so far, so successfully, namely, the decline and, eventually, the world defeat of the Western bloc. Already the insidious influence of this potentially dangerous gospel of coexistence has produced that pall of neutralism that has spread like a dense fog over the African and Asian lands and is now descending upon Latin America and even upon Europe. Out of the atmosphere of compromise and the general relaxation of the Western guard which coexistence inspires comes the Russian suggestion that we write off the unification of Germany, give up Berlin, accept a kind of unilateral disarmament, write off the captive nations in Eastern Europe, and accept the kind of discriminatory, non-economic trade policy which only the Soviets, like Hitler before them, know how to apply for national strategic non-commercial purposes.

No Western strategist or politician, aware of the terrible danger to civilization of releasing hydrogen warfare upon it, can do otherwise than view with sympathy every sincere and earnest effort to bring about a peaceful equilibrium between East and West even if such a sympathetic attitude means lodging Khrushchev in Blair House. But, by the same token, aware as he must be of the history of the Soviets during the past forty years and the threat that system holds for the national and social integrity of the states of the West, he has the duty of seeing to it that equilibrium with the East is a real equilibrium. It must be an equilibrium that does not sacrifice the economic prowess and technological dynamism of the West.

At this precise moment in history, it is especially incumbent upon Western leadership and experts of all sorts to take stock of this new doctrine of coexistence and of its first cousin, neutralism,

and counter those doctrines in such fashion that the overall security of the West is not impaired. We need to make sure that we make no concessions, economic or otherwise, or in the realm of disarmament, that might change the existing balance of power. We need to take steps to overcome the prevailing threats to unity among the Western bloc which stem largely from coexistence. Such steps would include a reaffirmation and strengthening of NATO, encouragement of the United States of Western Europe, and discouragement of the kind of neo-nationalism which seems to be reasserting itself in Western Europe and a reappraisal of the economic role of the United States. Above all, such a policy would mean reaffirmation of the values of Western freedom and democracy. If we can do these things and, at the same time, preserve our economic strength, we may win the war without a battle.

BIOGRAPHIC SKETCH

Professor Arnold J. Zurcher

Professor Zurcher received his B.S. degree from Amherst College, his A.B. degree from Oberlin College, his A.M. degree from Cornell University, and his Ph.D. degree from Princeton University. He served as an instructor in history and government at Emory University in 1928, and since that year he has been at New York University in the Department of Political Science.

Since 1928 Professor Zurcher has been a lecturer in politics at Princeton University, a visiting professor of government at Yale University, a lecturer for the War Department School of Military Government, Director of the Institute of Postwar Reconstruction at New York University, and a lecturer at the Naval War College.

He is the author of *Experiment with Democracy in Central Europe, Propaganda and Dictatorship* (with H. L. Childs and others), *The Governments of Continental Europe* (with J. T. Shotwell et al), *Postwar European Federation* (with Count R. N. Coudenhove-Kalergi et al), *Dictionary of Economics* (with H. S. Sloan), and *The Struggle to Unite Europe*. In addition, he has been a co-editor and contributor to *Postwar Goals and Economic Reconstruction, The Dictionary of American Politics, Postwar Economic Society, and America's Place in the World Economy*. He has also written numerous articles for educational and professional publications.

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