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## Vital Economic Areas

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## **VITAL ECONOMIC AREAS**

A lecture delivered  
at the Naval War College  
on 28 October 1953, by  
*Professor Gardner Patterson*

Gentlemen :

The topic which has been given to me is a very broad one. I like that because it means I can talk about what interests me at the moment.

I would like to look at this question of the vitalness or essentiality of various economic areas primarily from the point of view of American military capabilities rather than from the point of view of our economic welfare. I hasten to add that these two are not separate and unassociated considerations. I think it will become apparent as I go on that there are many cases where what is essential for economic welfare purposes may also be essential for increasing or maintaining our military capabilities.

This morning I will try to be as specific and concrete as I can regarding the situation as of today, but my major objective is to outline a general framework within which you may look at this problem yourselves at some future time and to mention some of the important policy issues involved. If there is anything that impresses one who studies the essentiality of various foreign areas to the United States it is that these areas change in relative importance all the time. And this for many reasons. The vitalness of a given area changes with the nearness of possible conflict in terms of time; it is highly conditioned by the estimates which must be made as to who are to be our friends, who are our potential enemies, and who, if any, are to be neutral; it is determined by the length of conflict which must be envisaged; it is, of course, also a function of the types of weapons that it is anticipated may be used. It is also dependent upon the specific techniques and methods of production

used in the United States as well as levels of production. Obviously it depends upon the estimates as to the areas where the actual fighting may take place.

A change in any of these factors (and others which could be listed) may mean that any Area "A" which may be of great vitalness to us today may not be a very important area to us tomorrow and that Area "B" which we do not really depend upon very much today, may become an essential one tomorrow. It is for this reason, I repeat, that while I shall try to be reasonably concrete and specific about the problem as I see it as of late October, 1953—the areas mentioned now may have relatively little importance five years from today. That is why I choose to emphasize the general types of considerations one must take into account in determining at any given time whether Area "A" is vital to us or not.

The first, and most obvious, consideration which one must take into account in determining how important an area is to the United States is the importance of that area as a supplier of needed materials. Looking first at the total value of all our commodity imports, one finds that Canada and Latin America are by all odds the most important areas as sources of supply. The two of them together account these days for something like 55% of all United States merchandise imports; Canada accounts for about 25% and Latin America for a little over 30%. The Western European NATO countries are next in importance, accounting for less than one-fifth; and they are followed by the Far East, which sends us something like one-sixth of our total commodity imports. The small amount that remains comes from the Near East and Africa. Virtually nothing is sent to us now from the whole area of Eastern Europe and China. Currently, we receive from the Soviet Bloc something less than one-fifth of 1% of the value of our total imports.

There are those who say that no foreign areas are really very vital to us as sources of supplies because, after all, our total

imports are equal to less than 4% of our total national income. This, of course, as compared with many other countries, is exceedingly low: imports in the case of many of the Western European countries, for example, account for from 20% - 35% of their national income. Compared with them, and in this aggregative sense, one can say that we do not have to worry very much about foreign areas in order to keep our own economy functioning at a high level.

But, as in many economic problems, it is not only the aggregates that are important. When we break down our imports into their components, one finds — especially from the point of view of commodities which are essential for mounting and maintaining a large defense force — that there are many imports which are vital to the United States. This is especially true of minerals and metals. There are a few commodities — natural rubber and industrial diamonds are examples — where 100% of our consumption is imported. There are, fortunately, relatively few cases where we are completely dependent on foreign sources. But we rely on foreign areas for more than 90% of our current consumption of many absolutely essential materials. Included here are such commodities as tin, chrome, nickel, mica sheet, asbestos, mercury, cobalt, and so on. There are others in which we rely on foreign sources for more than 75% of our consumption: tungsten, antimony, and bauxite. Over half of our lead and quartz come from abroad; and something like a third of our zinc and fluorspar and over 25% of our copper come from foreign sources. One could go on and expand this list of essential commodities — from the point of view of military operations — which do come from abroad.

The question is: Where do they come from? The answer is that they come from literally scores of foreign countries, but that the great bulk of them come from Latin America and Africa. Africa, especially, is a great potential source of these materials. It is an area which, in the aggregative sense, does not account for much of our imports. Yet this continent is of the very greatest essentiality to us in terms of our ability to maintain our dom-

estic production and our military potential. Canada is also an area of increasing importance. The rest of the world accounts for relatively little of these particular materials.

It is, unfortunately, not just our current dependence which is important. Many of these foreign areas are becoming increasingly important to us because our consumption of many of these materials is exceeding our domestic production by increasing amounts. If you make a comparison between 1936-1938 and the last two years, you will find some surprising changes. For example, in the earlier period (which is only fifteen years ago) the United States was a net exporter of copper. We are now a major importer of copper. As compared with fifteen years ago our imports of tin have increased two and one-half fold; our imports of the ferro-alloys as a group by tenfold; zinc by fifty fold; iron ore by four-fold.

This growing dependence on others for raw materials can be shown in another way. The Paley Commission (the President's Materials Policy Commission) made a very extensive study of our dependence on foreign areas for raw materials last year and reported that, taking into account all the raw materials which the United States consumes (except food and the precious metals — gold and silver), in 1900 the United States produced something like 15% more than it consumed; in 1950, it consumed some 9% more than it produced; and that if anything like the recent rates of growth in our domestic production and population continue, that by 1970 we will have a 20% deficit. Therefore, these areas — primarily Africa, Latin America, and Canada — seem destined over time to become even more vital to us than they have been in the past. It must be noted, of course, that the relative importance of any given country within this group will change. The classic recent example of this is the Belgian Congo. About fifteen years ago, the Belgian Congo was not a very important area to us. Today, as a major source of uranium, it has a vitalness for us which is matched by few other countries.

In making guesses as to how important any given area may be in the future you must also make adjustments for the possibilities of shifting from the use of scarce to more abundant resources. It is possible to shift from copper, which is relatively scarce, to aluminum, which is somewhat more abundant for certain purposes. There are, I am told, good technical possibilities for replacing lead with plastics for pipes and other purposes. There are also great possibilities of reducing the rate of increase of dependence upon foreign countries by conserving in the use of many of these metals which we import. An outstanding example is the great "waste" of materials in our automobiles. Chrome is a scarce material. The very lavish use of chrome in American automobiles could certainly be reduced a great deal; the mere weight and size of the American automobiles present possibilities of tremendous savings of iron and steel products. There are also considerable possibilities for recovering scrap.

But, taking into account these various conservations, shifting in uses, and recovery of scrap, it still seems that if our economy is to continue to grow (and this is an assumption which almost no one questions — if for no other reason than that the population of the United States is currently increasing at a faster rate than that of most other nations in the world today), then the importance to us of those areas which supply these types of raw materials seem destined to become even greater.

This dependency on imports currently raises some very important policy problems for the United States. It has, for example, raised basic questions as to what the United States should attempt to do with the so-called Point Four Program. Originally, the emphasis was on the humanitarian aspects of helping others to help themselves and on the political aspects — it being assumed that if people ate better and lived better they would be less susceptible to the appeal of Communism. But as we became more aware of our increasing dependence on these areas for commodities which were essential to military strength, the emphasis of

the program shifted (so far as the United States was concerned) toward giving such technical and capital aid as might be necessary to expand the production in these countries of raw materials. This shift has run into violent opposition from most of the underdeveloped countries. What they do *not* want is to become raw material producers for the United States and Western Europe. Most of them want to become diversified, industrialized economies. How the United States is going to work out this problem, with its political as well as economic overtones, is by no means clear.

A second major policy issue that is involved in the fact of increasing dependence on imports is the question of how can we reduce the risk of being cut off from these areas in time of war. This gets into the stockpiling problem. And here there is a series of difficult decisions to make. What commodities are to be stockpiled? The answer to this rests on the whole series of assumptions about who your enemies are to be, who your friends are going to be, what weapons you are going to use, and what materials are going to be required. These in turn rest on a series of strategic and political assumptions — some of which are almost certain to be wrong. Even if the greatest wisdom — and intuition — is brought to bear on this you still have the problem of when should you buy these things. Should you buy them when the prices are low or should you do as we have in fact done — buy when danger is very close and prices high? Should we use stockpile purchases to stabilize international commodity markets? Should purchases for the stockpile be used as a means of easing the dollar difficulties of our friends? A more serious policy problem is the one which is very much in the press these days: should we try to encourage production abroad and then stockpile foreign-produced materials, or should we concentrate our ideas, energies and public funds on expanding domestic production? Much of this discussion seems to revolve around the welfare of the existing mining concerns in the United States but the issues are bigger than this. The complex of issues summed up in that slogan

"Trade, not aid" are present. There are also questions of whether or not buying abroad for stockpiling purposes does in fact discourage exploration and exploitation which would decrease the total capacity of the United States to produce for its own use. There is something to be said for not exploiting our own resources in times of peace in order to keep these materials in the ground so that if and when foreign sources are cut off in time of war these domestic materials would be available to us. I do not pretend to be able to answer these questions, but I do think you should be ever aware of them.

I would like now to go to the second major consideration in determining the vitalness of foreign areas to us—the first having been as sources of supply. Those foreign areas which constitute important markets for our products are also important to us. In aggregative terms our merchandise exports are more important to us than our imports; exports presently are equal to some 7% of our national income as compared with 3½-4% for our imports. When you look at the area distribution of our exports in terms of total value (excluding the military materiel which is being supplied under the Military Assistance Program—these are a very special form of export and I exclude them from this calculation), you find, as in the case of imports, that it is Canada and Latin America which are the most important single areas to the United States—these two areas accounting for over half of our total exports. Western Europe is more important as a market for our exports than it is as a source of imports, while the Far East is more important as a source of imports to us than it is as a market for our exports.

There are, it seems to me, two broad general senses in which exports (apart from their effect in strengthening our allies and possibly making potential enemies dependent on us) are important to the military strength of the United States. The first is the military stake in a prosperous domestic economy. The second is the need of exports to provide a large enough market to



maintain a production base for certain industries in the United States which may be more than is needed for military and domestic purposes in times of peace, but which may be needed in time of war.

We can for present purposes divide our exports into agricultural commodities and manufactured goods. Looking first at agricultural products, we find that several important crops are very dependent indeed upon foreign markets for maintaining anything like the present level of production. (United States agriculture is also dependent, of course, upon some large internal stockpiling programs carried out by the Federal Government). Going down the list of major commodities, you find that in the case of barley 13% of our total production has in recent years been exported; 36% of our rice is exported; 36% of our wheat; 27% of our peanut oil; 28% of our soybean oil; 26% of our leaf tobacco; and 41% of our raw cotton. These are very substantial percentages of the total production.

Are these foreign markets, which maintain agriculture at something like its present level, important from a military point of view? I would argue that they are. In the first place, our agricultural exports serve to improve the health of some of our potential allies. In the second place, these foreign markets in times of peace provide for a level of agricultural production which we can very well use in time of war. For reasons which we need not go into now, the consumption of foodstuffs increases greatly in time of war and the fact that we have foreign markets in times of peace helps to maintain a level of agricultural population, production, and mechanization will stand us in very good stead, indeed, in time of war. In the third place, the prosperity which these export markets help give agriculture is important, I think, because the agricultural sector of the economy constitutes a rather important source of demand for manufacturing industries — which industries, prosperous and on a large scale, are perhaps of more direct relevance to military considerations.

Fourthly, I would suggest that it takes no great shrewdness to guess that if the foreign demand for our agricultural products were to decline seriously and that this were — as it would — to reduce farmers' income the U. S. Congress would do something about it. There is, after all, some evidence to show that Congress responds to depression in this sector of the economy by various forms of financial relief. I would hazard a guess that if a great expansion in relief to agriculture were called for because of the loss of our foreign markets, the military budget might very well suffer at the hands of Congress. I suspect that in dealing with amounts of the size that might be involved here Congress would likely begin to match off one expense against another; and that if larger appropriations had to be made to take care of the farmers that this would be to some extent at the expense of the military budget.

What are the areas which are important buyers of our agricultural commodities? From this point of view, which are the vital areas? Western Europe is at present the most important area. Western Europe is not very important to us as a source of imports, but it is very important to us as a market for agricultural commodities, accounting for between 40-50% of our total exports in most of the commodities I have mentioned. It is followed by the Far East — at least in recent years — also an area which is not of major importance as a source of imports.

Turning from agriculture to manufactured goods, we find the degree of dependence on foreign market is not so great — but it is still important. More specifically, something like 12% of our production of locomotives is currently being exported; 13% of our diesel engines; 9%-10% of our industrial trucks; 22% of our machine tools; 24% of our textile machinery; between 11%-20% of various types of tractors, and so on.

The major markets for these goods are not Western Europe and Asia, but rather Canada and, most important of all, Latin America. If you take machinery — the whole category of elec-

trical and industrial machinery — you find that Latin America takes a little over a third of our total exports, Canada takes about 25%; and the rest of the world the balance. Approximately the same percentages apply for iron and steel mill products in general, and for the whole group of automotive parts and accessories as well as the vehicles themselves. I submit that those areas (especially Latin America and Canada) which buy a significant part of the output of our industries are of great importance to the United States military because in time of war one needs large and prosperous industries producing such things as machine tools, automobiles, tractors, and diesel engines, not only because these goods are needed but these industries are relatively easily convertible into the production of various kinds of materiel.

The third major consideration that you must take into account in determining at any time which areas are vital to the United States is, of course, the importance to us of particular military allies. Obviously, these areas themselves — since they produce a good bit of the goods that make them militarily strong — become vital economic areas. And so Western Europe is important to us today not only because it is a source of demand for our agricultural exports but, more importantly, because it is an ally. But one has to go further than this and apply the same sort of analysis to Western Europe as we have outlined for the United States.

Thus, one finds that Europe is even more dependent on imports of minerals and metals than is the United States. This particular consideration does not bring in new areas of great importance to us but it does increase the importance of Africa, Canada, and Latin America. On the other hand, Europe imports much of its food and textile raw materials and so the suppliers of these goods become, at a couple of stages removed, vital to us. In addition to areas already covered, this brings into the picture such areas as North Africa, Oceania, and Egypt.

Special mention should be made of petroleum products. The United States currently imports only about 10% of its petroleum

requirements. This could easily be supplied, I understand, by South America. On the other hand, Western Europe imports virtually all of its crude petroleum and relies very heavily upon the Near East. Therefore, if one looks only at our own (that is, strictly the United States) military potential, the Near Eastern oil has nothing like the importance it does if you take into account the needs of our particular allies.

The markets for Europe's manufactured goods — and I would argue that Europe, just as the United States, needs foreign markets (especially for her engineering industries) in times of peace in order to develop these industries on a scale that can meet the internal demands in time of war — are somewhat different from ours. Ours tend to be concentrated in Latin America and Canada; whereas, Africa, the Near East, and Asia are of great importance to Western Europe.

It is not enough, of course, to consider as essential just those areas which are vital to ourselves and our allies. Since military strength is relative, not an absolute, matter, in any determination of vital economic areas to the United States, consideration must also be given to those that are important sources or markets for our potential enemies. If one assumes that at present our most serious enemy is the Soviet Union and its satellites, then in determining areas that are important to us we must include in this category areas that are important to the military strength of Russia. I know very little about the details of Soviet Bloc trade. It is pretty hard to get much information on this. There is considerable evidence that the Soviet Bloc has been remarkably successful in its autarchic policies; that is to say that they have been remarkably successful in becoming self-sufficient. At what cost we do not know, but that the cost has been great seems certain.

That they have made great strides in this direction is indicated by the following comparisons of the percentage of the individual Soviet Bloc (excluding China and North Korea) countries'

trade at present with other countries that are now in the Soviet Bloc, as compared to their trade with such countries in 1937.

<i>Country</i>	<i>Soviet Bloc Countries' Trade with other Members</i>	
	1937	At Present
Albania	5%	97%
Bulgaria	12%	92%
Czechoslovakia	11%	60%
Hungary	13%	67%
Poland	7%	58%
Roumania	18%	79%
Russia	?	75%

I cannot vouch for the accuracy of these figures. They are from Soviet sources and one would presume that they have propaganda reasons for increasing rather than decreasing the current percentage of intra-Soviet Bloc trade. Still, one can perhaps safely assume that the general dimensions of the change are reasonably accurate.

One has to assume, I suppose, that so long as the Soviet Bloc hangs together there isn't much we can do about intra-bloc trade. The fact remains, however, that in none of these cases is the trade 100% intra-Soviet Bloc; that is, Russia and the satellites do rely on some outside areas and, therefore, one has to investigate how important these outside areas are and face the policy problem of whether, and if so, what we should do to reduce such trade. Thus, for example, Ceylon (which does not matter very much to the United States one way or another, directly), is of very great strategic importance to us because she is a major supply of natural rubber to the Soviet Bloc. India becomes more important to us in this vital military sense because she also

supplies jute, hemp, and certain other militarily significant goods to the Soviet Bloc. The United States herself was at an earlier time something of a vital economic area in this sense because we also used to supply some important commodities to Russia and the other Soviet-Bloc countries. This trade has now been virtually stopped. We are now exporting little except small quantities of tobacco and feathers.

The most serious problem for us today in connection with Soviet trade grows out of the fact that Western Europe has been an important source of militarily significant imports by the Soviet Bloc. Historically, Western Europe has been an important source to the Soviet Bloc of such things as iron ore, machinery, ships and boats, railroad and car transportation equipment, machine tools, other types of machinery, and some chemicals—all commodities which are directly related to the ability of the Soviet area to carry out a policy of aggression. Thus, Western Europe is not only important to us directly as an ally, but the vitalness of this area to us is increased by the fact that she has historically been an important supplier of commodities to what we must regard as our potential enemy today.

This has raised the question — the very tough policy question — of what we should do about East-West European trade. It is one of the most difficult international economic policy questions currently confronting us. If one could conclude that it was necessary only to take account of the shipments that went from Western to Eastern Europe, that is, if you did not have to worry about the trade (or lack of trade) in the other direction (which I want to come to in a moment) then it is often said that the issue would be simple; this trade ought to be embargoed. I don't think it is quite this simple.

There are at least two modifying considerations. One is the question of whether or not by stopping the trade from Western Europe to Eastern Europe you do in fact increase the cohesion

of the Soviet Bloc area; that is, do you in fact throw this area back upon itself in such a way as to make it virtually impossible for the satellite countries ever to break away? It seems likely that to the extent that Western Europe does not supply commodities to Eastern Europe the autarchic development of the Soviet Bloc is encouraged and the satellite countries become even more dependent upon other members in the Soviet Bloc. I don't mean to say this is an overriding consideration—all that I suggest is that one must take into account in determining what one's policy on the East-West trade is to be.

The second consideration is an even trickier one: might it be in the interest of the West to encourage this trade with the aim of making the Soviet Bloc dependent upon the West for sources of essential goods—and thus increasing for the Soviet Bloc the hazards of any military adventures against the West? (Of course, by the same token the West might become dependent on Russia for certain essential goods and so increase the hazards of war for the West). In any such policy you would, of course, have to determine whether the West's exports were being used primarily to build up stockpiles in Russia and that the latter's policy continued to be one of autarchy. If this were the case, the argument is all for stopping the trade more quickly.

Unfortunately, we do not have the luxury of being able to say that all we need to consider is the importance of Western Europe as a supplier of commodities to our potential enemies. The fact of the matter is that in this trade Western Europe gets back something in return—and this something is important commodities: grain and flour, meat, coal, timber, and small amounts of such metals as tungsten, cobalt, manganese, lead, copper, and iron ore. All of these are important in determining the size of the military force Western Europe can and will mount. One does not have to follow the history of the postwar rearmament effort in Western Europe very closely to see the close relationship between the price and the rations of bread and meat and housing on the one

hand, and the willingness of the Western European countries to make military expenditures on the other. Therefore, if we stop East-West trade because it is argued that we do not want to give Russia these machine tools, these iron and steel products — then we are, in effect directly stopping imports of commodities into Western Europe and Eastern Europe. On these matters the Russians are certainly no fools. They have reasoned that if they cannot buy something with the proceeds of their exports to Western Europe then why export. As the exports of Western Europe have been reduced, so their ability to import from the Soviet Bloc has also been reduced. The problem therefore seems to me to be a day-to-day one of clever, shrewd, well-informed officials deciding which particular transactions add more to the relative strength of the United States and its allies than they add to the relative strength of the Soviet Bloc and permitting such trade while prohibiting that which does not meet this criterion. It is a problem to be handled with a scalpel, not a sledge hammer of flat embargoes on all trade.

It seems to me that it is irresponsible for the United States, as some have urged, to say to the Danes: "You shall not ship tankers"; to say the Dutch: "You shall not ship electrical equipment"; to the Italians: "You shall not ship machine tools"; while saying at the same time that it is no concern of ours what happens to employment in these industries or what happens to the bread ration or to the ability of these western countries to build new houses. It seems to me that it is important to us that our allies do have these commodities because they contribute to their ability and willingness to join us in mutual defense efforts. If this be accepted, then the United States must face the problem of what its responsibilities are finding alternative markets and alternative sources of supply for Europe. And this exercise will bring in new areas that are important to us. That is to say, if we tell the Europeans that they cannot obtain these commodities — the bread, the timber, the meat and certainly, the minerals and coal — from Eastern Europe because we insist they not sell some



of their output to Eastern Europe (and we have ways of enforcing this, of course, because the Battle Act provides that if aid recipients ship certain goods to Soviet Bloc countries then our military and economic aid shall be cut off), then we have some responsibilities for helping the Western European countries find other places to buy these commodities and other places to sell the output of their industries. And this brings us back to the problem of what we shall try to do under the Point Four Program in the way of creating additional markets and sources of supply for Western Europe. It also raises the policy issue of whether we are under some obligation to make it easier for these Western European countries to sell in the United States the goods we now do not want them to sell to Russia. Or perhaps we would prefer simply to give them larger amounts of economic aid so that they can buy the goods elsewhere that they no longer get from the Soviet Bloc? No one of these policies is without its problems and costs. Which one — or which combination — is chosen depends upon a careful analysis of the facts of the given situation and the answer will be different at different times.

I see that I have used up all the time allotted to me. I would like, in closing, to repeat that while I have tried to be concrete at times, the most important thing you must keep in mind about this problem of determining which economic areas are vital to us is that they are constantly changing. There are, however, a few general factors which may help you select the most vital areas at any given time. First of all, the most obvious is to find out which areas are sources of essential raw materials, given our weapons, the components of those weapons, existing production techniques, and so on. Then one has to ask: "Which are the important areas from the point of view of markets for our exports?" These areas are important in part because of the competition you may have with Congress for funds if a given sector of the American economy suffers a blight as a result of losing its export markets. They are also important — and more seriously important, I think — because there are many industries,

both agricultural and manufacturing, where large foreign markets permit in time of peace the creation of a large production base which you may not need for military purposes during time of peace, but which is nice to have in time of war. You must also consider these same factors from the point of view of your potential allies. Finally, you must never forget that those areas that are vital to your enemies are, for that reason, important to you.

## BIOGRAPHIC SKETCH

### Professor Gardner Patterson

Professor Patterson was born in Burt, Iowa, on 13 May, 1916. He received A.B. and A.M. degrees from the University of Michigan and a Ph. D. from Harvard University.

He was a Teaching Fellow and Tutor at Harvard when World War II began. Most of the time during the period 1942-1946 he was engaged in economic intelligence work, part of the time in the Navy, and during the remainder as United States Treasury Representative. These assignments took him to Africa and a number of European countries. At the war's end he was serving as United States Financial Advisor to General Scobie (British), Commander in Chief of Allied Forces in Greece.

On being released to inactive duty in March 1946, Dr. Patterson was appointed the United States member of the International Currency Committee in Greece and resigned this appointment in September 1948 to accept a teaching appointment at the University of Michigan. In September 1949 he became an Associate Professor of Economics and Director of the International Finance Section at Princeton, the position he currently holds. His work there is both teaching and research, the former being entirely in the field of international economic theory and policy, and the latter resulting, so far, in the publication of four volumes entitled *Survey of United States International Finance* — an attempt to ferret out the important issues and facts in the whole range of United States international economic policies and activities.

During the past year Professor Patterson made two trips to Israel (totalling four months) as a consultant to the Department of State in connection with the United States aid program to that nation.