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VITAL U. S. COMMERCIAL AND ECONOMIC PROBLEMS

A lecture delivered by
Professor William Y. Elliott
at the Naval War College
September 21, 1949

Gentlemen:

The commercial and economic policy of this country is the center from which the goal of war production must be nourished. War strategy, for that matter, depends today, more than ever, on logistics. Therefore, the health of the American economy is a primary concern to you who are vitally entrusted with the security of this country.

I have been thinking this past week a little bit about how to set forth that problem. I have decided to go back to the relations between politics and economics, at the outset, and develop from that angle the chief strategic problems that are presented by the economic structure of the country. These naturally have to do, first of all, with the total production for war that the country can achieve. And that is not a matter of just our own system, but the systems on which we draw as well. It's too simple today to make plans in terms of the United States as a single economy. In point of fact, that is no longer realistic. We draw on the economies of the world for our raw materials. Keeping open the seas of the world, therefore, becomes a matter of absolutely vital concern, more so today than it was in the past. We naturally have to support allies in all parts of the world and that too requires an enormous effort from the point of view of naval operations, merchant shipping and convoying, and so forth. We can not fight an effective war and win it without putting men over-

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seas under naval shelter and without controlling large areas of strategic raw materials supply lines.

No setting of the American economy, therefore, can be an isolationist setting in the very simple terms of considering this economy alone. For that reason I want to deal with the commercial and fiscal policies of this country first in the light of the foreign undertakings that we have made, such as the commitments abroad, the E. C. A. and the arms program supplement to the Atlantic Pact, but also what I think is going to be a struggle for the backward areas of the world. How much realism is there in the present "point four" program of the President's last inaugural address, his "bold new program?" How much can we compete with communism in the development of backward areas, and with what tactics? That is the framework of what I have to talk about and I only hope I can cover it in time.

There is a usual misconception about the relation between politics and economics, about which I find I have to clear my own thinking. I find it is very deeply rooted in popular misconceptions. It is the delusion that material economics governs political action and public policy. I want to say at the outset that it is my conviction that politics always dominates economics. I'm quite prepared to admit that the instruments of production, as Karl Marx pointed out, have a very vital, though not necessarily controlling, bearing on all the political and social structures of the world. When we shift over from an agrarian economy to a super-industrial economy, it effects every aspect of human life. But the fact that this system, in its handling of the control of the instruments of production (I want to emphasize that "*control* of the instruments of production"), their use, their applications to human values, takes an entirely opposed and radically different line from the totalitarian system with which we are today in conflict—in what is called a

“cold war,” a “hot peace,” or something else. That fact would tend to show that the difference in the method by which we apply and use the great techniques which modern science and industry have furnished us may be very vital and may be indeed, the “two worlds” dividing line. If in this system we still rely—and we do, thank God—on the initiative of the individual, if we rely upon what is called private enterprise (and that’s a term of scorn in some quarters today) to create individual self reliance, to permit the development of character in our citizenship through responsibility, then all that has a very vital bearing on the whole method of economic production. No one ought to know that better than someone who was engaged in trying to plan it and trying to control it in the last war. I did that from June, 1940, on toward the end of the war. For a year or so, I had the civilian requirements for the war production program. Before that I had the imports, public purchases, all the control of civilian aspects of shipping as to what came into this country.

The order by which we administered and through which we were able to enforce the very much greater diversion of our resources to war, and a very useful thing to have, was the M-63 order of the War Production Board, by which we could say to any branch chief or industry division, “You do not get your imported materials unless you conform to certain rules; we are prepared to insist that you put most of this stuff into the war effort or into the essential war-supporting effort.” A single hold like that means that you can supplement or direct the flow of your resources in a very important way. It does not mean that you have control over things like manpower, as we found out, of course. It does not mean that in a war economy you have all the controls that are necessary. The Controlled Material Plan, which was like keeping a checking account of what we had, was an essential

supplement, as a mechanism, for seeing that vital short materials went to the right things and not the wrong things.

So I do not speak in defense of private initiative and free enterprise, etc., without some knowledge of the necessity in war-time, under conditions of shortage, of directing and controlling the economy. But what I would like to emphasize at the outset, in order to underline the point I have made about the supremacy of politics over economics, is that, with all that *direction*, which in the last years of the war became fairly complete in the materials field and the production field, control was never complete or adequate in the manpower field. And even the controls that we had were not the *dynamics* of production.

The saving point of American production was precisely the fact that people were left free to adjust themselves to new conditions, to try new experiments, to improve their own techniques, without waiting for orders to come down from Washington. We directed, and limited them by material end-use orders, M-orders, and control orders, but we did not try to plan the production of an individual factory. We did try to set up targets for production and ask them to adhere to them. And I assert that that particular method of control proved itself, in practice, to be *the* most efficient method of control that any economy, anywhere, has ever accomplished. I believe the record speaks for itself. The rapidity with which changes were made and the enlistment of the enthusiasm and the vital energies of people who were doing this through a sense of "it's *our* job" were the things that counted, just as you found it so in fighting forces, I think. And I believe that accounts in large measure for the superiority and the flexibility of tactical operations of men who are trained to take responsibility—where a sergeant can come out, as I've seen them come out in the Argonne, commanding a company and still

get it out of there—where a corporal will take over, if he has to, and where a private will operate on his own.

Now I wanted to emphasize at the outset that this dynamics of a free system is something that, if we lose, we lose the key to a great part of the thing that makes the strength of our country all through. Therefore it becomes of extreme concern to us to see most of the rest of the world going along the other line. That is our prime problem. The primacy of politics in the rest of the world has assumed that planning the whole of an economy is the most efficient way to do it. They eliminate this drive of the man who feels, "It is my job, my creation, my responsibility. Even in the part of big business, I have a right to rise in that and come to the top. Even if I am a worker in that business I am not cut off from advancement, from starting something of my own."

The scale of much modern business, and its operation, demands increasingly technical competence. There is no question about that. They demand abilities of a rare quality in management. And they demand that we recruit by "the career open to the talented", in Napoleon's phrase, as never before. But as long as every private has at least a marshall's baton in his knapsack, if it doesn't come between his shoulder blades so that it sounds like a drum, you have a free system and can do what a free system can do. At any time that you superimpose the direction on that system from bureaucracy, that bureaucracy becomes more and more limited in its responses. It tends to cut off criticism. I have felt this way myself many a time. How often did I resent the holdup on the Hill and the investigation of something that I thought the Congressmen cared and knew far less about than I did, and that the consumers had far less right to judge than I did. Surely, that is human nature. But it is a very salutary thing, nevertheless, in spite of all the weaknesses of our system,

to have an accounting, to be able to be brought before the bar of representatives who are popularly elected.

The weakness of our system, if I may say so, in terms of this political parenthesis that I'm trying to draw around it, is that it does not have sufficiently responsible direction and is too easily moved by pressure groups—minorities of a very well organized type can often push through unsound, uneconomical policies, and, if strategically located in the big states as they are in many instances, and in the cities in particular, they have to be bought at a terrific price. The electoral college, which the Lodge amendment I hope will cure in part if it ever gets through, loads the dice in favor of small pressure groups, or highly organized, intense pressure groups. That weakness of our political system is something that we must cure in order to allow the national interests to be protected. But that's another and a large story.

Now it is against this background that I want to examine the problems that lie ahead of us. First of all, I want to examine the scope of the economy in the United States in its relation to other economies. I don't have to have a map here to try to point out to you who know it, I hope, better than anybody in the country, the extraordinary dependence of this country upon imports from abroad, and particularly of strategic materials.

As for stockpiling, I hope some day I'll outlive the nickname "Stockpile Bill", but I don't ever want to live down what is behind it, because unless we protect ourselves by adequate reserves of the extremely critical and strategic, and particularly the high-priority strategic material on your lists, we are never in a position to use our total resources in the best way. You'll still be sending convoys all around the world, dissipating military and naval forces to many sections of the world that you ought not to have to be burdened with. But you should have

not just one years', not just two years', in my judgment, but you should have three or four years', at the minimum, stocks of the most critical and strategic materials which we do not have in anything like adequate amounts even to carry on a normal effort, much less a war effort. That means that we are dependent on sea control until we do get such stockpiles or imports from abroad, many of which in the last war had to be flown into this country. Sometimes we were days not even weeks ahead of the production schedule on mica, quartz, crystal and steatite talc for condensers. I remember the headache it was to get the latter flown from India. Now our stockpiling policy has improved, but every time there is a chance to cut something, that is where Congress cuts it, and they cut it again this year.

The military budget is an extremely low budget. It doesn't have a lot of pressure groups behind it. In this instance, stockpiles have against them the whole mining block of the West. We are not quite in the days that we were with Scrugham and his predecessors, chiefly from Nevada, a state which has beautiful scenery. It has advantages of other sorts, but has, about, if my memory is correct, 100,000 people in it. But it has two very highly placed Senators. They always, by seniority, get to be the top dogs in all sorts of committees. It has only one Congressman. On the basis of equal apportionment, it would be entitled to about one-fifth of one congressman, but it, nevertheless, with the aid of similar mining states, is the political power behind exploiting our domestic resources. Naturally, there is nothing reprehensible about this. It is just unfortunate that the national interest should be weighted, as I have tried to point out, in terms of this narrow interest. And you can log-roll copper and zinc, lead and silver, and can parlay the whole thing into something staggering. We have a silver policy that no reputable economist that I know of has ever been willing to defend in this country. Your natural result is to

build up an opposition to *imports* from abroad of materials of the most important strategic character and to use the scanty reserves that we have in this country.

Now I urge that that does not mean that we should not develop and explore and have ready and on tap, and even do some marginal mining, to keep mines open, to pump them out, so that they are at a standby condition, at any rate, in order to use them quickly if we have to. But it does definitely mean that we had better import and rely on materials abroad and that our commercial policy should have as a prime consideration, the building of, not just the narrowly conceived thin reserves, but long-range reserves.

What's wrong with the mine above ground in this country instead of underground in Rhodesia? When we are giving our resources, as we are giving them, freely, almost throwing them away with both hands, a good bargain along those lines would be very interesting and useful indeed, and it is one of the bases that I hope will be explored in the forthcoming British negotiations. We seem to be doomed in those negotiations to keep the British up in a style to which they have never previously been accustomed, but now which they must be kept in if they are to keep a government which is tolerably cooperative. The guaranty that nations used to pay to be left alone has taken a new turn in our post-war foreign aid. But it would seem reasonable that at some stage of these operations that if we are going to make a big gold loan to underwrite the stability of the sterling block, or if we are going to do anything of that sort, we should get back the excess production, the new production, the increased production. Congress was able to write that sort of provision into the E. C. A. Act as a part of the E. C. A. operations, but it has come to almost nothing. Of course, if you want to play Santa Claus, you'll never get that kind of return. It becomes a matter of critical importance to the future

of this country. I hope you'll never forget this, gentlemen, because you'll be in a position, in the Army, Navy, and Munitions Board, and other positions of influence, to see that the reserves, not merely the thin strategic military reserves, but the long-range reserves of strategic materials in this country are built up as high as we can.

What would be the harm of having ten years' stock of manganese in this country? The steel industry is not going to quit using manganese; the oxidation process may decrease its use, and I'm hopeful that it will. All measures are good that may be taken to relieve the pressure on these short materials by pilot plant operations, by substitutes, by the kind of picture that opens up to us now in shale oil, by which we really may become less dependent on our dwindling natural well petroleum reserves. All those things should be explored, and a very important part of national investment in our policy ought to be aimed at developing these substitutes. I have no means of knowing whether mica spark plugs from East Africa are necessary to you gentlemen; you thought so for your navy planes, particularly during the war. You told me, and we went on that basis, that substitute plugs wouldn't stand up under operating conditions, that they cracked when they hit the water. You were flying the planes and we said, "O. K., we will get that mica," and we did. But it meant occupying Madagascar, among other things, although the graphite there was equally important.

Now I'm just trying to point out the picture of the dependence of this country from the point of view of politics, or on policy on imports from abroad, unless we have developed a stockpiling policy of a magnitude that we have heretofore not thought of, unless we've got a big thick cushion that will allow us years to turn around and change our processes. If we try to change them in mid-stream, in war, we run into the most unforeseen difficulties.

They were at least unforeseen to some extent last time, but now we ought never to claim that excuse. We had to change over to the lime-soda sinter process in aluminum not only for the production of planes, but also for all the intricate uses that aluminum has, because we dropped very nearly 100 ships in the Caribbean bringing in the Dutch and British Guiana bauxite for Aluminum Incorporated in Canada, British Guiana, and for Reynolds and Kaiser, and of course for the Aluminum Company of America. We could not keep up that punishing loss of ships. But what did the change do? Valves and compressors ran afoul the escort vessels. When we had to make that drastic change in production methods, it threw out transportation domestically. We were shipping in gondola type cars. I'm just trying to show you what planning involves. You must foresee the results of all these actions and if taken without preparation, and in a very short period, they tend to disrupt many other planned operations, and to introduce new priorities into an already inflated priority system. In other words, we ought to have the maximum development of those things that we can use domestically and we ought to have the maximum protection in strategic materials on hand. And there is no earthly reason we shouldn't. Instead of trading in the world in gold and burying it in Fort Knox, it would be much more intelligent, surely, since no one wants gold outside this country apparently, to take strategic materials in lieu of gold—strategic minerals, too—they will never lose their value. They do not need to be used immediately. Let's sterilize them, too, to keep the commercials from worrying about the effect on the market. But here there is a permanent source of national wealth which the whole history of humanity has shown to be basic. Now I'm going to drop that point, but I do want to emphasize it. It is a keystone in our commercial policy, or should be. It is of critical importance to put a thicker cushion, not a thin one, not a six months', a one year's reserve, a year and a half's, but something that we can stretch if need be indefinitely. That will give us the

full use of our resources in other respects and in maximum efficiency, naval military and air, to divert to the main job of winning a war, which is something that we ought to take seriously. It was a great grief to me to have to ask for ships when I knew the Army and Navy were short of them, and we tried to avoid that. It took some very heroic measures, some of which I have tried to indicate to you like this change-over in aluminum, but it is a great cost which should be awarded generally by planning ahead of time where possible.

Now to get that into our thinking as a key story of commercial policy would effect a great many other things. What have been the great keystones of our commercial policy? Let us trace them officially and then realistically. Officially, Mr. Hull's policy has, on the whole, triumphed. That is a policy based on reciprocal bargains for tariffs. It isn't free-trade. It would be a mistake to call it that. It does use one device which tends to make trade very much more free, namely the "most favored nation" clause in treaties. In other words, if we make an agreement, or if France makes an agreement with a third party, we claim, with our commercial treaties with France, the same rights that are accorded to that third party in France and we give to France the same rights. Today Britain holds, in a curious way, the key to the nature of our own commercial policy.

Now the British, as usual, have had a very interesting device for avoiding "most favored nation" free trade, a device which is called "Imperial Preference." We rely on the British Commonwealth of Nations as our closest and dearest and most ultimate support, particularly Canada, Australia, and the Dominions, but nonetheless the United Kingdom in the long run. Naturally the British are aware of our dependence and they are not backward about taking advantage of it, if I may say so without being un-

friendly. They need desperately to be insured, particularly until they assure themselves. So that from the point of view of the major policies of this country, it has been a matter of critical importance not to destroy the sterling block. That is what these conversations in Washington are about: To keep the British in a position to export enough to support themselves and to keep that economy going as far as we are able to do it. That has meant that we have accepted the sterling bloc though we might have raised serious difficulties, and even broken it down had we chosen, or could today in ten minutes or less. Along with bolstering up the nations that tie their currencies to the pound sterling we have had to accept the scheme of imperial preference which gives British goods a preferred position in every dominion, even though those dominions are in all respects today as independent as they wish to be. And we have allowed that to be called "Imperial Preference", a family relationship you see, largely because the British need it very desperately. They need that tariff protection for their exports to survive these post war years. They were not able to meet our competition for long years, even between the two wars, on equal terms; they tried; they failed. We had very little problems about selling our exports. They had very great problems.

Now viewed in terms of the classic economics that Britain developed in the 19th century, this was a great confession of weakness on the part of Britain, was it not? As long as Britain was well head of the world, which she was, she stole a march of 40 or 50 years through the industrial revolution. Many of the great revolutionary inventions were the inventions of Scotchmen and not of Englishmen, and the Scots had been running Britain for quite a long time, as the Canadians have in some measure run us. They transformed their whole industry by virtue of having *cheap coal* (I underline that if you don't mind) which they could ex-

port as ballast for ships. They got almost a free ride for the rest of their cargo. This built up a merchant marine by quite normal processes. They did not require a tariff protection. Indeed they regarded it as a species of original sin, and they attacked it from about the middle of the century in a series of very sweeping reforms. The repeal of the Corn Laws was one of them; the repeal of the Navigation Acts was another. They swept out the whole of the old protectionists' mercantilist system which had constituted the empire against which we had rebelled in this country, because we didn't want to be kept as "hewers of wood, and drawers of water." Unfortunately the Dominions which had been relying on this protection and this preferred position in the British market, in return of course for giving a sort of monopoly to British goods on their own, were not equally happy with this 19th century free trade interlude in Britain.

The Dominions were unable to develop an industry without tariff protection, as we thought we were. Hamilton's line in this country had been protection of infant industry. It makes a good deal of sense to get an industry started. You do have to have some kind of protection against the superior competition of an outside fully-developed industry. But where are you going to draw the line on that? What kind of industries are naturally capable of being put on their feet? What kind of industries, in short, will grow up and stop being infant industries? We never have found an industry in this country which is willing to stop being a baby. They always want to continue a tariff protection even though they don't need any possible consideration. Take the automobile industry in this country. Now that is the strongest export industry in the world. They can just run anybody out of business with cars. And the same thing is true of automatic machinery. We reverse the whole trend of what the British have

had by developing the newer types of industrialism by a *mass market*, and I want to underline that feature, too.

Then after World War I, the British lost their cheap coal which had been one of their major advantages; the seams went down and down; they employed more men and older men and less efficient production; they did not mechanize their mines, and many of their seams didn't lend themselves to mechanization. They fought two costly wars, including this last one which exhausted them in a great many ways, exhausted their ruling classes in many ways, far beyond anything that could ever be put on paper. Just read the honor rolls of any Oxford or Cambridge College commemorating their war dead and look at what was taken out of British life. So I'm not trying to write a strictly economic interpretation of this. It was the price of empire. Empires are fated throughout history. Take the Roman Empire. Wars killed off the old free Romans in the struggle to rule the world as the British have killed off a lot of their best men. So all of that should be taken into account in tracing the decline of British power. The destruction of Britain was very heavy from bombing. No one can neglect that. It was estimated that they lost a total of perhaps 10% of their effective industrial potential and a much greater percentage in its total through housing losses, and so on.

After the war they came out an exhausted country, having lived on short rations, with a backward industry, an industry that has not adjusted itself. But it had over years attempted to rely upon its tariff-protected markets in the Dominions, in India and elsewhere, on advantageous terms against outside competition, or a domestic tariff protection that in 1931 outdid anything we ever thought of in the Smoot-Hawley Tariff. If we flogged them with whips, they flogged back with scorpions. Britain raised its tariffs sometimes to 100% by the end of 1932. Since then,

Britain has been a very high tariff protection country—acknowledging its defeat, the passing of its pre-eminence in its exporting production on competitive terms—building up sheltered industries which were largely concerned with supplying the British domestic market. Now that was a first class tragedy, and I don't profess to know how that could have been avoided. In the main it resulted from high cost British production. Perhaps if the timing of our own tariff policy could have been different, perhaps if Hitler had not appeared over the horizon, perhaps if we had wisdom beyond anything we could have been expected to have during the twenties and thirties, this change in basic British policy need not have happened. But there may be some law in civilization—sometimes I'm dreadfully pessimistic about this, but I think there is—that when people have lived softly for a considerable period of time and have been “top dogs”, even though they may go through the motions, as the British certainly do, of maintaining a fine code of fair play and the thing that you get in public school or college, the “gimp” goes out of them. They haven't had to struggle enough for what they get. They are like the sons of a rich man from whom something has disappeared, something that's bred of gang warfare, something that's bred by survival. I hope that is not a true picture of history, but it often occurs to me that it may be personal and individual as well as national. You shelter your children too much and see what happens to them! And the whole world we are living in today demands a degree of realism, a degree of toughness, not offensiveness but just steel, that is testing nations as well as men.

Now this passing of the pre-eminence of the British, has thrust on us at the end of this war an entirely unlooked-for burden, unprepared-for burden. We should have foreseen it, but people never foresee things. We never learn anything except through the most painful experience. That is just human nature.

We suddenly had to substitute for Britain as the world's banker, as the world's clearing house, as the world's center of trade and production. We had over half the industrial production of the world at the end of the war and I suspect we still have pretty close to that percentage. I am not talking about the total of *all* production, just industrial. We had this tremendous capacity that had been created in mass production, large scale markets, which effects everything. It effects research; it effects economies and management. Sometimes when you consider our anti-trust policy you ought to think very seriously of what would really happen if we did succeed in unscrambling all the big business in this country. We would become, very shortly, a very different figure in world power.

Now to control those big businesses is extremely essential, but to unscramble them and to do what so many of our bright boys who have a slight leaning toward Moscow would like to do, would be disastrous. We must confront the fact that if you did take those great units that put thirty or forty million dollars into research a year and scramble them up into little ones, how much would be put into research a year? You would do something very important to this country and very disastrous in the point of view of its power. I'm not going to name names or draw pictures, but that has to be thought of! To control big business units, to keep them under control in terms of seeing that they do not exercise the powers of monopoly in politics, and that they are kept to the honest job of production and pricing on the basis that they should do, is another matter and requires perhaps a different technique. It may, in my judgment, require government participation through public trustees who are in the position to open up every book and learn what is being done and reveal everything that is being done. I'm not sure that government participation in terms of share-owning might not be absolutely essential in all the public

utilities anyway, but I wouldn't want to turn them all under to be run by a state controlled, socialized, bureaucratic body. I tried to run 1500 people in that way. That is not a very large amount; you can run thousands or more in your own shows. But it is enough; it is a big headache. And when you try to get rid of the deadwood in a bureaucracy just see how much luck you have! Well, I did. I pared my office down to about one-third its former size, and it worked very much better, but I couldn't have done it in peacetime. And when I got to that point, I had to stop paring, because I would have pared the gizzard out of it and leave a lot of deadwood because of Civil Service. That is a fact.

In other words, if you are thinking about socializing, consider well the instrument of socializing, the nature of the problem, the fact that in order to operate you have to protect every flank—rear, center, and everything else—and still you don't get anywhere. You are wrapped up in so many layers of red tape and in the battle of political pressures that by and large your freedom to initiate, to improvise, to create, to do something, is frittered away in the battle of memoranda. That is a heart-felt confession for one of my temperament, my academic profession, for you never saw an academic fellow yet who didn't want to get a tied-in, neat, wrapped-up package that would make sense in terms of a logical arrangement! But bureaucratic planning looks better on paper than in practice.

It looks like it makes sense to pool everything and have one state of control for the whole business. That is what seduced soft minds about the delusion of communism. They think *this* total planning makes sense. *This* is the way to get things like a solar system. I'm sure my astronomer friend Harlow Shapley, who wants to build a peace bridge for the Russians, must feel this way about "social planning", "scientific planning". He uses his

view quite usefully sometimes, from their point of view. He is as good an American as I am; I'm convinced of that. He is no communist. I don't think he is, in the proper sense, a fellow traveler, although he gets used so much in Russian inspired "peace movements" today that it is hard to distinguish. I am sure that he, fundamentally, isn't. He is just seduced. The heaven that he star-gazes at looks like order. Maybe he looks at a picture of the planned system controlled by the Kremlin and that looks like order, too. But underneath that "order", if anyone looks closer, there are, at least 12,000,000 political prisoners enslaved to create that order. The whole Moscow system is a seething kind of caldron of intrigue and conspiracy and of purges. You have only got to read Kravchenko's very honest account to see what the picture is like. It is a funny kind of order, but it looks like an order that makes sense, if you just get a central control thing. Communism promises that when society has all been purged of capitalism by it's dictatorship of the proletariat, the societies can be turned loose. As a matter of fact, societies and nations that fall under communist sway are never turned loose. You've heard about Lysenko and you know that biology had to be rewritten in the Soviet Union to fit the party line. So has art, music and everything else. And you would think that these unhappy intellectuals in our country would begin to understand that this Russian party line thought-control is the slavery that they are most afraid of, whereas we have given them an unparallel freedom—a freedom which they have not lived up to, which they frequently abuse in this country. But alas, it is the nature of the beast that he always thinks that far hills are greener. Now I introduced that because I think it has a very important bearing on our commercial and economic policy.

The trend toward planning all the details on economy is a very seductive trend to bureaucratic, to intellectuals, to people who

think that to make sense out of it is to get everything in a package and to put it under a single pattern and to blueprint it and there it is. That isn't the way things are actually done, though there are some things that you have to do that way.

When you can control all the factors in an equation, that is right enough. But in order to do this total planning you really must control *all* the factors in the equation and that means controlling what people think, what they are educated in, their responses. Of course, you must *condition* them like animals in Pavlov's laboratory, or condition their reflexes. You must make them respond and keep them completely cut off from all outside poison, dangerous ideas, any ideas, except those of the party-line "agitation" that plays on emotions, and propaganda that is fed to them at all stages.

Now that might be a very attractive road. For some people it is. It would seem to solve a great many problems, commercially, economically and otherwise, if we could plan imports and our exports just the way Russia does, to have them all bought through a single state trading trust, plan them out in production through a single state trade trust, plan them out in production through a series of trusts who are making their deals with each other but who are all on the Goss Plan. Unhappily, Vossnoshensky, the head of Moscow's previous plans, seems to have been eliminated as head of the "Goss Plan." He didn't quite make the grade. Vargas, their leading economic expert, and a great man from the point of view of the Russian Academy, had to recant all his honest doctrines and come up with some new ones to fit the party line. And the great difficulty about this system is precisely that to get *real* rulers you can hardly ever succeed if you spiritually castrate people and expect them just to obey or turn them into Janizaries, like those of the old Turkish empire. You can get admirable robots or automata, but

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you can't get men with alert critical minds ready to meet new situations. Such rulers are going to begin to behave according to a stupid pattern because they have been conditioned, not trained to think. And I think we have had plentiful evidence of that. If you had been playing the Russian line after this war, would you have made the incredible mistakes that the Politburo and the Kremlin have? You might have had the world on a silver platter if your manners had been good. Roosevelt had dished it all out to them. It was theirs for the taking. All that they had to do was to avoid showing this offensive, aggressive and uproarious kind of condemnation of all the outside world that Mr. Vishinsky and Molotov have treated us to ever since and that Stalin has underlined from his base back home.

If they had chosen to do it, they need not have provoked the Marshall Plan. All they had to do to kill the Marshall Plan was to come in on it! It is natural, I think, that the rulers who are educated and chosen this way have a stupid set of responses, and I think these are the party line responses. They are the victims of their own lines and of their own method of propaganda. They get it back in Intelligence quite often, although they have excellent Intelligence, if they could use and interpret it correctly, since they know what is going on everywhere. Their fifth column seeps through and permeates very unpleasantly—things that we are beginning to find out now, and we have pretty definite evidence of it, high up and low down. But to *interpret* Intelligence is the whole business, isn't it, in order to use it? What do you do with it? If it is "agin" the party line, it ain't so! Therefore it is very dangerous to put back into circulation to Moscow, facts that would not square with fixed party-line expectations.

So I say that the test of the conflicts of these systems is, ultimately, *what they do to the human beings in them.* And of all

the confused and bewildered people, as we frequently are, we can at least try to see daylight in our own way. The sum total of our free system, for all its defects, is considerably more effective, as far as one can see short of atomic destruction by surprise, in reviving the rest of the world and making a go of it in spite of all the weaknesses.

Now we have staked very desperately on creating a world that will not be out of balance, where there won't be a free order. That is our whole commercial economic policy, dictated by our political policy and by high strategy. This is a conclusion coming from observations as Staff Director for the Hester Committee and the Foreign Affairs Committee during these critical times, and consultant for writing the European part of the Post War Economic Policy and Planning (the Colmer) Committee in the House in 1945. No one can tell me that the E. C. A. Program would ever have gone through Congress on any other basis than that as a buffer against Communism. Would it? Certainly not. Not in the magnitude that it did go through. But the Congressmen could see one very simple thing. They could see well enough that if we left Europe in the powerless state, the economic and political vacuum that it was at that time with the Communist parties making gains in the elections and with the rations dropping below the subsistence level in a great many European countries after the droughts of 1946-47, that we might well lose the war, the peace and everything else. And painful as it was they went down in Uncle Sam's pocket and dished out five billion plus for the E. C. A., and some odd sums here and there of other sorts. And they will continue to do it, probably, in spite of a great to-do about diminishing the amounts. But, if you total all foreign aid and military programs, the sum total will not be very far from half our annual Federal Budget if we add the one billion three, which Congress now seems to be in a frame of mind to put in for the arms program, and

which is absolutely essential to make any sense of the whole thing. Add this to what they have voted on the E. C. A. program and they will, in effect, have just about balanced up somewhere over five billion dollars for foreign aid, alone. If you add Japan onto it and our other commitments, it will just about tally out. Five billion dollars out of a national income like ours, which may run to two hundred fifty billions today, is not an excessive percentage, but it is a right large sum of money. It represents tremendous amounts of natural resources, and of the use of man power, and of commitments in taxation, and all sorts of other things.

Now we have had to do that because just free-trade, just Hull's reciprocal trade agreements, could never in the world have pulled us out of this business. They didn't fit the world that we were living in. And the I. T. O., the International Trade Organization in which this international freer trade charter at Geneva and then Havana has been worked out, is before Congress and looks as if it might go through. This would attempt to anchor Hull's policies and to make them universal in the world outside the Russian satellite block. But it is a program that will have no real meaning in practice in the world we are living in for several years, or at the minimum, ten years, maybe more, maybe never. I think it is important; I think it is useful to do although I think that we have tied our hands, perhaps excessively, in some of the compromises negotiated and that there are details of it where we were just plain out-bargained. But when you go into a conference, you have to depend upon the people that you have got, and if you don't breed tough bargainers anymore, and if you are in the hands of boys who think the success of a conference is to be measured in terms of everybody going home feeling good, then concession for the mere sake of conciliation is the natural outcome.

The renewal of the reciprocal trade agreements is en-

couraging. We certainly must accept more goods from abroad if we are ever to be repaid anything. We never can be repaid in the staggering sums of money we put into lend-lease, 50 billion dollars, during the war. We never can be repaid, I think, by the kind of Europe that I am looking at today. The loans that we made—post war surplus property—were just given to them. In effect, we took blocked currencies, but who is ever going to unblock those currencies? We don't even get the right to send out students and professors abroad without clearing them with foreign government to suit their needs, not ours. The Fullbright Act which is supposed to do that has been so mismanaged that now the other countries determine whether I go over there as a research professor, not my country. That is a fact. You wouldn't believe it possible but that one little item is all that has resulted in getting a few millions of dollars for educational purposes abroad back out of all these billions. It has really come down to something not unlike that. The selections of the Fullbright people this year came just this month (September) after these boys had to make up their minds to stay on at their colleges or not. They couldn't book passage so late, so some just said, "No thank you, we'll stay home." But I'm an interested party here. I see it from the point of view of scholars, of students who might be very useful to us abroad in various ways. And it is impossible for us to select them. We have actually let that get out of our hands in our settlements under the Fullbright Act.

Well I say we are not going to collect that. If we collected all the Fullbright funds, maybe we would collect perhaps \$100,000,-000 or so, out of the four or five billions, the minimum of surplus property, the loans that we made or the post war lend-lease, the continuation of lend-lease, the three billion seven hundred and fifty millions that we gave to Britain to try to stabilize them before we put in the lend-lease, out of all of this tremendous program

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on the back of UNRA, into which we put, roughly speaking, nearly three billion dollars. That is a right tidy sum! It amounts, according to the best calculations I have at this time, in post-war additions to the fifty millions of lend-lease, to pretty close to twenty-six or twenty-seven billion dollars total. That is not chicken feed, even in a country like ours.

Now it has had advantages. There is no question at all that this export has enabled us to continue a high level of prosperity in this country. We could have done it by giving it away at home, and that has been strongly suggested by the people who would like to pursue that method in what is miscalled the "Welfare State." But we did it abroad on the grounds that we were stabilizing the world.

Now let us look at these recent conversations of the British. They have been the testing point, in my mind, and they are not through. This is just the first round in determining what kind of world we are really getting out of all this. Very little has been done so far by these countries to put themselves permanently on a competitive basis that will enable them to sell in dollar markets, and that is what they have got to do. The dollar shortage that looks them in the face is appalling and has hardly been honestly faced. I don't want to brag, but if you go back and read the Hester reports, that is those of the Select Committee on Foreign Aid, and look at those tables and graphs and the comments on the first proposals of the O. E. E. C., you will see that that committee alone called the trick correctly. It showed that without full German production and European integration as an economy, the dollar gap would remain very large by 1950. But of course nobody paid any attention to that report in the working out of E. C. A. policy. Germany's industries went on being dismantled and Britain turned its back, in fact, on getting a real integration of Western Europe in order to maintain its own national and imperial yearning under

socialism in one state. It was just another Congressional document, and it was drawn up tentatively. And after all, the Harriman Committee had gone over the same ground and the Krug Committee had gone over it, and everybody else had gone over it. The best anyone could hope was that the Marshall Plan countries would wind up about a billion short in 1952, which they thought the world bank could handle in terms of a dollar shortage. That was the original estimate, slightly over a billion. It looked nearer three billion (and it even might be four billion) to us, because the things that they were asking and projecting to do was impossible! They could not increase the exports of Britain by 175 or even by 150 per cent in volume. Who was going to buy them? Who could pay for them? Where were these exports going to be sold, particularly in dollar markets with British goods in some cases 100% above our own in goods and costs? The West Indies sent a little list. They said, "What are we going to do? We like to buy British goods, but not at 100% more in price!" When even ship-building gets to be more expensive in England than ship-building in New Jersey, that is a scandal. And this was a selected item. I wish I had time to develop what seemed to me to be the reasons behind this British business decline. But the same thing that is true of Britain is also true in a lesser degree of France. Both can be helped temporarily by devaluation. That is what they have done, because the British then have a way of scaling down wages among other things, at domestic cost, except where the import prices rise commensurately. Their costs may rise from five to ten per cent, whereas they get the temporary advantage of selling at a pound that is now \$2.80, not \$4.00. They will be lucky if they can hold that, but I hope they can. That is 30% devaluation.

What happens if they don't hold it? What happens if they inflate in England? They have had a concealed inflation for a long, long time, very well concealed by the efficiency of their price con-

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trol mechanism, and the fact that they control all their imports. They did a lot better job of controlling imports than I did last time. I just controlled a minimum part, but a very important part, of our production. The imports of Britain control pretty nearly anything they want, since so much of all British production is tied to imports.

What happens if they do *not* increase the efficiency of their labor, or alternatively work longer hours? They are right back where they started. And no taking down of tariffs, even if we removed every tariff in the country, would cure that problem. They must cure it themselves. Whether they are capable of curing it through the education of the trade unions, I don't know. They have come a long way, but their philosophy has, in the process, hardened into one of austerity and sacrifice and limitation, instead of production. And in that simple formula I think you can express the difficulties that Britain is having and will have until they can unleash the incentives that a man has in this simple way: If his wife wants a washing machine and if he works a little harder or better, he can get it. Now that seems a very small matter, but it is almost the secret of the American system. You know you can't do much about increasing your own productivity because you and I are on salaries. But I come running down here to do what little I can about it. It is human nature. You will work harder if you can get something for it. You won't work harder if two-thirds of all your rationed food is subsidized up to fifty per cent by the aid of Uncle Sam. That is what is true today, or thereabouts—not quite. If your housing is kept on a subsidized basis and you are putting your capital investment into that, if you are given false teeth, a wig, spectacles, if you line up long enough for the doctor to get around to it, and for the production of spectacles, etc., to catch up with the demand, all that is a public expense. Maybe it is a welfare state. It certainly isn't Moscow; it doesn't look toward Moscow,

immediately. But see what happens if you carry on that welfare state, and get people in a position where they expect to be supported in this way, and somebody comes in that promises that he will give them all that, and more too. He won't be named BEVIN, probably, but he might be named BEVAN. And when he does give it to them or tries to give it to them, he wants to control them sure enough! The directed labor that hasn't really been put into effect in England would have to be put in. He would have to crack down, and when you get that kind of an apparatus, you've got something quite different from the democratic socialism of Britain today and the perfectly constitutional kind of labor party that, thank God, is still running Britain.

So we have to help these fellows, if we can, to help themselves. But they make it awfully hard for us, and the more we help them without demanding any conditions, the harder it gets. And if we demand any conditions, why that is imperialism, that is meddling. You are, more or less, damned if you do and damned if you don't. That is the unfortunate position of the benefactor. Remember we no longer even talk of "loans"; everything is a "grant."

Now how different is this picture from the one that we looked at when Britain was growing up! Britain's export of capital abroad was in the form of loans, not gifts. She rode out a rather comfortable and easy living throughout the later nineteenth century and part of the twentieth on the basis of those loans. Well, until 1938 her balance wasn't really unfavorable because she was getting back—what does the Board of Trade figure—two hundred eighty-five million pounds a year from the income on those investments abroad. She had about three billion and a half pounds in foreign investments, roughly speaking—pounds, not dollars. Remember that. Multiply by four or five, now by two point eight,

but not then. That is a tidy sum for a population of forty-five million people. They were cushioned by their previous investments.

We are not building up any such fat for our old age. Investments abroad that can be collected are very very scanty indeed. Maybe that will protect us against the kind of fate that happens to fat people in their old age. Maybe this will keep us lean and working for somebody else! It may be the best thing that ever happened for us. You can take that line but it's a little difficult to sell to Congress. But, in the meantime, we are desperately staking on trying to get Europe to unite—first, militarily; second, economically, if we can. That is very important, because neither Britain, nor France, nor any other European country, even Germany, the truncated Germany that we have today which has the greatest industrial potentials in Europe, is capable of supporting itself and its population as an isolated unit. It would be folly to allow Europe to build up sixteen national sovereignties. I hope you aren't letting them do it in the arms program. If you are, you are just dishing out money. You are not building a real arms program of European security if you allow them to build up separate arms programs, separate weapon types, not to keep the heavy stuff here where its production is relatively safe and we can always hold it. I hope you aren't, but you probably are!

We must desperately try to make conditions for our own and Europe's future health, if we are to continue this foreign aid that will create the advantage of a large scale market. Europe then should become a united, even a federated, business, in a loose way, with a common currency, with a common hold above all. France, for instance, is never going to amount to the great world-shaking power that France loves to live on in dreams of the past. The French people are well aware of it. But France can be a leading factor in modern Europe, with two hundred fifty million people, with all the

colonies of Europe. And still there remain the colonies in Africa, at least, because they are not fit to be self-governing and anybody who tells you so has a party line to Moscow or is talking nonsense. You can't turn Africa even into a low-grade local Tammany Hall. That is the closest thing I can get to it. All that kind of an area, with its natural resources of the world, ought to be a third power in the world that we must create if we are ever to get out of this unfortunate condition with Russia, which we alone are holding. And we have to stake very desperately. So far we have assured Stalin by our acts that we are "green" and poor bargainers.

We have had nationalism to deal with, and can't handle it. Stalin thinks he can and has. Maybe it couldn't have been done any other way. We haven't made very great progress, but even in the limited time that our commercial and economic policy has been in effect, we have certainly seen the world turn the corner. The communists have never won an election victory in a free country since the E. C. A. went into effect. They have lost ground, terrifically, in free elections. They have lost it in Germany; lost it in France; lost it in Italy. And that alone was probably worth the E. C. A. But these gains must be held; must be turned into something permanent to get these fellows off relief and on their own. Our play is certainly turning out well, to some degree, in the west. And the Atlantic Pact is turning into something that goes beyond that. For Western Europe, Britain is not enough. The Sterling block is not enough. All Western Europe has to be a unit, if it is to survive against the colossus of Russia. And it can survive once that kind of force is created in the world, if it can be. I'm not unaware of the difficulties in this problem. I've studied them very closely, been on the spot in every country there, talked with their taxi drivers, workers and farmers, as well as their statesmen. I know what an heroic job this is. But if we are going to underwrite this world aid indefinitely, haven't we a right to propose to them that

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they meet the conditions that will some day lift them out of this morass, and that they shan't perpetuate something which continues this incredible kind of situation, where they depend upon our bounty from year to year as to whether they will continue to exist or not? The sooner we face that, the sooner we make them face it, the sooner our commercial policy will make sense.

I wouldn't try to take away from them the rights of discrimination against this country, even. I think they will have to keep such tariff protection. But I would certainly take away the right to discriminate with each other. I hope I make that clear. That to me is the cardinal point in our policy at this stage. I think that we have not made it very vigorously, but we have learned a great lesson. The devaluation of the pound was something of a triumph from the point of view of realism. It is going to be very hard for the British Labor Party to support it. We ought to be sympathetic with them. In that way there are some signs that we are coming of age. There are signs that our leaders are beginning to understand and to assume the role of people who have to see that what we do is not thrown away, that all these efforts, and they are very great efforts, come to some fulfillment. This must be a fulfillment not just in terms of our own advantage, because it never will be just that, but a fulfillment in the sense that we have a world that we can live in, and breath in, and in which free men can once more face the future with some assurance.

RECOMMENDED READING

This section lists material published in current periodicals which will be of interest and value to Navy officers.

"Secret Photos-Russian War Maneuvers"

by Garrett Underhill. *Colliers*. January 28, 1950.

"Six Satellites and an Octopus"

by Dr. Nicholas Nyaradi. *The Reporter*. January 31, 1950.

"Russia's Grip on China."

U. S. News and World Report. January 27, 1950.

"To Prevent War"

by Bernard Baruch. *Reader's Digest*. February.

"What Can We Expect of Europe?"

by James Burnham. *The American Mercury*. February.

"Our Worst Blunders in the War - Japan and the Russians"

by Hanson Baldwin. *The Atlantic*. February.

"Air Force on Russia's Border"

by T. V. Graves. *Flying*. February.

"Formosa—Hot Spot of the East"

by Frederick G. Vosburgh. *The National Geographic Magazine*. February.

"The Missing Key to U. S. Policy"

by Michael A. Heilperin.

"Two Geostrategic Maps"

(illustrated) *Fortune*. February.

"Harmony in the Armed Services—An Exclusive Interview with General Eisenhower"

U. S. News and World Report. February 3, 1950.

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"Science and Politics in the 20th Century"

by James B. Conant.

"Tito: A Study"

Foreign Affairs. January.

"Strategic Implications of the North Atlantic Pact"

by Bernard Brodie. Yale Review. Winter, 1950.

"World Policy Makers Discount War"

(an Editorial) United Nations World. February.

"Biological Warfare—The Equalizer"

by Lt. James B. Kelley, USNR.

"Jarvis: Destroyer That Vanished"

by Cdr. James C. Shaw, USN. U. S. Naval Institute Proceedings. February.

"The Hydrogen Bomb: Strategy of Despair"

New Republic. February 13, 1950.