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THE ECONOMIC RELATIONS OF THE UNITED STATES WITH FOREIGN COUNTRIES: LONG TERM PROSPECTS

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by
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The background of economic policy today is a great and probably irrevocable division of world thought, a fundamental split that concerns the very purpose of human existence.

The industrialized free countries that ring the north Atlantic are, together, the liberal power center of the world. Japan is struggling to become a member in common understanding of this Western liberal society of nations. A new Communist Commonwealth, taking in Eastern Europe, Soviet Russia, Communist China and the half-nations Communist China has been able to break off the borders of the free world, seeks to impose the authoritarian view and destroy the liberal view of human existence.

About a fifth of the world's population resides in the Atlantic Community nations making up the liberal power center, mainly in highly industrialized countries. The communist nations take in nearly a third of mankind. Two thirds of the communist world, about a fifth of humanity, lives in underdeveloped communist nations, and the other third, a tenth of humanity, lives in industrialized communist nations.

Between the two systems lies the other half of humanity in comparatively less developed nations of the free world, in the Middle East, nearly all of Africa, most of Asia and most of Latin America.

The chief danger, as I see it, does not lie in any present, or even future political inclination these nations may have, but lies instead in the fact that they are not organized around a power center, and that they have no world authority. But it may be that in the United Nations the underdeveloped nations hold the makings of a new type of world authority. This could, in the end, be decisive. However, this is speculation, and for the time it is a sufficiently realistic view of the underdeveloped nations' political and world-power status to classify them, for the most part, as enthusiastically uncommitted.

The division of world thought has produced a competition of systems that is the central world fact of the late 20th Century. We speak of a

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competition of systems. But in the West we tend to think and act in terms of a competition between the United States and the USSR, both in short, or tactical, and long, or strategic terms. The managers of the USSR, by contrast tend to see the contest as one that will be -- can only be -- won by the performance of a system of nations not by the performance of the chief nation within a system. Khrushchev laid this view clearly before the 21st Congress of the Communist Party of the Soviet Union, in Moscow, early in 1959:

"Comrades, an economic competition between the USSR and the USA, between the entire world socialist system and the world capitalist system, is in progress on the international scene...

"The level of production in the capitalist system as a whole lags far behind that of the United States. There is a big, constantly widening gap between the various capitalist countries in rates of economic growth.

"At the same time, all the countries of the world socialist system are making rapid economic and cultural progress. High rates are a general, objective law of socialism, now confirmed by the experience of all the countries of the socialist camp...."

Mr. Khrushchev's description ignores the "big, constantly widening gap between the various" socialist countries, to use the expression Mr. Khrushchev used to take note of the same condition in the capitalist world.

But what I find of chief interest is Khrushchev's view of the special values of the Marxist nations system. He regards achievement and progress in all parts of the system as being not only possible but as absolutely necessary, because he wants it established in the mind of the world that to be within the Marxist system is the same thing as saying that you are within a fast-growing area of economic development; that you can join the process of fast economic growth any time you want to, simply by leaving the capitalist world and becoming Marxist. This means progress and achievement -- forward motion -- everywhere. That is a considerable objective, because it says that for socialism no economic problem is too small to get attention, and that no economic problem is too difficult for Marxist planning to grasp with confidence.

Many of the problems besetting the communist world today are the problems of success. They arise either from geographic aggrandizement of communist territory in the past fifteen years or from the economic progress of the USSR and part of communist East Europe out of the simple world of scarcity into the more complex world, much harder for planners, of relative plenty.

The apparently most realistic, and certainly the most prudent thing for us is to assume that the communist world will continue to move along the path of general and fairly rapid economic growth. Such an assumption

seems all the more realistic and prudent if we remind ourselves that the communist leaders have stated openly and often that they have no intention of trying to equal our per capita output of everything, but intend to equal our performance only where it suits their purposes.

Our main and controlling long-term response to the communist challenge should be, first of all, as systematic as the challenge. The test is our ability to improve the performance of the whole free world, to make at least as good a showing for all life under free enterprise as the communists make under Marx. That is, the challenge we must meet is a challenge to make our system work well.

What then are the main long-range economic policies by which we set out to make sure that our liberal western society is and will remain competitive in the face of challenge from a system that intends to displace ours as the epitome of its times?

In a nutshell, they should be economic policies that permit and encourage the Western liberal industrialized world of the Atlantic Community of nations to become a coherent operating system consciously aiming at its own overall continued and rapid economic growth and at the advancement of all parts of the free underdeveloped world. The common underlying principle of the Atlantic Community's economic policies must be the preservation and extension of economic efficiency. It is the oldest lesson of economic freedom that free enterprise is economically justified only by the efficiency it promotes through competition. But freedom and competition must result in greater cohesion, not in increased divisiveness. Efficiency, competitive freedom and greater unity are our somewhat conflicting Atlantic Community objectives.

Elements of Disunity

To come into being as an effective society of nations the Atlantic Community must surmount strong forces tending to fragment it. At its heart is the European Economic Community, or Common Market, consisting of France, Italy, Germany, Holland, Belgium and Luxembourg. These nations, known as "The Six" set up shop in 1958 as a customs union designed to lower tariffs among themselves to zero over a twelve-year period, while gradually bringing into force a common external tariff. But it is important to note here that the Common Market is more than an economic organization. Much of its impetus has come from a strong feeling among many of its promoters that a new European nation should be created to take the place of the six founding countries. This process has obvious discriminatory features against all outside it. The effects of the Common Market are so considerable that Britain, Norway, Sweden, Denmark, Portugal, Switzerland and Austria banded together in 1959 as a rival European Free Trade Association, called usually the "Outer Seven." These countries will lower tariffs operating against one another but have no political federation in mind and are not planning to adopt a common external tariff. Once again, there are obvious discriminatory advantages to the members.

These special arrangements in Europe broaden out to much of the rest of the Free World in spheres of influence I want to discuss a little later. Another important divisive influence within the Atlantic Community itself is the fact it embraces some of the world's main capital exporting countries, and countries or areas such as Greece, Southern Italy, Portugal and Spain, themselves needing developmental help. This makes for a wide range of basic economic outlooks within the Community, and consequently for very different, often conflicting views of the direction basic policy should face.

The Common Market, despite the economic discrimination it involves has to some extent served the growth of the Atlantic Community because it has tended to broaden thinking about Western economic policy from national toward a larger framework. In a number of her present policies, France appears to feel it is her duty to rebuild nationally before she can make larger common causes. In Great Britain the agreement of the MacMillan government to base Polaris firing submarines in Scotland gave prominence to "unilateralists" who oppose such common defense and hope Britain can "go it alone."

Ingredients of Unity

To provide the broadest possible frame of reference for the reconciliation and suppression of the disintegrative forces of several kinds at work in the Atlantic Community area, the United States this year proposed formation of a new consultative body, to be called the Organization for Economic Cooperation and Development (OECD). This would take in the membership of the wonderfully successful agency for European cooperation in use of Marshall Plan assistance, the Organization for European Economic Cooperation (OEEC), plus the United States and Canada. OECD, that is, would cover the entire Western European and North American areas. OECD is intended to be the working instrument through which the Atlantic Community could discover, propose and in parr administer policies for the assistance of and the increased efficiency of the Atlantic Community nations, while at the same time extending effective competitive freedom, increasing the Community's cohesion and overseeing and coordinating policies for the assistance of the underdeveloped nations.

The immediate, but not necessarily the ultimate objectives of the Atlantic Community are almost exclusively economic. I think a common economic interest is fundamentally necessary to any reliable coalition of this type. But it seems almost obvious that if this common economic interest turns out to be genuine and lasting it will arouse interest in something broader, including the cultural and the political, perhaps even in the end, an Atlantic Federation.

For instance, growing out of the Atlantic Congress held in London in June of 1959, there is an active group of political and economic leaders working on a so-called Atlantic Institute, a Center for thought and research in developing ideas to bring the Community closer together

and to bring the best minds in the Community to bear on the kind of problems we are discussing here today. The Institute is not yet in operation but its very inception and the men whose interest it has enlisted is an indicator of progress to come.

Policy that promotes rapid economic growth is necessary to the Atlantic Community. For one thing, vigorous economic growth is needed to make it possible for these most advanced nations of the Western World to keep their own resources efficiently employed and to achieve rises in their own standard of living that do not disappoint the expectations of their own peoples.

If the best developed nations of the West do not make a good showing at home there can be no general good showing. It goes without saying that a good growth record is necessary if the Community nations are to be able to furnish assistance to the underdeveloped nations on a dependable, long-term and generous basis. The more broadly this growth is shared among the Atlantic Community nations themselves the more broadly can the whole Community participate in assisting the less developed nations of the free world to better standards of living.

Finally, vigorous economic growth is needed throughout the Atlantic Community nations so that the Community can carry for an indefinite time to come the defense burden it must carry, and share the burden fairly.

The way to maximum desirable economic growth is economic efficiency, that is, a high rate of productivity. This involves many things, but at the international level one of the surest ways to increase economic efficiency is to reduce the barriers to trade, chiefly tariffs, where they are a shelter for inefficiency. Commercial policy has an essential role to play in promotion of economic growth in the Atlantic Community. Both in this way, and more directly, trade liberalization is a necessary element in the systematic effort the West should make to encourage economic progress in all parts of the free world. If this attempt is to succeed, investment in the underdeveloped areas must be seconded by a wider opening in the markets of the Community nations for the goods of the underdeveloped countries.

The Atlantic Community should be an open community, neither divided into protective and disintegrative fragments, nor roped off from the rest of the world as one big self-serving area of protection. A general, substantial and nondiscriminatory reduction of external trade barriers of the countries of the community is the most effective way to advance toward the open but cohesive and purposeful Atlantic Community we need.

The members of an open industrial center could expect to garner enormous benefits from improved allocation of resources. Further, the general opening of trade portals would increase competition and make business rigidities harder to maintain.

One improvement in use of resources should come in the use of agricultural products. It can be expected that Western Europe will continue to draw closer to the technological level of United States industrial production. Some time in the fairly near future Europe's technology may be fully equal to ours. As this happens the significance of our comparative advantage over Europe in farm production should increase. One aspect of the development of trade between the United States and Europe under these conditions might be an expansion of United States agricultural exports to Europe, paid for with an expansion of European industrial exports to this country.

This process would require dismantling of the present protective European barriers against agricultural imports from the United States and dismantling of European subsidies to agriculture. On our side, it would require progressive abolition of our own agricultural subsidies, since, under the regime of economic efficiency Europe would expect to get its agricultural imports from the United States at economic, not subsidy, prices.

The United States Balance of Payments

The question comes to mind, could the United States enter into any such program, given its balance of payments difficulties? As you probably know, the United States has been spending more abroad than it has been earning abroad, with the result that foreign dollar -- or gold -- claims on us have been growing. In the two years 1958 and 1959 the United States accumulated a deficit in its transactions with the rest of the world amounting to some seven billion. Through the first half of 1960 our balance of payments deficit was at an annual rate of two and three quarter billion. This was a considerable improvement over each of the two years before, but it is still quite a deficit.

We could set out to reduce this deficit by a program of controls to limit imports or by cutting down on spending abroad, such as for assistance and troop support, that is essential to present United States economic, military or political programs. It is possible we could have balanced our payments with the rest of the world at some lower level of transactions, and at some reduced scope of United States influence in the rest of the world. But expectable foreign reprisals make this doubtful.

The Research and Policy Committee of the Committee for Economic Development, where I am Vice Chairman for International Economic Policy, answered this policy question in a statement issued early this year. I would like to quote you the heart of our Committee's opinion.

"We can and must correct our balance of payments position in ways that are consistent with the major objectives of United States policy. These objectives include the maintenance of high employment and economic

growth at home, stability of the purchasing power of the dollar, continued United States contribution to the military strength of the West and to the economic progress of the underdeveloped world, as well as the leadership of the United States in moving towards a free international trading system. These objectives clearly indicate that (1) we must seek solutions to our balance of payments problem that will increase our ability to compete in world markets and that (2) we must avoid restrictive solutions that would raise barriers to world trade or limit expenditures abroad that are essential to United States economic, military or political purposes -- The solution to our balance of payments problem should lie, therefore, not in the direction of restraints on imports or upon United States foreign investment and assistance but in expansion of our exports of goods and services. The surest way to expand our exports is to better our competitive position."

This policy statement pointed out that a solution to our balance of payments problem is in the interests of the whole free world, not of the United States alone. The dollar is the world's reserve money. In this sense we are the world's banker. It is to the interest of all to see to it that their bank is sound. Consequently, it very much behooves our partners in the free world, and particularly the advanced nations of the Atlantic Community to work cooperatively with us to find ways to preserve desirable programs but to avoid drains upon our gold stock or dangers to it that weaken the dollar.

Atlantic Community Relations with the Underdeveloped Countries

We have already noted in our discussion of tariffs that the Atlantic Community can probably help the underdeveloped countries of the free world most of all by opening our markets more widely to their goods. The underdeveloped countries must import to develop. Their ability to import is the chief restraint on their ability to develop. To the extent they can pay for their imports by their own earnings in Atlantic Community markets they will not require assistance grants or credits.

Investment is another chief instrument of development assistance. It is an obvious instrument, given the fact that underdeveloped nations need net new capital added to their resources. I think we need not pause to discuss the benefits of investment, either private or governmental, in that sense. What I do want to discuss is investment as an instrument in creating the better format we want for a development alliance between the industrial heartland of the free world -- the Atlantic Community -- and the less developed free world areas containing half of mankind.

The free world divides roughly into three general spheres of influence. The Common Market nations of Europe have extensive special arrangements with many non-European countries, particularly in Africa, based on past colonial relationships, giving these associated countries very strong tariff advantages in the Common Market. Great Britain's Empire Preference system embodies a similar set of special relationships based on past colonial ties and on empire links, all now wrapped up in the British Commonwealth. Empire Preference is smaller in terms of tariff advantages

than what might be called Common Market preference. Thirdly, the U. S. has long maintained special economic as well as political relations with Latin America. This classification leaves some loose ends, but represents the problem I want to get at.

Such spheres of influence are incompatible with the growth of a genuine community spirit among the nations of Western Europe and North America. Further, they divide the underdeveloped nations into groups where development may be quite uneven. Such groups tend to lose touch with one another and thus to lose the benefits of cooperation among themselves in the solution of important problems. For instance, African countries linked with the Common Market nations are increasing coffee production rapidly, because their special arrangements with the Common Market will give them an advantage in selling their coffee in Europe, meanwhile, surplus coffee piles up in Latin America.

An open Atlantic Community permitting and encouraging free flows of capital from and to all its parts and between all its parts and all parts of the underdeveloped nations of the free world would start a knitting together process where today we have strong tendencies to divide and become hostile. Freedom for capital to flow where it is needed and to send its earnings where they are wanted, together with an open free world trade community, would put us on the track of solution to some of our worst commodity surplus problems and greatly increase the efficiency with which the free world uses its human and material resources. Under these conditions there is probably no part of the free world that would not attract private investment, to say nothing of government investment or investment by the World Bank or like agencies. That is to say that if we are able to break down present barriers to the flows of trade and capital and earnings on an economic basis we will have moved a very long way toward developing a free world system in which all parts can and will benefit. If we cannot, we are in danger of letting some parts of our world stagnate, and of keeping all parts of it from attaining the economic efficiency we need to meet our expectations and carry our burdens.

I would like to note in this respect that it seems to me the agricultural surpluses of the United States are a capital treasure that we should be able to employ in development assistance without disrupting world trade and without endangering balanced development of new economies. I am aware that the economies of this are not yet settled and that the role of agricultural surpluses in development is much disputed. But I am also aware that half the world's population suffers from some degree of undernourishment or malnutrition. I am also aware that the world's present population of some three billion people may double in no more than the next forty years. I take that to mean that in so short a time we would need twice as much good food as we now have to maintain even our present unsatisfactory standards of world nutrition.

This means, among other things, that one of the key elements in development assistance is improvement of agricultural productivity in the new economies. Low farm productivity is one of the most usual characteristics of underdeveloped countries and economies everywhere except for a few agricultural specialties where productivity is high. Therefore we must not, in seeking to dispose of our farm surpluses inhibit balanced agricultural development where it is needed. But I think we should also be looking at the fact that the very high agricultural productivity of the United States is one of the great potential assets of the free world, and one that is unknown anywhere in the communist world. It results in part from the conjunction of vast, thinly populated plains where bulk crops can be raised within the same national boundaries holding a large, highly industrialized urban population providing a market for great amounts of farm products and supplying farm machinery, fertilizers and the like at reasonable prices. The other places in the world where this occurs or can occur are few. It may be that working out the economies of using United States food and fibre surpluses in development aid would be one of the most significant steps we could take toward making our system work coherently and toward gaining an advantage in the competition of systems in which we are engaged.

I would like to illustrate with an example arising from one of my own experiences as a businessman with the underdeveloped world, an experience that sharply illustrates, I think, the advantage our adversaries have in operating as members of a coherent system.

In the Fall of 1958, General de Gaulle offered to the members of the French West African Community their choice of association with metropolitan France or independence. To his surprise, Sekou Toure, the political leader of the then French Territory of Guinea, asked for independence. Immediately France saw fit to pull out of Guinea all French support in terms of people and things including hardware from buildings and some essential drugs. The newly independent country was, thus, immediately in desperate trouble and in need of aid. Sekou Toure, who became President of Guinea, asked for aid from countries in the North Atlantic Community, including the United States, and from the Soviet Union. The United States expressed interest and sympathy and actually did help to have Guinea accepted as a member of the United Nations that Fall but was, to put it mildly, slow in doing much else. Having officially recognized Guinea, and having established an embassy there, it was eight months before we sent an Ambassador. They were in desperate need of wheat and rice, of which as you know, we had plenty, but it was many months before a shipload was sent to Conakry, the Capital. Meanwhile, within days, members of the Soviet system, established embassies with competent ambassadors in Conakry, proffered and delivered aid of various kinds and sent in dozens of technicians ostensibly to instruct. By the time the Western nations had begun to deliver physical tokens of their interest and concern, members of the Soviet system, as represented by East Germany, Poland, Czechoslovakia and Communist China, had major staffs entrenched, had sent in tons of goods including arms, and were well established in most of the important governmental offices in the new nation.

Our company, which as part of an international consortium called Fria, had developed in Guinea a bauxite mine and was building a plant to produce alumina from that bauxite. We quickly did what we could to help within appropriate limits of corporate resources and in so doing found that Sekou Toure, while finding it essential to accept aid, resources and human skills from the East, appeared not anxious to become part of the Soviet system. Over the two years since Guinea's independence, however, he has felt it necessary to accept many commitments and many things from the East in order to meet the requirements of his people. This has made it difficult for him to stay independent of the Soviet system but he has, nonetheless, lived up strictly to the commitments made to our corporation and its associates.

Had there been more unity in the North Atlantic Community in terms of overall system objectives I doubt that the important current question of whether Guinea can remain independent would have arisen. Our company believes that with the current more vigorous approach to the problem on the part of the United States government there is still real hope that Sekou Toure may maintain the independence of Guinea.

And now in closing may I refer to some thoughts of another which seem to me to summarize briefly and well the long term question as between the two world systems.

Last June, Senator Moss of Utah put in the Congressional Record a letter written by E. B. White of New Yorker and Harper fame. Mr. White quoted from an article of Salvador de Madariaga's in the New York Times magazine the previous October. I requote:

"The trouble today is that the Communist world understands unity but not liberty, while the free world understands liberty and not unity. Eventual victory may be won by the first of the two sides to achieve the synthesis of both liberty and unity" end quote.

I am not so much of an optimist that I see the whole free world including the new states, joining in a federation to achieve that unity. However, in view of the remarkable progress toward this unity in Western Europe in the fifteen years since World War II, it may indeed be possible that the North Atlantic Community in the next fifteen years will achieve such a federation. If it does, this would give the firm base for an overall free world system at least which would be enabled to meet other difficult adjustments, economic and political, which the free world needs to make in order to win the competition with the Soviet system.

Chairman Khrushchev deeply believes that his system will win world domination - and the system managers work continually to achieve it. While we do not want world domination, we do want our system to prevail since it gives to men everywhere the hope of life, liberty and the pursuit of happiness.