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[H]EADLINE SERIES

FOREIGN POLICY ASSOCIATION

New Directions in U.S. Foreign Economic Policy

Richard N. Gardner

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NUMBER 133

THIRTY-FIVE CENTS

- PC-AAA-621

HEADLINE SERIES

After a decade of trade and aid amid the revolutionary changes that followed World War II, the United States is facing new problems, the most dramatic of which is the Soviet economic challenge. New problems call for new policies. Critics say that the United States is now giving too little aid to the underdeveloped countries; that it is trying to apply an obsolete trade program under profoundly altered world conditions; and that some of our domestic policies contradict or jeopardize our national objectives. Are these criticisms valid? If so, in what respects should our policies be changed? An expert offers a practical guide for charting the new directions which events are forcing on the United States.

NUMBER 133

JANUARY - FEBRUARY 1959

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Coming Next

"Japan: New Problems, New Promises," by Paul F. Langer, assistant professor of international relations and history at the University of Southern California, who has studied and taught in that country for a number of years . . . in the March-April issue of the HEADLINE SERIES . . . "Mao's China," by Peggy Durdin, announced as the January-February issue, was postponed because of the author's illness.

HEADLINE SERIES, No. 133, January 20, 1959, published bimonthly by the FOREIGN POLICY ASSOCIATION, INC., 345 E. 46th St., New York 17, N. Y. President, JOHN W. NASON; HEADLINE SERIES Editor, VERA MICHELES DEAN; Assistant Editor, GWEN CROWE. Subscription rates, $2.00 for 6 issues. Single copies, 35¢. ENTERED AS SECOND CLASS MATTER AUGUST 19, 1943, AT THE POST OFFICE AT NEW YORK, N. Y., UNDER THE ACT OF MARCH 3, 1879.
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Library of Congress Catalog Card No. 59-8311

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New Directions in U.S. Foreign Economic Policy

by Richard N. Gardner

In the rise of the United States to world leadership no aspect of its foreign policy has undergone more profound changes than its economic policy. A quarter of a century ago the United States was a high tariff nation. We maintained no foreign aid program. We did not participate in any important international economic organizations. In general, we carried out our domestic economic policy without much concern for its effect on the rest of the world.

In the last 25 years that picture has been drastically altered. We have made substantial reductions in our tariff wall; undertaken vast postwar measures of relief and reconstruction; developed continuing programs of military, economic and technical assistance; and taken the lead in establishing an elaborate network of international economic agencies. History records few such thoroughgoing transformations in the policy of any country.

Fast Change — But Fast Enough?

Yet the test of any policy is not simply how fast it has moved, but whether it has moved swiftly enough to keep pace with changing times. Recently there has been mounting evidence that the foreign economic policy of the United States is still not abreast of world events. Consider the following examples:

Despite past and present aid programs, the gap in living standards between rich and poor countries continues to rise. In the case of some underdeveloped countries the rate of population growth is resulting in an actual decline in per capita income.

The postwar expansion in free world trade is beginning to falter. Faced with rising protectionist pressures, the United States and other non-Communist countries are slipping into old habits of trade restriction.

The drastic slump in primary commodity prices is threatening the stability and the development of the underdeveloped countries, many of which depend on one or two commodities for most of their earnings of foreign exchange.

The launching of the European Common Market, aimed at free trade among its six participants, confronts the United States and other countries with increasing discrimination against their export trade. At the same time difficulties in the negotiation of the free trade area proposed by Britain but opposed by France threatens to result in the economic division of Western Europe.

Soviet production gains, coupled with the American recession, reduce the United States economic lead over the U.S.S.R. to its lowest point in history. And in 1958 the Soviet leaders announced an ambitious seven-year plan and boasted they would overtake the United States by 1970.

The Communist aid and trade offensive, now in high gear, enjoys increasing success, particularly in underdeveloped countries. "Dumping" of low-priced goods by the U.S.S.R. and Communist China is causing new problems for Western producers.

New Approaches Needed

These and other recent developments are forcing us to "re-think" our foreign economic policy. Both in and out of government there is a growing feeling that our present policy is not good enough—that our trade and aid programs are being carried on from year to year more from inertia than from conscious design, that they no longer represent effective means of achieving our national ends. This attitude was stated succinctly by *The New York Times* on November 26, 1958: "In this period when the Soviet Union has emerged as a financier of Argentine oil development and of the building of the Aswan Dam our thinking and our policy require substantial readjustment from old attitudes born under different conditions."

Dissatisfied with the existing directions of our foreign economic policy, we have begun a feverish search for new ones. The Administration is proposing increases in the International Bank for Reconstruction and Development (World Bank) and in the International Monetary Fund (the Fund); the creation of an international development association, a Middle East development fund, an inter-American bank; substantial additions to our Development Loan Fund; new incentives for American businessmen to invest abroad. It is taking a new look at the possibility of international action to stabilize the prices of primary commodities. It is facing mounting pressure for revisions in the reciprocal trade program and other aspects of our trade policy.

What are the "new directions" which our foreign economic policy should now take? Before we can answer this question we must recall what our national objectives are and how they are threatened by the Communist economic offensive.

What Are Aims of Our Foreign Economic Policy?

FOREIGN ECONOMIC POLICY IS NOT AN END in itself. As its name suggests, it is part of our total foreign policy and our total economic policy. These in turn are only instruments for achieving our national objectives. We cannot chart new directions for our foreign economic policy until we know where it is we want to go—until we are clear about our national objectives and how they are promoted by action in this field.

In short, what are the aims of our foreign economic policy?

Some people would say that our principal national objective is the defeat of Communist imperialism. Desirable as this would be, it is too negative to be a satisfactory statement of our national purpose. Even victory over communism—if it could be achieved in any permanent sense—would be but a step toward achieving the purposes of our society. Those purposes exist, have existed, and will continue to exist quite independently of international communism.

Security — Prosperity — Freedom

For the sake of this discussion we can summarize our national objectives as follows:

1. Security—the power to insure our own survival.
2. Prosperity—material abundance for the American people.

3. Freedom—the achievement of a whole set of nonmaterial values which are important to our society. Stated broadly, this objective is the opportunity of every American to realize to the full his potentialities as a human being.

It is obvious that our security, prosperity and freedom cannot be promoted effectively if we seek these objectives only within the continental limits of the United States. In an earlier decade of our history it was aptly said that "foreign policy begins at home." As we enter the second half of the 20th century we have come to recognize that, to an increasing extent, "domestic policy begins abroad."

However strongly our natural instincts and traditions may impel us to close our windows to the world outside and concentrate instead on our problems at home, we cannot escape the fact of interdependence. We are forced to recognize that events in the rest of the world have a great and growing influence on every aspect of our daily lives—on the careers of our young men, on the uses we make of our national production, and even on the development of our basic political and social institutions.

This is why foreign economic policy is so important. Our programs of trade and aid, stripped of their occasional complexity, are merely the means for placing resources beyond our borders in the service of our national ends.

U.S. Needs Trade

We can see this clearly in the case of our trade policy. Broadly speaking, this policy has been concerned with promoting our import and export trade and the trade of the non-Communist world as a whole.

One important reason this policy serves our national objectives is because of our own dependence on international trade. We now look outside our borders for 10 percent of our raw material requirements. This figure is expected to rise to 20 percent by 1975. Already we import almost all of our natural rubber, chromium, tin and manganese (which is essential to the manufacture of steel). We also import one-half of our lead and zinc and one-third or more of our copper, mostly from the underdeveloped countries of the world. No longer self-sufficient, we are becoming more and more dependent on foreign countries to supplement inadequate domestic resources.

Quite apart from providing us with essential raw materials, imports bring us many nonessentials which are "the spice of life." Some of these, like coffee, tea and cocoa, we cannot produce at all. Others, like bicycles, watches, wines and spirits, kitchenware, cheese, handmade glass and certain textiles, we can produce only in inferior quality or at greater cost. In short, we heavily depend on imports to maintain our high living standards.

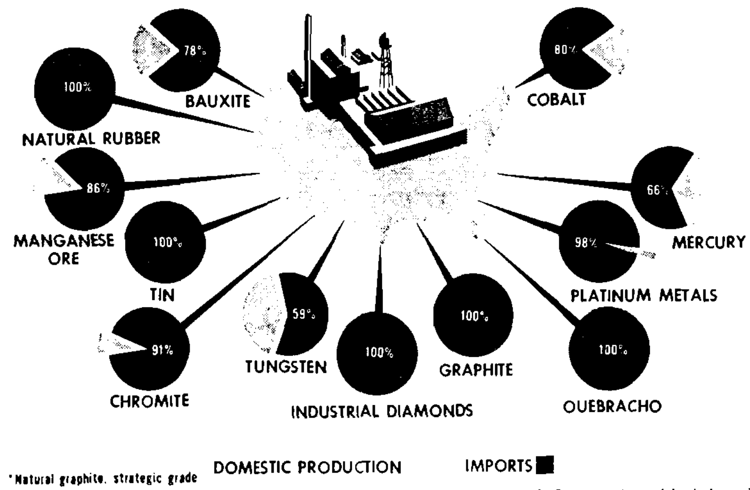
We must also bear in mind that our living standards depend on imports for yet another reason—they are an important stimulus to efficiency and economic growth. Even when imports are small they exert continuous competitive pressures on domestic industry, pushing business toward lower costs and technical improvements which benefit the economy as a whole.

Trade Helps U.S. Prosperity

The importance of foreign trade to the United States can also be seen from its relation to domestic employment. Some 4.5 million American workers—about 7 percent of our labor force—owe their livelihood directly to international trade. These are the workers employed in producing exports, dealing with imports and transporting and selling internationally traded goods. Thus international trade provides more employment for American workers than the textile, auto, chemical and steel industries combined. And even these figures leave out of account the workers indirectly dependent on foreign trade, those whose employment would cease without the imported materials essential to the industries in which they work.

Foreign markets are vital to the prosperity of important sections of our economy. We export between one-fifth and one-third of our total production of civilian aircraft, railroad cars, con-

STRATEGIC MATERIALS FROM OTHER FREE NATIONS ARE ESSENTIAL TO U.S INDUSTRY



International Cooperation Administration

struction and mining equipment, textile machinery, sewing machines and steel and rolling machinery; between one-fifth and two-fifths of our rye, barley and tobacco; and more than one-half of our wheat, rice and cotton. Overseas markets are an important factor in keeping farm prices up and alleviating crop surpluses. The loss of these export markets would have devastating consequences for our farm community.

We can see from these facts that our policy of expanding trade directly serves our national interest. It promotes our prosperity by providing our economy with needed foreign markets and sources of supply and stimulating our rate of economic growth. It promotes our security by providing foreign raw materials for our defense establishment and spurring the growth and efficiency of our mobilization base. It promotes our freedom both indirectly by promoting our prosperity and security and directly

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by giving us greater opportunities to purchase the world's goods according to our pocketbooks and tastes.

What About Our Friends?

But we cannot appreciate the importance of trade policy in promoting our national objectives by considering the trade of the United States alone. We must also consider the dependence on international trade of other countries in whose welfare we have an important interest.

The ratio of international trade to total production in Britain and France is three to four times as great as in the United States. For smaller nations such as Belgium and the Netherlands, Sweden and Switzerland, it is five to nine times as great. Our main industrial allies are even more dependent than we are on foreign supplies of raw materials. Western Europe, for example, relies on the Middle East for 70 percent of its oil requirements. For some of these industrial countries international trade is not simply an important aid to the economy—it is the very means of survival.

Dependence on international trade is no less striking in the case of most of the underdeveloped countries. Few of these countries are self-sufficient even in food. All of them must look abroad for capital and technical assistance vital to their economic development. Frequently their capacity to import is highly dependent on their capacity to export one or two primary commodities. The loss of foreign markets for these crops or the collapse in commodity prices can plunge these countries into a serious crisis.

Free World Economic Interdependence

The natural forces of interdependence have bound the United States, the industrial countries and the underdeveloped countries of the non-Communist world into an intimate relationship. The weakness of that relationship is our weakness; its strength, our strength. The health of the other free-world economies affects the health of our foreign markets and sources of supply—and therefore our prosperity. It affects the capacity of our allies to defend themselves as well as the political stability of independent nations—and therefore our security. It affects the material basis for the development of freedom abroad—and therefore our own freedom.

Our foreign aid program is no less related to our national objectives than our program of expanding trade. We can see this readily enough in the case of military or economic aid to our allies. In appropriate circumstances it may help an ally to bear its share of the collective defense effort or avert the collapse of a friendly government. But our aid to uncommitted underdeveloped countries may also serve our national interests.

More than two-thirds of the free world's people live in the underdeveloped countries of Asia, the Middle East, Africa and Latin America. According to recent United Nations statistics, per capita income in those countries averages about $100 a year, compared with $2,000 in the United States and $1,000 in other developed parts of the free world. The people in these countries have a life expectancy of only 36 years, about half as long as life expectancy in the rest of the free world.

Rise of Underdeveloped Lands

The poverty of these countries is an old story. What is new is their determination to do something about it. This determination, which has brought to large parts of the world a turbulence and upheaval unique in history, has become commonly known as the "revolution of rising expectations."

The revolution of rising expectations has created rising demands for economic development in the poor countries of Asia, the Middle East, Africa and Latin America. There is no longer any question of whether these countries will develop themselves. The only question is how.

Economic development requires capital. For the underdeveloped countries there are three possible sources of capital—domestic, Communist and Western. The relative emphasis which underdeveloped countries place on these alternative sources will profoundly affect their economic and political evolution and consequently our own security, prosperity and freedom.

Need for Investment Capital

A good part of the capital needs of the underdeveloped countries can and must be supplied from domestic sources. But for most of these countries existing production is barely sufficient to cover current consumption needs. Only a small margin of production, therefore, can be channeled into the formation of capital. If these countries despair of obtaining sufficient capital from abroad, they will be forced to adopt totalitarian measures at home. They will seek development by ruthlessly suppressing consumption and by forcibly mobilizing capital and labor. They may withdraw into a militant and embittered nationalism. For them, development will create a climate in which freedom cannot survive. For us, it will mean the loss of vital raw materials and markets, a vast erosion of our world power and the end of an opportunity to further the cause of human freedom.

Communist Aid —

The second source of capital for the underdeveloped countries is the Communist world. As we shall see in the next chapter, the Communist leaders use trade and aid as political weapons. Even though their assistance may be unaccompanied by formal political conditions, the spread of their capital, technology and manpower throughout the underdeveloped countries cannot fail to have a political effect.

We need not fear Communist investment in these countries as long as it is relatively small in comparison with investment by the West. But when the Communist bloc becomes the main source of foreign capital for an underdeveloped country, it will use the influence thus gained to detach the country from the free world. Should this strategy prove successful in the case of some of the larger underdeveloped countries like India and Indonesia, the Communists would profoundly alter in their favor the balance of political and economic power. We cannot afford to let this happen.

— Or Western?

The third and last source of capital is the industrialized West—primarily the United States. This means that our investment represents the only chance for the underdeveloped countries to achieve a tolerable rate of economic development without sacrificing human values and without joining the Communist bloc. Beyond this, our investment provides an excellent channel—perhaps the only effective one—through which we can influence the institutions of the underdeveloped countries and transmit to them our most important human values.

Thus our foreign aid program has a direct bearing on our security and prosperity. But we should not restrict our calculations to material considerations alone. There is a very special respect in which our foreign aid program can promote our nonmaterial ends. For the people of the United States, currently enjoying power and prosperity unique in history, a foreign aid program represents the best opportunity to express their natural idealism, their concern for the brotherhood of man and the dignity of the individual. It gives us something to work for above and beyond our selfish interests—an antidote to self-indulgence and decadence. In this respect our pursuit of human freedom abroad may be part and parcel of our quest for human freedom at home.

To say this does not mean that we must be crusaders for an ideology, that we should seek to impose our political, economic and social institutions on other people. To the other people of the world we must never say "be like us," but "be what you want to be." We should help men everywhere toward security, prosperity and freedom, through institutions suited to their own traditions and environments.

We conclude this brief stocktaking, therefore, with a rather surprising discovery: foreign economic policy is not only an essential means of promoting our prosperity and security. It represents our chance to occupy a place, today and in future history, not simply as an arsenal of weapons or as a storehouse of commodities, but as a society which encourages the highest realization of the dignity of man.

The Communist Economic Challenge

IN CHARTING NEW DIRECTIONS FOR OUR FOREIGN economic policy it has been necessary for us to take stock of our national objectives and the role of our trade and aid policies in promoting them. Now we must also take account of another element in the picture—the new threat to those objectives from the Communist economic challenge.

The nature of this challenge can be summed up as follows: There is mounting evidence that the Communists are placing their main hope for victory over the West, not in a hydrogen war (although that possibility cannot be entirely excluded), but in a long-term economic competition which they expect to win. Premier Nikita S. Khrushchev himself issued a dramatic statement of this new Communist strategy on the eve of our 1957 Thanksgiving holiday, when he told some Americans:

"We declare war upon you . . . in the peaceful field of trade. . . .

"The threat to the United States is not the ICBM but in the field of peaceful production. We are relentless in this and it will prove the superiority of our system.

"We want to win over the United States not in arms but in the production of commodities. We want to win in housing, construction, goods, more food, improvements, services rendered to the people.

"You have a higher standard of living in the United States. After all, you started years earlier than we. But we will win. We will outstrip the United States. And it will be this that will convince the people that we are right."

Khrushchev's Goals

Just one year later, in November 1958, Khrushchev gave more specific content to this economic challenge. The Soviet government announced a new economic plan to increase Russia's industrial production by 80 percent in the next seven years. By 1970, Khrushchev boasted, the Soviet people would have a living standard second to none, and the Communist bloc would have surpassed the non-Communist nations in total production of capital and consumer goods.

Recent events give us no grounds for complacency in the face of Khrushchev's predictions. The Soviet Union has compiled a fantastic record of economic growth. In the space of 40 years it has transformed itself from a backward peasant society into the world's second industrial power. Its rate of growth has been running at about double our own in total production, and more than double in industrial production. Its more rapid rate of growth is particularly marked in basic heavy industries such as coal and steel.

In 1958 the American production lead over the Soviet Union was reduced to its lowest point in history in both absolute and relative terms. While the Soviet Union scored new production gains, our monthly production shrank under the impact of the recession and lost the gains of several years' growth before taking an upward turn. The impact of the recession was seen most dramatically in the case of steel. Here our productive *capacity* is almost two and a half times that of the Soviet Union. Yet in April 1958, with a large portion of our capacity lying idle, the *actual production* of the U.S.S.R. reached more than 90 percent of our own.

In the light of these developments, many people are beginning to take a careful look at Khrushchev's boast. Will the Soviet

Union overtake the United States? Will this prove the superiority of the Communist system?

Will Communists Triumph?

In answering the first question, we have no formula to foretell the future. But there are reasons for suggesting that the faster rate of growth presently enjoyed by the Soviet Union need not result in an eventual production lead. To begin with, our smaller growth rate applies to a much larger production base. Although comparison of the United States and the U.S.S.R. gross national products is extremely difficult, there is good reason to believe that, discounting short-term fluctuations in the business cycle and looking at an average of several years, the annual increase in our total production has been somewhat larger than that of the Soviet Union.

In other words, measured in absolute terms and looking at the long-run trend, the size of our lead over the Soviet Union in total production of goods and services has actually been increasing. It will continue to do so as long as the U.S.S.R.'s relative advantage in growth rate does not exceed our relative advantage in absolute size. Over the long term, moreover, we have increased or at least pretty well maintained our absolute lead in the production of most basic industries, with the notable exception of coal. In this field the slackening margin of the United States is due to a special factor—the development of alternative fuels such as petroleum and natural gas.

Soviet Growth Rate May Decline

To be sure, if the Soviet Union continues to grow indefinitely at a faster rate than the United States, it must eventually overtake us. But there are good reasons for believing that the present rate of Soviet growth will not be maintained indefinitely. In the beginning the Soviet Union could put to use the technology and know-how accumulated by the West. Thus its relative backwardness enabled it to move ahead at a relatively faster rate once it had embarked on an effort to catch up.

Moreover, the Soviet Union began with great unemployed or underemployed resources—human and material. The availability of these resources made possible very rapid expansion in the early stages. As the Soviet Union approaches the West in the development of its technology and the effective employment of its resources, its rate of growth is likely to decline.

Satisfaction of Human Needs

With respect to the second question, we must not make the error of accepting the Communist thesis that the relative growth of over-all production or of certain basic industries is an adequate measure of the success of an economic system. For us, growth is not an end in itself; it is a means to the satisfaction of human needs. This must be true so long as our objective is the fullest possible self-realization of the individual human personality.

When measured in these terms, the rates of growth of the two systems are seen in a very different perspective. The tremendous growth rate of the Soviet economy has been achieved by diverting a very high proportion of the national product to capital accumulation and leaving a relatively small proportion for current consumption. Consequently there is a tremendous gap between the Soviet and American economies in the material goods they offer the individual. Studies made several years ago, for example, indicated that a Soviet worker had to work 16 times as long as an American worker to buy a quart of milk, 13 times as long to buy a pair of shoes, 18 times as long to buy a radio, 22 times as long to buy a shirt, and 25 times as long to buy a pound of sugar. While Soviet living standards have risen somewhat since then, it is doubtful that similar studies made today would yield very different conclusions. These figures should be placed alongside the statistics of over-all growth in assessing the relative accomplishments of the two economic systems.

Finally, we should keep in mind that our ultimate objective is not just growth of total production or even of individual consumption, but rather growth in satisfying human potentials. This means giving the individual a greater range of choice as a worker and as a consumer and increasing his opportunities outside the economic field—for example, his opportunity to participate in his country's government and his opportunity to express himself freely in the arts and professions. This larger kind of growth is unlikely to occur under the Communist system in the same measure as it does in ours.

Nevertheless, despite all these qualifications, the Soviet rate of growth does pose serious problems for the United States. Three at least deserve special attention.

Soviet Psychological Impact

First, the greater rate of Soviet growth has tremendous psychological significance. Its effect is felt by our own people, by the Soviet people and, perhaps most important, by the vast numbers of people in the underdeveloped countries of the world who are still uncommitted in the cold war. If present differences in growth rates between the Soviet and American economies should continue much longer, the U.S.S.R. would begin to overtake us—and thus reduce the absolute margin of our economic advantage. This could not help but influence the judgment of many people concerning the relative merits of our two systems for the solution of their own problems.

The psychological problem is particularly acute when the growth problem is seen not simply as a contest between the United States and the Soviet Union but as a contest between other countries in the Communist and non-Communist worlds. Communist China, for example, is now concentrating an estimated 22 percent of its national product on capital accumulation, most of it for the development of heavy industry, transportation and power. Meanwhile, India has so far been unable to push its annual rate of savings available for similar development to more than 7 or 8 percent. One result of this disparity is that China's steel production has grown from the 1952 level of something over 1 million tons to over 8 million tons today, while India's production, which in 1952 started at a similar point, is still below the 2 million figure. It is obvious that such dramatic differences in growth rates will profoundly influence the economic and political institutions which other countries choose to speed their economic advance.

Economic Growth and Military Power

The second problem posed by comparative rates of growth lies in their military significance. Economic growth generally means the growth of military power. This is particularly true of selective and unbalanced Communist growth which is concentrated on heavy industry. Since we devote a much greater share of our resources to peacetime consumption the Soviet Union is able to build a much greater military effort on a much smaller economic base. If we wish to have both high living standards and military superiority over the U.S.S.R. we have no choice but to preserve and strengthen our present lead in the economic race.

The third problem posed by comparative rates of growth relates to the capacity for foreign economic activity. As a result of its high rate of growth, the Soviet Union will have an increasing margin of resources which it can devote to economic development abroad.

Economic Growth and Foreign Aid

It has been estimated that the Soviet Union can double its aid shipments to other countries during the next eight years by drawing on only 5 percent of the projected increase in its national production. Moreover, the Soviet Union is turning out scientists, technicians and other trained personnel at a rate which will enable it to send increasing numbers of technicians abroad in years to come.

In the early years of Communist rule the U.S.S.R. placed a very low priority on international trade and aid. It sought self-sufficiency so far as possible, importing only what could not be produced at home and exporting only what was necessary to pay for imports. It had very little capital to supply for the economic development of foreign countries. Only in exceptional cases did it use trade or aid as major weapons of foreign policy.

With the death of Stalin this policy began to change. Starting in 1953 the Soviet Union, blocked in efforts to expand by force, was in a position to try a more subtle approach. It launched a peaceful offensive in the economic field. Today Moscow is relying heavily on its growing economic potential at home to promote its political objectives abroad.

Three-Front Communist Offensive

The Communist economic offensive has developed on three fronts:

In the Communist-bloc countries Soviet policy has undergone profound changes. In the first decade after World War II it was predatory in nature—seeking to draw as much as possible out of these countries and to put as little as possible in. But the growing unrest in Eastern Europe, culminating in the Hungarian uprising of October 1956, worked to change the situation. The Soviet Union has apparently granted significant economic concessions to its European satellites in order to increase the stability of Communist regimes and to prevent any substantial increase in their economic relations with the non-Communist world.

Russia's policy changes have been no less marked in its relations with the industrialized countries of the West. Its trade with these countries has been rising rapidly. It has increased its efforts to bring to Western markets timber, petroleum, coal, wood pulp, cotton, manganese, platinum, pig iron and steel mill products. It has imported an increasing amount of goods needed in its development—metals, industrial machinery, electrical equipment and ships. It has sought to provide markets within its own and the satellite economies for the industrial production of Germany and Japan.

But the most ambitious Soviet efforts have been concentrated in the underdeveloped countries, in the vast arc of nations running from Southeast Asia through the Middle East to Africa and, more startlingly, in South America, once regarded as our own "backyard." These nations used to look almost exclusively to the United States and our industrial allies for export markets and for the capital essential to their economic development. Now, all of a sudden, they have an alternative source of trade and aid.

Expansion of Soviet Aid

This alternative has been put to the underdeveloped countries in a very attractive package. Here is what the Soviet representative told the Asian-African Peoples Solidarity Conference at Cairo in December 1957: "We do not seek to get any advantages. We do not need profits, privileges, controlling interest, concession or raw material sources. We do not ask you to participate in any blocs, reshuffle your governments or change your domestic or foreign policy. We are ready to help you as brother helps brother, without any interest whatever, for we know from our own experience how difficult it is to get rid of need. Tell us what you need and we will help you and send, according to our economic capabilities, money needed in the form of loans or aid . . . to build for you institutions for industry, education and hospitals, . . . our only condition is that there will be no strings attached."

Appeals of this sort have had an increasing effect. In the period 1953-56 the Soviet bloc made agreements with ten underdeveloped countries of the Middle East and Africa to provide them with about $1.5 billion in economic aid. Although not all of this total has actually been expended so far, funds are being made available as projects are approved. On a global basis the Communist aid effort is still much smaller than ours, but it has come to approach the size of our effort in key uncommitted countries such as Burma and Indonesia. It now greatly exceeds our effort in Afghanistan, Egypt, Syria, Yemen and Nepal.

Aid Adapted to Underdeveloped Countries

Three facts in particular should be noted about the Communist aid offensive. First, it is highly selective, concentrated in those countries not yet committed firmly to either side in the cold war. Second, it emphasizes big projects having an important psychological impact in the recipient countries, such as the Aswan Dam in Egypt or the Bhilai steel mill in India. Third, in contrast with

U.S. AND SINO-SOVIET BLOC ECONOMIC ASSISTANCE TO CERTAIN NEAR EASTERN AND ASIAN COUNTRIES, JULY 1, 1955—FEBRUARY 1, 1958

(In millions of U.S. dollars)

	ICA obligations	Other* U.S. Government	U.S.** private investment	Total U.S.	Total Sino-Soviet bloc
Afghanistan	33	14	(not available)	47	136
Burma	25	18	"	43	42
Cambodia	94	2	"	96	22
Ceylon	11	—	"	11	20
Egypt	2	14	"	16	235
India	126	293	"	419	295
Indonesia	27	97	"	124	109
Iran	114	26	"	140	—
Iraq	7	—	"	7	—
Israel	51	37	"	88	—
Jordan	28	—	"	28	—
Lebanon	16	—	"	16	—
Nepal	7	—	"	7	13
Pakistan	204	68	"	272	—
Philippines	63	72	"	135	—
Saudi Arabia	—	—	"	—	—
Syria	—	—	"	—	194
Thailand	73	2	"	75	—
Turkey	166	56	"	222	10
Yemen	—	—	"	—	16
Grand Total	1,047	699	213	1,959	1,092

* Includes aid under Public Law 480, titles I and II, and Export-Import Bank credits.

** U.S. private investment for 3 years 1954-56.

NOTES: 1. Of the private investment figure for the United States—$213 million—it is estimated that not less than 60 percent, or $128 million, is in oil and not more than 40 percent, or $85 million, in other types of investment. The figures relate to new U.S. private investment during the 3 calendar years 1954, 1955 and 1956. 2. U.S. government assistance includes agricultural sales under Public Law 480, ICA obligations, and Export-Import Bank loans.

(Source: *The Department of State Bulletin,* March 24, 1958) most American assistance, Communist aid is provided on terms specially adapted to the needs and desires of the underdeveloped countries—long-term, low-interest loans (commonly at 2 - 2.5 percent), with the possibility of at least partial repayment in commodities or local currencies, with no formal economic or political commitments and with a minimum of administrative red tape.

The increase in Communist aid to the underdeveloped countries has been matched by an increase in Communist trade. The Soviet Union itself has been taking the agricultural surpluses of these countries—Egypt's cotton, Burma's rice, Uruguay's wool—and sending in return arms or capital goods and raw materials needed for development. Between 1953 and 1956 the Soviet Union nearly doubled its imports from the underdeveloped countries and increased its exports to them more than fivefold. Other members of the Communist bloc—Poland, Czechoslovakia and more recently Communist China—have also increased their trade with the underdeveloped countries, although by lesser amounts. By the end of 1958 Western businessmen were talking about Communist China's "economic invasion" of Asia and Africa.

Fast Growth of Soviet Trade

For most countries of the Middle East and Asia, and for some countries of Latin America, trade with the Communist bloc is growing at a faster rate than trade with the non-Communist world. In certain cases this has led to an economic dependence on Communist countries which has increased vulnerability to Communist influence. From Egypt, for example, the Communist bloc took 12 percent of exports—mostly cotton—in 1953, 34 percent in 1956, and 46 percent in 1957. A comparable growth in dependence on exports to the Communist bloc—mostly fish—has developed in Iceland, a member of the North Atlantic Treaty Organization.

The increase in Communist bloc aid and trade with underdeveloped countries has been matched by an increase in technical assistance and cultural exchange. During the last half of 1957, 2,300 Soviet-bloc technicians worked for a month or longer in 19 underdeveloped countries of the non-Communist world. During the year as a whole about 2,000 technicians, professional people and students from these countries went for training to the Soviet Union or other Communist centers. Moscow, suddenly become a world center, is swarming with Arabs, Africans and Asians eagerly absorbing Communist know-how.

What does this far-flung Communist economic offensive mean for the United States? Khrushchev himself supplied us with part of the answer when he told a group of United States Senators: "We value trade least for economic reasons and most for political reasons as a means for promoting better relations between countries." Stated less diplomatically, this means that the U.S.S.R. is using trade and aid for political purposes—to further the spread of communism around the world. The fact that in Russia foreign trade is a state monopoly gives Moscow a great advantage in this campaign. It can readily withhold foreign purchases, sales and credits to punish its enemies—as when it refused to send promised oil shipments to Israel after the Sinai campaign of 1956. Similarly, it can make them available to woo friends, as when it buys Egyptian cotton for which there is no outlet in Western markets.

The Soviet bloc's economic offensive also promotes Communist political aims by less direct and more long-term means. The Communist leaders believe that the economic dependence fostered by their trade and aid programs will eventually lead to political dependence. They know that even where Communist loans and grants do not aid local Communist groups directly, they do so indirectly by increasing the respectability and prestige of Communists. They realize that even if Communist technicians and Communist technical training are formally restricted to "scientific" or "economic" subjects, these can still influence the institutions of an underdeveloped country. In short, the Communist economic offensive is an instrument by which the Communists hope to effect a basic change in the political orientation of the non-Communist world, particularly of the underdeveloped countries which contain the vast majority of the world's population.

U.S. Answer to Soviet Challenge

How should we adapt our policies to meet the Communist economic challenge? One alternative would be for the United States to become a socialist, state-trading country itself, with decisions on imports, exports and domestic and foreign investment made primarily by the government; and to wage economic warfare with the Communists on their own terms. But surely, to use a metaphor suggested by Charles Lamb's famous essay, this would be burning the house to roast the pig. We cannot use Communist methods in the world economic competition without destroying the very institutions and values we are fighting for.

The only other way to meet the Communist challenge is to improve the performance of our present system. First of all we must achieve high and stable levels of production and employment in the United States. This would make possible a steadily rising demand for the produce of the industrial and underdeveloped countries; an increasing flow of private and public investment for economic development abroad; and a continuing lead in production which would deflate Communist pretensions to economic superiority.

But these results will not follow automatically from our domestic economic accomplishments. We must, secondly, by our trade and aid policies, supply far more effectively than we are supplying now the large and stable markets, the financial assistance, and the technical aid in the absence of which the Communists have made their greatest gains. Unless we improve our performance in these respects we shall fail to promote the independence of the Communist satellites, to strengthen collective security with our industrial allies and to keep the underdeveloped countries from slipping into the Communist orbit.

These are the reasons why our foreign economic policy must move in new directions, why we must develop better programs of aid and trade. Put in the simplest terms, these programs must enable us to say, "Join the free world and thrive!" If we cannot say this we will wake up one day to find that Khrushchev's dreams have become a reality.

Financing Economic Development

IF OUR FOREIGN ECONOMIC POLICY is to be an effective means of promoting our national ends—and of meeting the new challenge of the Communist economic offensive—it must chart new directions in three major fields.

The first of these is the always controversial field of foreign aid. Since the end of World War II the United States has carried out foreign aid programs on a scale unprecedented in world history. Broadly speaking, these programs have gone through three stages. The first stage was the relief and reconstruction of a war-torn world. The second stage was the strengthening of our military allies so that they could defend themselves against Communist aggression. The third stage—now only just beginning—is the economic development of the underdeveloped countries.

Growth of Foreign Aid

Until two or three years ago economic assistance to underdeveloped countries was a comparatively minor aspect of our foreign aid policy. In the 11 years between July 1, 1945 and June 30, 1956, according to the Committee on Economic Development, United States government expenditures for foreign assistance totaled $57 billion. Of this total about $18 billion went for military aid. Another $28.4 billion went for economic assistance to industrial countries, mainly to the countries of Western Europe under the Marshall Plan. The remaining $10.6 billion—or one dollar in every five—went for economic assistance to underdeveloped countries. Of this $10.6 billion, $3.5 billion went for relief expenditures and $3.8 billion for economic aid (mostly called "defense support") to the seven main underdeveloped countries with which the United States had military pacts—Nationalist China, the Philippines, South Korea, Indochina, Pakistan, Greece and Turkey. This left only $3.3 billion for economic development assistance to 75 underdeveloped countries containing well over 1 billion people.

Since 1956 economic development assistance has received increasing emphasis in discussions of our foreign aid program—an emphasis that has been reflected, to some extent, in actual foreign aid policy. In 1957 reports by two Presidential advisory groups and other reports prepared for committees of the Congress urged a greater United States program of economic development aid. Shortly thereafter came a small but symbolic step—the creation of a Development Loan Fund with an initial capital of $300 million to make loans in underdeveloped countries on easier terms than those hitherto available, including loans repayable in local currencies.

New Trends

The trend toward economic development assistance gathered further momentum in 1958. Congress appropriated $400 million for the Development Loan Fund, although this was much less than the Administration requested. Senator A. S. Mike Monroney, Democrat of Oklahoma, made his now-famous proposal, later embodied in Senate Resolution 264, for the creation of a new International Development Association to finance the economic development of the underdeveloped countries.

After some hesitation, and subject to certain qualifications, the Administration endorsed this proposal. Then it added some other suggestions of its own—expansion of the World Bank and creation of an Arab development institution to finance development on a regional basis. Later that year, in response to Latin American pressure, it approved the idea of an inter-American bank. By the year end it was seeking ways to achieve a large, long-term increase in the resources of the Development Loan Fund and was preparing new measures to enlist greater participation in economic development abroad by American private investors.

Proposed Changes

From these and other developments it is clear that our foreign aid program is in for some basic changes. In the brief space available here we cannot spell out in detail all the changes that should be made. But, on the basis of recent analyses by expert observers, we can draw up the following agenda—a list of the major new directions in which we ought to go:

1. *We should accept the fact that the United States is in the foreign aid "business" for good—or at least for the indefinite future.*

Since World War II our foreign aid has been carried out by a series of fits and starts—each measure founded on the belief that it would be the last needed to accomplish our national objectives. First we convinced ourselves in 1945 that our contributions to the two Bretton Woods institutions (the World Bank and the Fund) would be the "final" measure of foreign aid. Later we told ourselves the same thing about our 1946 loan to Britain and still later about our Marshall Plan aid to Europe. More recently, in framing the Point Four program of 1949, we persuaded ourselves that the economic development of the underdeveloped countries could be carried out by private investment alone, coupled with only modest amounts of government-financed technical aid.

These beliefs were not only proved fallacious by subsequent events; they were demonstrably false at the time. Yet the United States persists in such attitudes out of a reluctance to face its new responsibilities as leader of the free world. As late as 1954, for example, President Eisenhower's Randall Commission indicated that foreign aid should be regarded as a temporary phenomenon. The same attitude is still widely held by many persons in the

"Squanderer!"

From *Herblock's Here and Now* (Simon and Schuster, 1955)

Administration and in Congress and by members of the public at large.

The recent reappraisal of our foreign aid policy in the light of the Communist economic offensive has led more and more informed observers to reject this view. We are gradually accepting the idea that foreign aid is an integral part of our foreign policy and that we should continue to use it as an instrument of our national objectives. To be more specific, this means that we must now fashion a long-term program of economic aid to speed the development of the underdeveloped countries.

Development a Long-Term Process

Continuity in financing plays a central part in the implementation of such a program. Development is a long-term process. Because development projects take years to complete, and because their usefulness depends on progress in other parts of the economy, effective planning requires the assurance of adequate assistance over a period of years. To provide some continuity in our development assistance we established the Development Loan Fund, which is permitted to carry over the monies appropriated for it from year to year. But its resources are still too modest to make it independent of annual congressional appropriations. We must now find some way to assure the fund's long-term operation, either by providing it with an appropriation big enough for several years of activity or by permitting it to raise some of its resources through United States government borrowing.

2. *Our foreign aid effort should put greater emphasis on economic rather than on military objectives.*

Except for the Export-Import Bank, whose banker's-type loans repayable in dollars are of limited use in helping most underdeveloped countries, the overwhelming bulk of our foreign aid is made available under the Mutual Security Program. The greater part of this program, in turn, is for military and defense support assistance—available only for countries which have agreed to be our military allies. This assistance, amounting now to some $2 billion to $3 billion a year, goes mainly to five underdeveloped countries—Formosa, Korea, Turkey, Pakistan and Vietnam.

Besides military assistance and defense support the Mutual Security Program provides economic development assistance through contributions to the Development Loan Fund, disposal of agricultural surpluses and various kinds of grants in aid. Taken all together these categories of our foreign aid program provide about $1 billion a year. Of this the uncommitted countries of Asia, the Middle East and Africa have been getting no more than half. In short, only $400 million or so each year has been available to speed economic development in India, Indonesia, Burma, Afghanistan and the rest—precisely those countries in which the Communist economic offensive is concentrated.

Priority for Underdeveloped Countries

If our analysis in Chapters II and III has been correct, this state of affairs no longer serves our national interest. The uncommitted underdeveloped countries should receive a greater share of our foreign aid.

The present distribution of our foreign aid is defended by those who consider that an aid program cannot be justified unless it augments the military strength of an ally or produces appropriate evidence of national "gratitude." To most experts such ideas are shortsighted and unsound. Experience indicates that the independent neutrality of some countries may serve our interests just as well or better than a military alliance. In certain countries—Iraq, for example—military alliance may be so out of tune with the sentiment of the people as to drive them closer to the Soviet Union. The relevant criterion in granting aid should not be the formal allegiance of a country but whether aid given to that country will make a contribution to our objectives of security, prosperity and freedom.

These same considerations should impel us to question the emphasis on national "gratitude." Our national objectives are served, not by verbal expressions of gratitude, but by the development of independent governments capable of working out their own destinies along reasonably democratic lines. Such development may be frustrated if the leaders of underdeveloped countries are embarrassed by too much public kowtowing to the United States. The underdeveloped countries best able to withstand Communist penetration will be those whose leaders have won the confidence of their people and taken credit for domestic economic progress. If, in the course of preserving their independence, these countries hand us an occasional rebuff, we should be mature enough to take it philosophically.

Aid Increase Needed

3. *Our economic development assistance should be substantially increased.*

The present level of our economic development assistance to both allies and uncommitted countries is about $1 billion to $1.5 billion a year. This is an estimate, necessarily tentative, which includes agricultural commodity disposal and that portion of defense support assistance that contributes to economic development, but excludes the lending by the Export-Import Bank, whose "hard" loans, as noted earlier, are of limited usefulness for most underdeveloped countries. Programs of economic development aid are also maintained by other industrial countries, but taken together they amount to less than our own and are concentrated in the overseas dependencies of the European colonial powers. The total amount of the American and other Western aid programs falls well below the minimum levels of foreign investment in the underdeveloped countries which most experts consider essential for even modest increases in their standard of living.

Can Private Investment Fill Gap?

Hopes existed at one time that the gap between foreign public investment and the capital needs of the underdeveloped countries could be filled by private foreign investment, mainly from the United States. In 1956, the best postwar year, our new private investment abroad (excluding reinvestment) reached an all-time high of $2.75 billion. Of this impressive total, however, the underdeveloped countries of Asia and Africa received only $342 million, about one dollar out of eight. And even this $342 million was largely concentrated in the oil-producing countries of the Middle East, leaving very little over for the rest of Asia and Africa.

Our postwar experience has led most experts to conclude, along with the President's International Development Advisory Board, that in the near future private capital "is not likely to play a major role in the development of either Asia or Africa." As the board points out, "The immediate primary need for capital in these areas is in 'social overhead'—power, communications, transportation and educational facilities, and it is improbable that United States private capital will find this a profitable field for investment."

If private investment cannot supply the foreign capital requirements of economic development, how much foreign aid is needed? Answers to this question vary considerably, according to assumptions made as to the capacity of underdeveloped countries to absorb capital and the minimum rate of development consistent with American interests. Allowing for contributions from other countries, the best estimates are that United States economic development assistance should be increased above present levels by some $1 billion to $2 billion a year. Part of this increase should be made available through the Development Loan Fund, whose $700 million in existing resources was already fully loaned up by the end of 1958.

Political Responsibilities of Aid

4. *We should accept the political responsibilities inherent in our foreign aid.*

We have been reluctant to do this for fear of "intervening" in the domestic affairs of recipient countries. This is an unrealistic attitude. Our aid itself constitutes intervention if it does nothing more than to prolong the existence of the *status quo.* In the case of most underdeveloped countries our aid is large in proportion to the national budget of the recipient. Inevitably, therefore, it has profound effects on the distribution of wealth and power. To supply assistance unaccompanied by influence to deal with the consequences of that assistance is worse than intervention—it is dangerous and irresponsible meddling.

Economic development does not automatically promote the national objectives of the underdeveloped countries and of the United States—only development of a certain kind. This being so, we have no rational alternative but to use all the influence we can bring to bear. To put American capital into the development of an underdeveloped country while leaving untouched an explosive rate of population growth, an unjust system of land tenure, or the exploitation of an impoverished majority by an omnipotent minority may be equivalent to throwing money down a rathole. It may aggravate conditions already volcanic. To put it bluntly, it is simply asking for trouble.

How to Intervene

The question therefore is not *whether* to intervene but *how*. What devices can we employ to promote political, economic and social reforms which will serve our common interest in security, prosperity and freedom? This is an extremely difficult problem, and much more thinking needs to be done about it. In general, experience has indicated that attaching precise conditions to our aid agreements has rarely been a good method. It puts the recipient uncomfortably on the spot, inflames nationalist pride and commits both giver and recipient to actions which may prove unwise or impractical in future years. Our best alternative is usually to establish informal institutional relationships through which government representatives can influence each other and find excuses for doing politically unpopular things that will serve the common interest.

Foreign Aid Through International Agencies

5. *We should channel a greater proportion of our foreign aid through international organizations.*

Except for our contribution to the relatively small UN programs (Expanded Program of Technical Assistance and Special Projects Fund) and our participation in the World Bank, we have clung jealously to bilateral administration of our aid to underdeveloped countries. This approach is usually defended on the grounds that it makes most effective use of our "bargaining power."

Experience, however, has indicated a number of shortcomings in the bilateral approach. Whenever we intervene to ensure that aid is promoting our national goals we subject ourselves to the criticism that we are serving our own economic or political interests rather than the interests of the recipient country. We assume the exclusive responsibility for decisions which may adversely affect class or sectional interests. We take all the blame when our assistance fails to produce anticipated results. We often find that the very dependence upon us of a foreign country makes our bargaining power illusory. For when our bluff is called and we have either to continue the assistance or risk having the country "go Communist," we usually swallow our misgivings and go on with the program.

Advantages of International Aid

There are undoubtedly some cases where bilateral administration of our foreign aid may be the most practical alternative. But an increasing number of informed observers are coming to the conclusion that we should make more of our aid available through international institutions.

The international approach offers us the following advantages. First, it makes the outside "intervention" which is necessary to the success of the program somewhat more palatable to the recipient country. With an international institution, an underdeveloped country is more likely to follow outside advice, to supply information, to allow foreign supervisors and technicians free movement within its borders.

Second, international administration tends to reduce the suspicion that aid is being given to fulfill the selfish national aims of the grantor. Third, international administration makes available resources in men and money from other countries besides the United States. Finally, it makes it easier to carry out desirable regional projects—such as river valley development—which are not confined to the territory of any one country.

Expansion of World Bank Loans

A modest example of our growing confidence in the international approach is the current United States-sponsored proposal to double the capital of the World Bank, an international agency which has become increasingly important as a supplier of credits to underdeveloped countries. This plan is likely to go swiftly into effect once Congress approves. It does not require the paying in of any new resources by governments, but only an increase in the unpaid portion of national subscriptions which serves as a guarantee for the Bank securities floated in private capital markets. The flotation of the Bank securities has been so successful in recent years that the total of these securities outstanding is fast approaching the upper limit of the present United States subscription. The proposed increase in the subscription by $3,175,000,000, matched by an equivalent increase in the subscriptions of other countries, is necessary to assure the continued success of the Bank's borrowing from private sources, and hence the continued growth of the agency's lending operations.

But an increase in the guarantee of World Bank securities is but a small part of what is needed. For the Bank's loans require repayment in dollars, with interest at 4 to 6 percent—conditions necessitated by the Bank's obligation to repay its own borrowings from private sources. Yet many underdeveloped countries—Turkey and Burma, for example—are not in a position to import capital on such "hard" terms. Many others—such as India and Brazil—are nearly "fully loaned up" with such loans. As a result, World Bank President Eugene Black has pointed out that there are many worthwhile development projects which the Bank is not now able to finance, but which it could finance if it were given a large amount of new paid-in capital available for distribution as grants or loans repayable in local currency.

The SUNFED Proposal

For nearly a decade the question of establishing a new international agency to finance economic development on easy credit terms was debated in the United Nations in connection with the proposed Special United Nations Fund for Economic Development (SUNFED). The United States took the position in these debates that such an ambitious program of economic development should be deferred until such time as the countries of the world could reduce their arms burdens as part of a plan of enforced disarmament. Privately, our government expressed reluctance to put large amounts of American money in an institution likely to be dominated by the recipients of aid. It also feared the prospect of Communist-bloc participation in any such UN-sponsored arrangement.

The long stalemate on this subject came to an end in 1958. Attention was dramatically shifted to a stage outside the UN when Senator Monroney made his proposal, already referred to, for an International Development Association to be operated as an affiliate of the World Bank. From the point of view of the United States the Monroney proposal avoided the difficulties of the SUNFED plan by placing development funds in the hands of a responsible financial institution in which the United States and its industrial allies have voting control and of which Communist countries are not members.

Problems of IDA

But the idea of an International Development Association raises some problems of its own. First of all, how would the association be financed? As originally conceived a major portion of its resources were to be in the form of soft foreign currencies—the proceeds of our foreign "sales" of surplus farm commodities. As the State Department has pointed out, however, the local currencies accumulated overseas by the United States do not constitute a means for enlarging the total flow of economic development assistance to the less developed countries. In the last analysis, such assistance has to make possible the movement of capital goods from the United States, Canada, Britain, West Germany and other industrial countries—which can only be paid for in dollars or other "hard" currencies.

If the IDA is going to be really effective in speeding the economic development of the less developed countries, it will have to start with large resources of hard currency and procedures for getting new contributions over the years. Most of its resources will have to come from the United States, although a disproportionate American contribution might somewhat impair its multilateral character. This difficulty might be alleviated to some extent by providing for an initial IDA capital of $1 billion, of which the United States could contribute one-third (receiving a proportionate amount of the voting rights), with continuing United States contributions in future years not matched by other countries (and not reflected in our voting power). An attractive possibility for assuring continuous United States contributions would be the assignment to IDA of the repayments due to us by other countries on our Marshall Plan loans and other outstanding postwar credits.

Beyond the question of financing, IDA raises a second problem: Should the Communist countries be invited to participate? The reasons for reaching a negative conclusion are fairly obvious. In view of existing world tensions it is difficult to conceive of Communist and non-Communist countries participating successfully in such an enterprise. Khrushchev himself has said that he would contribute "not one kopek" to a joint international development effort. At the same time, the exclusion of the Communist nations from IDA might work to our disadvantage, since it would leave them free to give all their aid through bilateral programs designed to foster Communist objectives. At some point we may find it to our interest to seek the same degree of international administration of the Communist-aid program that we are prepared to accept for our own.

A third problem is raised by the recent multiplication of proposed new international agencies: What would be the relation between the IDA, an inter-American bank and a Middle East development fund? While there may be practical political reasons for having separate regional financial institutions, we shall have to find ways to insure that these institutions and IDA do not work at cross purposes. It would be most unfortunate if borrowers were permitted to "shop around" for loans from one agency to the other, thus debasing the standards of all.

Can Private Investment Be Increased?

6. *We should adopt a bold, unified program to stimulate the flow of private investment to underdeveloped countries.*

Much ink has been spilled on this subject, but pitifully little has been done about it. Although a vast increase in private investment in underdeveloped countries is not to be expected, the following measures might yield significant results:

First, the government could appoint an outstanding member of the business community as "Coordinator for Private Foreign Investment" to direct an expanded program in this field. The coordinator could do much more than is now being done to stimulate the interest of United States business in foreign investment opportunities and to relate our overseas government programs more closely to private investors' needs.

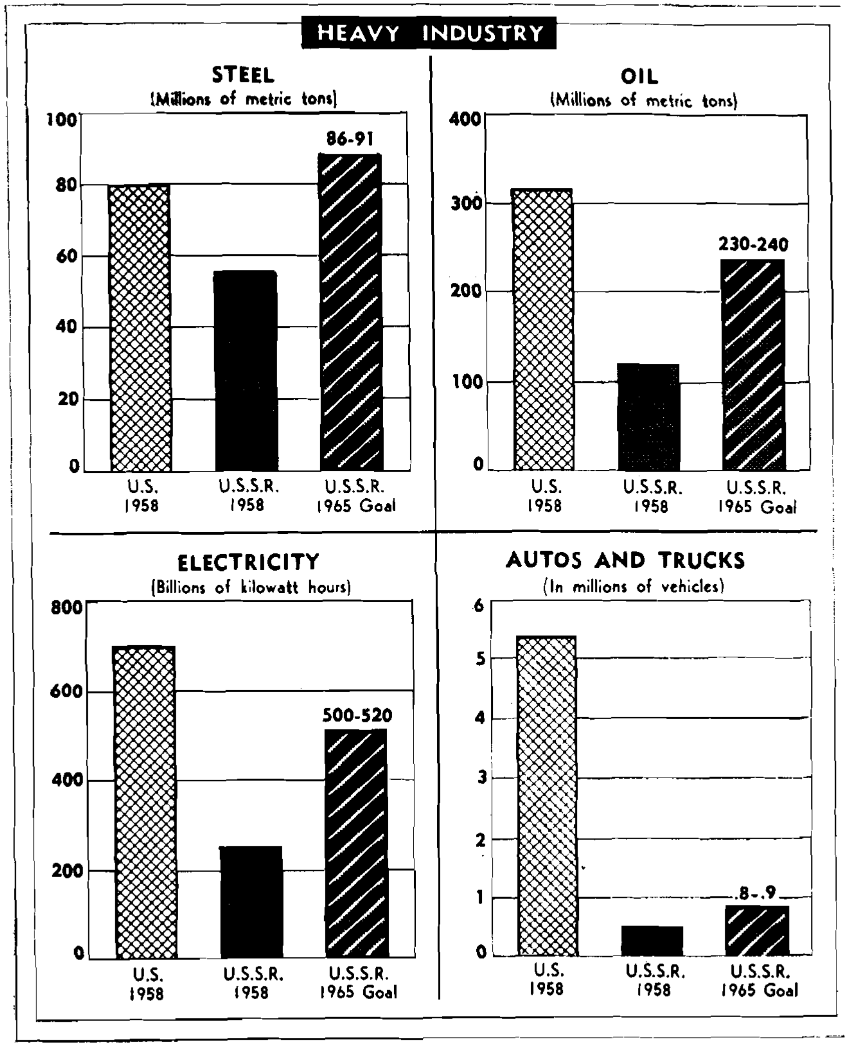
Second, more liberal use could be made of American-owned foreign currencies for loans to American and foreign private investors.

Third, certain tax incentives could be enacted. The case for a complete or partial exemption from United States tax on income earned abroad by American corporations has not appeared convincing. But Congress could consider a less drastic proposal which would permit American corporations engaged in foreign operations to defer payment of United States tax until foreign earnings are returned to the United States.

Fourth, the economic and consular staffs of our State Department should be greatly strengthened. At present these are not equipped to render adequate services to our businessmen overseas.

Fifth, new international techniques for the protection and promotion of private investment should be devised. Past experience

CHALLENGE OF RUSSIA'S NEW ECONOMIC PL



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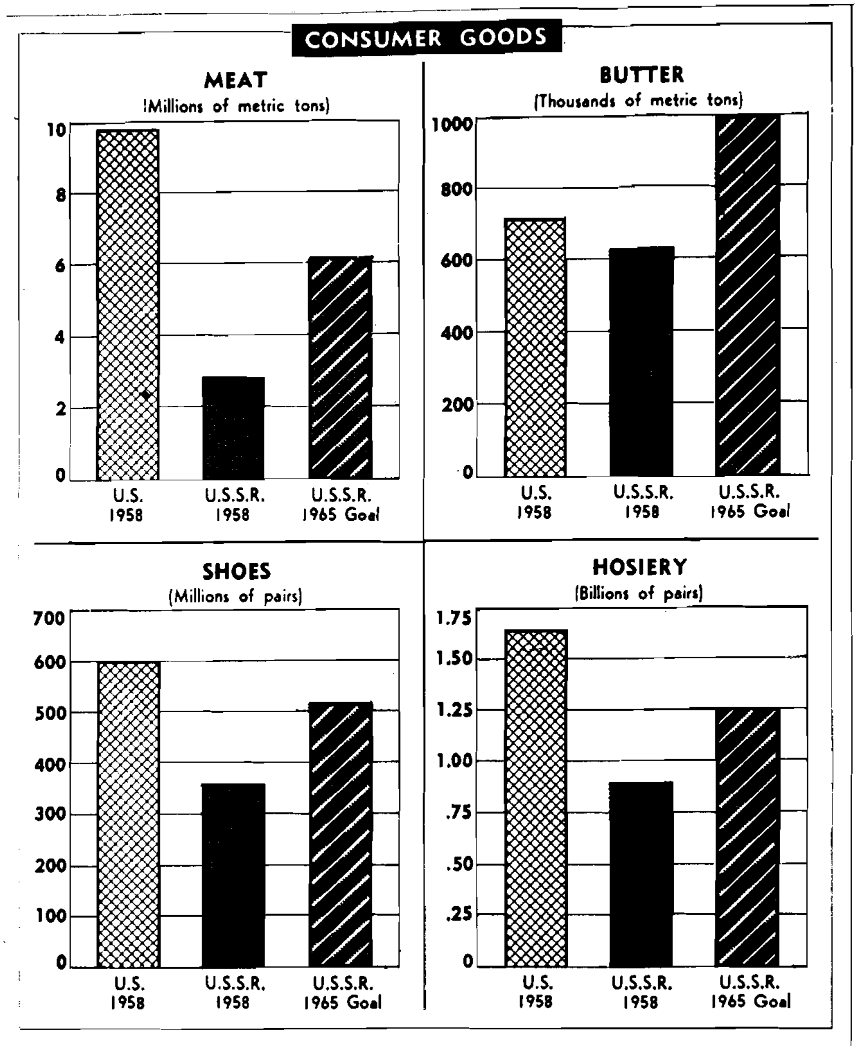


Courtesy of *The New York Times*

gives us no reason to believe that a multilateral investment code satisfactory to private investors could be negotiated between governments. But a set of principles, including the obligations as well as the rights of investors, could be drafted by the staff of IDA or by an existing international institution. Countries could be asked to consult regularly on their national policies toward private foreign investment. Both firms and governments seeking financial aid from international institutions might even be asked to demonstrate substantial compliance with the foreign investment principles.

Need for Trained Manpower

7. *We must redouble our efforts to develop trained manpower.*

Successful economic development requires manpower as well as money. We must be prepared to supply the necessary professional, managerial and technical personnel, and to help the underdeveloped countries develop their own.

Our educational system is not now producing men and women in the necessary numbers and of sufficient quality to do the job. We shall have to improve our high school, college and mid-career training with a view to preparing Americans more adequately for overseas service in business or government. This means more than simply transmitting technical knowledge or teaching a foreign language, although these, of course, are necessary. It also means equipping Americans to deal with the broader political, economic, social and human problems which they will encounter overseas.

Population Explosion Problem

8. *We need to develop policies which could avert the grave danger to our interests posed by the explosive increase in world population.*

The population of the world is increasing by over 47 million persons each year. Already well over 2 billion, it will add at least 2 billion more by the turn of the century. In some of the underdeveloped countries with which we are particularly concerned, population is growing at 2 to 3 percent a year, a rate sufficient to double population every 30 years. In countries where such rates of population growth apply, even the expanded foreign aid program suggested here could do little more than prevent per capita income from falling. In such countries population control is obviously a precondition of material progress.

As was said on December 1 by Dr. Gunnar Myrdal, the distinguished Swedish economist, at the ninth International Conference of Social Work in Tokyo, "A serious attack on the population problem, making the spreading of birth control a central part of social policy, is a paramount social need in underdeveloped countries. Your discussion of the social needs in underdeveloped countries would be totally unrealistic if you did not give due emphasis to this particular need."

The population situation poses a delicate problem for American policy. Even if we were agreed among ourselves on acceptable measures of population control, we could not impose these ideas upon the peoples of other countries. Yet we cannot afford to lapse into apathy or resignation on this question, for it may be decisive in determining whether our foreign aid programs actually can succeed in promoting the security, prosperity and freedom, which we seek for ourselves and other countries.

At the very least we should find more effective ways to call the world's attention to the implications of the population explosion. We can work harder to help the countries primarily affected to develop and put into practice measures of population control suited to their traditions and environments.

To give a concrete example, we might suggest that participation in the IDA and similar agencies be made contingent on adequate cooperation in discussions and studies of the population question. The progress a country has made in controlling undesirable population growth might be a factor to be taken into account by international institutions in approving applications for development aid.

Stabilizing World Trade

The United States is seeking new directions in a second major area of foreign economic policy—that of stabilizing world trade. Broadly speaking, this area is concerned with avoiding destructive balance of payments crises—shortages of foreign currency which countries can only correct by destroying their own and one another's prosperity.

What causes a balance of payments crisis? It may result from a turn in the business cycle—for example, an American recession which cuts our foreign purchases and investments and consequently reduces the dollar earnings that foreign countries count on to pay for imports. It may also result from inflation, which can cause a particular country to suck in imports and lose exports, and thus run short of foreign exchange. A political crisis may be responsible—for example, Suez in 1956, when the countries of Western Europe had to spend extra dollars in North America to pay for oil normally purchased in the Middle East. Crop failures, strikes, wars, sudden shifts in demand, a speculative "flight" from the local currency—all these may destroy a country's financial stability.

Impact of Instability

Whatever may be the cause of balance-of-payments crises, there is no doubt that they can have disruptive effects. If the affected country does not command adequate exchange reserves or access to emergency aid from abroad, it will have to slash its imports of foreign goods or engage in drastic measures of domestic deflation. Either alternative may trigger a chain reaction in the international trading community, resulting in lower income, slower economic growth and decline in employment. These results, in turn, disrupt our efforts to achieve prosperity, security and human freedom.

The recent blow to international financial stability caused by the sharp decline in world prices of primary commodities has heightened our awareness of these facts. The principal victims in this instance have been the underdeveloped countries, many of which depend on the export of one or two primary commodities for the bulk of their earnings of foreign exchange. Faced with a collapse of commodity prices, these countries must curtail the importation of capital and consumer goods urgently required for development. According to a recent UN estimate, the fall in the 1957 export incomes of underdeveloped countries in non-Communist Asia was so great that it about canceled their total receipts from foreign aid. The countries of Latin America have also suffered greatly from the sharp decline in primary commodity prices.

The recent fall in commodity prices should not make us forget that industrial as well as underdeveloped countries have their own problems of financial stability. During the Korean war, for example, the prices of their raw material imports shot so high relative to the prices of their industrial exports that countries like Britain were placed in desperate circumstances. Western Europe, which depends on the Middle East for 70 percent of its oil requirements, was hard hit by the interruption of oil supplies from that area in the autumn of 1956.

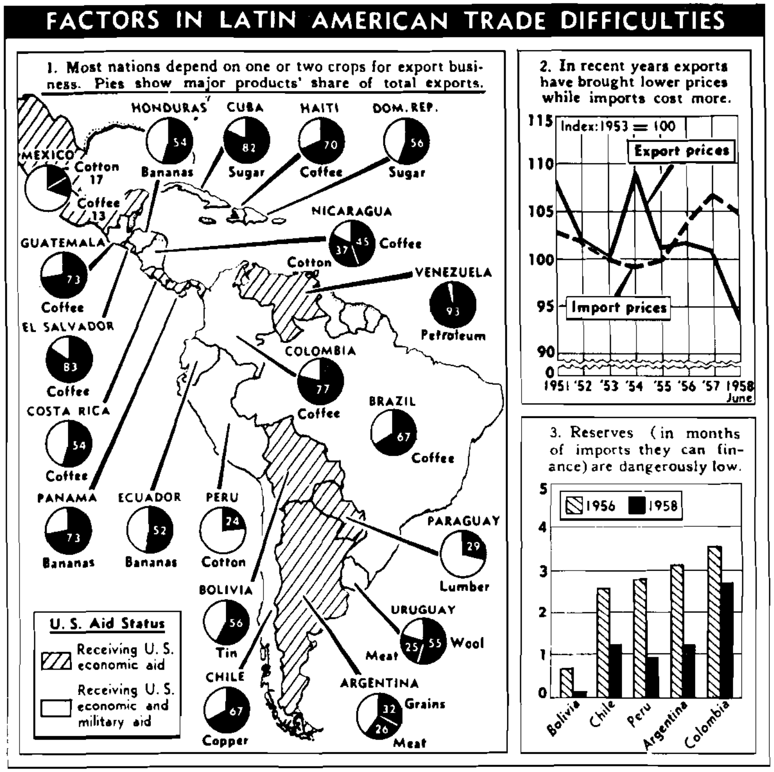
The heavy international responsibilities of certain industrial countries make them particularly vulnerable to instability in the world economy. Britain, for example, is banker for one of the two great financial systems of the non-Communist world—the sterling area. The countries of the sterling area have a total population of 700 million and account for nearly one-half of non-Communist world trade.

Britain and Sterling Area

As banker for the sterling area, Britain must maintain a large measure of free trade and payments with the countries using sterling and offer them liberal credit facilities. Britain's ability to carry out this role does much to determine the economic health of these countries and is therefore related to the national interest of the United States. Since the end of World War II, however, there have been periodic "runs on the bank"—the symptom of a sterling area financial crisis. This is not surprising. Britain has been performing its banking function with a reserve of $2 billion to $3 billion against external liabilities of about $11 billion and its own annual import bill of about $10 billion. In this precarious situation the inevitable fluctuation in Britain's trade and the trade of other members of the sterling area can bite deeply into the common reserves, induce a speculative flight from sterling, and precipitate a full-scale financial crisis.

The difficult, yet vital, character of Britain's financial role may be seen from another one of its responsibilities—that of maintaining the convertibility of sterling into dollars. Here Britain may fairly be described as the linchpin of the free world's trading system. Convertibility in this sense means, for example, that the French can "convert" into dollars the sterling proceeds of their wine exports to Britain in order to buy wheat from the United States. If this convertibility were not possible American exports would suffer, many of our trading partners would be cut off from dollar sources of supply, and the free world as a whole would experience losses in employment, income and efficiency.

Except for the brief and disastrous experiment with converti-



Courtesy of *The New York Times*

bility in 1947 sterling was inconvertible from the beginning of World War II until 1955, when Britain began to maintain convertibility *de facto* by supporting at close to the official level the rate at which sterling was exchanged for dollars in free exchange markets. At the end of 1958 sterling was made convertible *de jure,* that is, convertibility facilities were offered at the official exchange rate at the Bank of England itself. At the same time other countries of Western Europe, including France, Germany, Italy, Belgium and the Netherlands, established convertibility for their own currencies.

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The establishment of convertibility for the major European countries was a great step forward—a landmark in the long uphill struggle toward freer trade and payments. But, it should not be forgotten, this is convertibility for nonresidents only. Englishmen, Frenchmen, Germans and the rest are still not free to convert their own currencies into dollars. The achievement of financial stability remains important, therefore, not only to protect the gains already made, but to facilitate further progress toward the elimination of all restrictions on foreign exchange.

In the years ahead we cannot hope to eliminate entirely the causes of instability discussed above. Some degree of instability is probably inherent in the free-enterprise system and in the maintenance of separate economic sovereignties.

Soviet Bloc Unsettles Prices

We shall also have to deal with instability from another source: the foreign trade policies of the Communist bloc. Recently the U.S.S.R. and Communist China have been unloading large quantities of industrial products and raw materials at prices well below those in free-world markets. Early in 1958 the U.S.S.R. "broke" the international tin market with such practices. In December 1958 it startled the world by agreeing to sell $13.5 million worth of benzine to the Dow Chemical Company at 80 percent of the American price—a single deal bigger than the total of Soviet exports to the United States in the previous year.

In some cases Communist "dumping" is an obvious form of economic warfare. In others it is simply the consequence of the Communist economic system which does not reckon costs or fix prices by free-market standards. Whatever the motive, unsettling Communist trade practices are likely to become an increasingly important feature of the world economy if the Communists continue to make production gains and find their interests served by greater participation in world trade.

Proposed Remedies

If, for all these reasons, instability is likely to be a continuing problem for the free-world economy, we shall need effective policies to deal with it. Such policies can attack the problem in two ways—by increasing the free world's monetary reserves and by decreasing the severity of price and income fluctuations. Right now there are specific things we can do under each of these heads:

1. *We should increase the resources of the International Monetary Fund.*

Just how would this promote financial stability? Let us recall for a moment what it is the Fund does. In the first place it provides a pool of currencies to supplement the individual currency reserves of member nations (which include almost all the major trading countries of the non-Communist world). A country in temporary exchange difficulties "sells" its own currency to the Fund in exchange for another currency which it needs to purchase goods. One of the Fund's great advantages over bilateral stabilization loans is that its resources are continuously available as the years go by for "pinpointing" at any weak spots which may emerge in the free world economy.

What International Fund Can Do

For many years after World War II there was little occasion to use the Fund's resources. Broadly speaking, the great "dollar shortage" of those years was not the result of short-term instability but rather of a vast "disequilibrium" in world trade caused by wartime destruction and disruption of prewar trade patterns. Since the Fund was not equipped to deal with that problem it had to "hibernate" until the Marshall Plan and other measures restored greater balance to the world economy.

In the last few years the Fund has been able to assume a more active role. In the Suez crisis, for example, the Fund extended to Britain $1.3 billion in loans and stand-by credit arrangements. In the opinion of many experts, this assistance forestalled an economic and political crisis that would have otherwise occurred.

But the Fund is more than just a pool of currencies to supplement the exchange reserves of nations. It is an instrument—probably the most effective instrument at present available—for encouraging within countries internal adjustments which will reduce the fluctuations in their balance of payments. Essentially the Fund seeks to provide the same sort of international monetary discipline once provided by the gold standard.

This second function of the Fund follows inevitably from the fact that its resources are limited and available only to cover temporary difficulties. The Fund can only lend to borrowers who are in a position to repay the loan within a short period of time—usually three to five years. This means that a borrowing country must set about to reduce its balance-of-payments deficit by adjustments in its domestic economy which will curtail imports, promote exports and attract capital from abroad.

When the Fund was first established many countries wanted to restrict its powers to influence domestic fiscal and monetary policy. This attitude found some expression in the Fund's Articles of Agreement. In recent years, however, there has been a greater understanding of the close relationship between domestic and external financial stability. In practice the Fund has managed to exercise considerable influence over domestic policy.

This influence is brought to bear when countries approach the Fund for loans. It is also exercised in annual consultations with member nations which maintain exchange restrictions to protect their balance of payments. In both cases the Fund's views about domestic policies are respected because the members want to have continued access to the Fund's resources.

Recently this adjustment aspect of the Fund's operations has assumed a new dimension. The Fund has developed into an international arbiter of appropriate domestic policies. It provides an international "good housekeeping seal of approval" which influences other countries in their own bilateral lending policies.

In the summer of 1958, for example, the Fund was instrumental in persuading the Turkish government to agree to a number of economic reforms which had been urged unsuccessfully by the United States and other creditors. When the Fund put its "good housekeeping seal" on Turkey, the creditors supplemented a $25 million Fund credit with $334 million of their own aid.

Increase in Fund Resources Needed

The maintenance and further development of the Fund's stabilizing activities now requires a substantial increase in Fund resources. When the quotas of the Fund were drawn up in 1944 they were based on prewar international trade statistics. By 1957 the physical volume of world trade had risen by 60 percent above the 1937 level and the prices of internationally traded goods had risen by 140 percent. Thus the Fund's resources would have to be more than doubled to achieve the effective level its founders thought necessary.

The Fund's resources today are an impressive-sounding $9 billion. But the demand for borrowings is still concentrated overwhelmingly on American dollars. Thus the critical index of the Fund's lending power is its uncommitted holdings of dollars and gold. In November 1958 these holdings were down to $1.5 billion. This figure is uncomfortably low in view of the demand for the Fund's resources occasioned by the Suez crisis and estimates of the dollar drain which could result from another United States recession. Quite apart from such emergencies, available resources are not adequate to support the further growth of the Fund's influence as an arbiter of sound domestic policies. In the words of Fund officials, "It is doubtful whether with world trade greatly expanded in volume and value the Fund's resources are sufficient to enable it fully to perform its duties."

In the autumn of 1958, during their annual meeting at New Delhi, India, the members agreed to increase the Fund's resources. Since the meeting the increase has been fixed at 50 percent. This would add $2.3 billion to the Fund's resources of gold and United States dollars. Some $1,375,000,000 of this amount would be supplied through an increase in the United States quota. This would oblige us to contribute $344 million in gold and authorize such United States government borrowing up to $1,031,000,000 as might be necessitated by dollar drawings from the Fund. For this increase in the United States quota congressional approval is required.

The remaining portion of the $2.3 billion increase in the Fund's resources of gold and dollars—about $900 million—would come from the increase in the quotas of other countries, one quarter of which must be paid in gold. In addition, the Fund would also receive the equivalent of $1.2 billion in Belgian francs, Canadian dollars, German marks, Dutch guilders and pounds sterling—currencies which the Fund will have greater occasion to lend as economic conditions improve.

The proposed increase in the resources of the Fund is clearly in the national interest of the United States. By supplementing the reserves of the underdeveloped countries it will enable them to stabilize the flow of imports essential to their development. It will make our industrial allies somewhat less vulnerable to the sudden loss of raw material supplies, such as the oil of the Middle East. In particular it will provide an additional $650 million which will be available to Britain in appropriate circumstances to defend convertibility. Finally it will provide the wherewithal for the further development of the Fund's influence in promoting that domestic financial stability without which international stability cannot exist.

Stabilizing Commodity Prices

2. *We should seek ways of stabilizing fluctuations in the prices of primary commodities.*

This is a more controversial new direction for our foreign economic policy to take. We have usually regarded international agreements to stabilize commodity prices as alien to our basic free-market philosophy. As the world's greatest importer of raw materials we have usually looked askance at plans to keep such prices at levels higher than would otherwise prevail.

Our departure from free-market principles in the handling of our domestic agriculture has only slightly modified our position. We now participate in international arrangements to stabilize the prices of two commodities—wheat and sugar—in which we have an important producing interest. But we have continued to disapprove of arrangements for other commodities. We even refused to ratify an international tin agreement which we had helped to negotiate. When the UN Economic and Social Council established a Commission on International Commodity Trade in 1954 we refused to participate in this agency.

In 1957-58, however, the drastic slump in world commodity prices, coupled with the Communist economic offensive, brought a gradual change in our negative stand. The rioting which greeted Vice-President Richard M. Nixon in South America focused our attention on the economic grievances of our friends in this hemisphere—one of which is our refusal to participate in price stabilization schemes. Our national interest in the stability of these and other free-world countries has compelled us to take another look at the price stabilization problem.

Now, at least, we are prepared to talk about international commodity agreements. We have ended our boycott of the UN Commission. We have indicated to our trading partners that we might be willing to end our import quotas on lead and zinc in return for a satisfactory international scheme to stabilize the prices of these commodities.

It is a comparatively simple thing, however, for us to talk about international commodity agreements. It is a much more difficult thing to know just what we should do about them.

Three Kinds of Agreements

Broadly speaking, there are three possible kinds of commodity agreements in which we might take part. The first, typified by the International Wheat Agreement, assures each exporting country that it can sell a certain amount of the commodity at no less than a given minimum price and each importing country that it can buy a certain amount of the commodity for no more than a certain maximum price. Sales of the given commodity outside the agreed quantities take place at the free market level. This type of agreement works well enough in the case of wheat, where the combined action of the United States and Canada keeps the world price within the upper and lower price limits. Whether it would be very useful in other situations is doubtful.

The second kind of agreement, typified by the International Sugar Agreement, provides for quantitative restrictions on exports by producing countries when the price of the commodity falls below a certain figure. The disadvantage of such a scheme is that prices are kept artificially high and consumption artificially low, while production is allocated arbitrarily among producers without regard to efficiency. This kind of scheme may have short-term advantages but in the long run it hurts the common interest.

Buffer-Stock Arrangement

The third possibility is the buffer-stock arrangement, of which the international tin agreement offers the closest existing example. Countries participating in this kind of arrangement provide an international buffer-stock agency with supplies of the commodity and supplies of their currency. When the price of the commodity rises the agency sells its stock to the extent necessary to keep the price down at an agreed maximum. When the price falls the agency buys to the extent necessary to keep it at an agreed minimum. The great value of this arrangement is that consumption is not artificially restricted and production continues to take place according to principles of comparative advantage.

The buffer-stock alternative does present some practical difficulties. One of these is that the parties may fix the maximum and minimum prices so high that the agency will accumulate huge surpluses. One way around this difficulty would be to dispense with maximum and minimum prices and allow the buffer-stock authority to use its judgment in fixing prices which would equate supply and demand over the long run. But it is unlikely that governments would be willing to delegate such broad powers to an international authority.

One possible way to resolve this dilemma might be to fix maximum and minimum prices but provide a formula for their adjustment upward or downward when the maximum or minimum limits had been reached for a fixed period of time. In this way countries would be assured of some degree of stability, but there would also be some room for the normal operation of market forces.

Whatever alternative is chosen should provide for the participation of consuming as well as producing interests and aim at a price which will equate demand and supply in the long run. Then the international commodity arrangement will serve its true function as a device to moderate extreme fluctuations, rather than as a disguised subsidy to production which has no economic justification.

Meanwhile, we should remember that we in the United States can make one of the greatest contributions toward stabilizing world trade by pursuing policies which will avoid serious depressions and encourage sustained growth in our domestic economy.

Expanding World Trade

THE THIRD AREA OF OUR FOREIGN ECONOMIC POLICY where we must seek new directions is our policy for expanding world trade. Under this policy we have slowly and selectively removed restrictions on American imports and participated in international organizations for the removal of trade barriers.

For the future, broadly speaking, we are faced with three alternatives: (1) to abandon our present policy and retreat toward greater restrictions on international trade; (2) to continue just about as we have been; (3) to adopt a much more vigorous policy for expanding world trade.

From what was said earlier about the relation of foreign economic policy to our national objectives and about the threat to those objectives from the Communist economic challenge, it appears that the United States must reject the first alternative. Whatever temporary relief it might bring to small groups of workers and producers in industries unable to compete with imports would be far outbalanced by the injury to our nation as a whole. The real issue, therefore, is whether our present measures for expanding trade are sufficiently vigorous to serve the national interest.

Trade Agreements Act

The central element in our trade policy is the Trade Agreements Act. It was first passed in 1934. In 1958 the Congress renewed it for the 11th time—this time for four years. The 1958 renewal gave the President certain additional tariff-cutting powers —to reduce tariff rates existing on July 1, 1958 by as much as 20 percent (and by somewhat greater amounts in the case of very high or very low rates). At the same time, however, the various tariff-raising authorities of the act were also strengthened. In the opinion of many experts the act's potential for restricting trade is now at least as great as its potential for expanding trade.

Some experts believe, nevertheless, that the Trade Agreements Act, despite its shortcomings, is still the best means available to promote national objectives. They argue that the act is a tried and tested instrument for the accommodation of conflicting American interests. They contend that any attempt to change the Act in new directions would be politically impossible and would only result in a worse alternative.

This view may appear to make sense in the light of our domestic political situation, but it fails to take into account the various specific ways in which the act is frustrating progress toward our national objectives. A Trade Agreements Act whose main lines were laid down in 1934 under totally different domestic and international conditions does not effectively serve the national interest in 1958. When the legislation next comes up for renewal it should be thoroughly overhauled in the following respects:

U.S. Role Has Changed

1. *The purposes of the act should be brought into line with our national objectives.*

The act was first passed in the midst of the great depression of the 1930's. Its purpose was to expand American exports and thereby stimulate our domestic economy. This is still its stated purpose today. Yet our domestic situation has entirely altered.

Moreover, we have moved from the semi-isolation of 1934 to the role of leader of the non-Communist world. A trade act which fails to take account of these changes is a dangerous anachronism. It inhibits public understanding of the real purposes of trade policy. It gives Congress an inadequate standard by which to review the trade program.

Most important of all, the act's outmoded purpose clause frustrates executive action needed to promote our national objectives. The President has no clear authority to reduce our tariffs for the purpose of benefiting the American consumer, substituting "trade" for "aid," increasing imports of materials essential to our defense, countering the Communist trade offensive, strengthening the economic basis of the Western alliance, accelerating the growth of the non-Communist world or achieving any of the many other things that need to be done. Although the President may make tariff adjustments of which some of these things are by-products, he must always show that our exports are being increased. In the light of the new problems that face the United States this one-sided emphasis on exports can no longer be justified.

President's Tariff-Cutting Powers

2. *The President's tariff-cutting powers should be greatly strengthened.*

This problem has two aspects. To begin with, we should increase the percentages by which the President is authorized to reduce tariffs beyond the very modest amounts provided at present. The new percentage limitations should be designed not to maintain uneconomic domestic producers indefinitely, but only to provide a transitional period of 10-20 years during which we can move toward substantially free trade.

Moreover, the President should be freed from the rigid reciprocity requirement. This obliges him to extract reductions in trade barriers from other countries equivalent to those he gives in return. Such a requirement does not fit the facts of life today. The United States is a creditor nation running a persistent trade surplus with the rest of the world. We should seek wherever possible to replace our aid with trade. Therefore, the President should be empowered to make unilateral cuts in our trade barriers when these will serve our national interest. At the very least, he should be empowered to reduce our tariffs in return for different kinds of concessions from other countries, such as better treatment of American investors or benefits of a strategic nature.

What Is "Serious Injury" to U.S.?

3. *Our "no injury" policy should be eliminated or seriously modified.*

This policy is embodied in the "peril point" and "escape clause" provisions of the Trade Agreements Act. These provide, in effect, that tariff concessions shall not be made or maintained when they cause or threaten "serious injury" to American producers. Both these provisions were made even more restrictive when the Act was renewed in 1958.

Under the peril point provision we are inhibited from making any tariff concessions which will cause or threaten serious injury to American producers. Under the escape clause, we have withdrawn previous concessions on Swiss watches, British bicycles and many other items. We recently imposed import quotas on lead and zinc, thus striking a serious blow at the economies of our friends in the Western Hemisphere. The escape clause hangs like the sword of Damocles over our import trade, discouraging foreign businessmen who might otherwise sell to the American market.

Recent amendments to the act and recent interpretations by the United States Tariff Commission have developed some extraordinary definitions of "injury." There is now a serious possibility that tariff increases can be granted or tariff decreases forestalled simply because imports enjoy a larger *share* of a growing American market—even though American producers suffer no *absolute* losses in employment, profits or sales. Restrictions may also be authorized where imports cause losses in one subdivision of a multiproduct business—even though the business can avoid injury by shifting to the production of its other products.

The "no injury" concept is fast making a sham of our liberal trade claims. We have reached the point where we are taking away with one hand what we are offering with the other. Howard Piquet, one of our leading experts on tariff matters, has put the issue bluntly: "Are we going to continue to avoid all injury and confine ourselves to token tariff reductions, or are we going to enact legislation that will make increased imports possible?"

In other words, in tariff policy as in other aspects of our life, we must face up to the fact that we cannot have our cake and eat it too—that we cannot enjoy real advantages from trade expansion without causing injury to particular interests. If gains from trade expansion exceed the losses—and every serious study of the subject suggests that they do—we have no alternative but to accept the consequences.

Need for Domestic Adjustments

4. *The "no injury" rule should be replaced with a program of temporary government aid to help injured producers, workers and communities adjust to a more efficient pattern of production.*

Many of those who oppose tariff reductions contend that our living standards would be threatened by the competition of "cheap foreign labor." This argument overlooks the fact that the greater productivity per man-hour of most American workers far offsets their higher money wages. Our Bureau of Labor Statistics estimated a few years ago that the complete suspension of tariffs would displace not more than 200,000 American workers out of a working force of 63 million. Judging from this estimate, a steady move toward substantially free trade over a 10-20 year period would cause an annual displacement of less than one worker in a thousand. This should be compared with the fact that three or four out of every hundred workers change jobs each month from causes within the American economy—changes in technology, consumers' tastes and the like. The majority of these workers quickly find new employment in other lines of production and there is no reason to believe this would not be true of most of the workers displaced by imports.

These figures confirm the view that indefinite tariff protection subordinates the interests of the nation as a whole to the interests of a tiny minority. Needless to say, minority interests should not be disregarded. But they should be dealt with in a rational manner consistent with progress toward our national objectives.

If we adopt a 10-20 year program aiming toward substantially free trade we should couple it with a program of government aid to assist producers, workers and communities to adjust to more efficient lines of production. Such aid could take the form of loans and technical aid to businesses and communities, moving allowances, retraining services and expanded unemployment compensation for workers. Aid should be granted only to producers, workers and communities carrying on a satisfactory adjustment program with a maximum amount of self-help. Because of the difficulty of isolating injury due to imports from injury due to other causes, the most practical approach might be to merge an adjustment program with a broader effort of aid to all of our depressed areas.

Yardstick of National Security

5. *Resort to import restrictions as a means of protecting national security should be eliminated.*

The 1958 renewal of the Trade Agreements Act further broadened an existing requirement that the President must withdraw or refrain from making tariff concessions which might injure an industry whose welfare is important to the national defense. This provision set the stage for the "voluntary" quotas which now restrict our oil imports. A host of other industries not satisfied with the relief available under the "injury" clauses claim relief on the grounds of "defense essentiality." These have included producers of thermometers, watches, wooden boats and—according to one report—clothespins and dehydrated garlic.

In the years ahead we will have to reconsider the assumptions which prompted the passage of the defense provision. Does tariff protection of industries too weak to survive on their merits really augment our national security? We have to ask ourselves what kind of war we are preparing for. If, as we have been told, it is to be an atomic holocaust decided within a few days or weeks, the outcome will be determined by our stock of military hardware and striking power in being at that moment—not by our capacity to produce material in the long run. If, on the other hand, it is to be a limited war like the war in Korea we are not going to be cut off from our most important overseas supplies. There does not seem much point in coddling domestic producers under either of these alternatives.

Even if it could be shown that the United States is likely to be deprived of foreign supplies of strategic items whose production is required for some period of time, this would still not provide a conclusive argument for the use of trade barriers. One of the basic lessons learned in World War II in the United States, Germany and other countries was that an industrialized economy can overcome what seem to be very serious deficiencies in skills and materials by the imaginative substitution of other resources. This experience contradicts, for example, the assertion that our domestic watch industry is the only place where we could get the machinery and workmen needed for the production of timepieces in a future war.

If we wish to assist certain producing organizations considered important to our military strength, trade restriction is a poor device for doing so. It removes the spur to efficiency and technical advance. It protects the inefficient producers as well as the efficient, those well located from a strategic point of view as well as those who are badly located. Moreover, a single dose of trade restriction is seldom sufficient.

Subsidies or government contracts are better alternatives for propping up a "defense" industry. These are open methods of assistance. Their cost can be readily calculated. And they can be used with greater discrimination.

There is reason to believe that the defense amendment may do much more to undermine than to enhance our security. It opens a way by which we may stimulate the uneconomic production of a wide variety of commodities. This would speed the exhaustion of our domestic raw materials and reduce the flexibility and growth of our economy.

It would also reduce the capacity of other countries to buy American goods. This would undermine our export industries, which are of greater significance in war production than the smaller scale and less mechanized industries requiring protection from foreign competition. Finally, it would gravely injure some of our most important trading partners and allies, whose economic strength is vital to the achievement of our national objectives.

These proposals for changes in our Trade Agreements Act are not the only new directions which, according to experts, we must chart in our trade policy. We have many other laws on the books which are used to restrict American imports.

One important example is the section of our Agricultural Adjustment Act which authorizes the use of quotas on agricultural imports to safeguard our domestic efforts to maintain prices for farm products. Such restrictions are probably inevitable so long as our farm policy keeps domestic agricultural prices substantially above world market prices. We should recognize, however, that these restrictions are inconsistent with our efforts at expanding world trade. In using import quotas and in disposing of our farm products abroad we need to find better ways to protect the legitimate interests of other countries of the non-Communist world.

If we want a vigorous policy to expand world trade we should reform our practices in other respects. We should further reform our system of customs valuation and classification; repeal the Buy American Act (by which the government procurement agencies are obliged to give preference to domestic producers); reform the Antidumping Act (which has been distorted out of its original purpose into an alternative to the escape clause); and eliminate cargo preferences for American shipping.

Interdependence and International Action

We shall not only have to chart new directions in our own laws and practices. We shall have to seek new directions in cooperation with other countries. In the world of today few international trade problems can be solved by one nation alone.

Suggestions for strengthening international institutions in the field of trade often provoke an outcry about "national sovereignty." Some people believe that our participation in such institutions means surrendering the power to fashion our trade policies in our own interests.

In an age of economic interdependence this view is fundamentally unsound. It overlooks the fact that our power in the trade field is already limited. Even in the absence of an international organization, for example, other nations can raise obstacles to American exports and significantly affect our domestic economy. An international institution in which other countries make promises not to restrict our trade in return for similar promises from us involves no net loss of American power. On the contrary, it can increase our ability to protect our interests.

Whether we like it or not, national sovereignty in the field of international trade is already qualified. As economic interdependence grows it will be qualified more and more. The question is not whether it will be qualified, but whether the qualification will take place in a disorderly way through uncoordinated national policies or in an orderly way through institutions to promote our common objectives.

Although we have accepted this reasoning on the level of principle we have not acted on it consistently when it comes to practice. For the last decade we have pretty much coasted along on the international trade institutions established during or immediately after World War II. Our Congress failed to approve the International Trade Organization which was to have supplemented the International Monetary Fund and International Bank. Instead, we have conducted a kind of "holding operation" on trade barriers through the General Agreement on Tariffs and Trade (GATT).

What Is GATT?

There is nothing mysterious about GATT. It is simply a multilateral trade agreement to which the United States and 36 other countries are parties. It consists of tariff concessions granted by the participating countries to one another, a set of fair-trade rules governing the use of other trade restrictions as well as tariffs, and certain minimum administrative provisions for consultation, interpretation and adjustment of the agreement.

GATT has more than demonstrated its value to us and to the other countries of the non-Communist world. But it contains two deficiencies which we and our trading partners should now correct.

In the first place, GATT lacks the solid evidence that the United States and certain other countries tend to take it seriously. Our adherence to GATT, although effected in a constitutional manner under our Trade Agreements Act, has never been formally approved by Congress. On the contrary, Congress has inserted a disclaimer in the Trade Agreements Act saying that renewal of the act shall not constitute approval or disapproval of GATT.

In the second place, GATT has certain organizational shortcomings. Since it is only an international agreement, there is difficulty in maintaining an adequate staff. It is not equipped for effective action on a year round basis between the annual meetings of the contracting parties.

To correct these deficiencies the parties to GATT drafted a constitution for a permanent Organization for Trade Cooperation to administer the agreement. Unfortunately, a bill authorizing

American participation in OTC has been stalled in Congress for several years. Our dilatory tactics in this regard have been inconsistent with our professed intention of developing economic cooperation in the free world and strengthening the fabric of international law.

If the United States does not join OTC it should at least take measures to strengthen GATT by raising the diplomatic level of our representation and by increasing the frequency of GATT meetings.

Threats to Free World Economy

There is one other new direction that must be charted in our effort at expanding world trade. We must find some way to prevent the breakup of the free-world economy into autarkic regional blocs.

American policy toward regional blocs has oscillated between two extremes. During and after World War II we expressed violent opposition to regional groupings as an alternative to "one world." We strove mightily, for example, to pull apart the sterling area. Then, with the Marshall Plan, we went to the opposite extreme. We became just as doctrinaire in support of European regionalism as we had previously been doctrinaire in supporting "one world."

At present we appear to have given our official blessing to the new European Economic Community (Common Market) without any serious qualifications. This policy has reduced our bargaining power and our opportunity to influence the development of the six-nation Common Market group (France, Germany, Italy, Belgium, the Netherlands and Luxembourg) in directions consistent with our national objectives.

There is no doubt that appropriate forms of regional cooperation serve our interests and those of the countries concerned. Certain kinds of regional groupings, however, are more trade-diverting than trade-creating—they do more to give the participating countries sheltered markets against the outside world than to stimulate vigorous competition between them.

Promoting Interests of All

What can we do to influence the development of regional cooperation in a way which genuinely promotes the interests of all? First of all, we can encourage regional groupings to move toward internal free trade by giving financial support to agencies designed to facilitate desirable but painful shifts of resources—for example, the European Investment Bank and the European Social Fund of the Common Market.

Moreover, we can embark on the really vigorous program of removing our own trade barriers as outlined above. One of the decisive questions about the Common Market is the level of the common tariff it will adopt with respect to the outside world. It is to our national interest and the interest of all the countries of the free world that this level be as low as possible. We can encourage this result by giving the President more to bargain with in negotiations with the Common Market countries than he now has under the Trade Agreements Act. If we wish to prevent the disintegration of the free world into autarkic regional parts, we have no alternative but to initiate a long-term program for liberalizing our import trade.

Finally, we can make more effective use of GATT in controlling regional developments. The policies adopted by regional blocs will necessarily affect the markets and sources of supply of outside countries. GATT is the best available forum in which these effects can be scrutinized. As *The Economist* (London) noted on October 11, "That is precisely why a strong GATT is important; it can keep alive the concept of a single trading world. And the United States itself has perhaps the strongest interest in maintaining a world trade organization to keep in line the regional groupings which may soon spring up across the face of the globe."

Foreign Economic Policy in a Democracy

We have charted new directions in three areas of our foreign economic policy: financing economic development, stabilizing world trade and expanding world trade. They add up to a major turn off our present course.

Some of the changes would mean sacrifices in individual and group interests. Others would place additional burdens on the American taxpayer. In our system of government such policies cannot be imposed from above. They must be adopted and reviewed in accordance with our constitutional procedures. They can only succeed with public understanding and support. Will these new directions receive the endorsement of the American people?

Some Americans are already resigned to a negative answer. One high official of our government was recently quoted as saying, "It is practically impossible for us to discuss in public the radical changes we shall have to make to deal effectively with the Soviet economic offensive."

Public Support Needed

Unless we are prepared to witness the frustration of our national objectives, we cannot accept this conclusion. It is a denial of faith in democracy. We *can* rally the necessary public support for an adequate foreign economic policy if we do the following things:

First, we must show the true relation between specific foreign economic policies and our national objectives. This has not always been done in the past. Our reciprocal trade program has been presented to the American people as a device for promoting exports (among other objectives) without causing any injury to domestic producers. Our Point Four program was put forward with the suggestion that the economic development of the underdeveloped countries could be successfully promoted by private investment plus a small amount of technical aid. As events have demonstrated the falsity of these claims, we have tended to lose confidence in the programs themselves. The public will give enduring support to new directions in our aid and trade policies only if their relation to our national objectives is fairly and fully described.

Second, we must create a sense of urgency about our foreign economic policy. We will never strike out in new directions unless we dispel the notion that we are doing quite all right on our present course. We must develop greater awareness of the challenge presented by Communist rates of growth and Communist economic penetration of other countries.

Third, we must devise new and more effective techniques of organizing public support. The great difficulty in this regard with foreign economic policy is that it seems so remote from the individual citizen. In our aid and trade policies this creates the illusion that the sacrifices required outweigh the benefits to be gained. This is particularly true in trade policy where the losses from freer trade are concentrated on a few vocal interests while the important benefits are spread among an inarticulate and poorly organized majority.

Yet much can be done to overcome these handicaps. There are today powerful civic groups, trade and industrial associations, labor unions and many other nongovernmental organizations ready and able to support the foreign economic policies needed to gain our national ends. Together with our leaders in Washington they can rally public opinion and build political support. One small example of what can be done were the surveys made by the League of Women Voters during the 1958 debates on the reciprocal trade program showing the importance of foreign trade to individual communities.

What Democratic Leadership Means

Finally, we must recognize the real meaning and responsibility of democratic leadership. In foreign economic policy—as in foreign policy generally—decisions are not easy. They often require some sacrifice of individual or group interests in favor of the general welfare. Political leaders must have the courage to make such sacrifices—the steadfastness amid the clashing demands of interested parties to keep their eyes on the larger objectives of our nation as a whole.

To those who say that this approach ignores the "facts" of our political life, we must answer that there are other facts in the world today—the facts of our deteriorating world position and of the measures necessary to correct it. Political "facts" are susceptible to change—the development of public support for Lend-Lease and the Marshall Plan provides ample evidence of that. The realities of our world position are not—unless we shape our policies to take account of them. Since we cannot adapt the problems to fit our present policies, we have no choice but to adapt our policies to fit the problems. To fail to do so is to trifle with our prospects for national survival.

Talking It Over

In this discussion guide you will find discussion topics, reading references, and recommended visual aids* arranged for a series of six meetings. These are suggestions only—a starting point to help you plan a study-group program or a classroom teaching unit.

For further suggestions or for assistance in organizing a discussion series or study project, write to Foreign Policy Association, 345 East 46th Street, New York 17, New York.

Discussion Questions

1. What Are the Aims of Foreign Economic Policy?

How is foreign economic policy related to our domestic prosperity? to our quest for a secure and peaceful world?

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* Unless otherwise noted, all films are 16 mm, sound, and in black and white. For information on rental of films, write to Audio-Visual Department, World Affairs Center for the U.S., UN Plaza at 47th Street, New York 17, N.Y.

How has our foreign economic policy been used to promote our domestic and foreign objectives since the end of World War II?

How can it be used more effectively in the future?

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The Importance of Foreign Trade to the United States Economy. United States Council of the International Chamber of Commerce, Inc., New York, 1957.

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VISUAL AIDS

Expanding World Relationships. Produced in 1946 for the U.S. Dept. of State. 11 min. color. Rental, $3.00. Traces the development of economic and social interdependence from Jefferson's time to the present, emphasizing how the complexities of modern industrial society have enlarged the interdependence of men and nations.

Round Trip: The U.S.A. in World Trade. Produced by The World Today in 1947. 20 min. Rental, $3.50 from International Film Bureau, 57 East Jackson Blvd., Chicago 4, Illinois. Based on a report by The Twentieth Century Fund. People of different countries and walks of life discuss world trade. Through differing points of view the audience gains understanding of what world trade means to America.

Stuff for Stuff. Produced by the International Film Bureau in 1950. 16 min. Rental, $4.00, purchase, $75 from International Film Bureau. The story of trade. Egyptian hieroglyphics, animated maps and live photography are used to illustrate the transition from primitive food gathering to the complexity and interdependence of present-day international exchange.

2. The Communist Economic Offensive

What are the facts about the economic growth of the U.S.S.R. and Communist China? about their aid and trade offensive in industrialized and underdeveloped countries?

Does the Soviet economic offensive (a) injure the interests of non-Communist industrial nations?; (b) aid underdeveloped non-Communist countries?; (c) jeopardize the independence of countries recently liberated from Western colonial rule?

What problems and opportunities does this offensive pose for the United States and other countries of the non-Communist world?

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Schwartz, Harry, "Russia Poses Her Bold Economic Challenge," *The New York Times,* Section 4, November 16, 1958.

————, *Russia's Soviet Economy.* 2nd ed., New York, Prentice-Hall, 1954.

VISUAL AID

The Ruble War. Produced by CBS-TV in 1958. 57 min. Rental, $25 from Contemporary Films, 267 West 25th Street, New York 10, N.Y. Contrasts Soviet and American economic penetration in the Middle East, South America, Europe and Southeast Asia. Describes the scope of Soviet activities (highways, factories, dam construction, etc.) and their effect on local political and economic conditions. Questions effectiveness of United States methods and suggests ways of improvement.

3. Financing Economic Development

What contribution is currently being made to the economic development of the underdeveloped countries by the United States government? by American private investment? by international agencies?

Should the United States government substantially enlarge its aid to underdeveloped countries? If so, should it do so primarily through bilateral programs or through multilateral institutions, such as the proposed International Development Association?

What measures should be taken to stimulate the flow of private investment to the underdeveloped countries? Is private investment preferable to government aid? Are both needed?

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International Development Association, Hearings before a Subcommittee of the Committee on Banking and Currency, United States Senate, 85th Congress, 2nd session, S.Res. 264, Washington, U.S. Government Printing Office, 1958.

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Report to the President by the President's Citizen Advisers on the Mutual Security Program (Fairless Report). Washington, U.S. Government Printing Office, 1957.

A New Emphasis on Economic Development Abroad: A Report to the President of the United States. Washington, The International Development Advisory Board, 1957.

VISUAL AIDS

Food and People. Produced by Encyclopedia Britannica Films in 1955. 23 min. Rental from Encyclopedia Britannica Films, 1150 Wilmette Ave., Wilmette, Illinois. Draws a contrast between those who are well-nourished and those who are starving. Shows unexplored sources of food, new methods which may be used to improve growing, breeding and conservation. Emphasizes that with free-world trade and a world of plenty, there are greater chances for individual security and world peace.

It Can Be Done. Produced for the International Cooperation Administration by the University of Pennsylvania. 26 min. Free loan from the International Cooperation Administration, Washington 25, D.C. Shows how, through self-help and government assistance, people are able to lift themselves out of squalid living conditions and make new homes.

Partisanship Takes a Holiday. Produced in 1958. 20 min. Available from the Committee for International Economic Growth, 1300 Connecticut Avenue, Washington 6, D.C. Through a series of filmed speeches by Eric Johnston, Adlai Stevenson and others, it emphasizes the need for expansion of the United States economic program for developing nations.

War on Want. Produced in 1954 by the National Film Board of Canada. 15 min. Rental, $3.00. Depicts the economic problems of Southeast Asia and indicates how aid is put to use. Particular emphasis is placed on the operation of the Colombo Plan.

Waters of Life. Produced by British Information Services in 1953. 10 min. Rental from Contemporary Films Incorporated, 267 West 25th Street, New York 1, N.Y. Shows the operation in Ceylon of the Colombo Plan, designed to provide new land and irrigation for agriculture, and to develop power, industry and transport for future prosperity and well-being of the peoples of Southeast Asia and India.

4. Stabilizing World Trade

How great are the fluctuations in the foreign exchange earnings and currency reserves of the countries of the non-Communist world? what causes these fluctuations?

What are their consequences for the countries in difficulty? for the United States?

What can be done to solve this problem by the International Monetary Fund? by international commodity agreements? by other devices?

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International Reserves and Liquidity. Washington, International Monetary Fund, 1958.

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5. Expanding World Trade

Are the national interests of the United States, foreign and domestic, adequately served by our reciprocal trade program? by our other trade policies, such as the use of import quotas, anti-dumping duties and preferences for American shipping?

If a more liberal trade policy were adopted, what measures would be appropriate to assist displaced workers and producers? How would a more liberal trade policy affect our national security?

How will regional groupings, such as the European Common Market, affect our economic and political interests? Should we strengthen the General Agreement on Tariffs and Trade? join the Organization for Trade Cooperation?

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Vernon, Raymond, "Foreign Trade and National Defense." *Foreign Affairs,* October 1955.

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VISUAL AIDS

American Imports—A New Look. Produced by The Twentieth Century Fund in 1957. (Based on a study, American Imports). 10 min. color. For rental information, apply to Public Service Network, Princeton, New Jersey. Shows problems and necessity of increasing free trade and reducing tariffs; how business, labor, the farmer and the consumer are affected; possible ways of shifting American industries to make for maximum benefit not only for those countries exporting to us but for the entire population.

Shoemaker and the Hatter. Produced by the U.S. Foreign Operations Administration in 1951. 15 min. color. Free loan from the International Cooperation Administration, Washington 25, D.C. An animated cartoon about a hatter who believes in high tariffs, low production and a high profit per item, and a shoemaker who believes in free exchange of goods, high production, and low costs.

6. Foreign Economic Policy in a Democracy

Have congressional and public debates in the past shown an adequate grasp of foreign economic policy issues?

How can the citizen be helped to understand complex problems of foreign economic policy? How can he play a more effective role in its formulation?

Can better use be made of private business and citizens' groups? Can our governmental institutions be made to work more effectively in the development of foreign economic policy?

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Almond, Gabriel A., *The American People and Foreign Policy*. New York, Harcourt, 1950.

Gardner, *Sterling-Dollar Diplomacy,* cited.

World in Turmoil: Realities Facing U.S. Foreign Policy. New York, Foreign Policy Association, November 1958.

VISUAL AIDS

United States Foreign Economic Policy. Produced in 1957 by the World Affairs Center for the United States and the Metropolitan Educational Television Assn., 29 min. Rental, $8.00. Purchase, $80.00. Discusses present and desirable United States policies regarding trade, foreign military and economic aid and public and private investment abroad. Participants: Mrs. Vera Micheles Dean, editor, Foreign Policy Association; August Heckscher, director, The Twentieth Century Fund; Dr. Richard N. Gardner, Columbia University.

World Trade for Better Living. Produced by Encyclopedia Britannica Films in 1951. 17 min. Rental from Encyclopedia Britannica Films, 1150 Wilmette Avenue, Wilmette, Illinois. Illustrates how the exchange of goods and services between countries of the world contributes to the welfare of the world's peoples. Describes major features of international trade; indicates conditions which have led to the growth of restriction on trade; discusses solutions for major trade problems. Explains that a rising level of trade between countries is essential for a higher standard of living in every country.

Great Decisions Program

On November 10 the Foreign Policy Association marked its 40th Anniversary, and during the months immediately ahead we are launching the most extensive campaign of citizen world affairs education in our history. To carry out this task the Association will cooperate with and assist a wide range of national and local organizations in presenting the most important issues of foreign policy—"Great Decisions"—to the American public. The seriousness of these issues for the nation, together with the leadership which the rest of the world expects of the United States, has led the Association to undertake early in 1959 a national educational campaign on these Great Decisions, concentrated in 14 major metropolitan centers and in at least six state-wide areas, reaching into a total of 300-400 communities in 33 states. It is anticipated on the basis of past performance by FPA that this effort will reach between 5 million and 10 million Americans. HEADLINE SERIES #132, "'Great Decisions . . . 1959': Reshaping Foreign Policy Amid Revolutions," published as the November-December issue, is a part of this FPA program.

In order to make this major effort we must raise much more money from the public than ever before—at least $509,000 out of a total budget of $1,212,500. We need support from every quarter, and we are appealing to our friends, subscribers, contributors and all interested parties to help.

JOHN W. NASON,
President

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Published bimonthly at New York, N.Y., for October 1, 1958.

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VERA M. DEAN, Editor

Sworn to and subscribed before me this 18th day of September, 1958.

DON DENNIS
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Qualified in Westchester County
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[SEAL]

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