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COMMITTEE FOR ECONOMIC DEVELOPMENT  
RESEARCH STUDY

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# World Politics Faces Economics

*With Special Reference to the Future Relations  
of the United States and Russia*

BY

HAROLD D. LASSWELL

FIRST EDITION  
THIRD EDITION

McGRAW-HILL BOOK COMPANY, INC.

NEW YORK AND LONDON

1945

WORLD POLITICS FACES ECONOMICS

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The Research Committee draws on these studies and other available information in formulating its recommendations as to national policy for the problems examined. Its policy statements are offered as an aid to clearer understanding of steps to be taken to reach and maintain a high level of productive employment and a steadily rising standard of living. The statements are available from the national or any local C.E.D. office.



## *Foreword*

In this study, Mr. Lasswell deals with the economic policies of the United States as they affect international security. He is concerned primarily with the relations between the United States and Russia. As de Tocqueville observed a century ago, each of the two countries "seems marked out by the will of heaven to sway the destinies of half the globe."

Months before the end of the war, Mr. Lasswell foresaw the problems that are arising today as the two nations try to give body to their formal declarations of unified purpose. Had his manuscript been published when it was first drafted, his reputation as a prophet would be assured.

In addition to the present paper, the Research Committee of the Committee for Economic Development has authorized two other research reports in the field of international economic relations. *International Trade and Domestic Employment* by Calvin B. Hoover was recently published, and a study of cartels and international commodity agreements by Edward S. Mason

is in preparation. The Research Committee has also issued two policy statements in the field, *The Bretton Woods Proposals*, and *International Trade, Foreign Investment and Domestic Employment*.

This report is one of a series of supplementary papers published under the bylaws of the Committee, which give the author freedom to present his own opinions and conclusions. An account of other research projects undertaken by the Committee will be found on page 97.

THEODORE O. YNTEMA,  
*Research Director*

## *Preface*

The approach of the author to the interrelation of world politics and economics was set forth in 1935 in *World Politics and Personal Insecurity*. The present paper appraises the situation in which we find ourselves at the end of World War II and the most probable trends of future development.

The present analysis has had the benefit of a valuable stream of critical comment from several kinds of specialists and from a number of policy makers. I am especially conscious of having been helpfully challenged at various points by some of my colleagues on the Research Advisory Board, notably Ralph Young, Neil Jacoby, Theodore Schultz, and Sumner Slichter. In addition, it is appropriate to acknowledge the criticisms of William T. R. Fox and Eugene Rostow of Yale University, Jacob Viner and Quincy Wright of The University of Chicago, Oscar Jaszi of Oberlin College, and Sergei Yakobson of the Library of Con-

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gress. It is perhaps wise to emphasize, since the matters under discussion are much in controversy, that none of the governmental or private institutions with which I am connected has any responsibility for my views.

HAROLD D. LASSWELL.

WASHINGTON, D.C.  
*September, 1945.*

## *A. Introduction*

Three major objectives of American economic policy are: (a) high levels of productive employment; (b) a rising standard of well-being; (c) the attainment of these goals by means compatible with freedom and security.

The degree to which these objects can be realized in the United States depends in no small measure upon the world environment—upon the level of world economic life and the degree of world political security.

Our desire for political security and our condemnation of war depend, of course, on more than economic considerations. Because we respect human personality, we are against whatever destroys the freedom, dignity, and creativeness of the individual. When we engage in war, we do so, not from joy in destruction, but from the overwhelming pressure of conditions that we are determined progressively to abolish.

Since policies undertaken primarily for economic ends and primarily involving economic means have

security no less than economic consequences, we need to look into political as well as economic possibilities in advance of action. American economic policies that affect other peoples also affect us by their impact upon world security and economy.

The scope of this book is restricted to the interrelation between economic policy and the security position of the United States. Since we are concerned with long-term trends, particular attention is given to the future relations between the United States and Russia.

For clarity and convenience, the book is presented as a series of statements. The numbers are for ease of reference. The sections are as follows:

- A. Introduction
- B. The Fundamentals of World Politics
- C. The Postwar Structure of World Politics
- D. National Economic Structure and Security
- E. International Trade and Investment Policy
- F. Ideology, Economy, and Security
- G. Conclusion

## *B. The Fundamentals of World Politics*

- B1. If high levels of productive employment are to be harmonized with rising standards of well-being and with freedom, there must be no “next war.”

This needs little comment. Prolonged and total war puts employment in the service of the fighting front, not of the living standard. In a private-enterprise economy private competitive enterprise moves out as war moves in. Business men stop working for themselves and work for the government on what amounts to a management-fee basis. Their discretion is hedged in by government rules. Access to machine tools, plant facilities, credit, labor supply, and markets depends on legislative and administrative decisions.

Even without war, competitive private enterprise is curbed and choked when there is constant threat of war.

When crisis threatens, taxes stay high to meet army, navy, and air expenditures. Governmental controls remain and multiply. Confidence in the future of enterprise is undermined, and risk capital dries up. When economic instruments are increasingly used for other than economic ends, restrictions on economic freedom increase.

- B2. This has not always been true in the past. The expansion of commerce and industry has often been aided, or at least not retarded, by war. This was true of small wars (“cheap wars”) and of big-scale though nontotal wars.

The last century was full of one-sided clashes involving a strong industrial power and a backward country. Often these wars opened the market for cheap cotton textiles. As a result of our two hundred years’ war against the North American Indian, the continent was opened to persons accustomed to European-style products.

American industry has sometimes gained from large-scale war. During the long struggle between the thirteen colonies and the mother country, American industry grew. The country was able to supply most of its needs for iron and munitions. Gunsmiths were busy in shops from Massachusetts to North Carolina. After the war they often converted to the manufacture of tools

and hardware. (Springfield and Waterbury began in this way.)

The civil conflict between North and South gave modern industry an enormous incentive. The government contracted for munitions, uniforms, and other equipment on a vast scale. Under the stimulus of huge orders for standardized products, advances were made toward modern assembly-line technique. Operations subdivided, skills specialized, and new machines went into use. Sales taxes promoted the consolidation of manufacturing processes under one roof. The textile maker who bought raw material and turned out finished cloth saved three intermediate taxes. War-profit fortunes made vast industrial combinations possible. Government borrowing influenced the imagination and the methods of the financial market.

In days when it was possible to stay neutral and to sell to both sides, war often brought advantages to the economy of neutral countries.

- B3.** It is reasonable to forecast that future wars will be total wars, or at least that they will involve immediate danger of totalization.

Today, when Western civilization with its power system has expanded around the globe, there is great danger that any clash, however small, will involve everyone. And, in the electro-

chemical age, war means total war. It leaves little place for activities outside government control. Hence, if there are to be high levels of employment, well-being, and freedom, there must be a world framework of security, an atmosphere of mutual confidence in the desirability and possibility of peace, abundance, and self-respect.

- B4. Much as we condemn war, we must recognize that future wars are likely, unless we control in the future the factors that have produced war in the past.

This is one question at least about which it is not possible for rational men to hold different opinions. Whether we like it or not, future wars are likely. This brusque way of stating the matter is decidedly unwelcome to many if not most of us. We are so scandalized by slaughter and suffering that it is impossible to look forward to future bloodshed with equanimity. However, our present problem is not primarily to testify to our preferences but to preview the shape of things to come.

In estimating the likelihood of future war, let us glance at the history of warfare. The history of war among European nations during the last nine centuries reveals the following:

- a. Until the seventeenth century the trend was toward more rather than less war. After the

seventeenth century the trend was toward less war, but this has been reversed in the twentieth. The record of the main European wars of the period is shown by the following index series (combining size of the fighting force, number of casualties, number of countries involved, and proportion of combatants to total population):

12th	13th	14th	15th	16th	17th	18th	19th	20th
18	24	60	100	180	500	370	120	3,080*

\* For details see Pitirim Sorokin, *Social and Cultural Dynamics*, Vol. 3, 1937, and Quincy Wright, *A Study of War*, Vol. I, Chap. 9, and Appendixes, 1942. If the number of important battles in the world as a whole is taken (1480–1940), the eighteenth century is bloodier than the seventeenth and the nineteenth century is more bellicose than appears above.

*b.* The twentieth century is by far the bloodiest century.

*c.* The seventeenth century was also an exceptionally bellicose time.

*d.* The nineteenth century was extraordinarily peaceful (after the end of the Napoleonic period).

The problem of security is complicated by the fact that, rational though it is, the very “expectation of violence” is one among the many factors making for war.

- B5. Mankind is caught in what appears at first sight to be a vicious circle. If we expect war, we may create an atmosphere favorable to a so-called "preventive war." If we do not expect war, we invite aggression. Strictly speaking, however, the expectation of violence implies no vicious circle. It is but one among the many variables affecting war. It contributes to war only when its magnitudes are very low or very high, when people exaggerate the inevitability of war or on the other hand exaggerate the inevitability of peace. Only an attitude that is firm, poised, and disciplined fits the facts or contributes to a just and lasting peace.
- B6. What has been said about the future of war is no counsel of despair; wars, though likely, are not inevitable if we continually practice preventive politics.

It is possible to understand the factors that have diminished the frequency and scale of wars during long periods in the past; and in human relations whatever can be better understood can be better controlled.

War scares do not necessarily culminate in war: we did not fight England, for instance, despite the Venezuelan crisis in Cleveland's administration. Our country has experienced long years of freedom from major war.

Looking back through history, we can find centuries during which peace prevailed throughout vast areas. There was the *pax Romana* in the second century (A.D. 96 to 180), when Rome was transformed into a peaceful empire after years of turmoil under the republic. After periods of war among contending states there were centuries of peace in the world of Chinese civilization.

- B7. Crises of war and insecurity are often among the *unintended* consequences of economic policy. Hence, in the interest of harmonizing total policy, it is wise to consider in advance the probable repercussions of economic policy on security.

The characteristic form of world politics is the balancing of power.

In time of peace, states use diplomacy, propaganda, and economic measures to influence one another. In war, violence is the dominant instrument. When war is total, all relations among states are deliberately manipulated as part of the power process. However, when war is not complete or when there is peace, many international relations are permitted to develop without strict calculation of their meaning for possible war. Later on, however, in new crises of insecurity, the uncalculated enters into the

calculated. In this way trade and investment relations originally entered upon in the course of private business are reevaluated in terms of power.

- B8. The power-balancing *process* must be distinguished from “balance-of-power” *doctrine*.

The process occurs whenever the expectation of violence is important, in the same way that exchange takes place when expectations prevail that create a market. The doctrine, on the other hand, is a working theory held by those who participate in the balancing process.

During different historical periods many balance-of-power doctrines have been developed to guide or justify state policy. Some doctrines affirm that the aim of the state is to play a lone hand in the balancing process and to abstain from “entangling alliances” as long as possible. This form of the doctrine is well known in our own history.

A closely connected idea is that of keeping other nations, as potential enemies, divided into hostile groups (“divide and conquer”).

A further variant of the doctrine recommends the use of alliances to keep on the side of a state combination that has the best chance of winning in the event of war.

Another doctrine favors a concert of power, according to which states agree to act together in preserving the peace against an aggressor. Under these circumstances each state must define and calculate how long the concert will operate and under what contingencies it will break up.

When a league is established, member states agree to act together for common security. But for each state the problem remains of calculating the probability that the league will actually hold together.

No responsible statesman can close his eyes to the fact that new agreements may not be enforceable; hence he has the delicate task of strengthening institutions of collective action and at the same time of maintaining a power position that offers security for his country should collective institutions break down. This was true when the League of Nations was brought into being at the end of World War I; and it will be true of the world security organization brought into existence at the end of World War II.

In such nicely poised relationships, men of bad faith can pretend to fortify the whole, while covertly pursuing a private policy destructive of the whole. Men of good faith, aware of the

double danger of bad faith to the security of the whole and of each individual state, require the utmost skill in weaving a strong and lasting fabric. A league can pass gradually into a legal order in which the expectation and practice of violence occupy a minor position. There can be a frame of security based on consent and sanctioned by force that it is seldom necessary to apply in practice.

- B9. Insofar as there is an active power-balancing process among the states of the world the powers are continually grouping and regrouping themselves into wary, watchful, and potentially hostile combinations.

Americans have good reason to be aware of the power-balancing process. We were able to attain independence thanks in part to direct aid from the French, who were eager to offset and weaken the British. That is why Admiral de Grasse stood off Yorktown while General Washington closed in on Lord Cornwallis by land. Seen in the perspective of world politics, the secession of the thirteen colonies from Britain was an incident in the global struggle in which British power was rising and falling—and on the whole rising—in relation to her imperial predecessors, notably France, the Netherlands, Spain, and Portugal.

Not long after achieving our independence we joined hands with Britain in encouraging the secession of Spain's South American colonies from the mother country (thus dividing South America from Europe and within itself).

In World War I the result of our participation was not only to protect Britain, France, and Russia against Germany but to maintain a multiple-power system in Europe.

At the beginning of World War II the United States was teamed with a less universal combination of powers than before, since Japan and Italy were no longer on our side. Even before Pearl Harbor, we were using our weight to the advantage of Britain and China, not only to protect them from attack but to maintain a multiple-power system in Europe and Asia, thus preventing any single power from becoming dominant in either one or both continents.

- B10. When the world level of insecurity is high, all powers tend to be drawn into hostile combinations that attempt to overcome one another by frontal attack, flanking, encircling, and infiltration.

This is especially evident at moments of extreme crisis. In 1917, Britain, France, Russia, Italy, and their satellites did encircle Germany, Austria-Hungary, Bulgaria, and Turkey (and

the adjacent neutrals) by means of sea and land power, economic power, diplomacy, and propaganda. In World War II the European members of the Axis and Japan were prevented from effecting a junction with one another; hence the United States, China, and their associates sought to crush Japan in one hemisphere while the United States, Britain, and Russia closed around Germany in the other.

- B11. There is a tendency for all powers to group themselves in relation to the strongest powers.

This occurs primarily as a result of the perpetual effort of every power to protect itself against its strongest potential enemy. Germany has been the most dynamic threat twice thus far in the twentieth century, and the United States has twice joined Britain in checkmating Germany's bid for supremacy.

## *C. The Postwar Structure of World Politics*

- C1. In the postwar world, America and Russia will emerge as the two strongest powers.

By this time it is generally understood that the outstanding feature of the postwar world will be the adjustment of mighty Russia to mighty America. Russia and America will be the greatest reservoirs of human and material resources. Neither Russia nor the United States is merely a region or a nation: both are superareas. That Russia will be the dominant power of eastern and central Europe cannot be doubted; and when we consider the rate at which Russia's population multiplies, the speed of industrialization, the unity of action of Russian political institutions, and the strategical position of Russian territory, no serious reservation is to be made to the forecast that the future of Russia is the dominant fact in the Eastern Hemisphere, even as the

future of the United States dominates the fate of the West.

- C2. This means that America and Russia will dominate the global balancing of power.

While the expectation of violence prevails, other powers will continually group themselves with reference to America and Russia. Lesser powers will gravitate in and out of the orbits of what William T. R. Fox has called the “super-powers.” In the formation of foreign policy, moves will be considered in relation to the strength of Russia and America in a possible war and the strength of their ruling elements in internal crises. Such calculations of fighting effectiveness will affect the practical judgment of general staffs, diplomats, foreign investors, foreign traders, journalists, commentators, and all others who are concerned with world affairs.

- C3. Dominant opinion in the United States will be especially sensitive to the penetration of Russian influence into zones that we consider of particular importance for our security or, of course, into groups inside the nation.

This applies with special emphasis to Central and South America, Canada, the Philippines, Japan, part of China, and the South Pacific; it also applies to a lesser extent to the British Isles and France. It is easy to foresee the excitement

that would prevail should there be any sizable influx of Russian attachés (diplomats, foreign-trade specialists, and cultural representatives) into Mexico City or into any city close to the Panama Canal. Our “canal nerve” would twitch, and editors and commentators would vie with one another in exposing Russian conspiracies on the very borders of our country. The arrival of these groups from Russia might be entirely innocent, in the sense that they were no part of a deliberate plan to foment hostility against the United States. Apprehension, however, would unquestionably prevail among a sufficiently large number of the articulate elements among our people to sustain a cloud of accusations leveled against Russia. These elements would prophesy that, in future war, outposts of Russian penetration on this side of the water could be focal points of infection for attitudes and practices hostile to the United States.

- C4. Russia, in turn, will view with alarm any growth of the influence of the United States in the belt of states constituting the primary security zone of Russia or inside Russia.

Assume, for a moment, that the United States will maintain for some time a substantial degree of control over Japanese industry. Assume an extension of American interests, jointly with

Chinese, in northern and central China. The immediate threat to the vast domain of Russia would be slight. Yet from a strategic point of view these moves might be regarded as establishing potential centers of special information, or even agitation, in directions contrary to Russian interest. Should there be joint action between India, Great Britain, and the United States looking to industrial expansion at the key centers of the Indian subcontinent, Russia could not fail to evaluate the military potentiality of such developments. (In the age of air power, The Himalayas are no insuperable barrier.) Our activities relating to oil in the Near East, to lines of communication in Turkey, to industry in Western Europe, will automatically be evaluated in terms of fighting potential.

In consequence of these mutual evaluations, Russia and America will each move continually to confront, to outflank, to encircle, and to infiltrate the other. They will tend to face one another throughout the globe on practically every issue.

- C5. Perhaps it is worth emphasizing that these processes do not depend on “conspiracy.”

It is easy to misinterpret what is said about the balancing of power. When anybody talks about America “encircling” Germany or Russia or

“maintaining a divided Europe and Asia,” the average citizen often doubts that this makes sense. A business man, for example, does not believe that he himself ever thinks this way when he buys, sells, or borrows. Feeling himself a typical American, he thinks it false to assert that America participates in power balancing.

If this misinterpretation is to be avoided, several points must be understood. The “balance of power” in world politics does not mean that everybody “plans it that way.” It does not mean that all soldiers, diplomats, and foreign-trade and investment representatives of a state are part of “one big conspiracy.” Power balancing operates like the laws of supply and demand in the market; those who have a hand in balancing or bargaining do not necessarily think about or have a theory of the process as a whole. And power considerations are often not recognized for what they are. We may refer to government bond rates without stopping to think of the factors that contribute to a given structure of rates. But to some extent bond rates reflect collective estimates of the internal stability of governments and the probability of war. Balance-of-power considerations are also involved in deciding whether to open sales agencies, assembly plants, or manufacturing subsidiaries abroad. The power process is registered or affected by thou-

sands of business decisions. "Conspiracy" is not necessarily implied. We have already distinguished between power balancing as a process of politics and balance of power as a doctrine of national policy. In this discussion we are concerned with the former.

- C6. In the future, weaker powers will gravitate toward America or Russia.

Security considerations will deter the rulers of small states lying close to Russia or the United States from pushing policies so far as to exasperate their powerful neighbors to the point of intervention. The ruling element of a Central American state cannot afford to adopt policies that arouse the apprehension of dominant opinion in the United States. Our government may act only when treaty obligations are flagrantly violated or when there is inescapable evidence of discrimination on behalf of hostile powers; however, private American interests often act as independent factors outside the United States. Security considerations of the sort that influence a small power close to the United States operate in the case of a small power near the Soviet Union. Suppose Finland remains outside the Soviet federation. It is unthinkable that the rulers of Finland will be permitted to connive with elements hostile to dominant opinion in Soviet Russia. Precautionary measures taken by

Russia may not involve full official intervention; unavowed and unpublicized channels are available.

- C7. Over-all dominance will be qualified by local balances of power.

It must not be assumed that the whole course of postwar political relations will be governed exclusively by morbid anticipations of American-Russian conflict. To some extent the position of the United States and Russia must be looked upon as *potential*, not *actual*. And in any case the power position of any country is only partly affected by the dominant conflict of any historical period. To a marked degree power is local. Each nation-state is menaced or supported by its immediate neighbor; and the closest neighbor of any given power may not be Russia or America. Argentina and Chile, or Paraguay and Bolivia, eye one another as well as the superpowers and govern themselves in relation to local as well as global conditions.

Moreover, there are large and important powers besides Russia and America. The rate of expansion of these two superpowers will not be so rapid that there is no leeway for others. Should Britain develop a concert of Western Europe, Britain, France, western Germany, and the Low Countries would be a formidable area of

industrial and demographic strength. Britain will undoubtedly seek to compensate for her recent decline in relative power by extracting whatever advantages are possible from her “intermediary” position between the North American and the European continents, veering now in our direction, now toward Russia.

Moreover, over the years, a recuperating Germany can be expected to exploit her “intermediate” position between East and West, hoping to escape once more from the strait jacket of defeat by undermining the unity necessary to police the peace.

In the future as in the past balancing processes will continue to be dynamic and obscure. Obscurity is itself part of the balancing process, since participants keep as many alternatives open as they can. It is only when we look back over our shoulder through the lens of the historian that the broad outlines of a period seem obvious—like the rivalry of Britain and Germany before 1914 or the recovery of Nazi Germany by playing the Western powers and Russia against one another.

However much the headlines foam and eddy, there are rocks in the stream of world affairs that stay relatively fixed over substantial periods; among these fixed points are the strong-

est powers. Given the enormous resource base of Russia and the probability of a population of 250 million<sup>1</sup> by 1970, there is no reasonable doubt that Russia, and no West European or British Empire combination, will expand in power, both absolutely and relatively, in the next twenty-five years. America and Russia are the “fixed points,” the “polar opposites,” in the world balancing of power.

- C8. The full significance of a bipolar structure of world politics is a matter of controversy. It is often said to be “inherently unstable.”

There is no question that the bipolar pattern has often been a transition to a single all-inclusive state or a stage in the breakup of an empire into a number of states. But all known systems of world politics have been “transitions” or “stages,” and it is far from proved that any system has been more stable—in the sense of more permanent—than any other. Indeed, if there is any weight of historical evidence, it would seem to support the view that the several-state system has prevailed for more centuries over more areas than a bipolar or a unipolar system.

<sup>1</sup> F. W. Notestein, *et al.*, *The Future Population of Europe and the Soviet Union, Population Projections 1940–1970*, League of Nations, 1944, p. 68.

Strictly speaking, of course, we have no evidence about a unipolar organization of the world, since no one empire has ever included all the peoples of the earth. However, we are not entirely without knowledge of unipolarity, if we adopt a somewhat elastic definition of a universal state. Let us define as “universal” a state that takes in an overwhelming proportion of all the peoples who have been in regular contact with one another throughout a large area. The Roman Empire was such a universal state, even though at its height there were tribes around the frontier that were not subdued. The same applies to the ancient empires of Egypt, Babylon, China, and Middle and South America. Some empires have been relatively stable for long periods: the Roman Empire, for instance, in the four centuries 31 B.C. to A.D. 378; the empire of the Ch’in and Han in China also extending some four hundred years from 221 B.C. to about A.D. 172. But the life span of such universal states has more often been short: the Mongol, for instance, from 1280 to 1351. Bipolar cleavages have had both long- and short-time spans: consider the struggles between East and West, Upper and Lower, or North and South in Rome, Egypt, China, and other regions.<sup>1</sup>

<sup>1</sup> Arnold J. Toynbee lists 23 universal states in *A Study of History*, Vol. VI, Table 1. But his definition identifies a universal state with

Either because of or despite its dynamic character, the several-state system has been the rule and not the exception in the past. Sometimes there has been a tripolarity—three powers of about equal strength. There have been times when there were a few approximately equal states—pluripolarity. And there have been large areas consisting of many states of about equal weight multipolarity. It is often asserted, on combined historical and analytic grounds, that when there are several powers of approximately equal strength the balancing process is not only most enduring but most likely to operate in the interests of peace. Like the bargainers in a market under genuinely competitive conditions, the participants in world politics may then be said to have most freedom of choice, most room for bargaining and negotiating, most latitude for those unceasing minor adjustments that safeguard against major cumulations of insecurity. In a world of superpowers, as in a market of two giant monopolistic competitors, it is alleged that there may be the advantages neither of unified responsibility nor of automatic adjustment. In the light of our present limited understanding of world processes, however, the rational view is that each pattern of world

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what he calls a "civilization," and some of his examples do not include all the peoples and states with which his universal state is in contact, the Napoleonic empire, 1797 to 1814, for example.

politics is profoundly unstable and that stability depends upon the harmony prevailing among many functions and institutions rather than upon the characteristics of any one political structure.

Two conclusions relating to bipolarity are, no doubt, of practical significance for policy. Both relate to focal points of political stress. First, the bipolar system puts an enormous premium on the ideological integration of states. Even if natural resources and scientific knowledge are approximately equal, power can be limited from within by intolerance of racial, religious, and other differences. Second, the small and middle powers—the marginal powers—have a very large effect on world security. They can be an unstable no man's land between two polar powers; they can be areas of workable cooperation.

The ideological factor (also called the "morale" or "psychological" factor) is given renewed emphasis by recent advances in the technology of warfare. Those who foresee that the release of atomic energy will terrorize mankind into keeping the peace affirm that the destructive impact of atomic weapons is so devastating that America and Russia, the two major powers capable of resorting to the bomb (after Russia catches up), will recognize that mutual death will come from any attempt to bomb each other

into submission. It is quite within the reach of present technology to “keep the enemy covered” by a potential barrage of atomic bombs guided to their targets by radar. Such a barrage, it is prophesied, would obliterate key industrial centers and spell the doom of both countries.

This optimistic view of the impact of bombs on the future of peace cannot be accepted as conclusive. There is always the voice of experience saying that inventions which strengthen offense are likely to be nullified or mitigated before long by inventions in aid of defense. Experiments are already under way to deflect atomic missiles from their targets or to force a premature and comparatively harmless discharge of the bombs (or even to destroy the bombs before they explode).

But the effect of new weapons can be nullified in other ways than by physical measures: ideological factors are also at work. If the opposing state is not an integrated unit (if, for example, there are economic and racial cleavages in the social structure), there is possible a “fifth column” and the sabotaging of at least some of the enemy’s fighting potential. The timing of the first bomb salvos may be retarded; the mechanism may be tampered with; the assembly job may be imperfect.

Besides the use of ideological factors (through propaganda), tactical considerations can feed the hope of victory before annihilation. Special precautions, such as mobile production units and underground and secret arsenals, may provide the margin of superiority capable of turning stalemate or mutual destruction into victory for one side. It is doubtful whether any examples of mutual annihilation by large contending states are on record. (Two powers have so weakened themselves as to fall prey to a third power; but that is a different matter.) Mutual extinction occasionally occurs among tactical units, but the probability of such occurrences is not high.

Such considerations as the foregoing—whether true or not—have the effect of keeping alive the expectation of violence as a factor in world politics of the future. They do not, of course, justify the assumption of an inevitable war to the death. But they do underline the great importance of ideological factors and of the marginal powers, especially in a world where the instruments of attack are gaining strength.

- C9. Since the powers lying between the United States and Russia will have a great effect upon world security, it is obvious that they have heavy responsibilities for maintaining the conditions of peace.

If the leaders of the intermediate powers strive in every way possible to envenom the relations of the two superpowers, in the hope of extracting immediate gains from the situation, they will, in fact, endanger themselves and imperil the world. On the other hand, if these powers take a long view of their interests, they will try to diminish misunderstandings based upon mere suspicion and to bring all parties into effective working relationship on projects of general advantage.

The internal development of the intermediate states will have a crucial effect upon the outcome. Where policies are adopted that alienate the leaders from the masses of the people, political instability is bound to appear, and interests connected with the polar powers confront one another in an atmosphere of confusion, suspicion, and crisis.

- C10. The future course of world politics will be affected by feelings of self-respect, as well as by strategic calculations of the kind we have been discussing.

Sentiments of self-respect, expressed in the demand for equality of status and resentment against tutelage, often tempt weak border states to adopt policies incompatible with their strategic interests. Weak border states close to

Russia, fearing subjection to that mighty power, may look yearningly toward the United States. It will be remembered that for many years governments in Iran looked hopefully to this country as a foil to Britain and Russia. Considerations of self-respect are among the most important factors operating to complicate relations between the United States and smaller powers in the Western Hemisphere.

- C11. Emphasis upon considerations of strategy and self-respect does not imply that economic considerations are unimportant.

It is to be taken for granted that, in addition to considerations of strategy and feelings of self-respect, calculations of economic advantage will continue to influence the course of history. The prospect of obtaining capital from the United States, of acquiring our advanced technology, or of gaining access to the vast internal market of this country will motivate many friendly overtures.

Calculations of economic advantage may proceed within the framework of national interests as a whole, or they may be limited to the interests of a single enterprise, family, or individual. In the past, ruling groups have often found it to their private advantage to act as compliant tools of foreign interests. They have emulated the

corrupt practices that at one time prevailed in the United States, when influence in legislative bodies was sold to the highest private bidder. Although postwar Russia will not have private businesses, Russia can always offer special inducements to prospective contractors abroad. These are all of some consequence in economic-security considerations, but the most significant economic factors are those connected with the structure of an economy as a whole.

## *D. National Economic Structure and Security*

- D1. Our future position will be profoundly affected by the basic characteristics of our economic structure.

The American economy is dynamic, changeable, expansive. It has an extraordinarily varied pattern of control, ranging from intensely competitive conditions, through various degrees of monopolistic competition, to private monopoly, regulated and unregulated, and to public monopoly, organized as a department of government or as separate "authorities." Thanks to enormous productivity, it has a high level of savings, combined with high standards of living. The economy has been and may well continue to be a net exporter of capital. Many vigorous interests within it promote foreign trade and investment, supporting investment even when prospects of repayment are remote. No term

can do justice to the variety of its characteristics; but, in order to have a quick way of describing the American economy in this discussion, we call it an *export-surplus economy*.

Thanks to our vast continental market, American industry is big scale. It is in continual reorganization—new products and new processes create new industries and revolutionize old ones. Our managers, engineers, and workers are accustomed to abrupt innovation and terrific tempo. Our business men have learned what it is to cut unit cost by stepping up volume and lowering price.

In the pursuit of maximum volume many American industries look to markets beyond the boundaries of our country. Branch assembly or manufacturing plants opened in other countries are one means by which specific industries here are expanded. During the twenties, American capital was also willing to absorb the bonds of foreign governments and the stocks of foreign companies.

Repayments of principal and payments of interest can, of course, be made only in money or goods; American investors have received both. At the same time, we have made repayment difficult by trade barriers, like protective tariffs, “sanitary” regulations, quotas, and exchange shifts.

Looking at past economic relations, it is not entirely clear to what degree the economy has benefited from our exports of capital. As Calvin B. Hoover has emphasized, the fundamental economic advantage of foreign trade is not to get rid of exports but to obtain the maximum value of imports in exchange for exports.<sup>1</sup> Foreign investment is justified to the extent that it expands foreign trade in such a way that the maximum value of imports is obtained. In this way foreign trade can benefit America by contributing to high levels of productive employment at ever-rising standards of living. The great gain of foreign trade and repaid investment is improved levels of living, not sheer number of "men occupied." Foreign economic contact is not necessary to keep everybody fully occupied, but it is necessary to permit free choice of jobs at higher levels of well-being. We are not interested in the falsely labeled "employment" that consists in being fully occupied on a prison farm. A high level of productive employment as we understand it means jobs, which means being "employed" in a free economy, not being "occupied" in a concentration camp or any other form of prison economy.

To some extent our past trade surpluses (trade balances, foreign investments) are reflected in

<sup>1</sup> Calvin B. Hoover, *International Trade and Domestic Employment*, McGraw-Hill Book Company, Inc., New York, 1945.

the enlarged productive capacity of foreign countries and the resulting flow of valuable imports into our economy. But this is offset to an undetermined degree by several factors, of which one is the outright failure of some debtors to repay the principal of our investments. (A notably large part of our postwar loans to Germany, for example, were defaulted.) To the extent to which we kept pressing the sale of goods abroad and postponing repayment, we operated, at any given time, not only an export-surplus economy, but a "gift economy." It may be that such a gift can be justified, within limits, on economic grounds. Possibly we can view it as a form of insurance for the economy as a whole. Three or four billion dollars in a \$125 billion economy—and more on a larger scale of operations—can be sent abroad every year under certain conditions in order to maintain a tidal wave of development throughout the world economic environment of the United States.

It may be that, after the war, the United States will cease to be a net exporter of capital. The private buyer of foreign government bonds may consider the risk too great and leave almost all foreign lending to the government. Whether political pressures will permit vast and continuing lend-lease operations by the govern-

ment is not clear. But this much can be confidently forecast: Many major American corporations are determined to operate abroad, whether from considerations of profit or prestige. In all probability our economy will continue to exert a dynamic, variable push on the nature and tempo of economic development abroad—hence affecting the perpetual process of balancing power. Perhaps it should be noted that an old creditor economy in the international field normally develops an excess of annual imports over exports. By reinvestment and new investment it may continue to be a *capital exporter* after it has become an importer in terms of commodity trade.

- D2. The significance of our economic structure for world security is apparent when we consider the basic threat to friendly and productive relations that rises from the erratic rate of social development in different parts of the globe and over the globe as a whole.

It is not so much the magnitude of change that disrupts the capacity of men to adapt themselves peacefully to one another; it is the erratic rate that places an unbearable burden on the adjustive potential of mankind.

The capacity of men to adjust smoothly to fluctuating rates of change in their environ-

ment is severely limited. An erratic tempo heightens uncertainty; frustration is often generated by uncertainty, and destructiveness springs from frustration.

Under erratically changing circumstances the stream of communication—the flow of news and interpretative intelligence in press, radio, and other mass media—no longer provides an adequate basis for rational choices on the part of policy makers. The structure of world attention is no longer adjusted to the changing structure of economy and power. This lack of harmony between world politics, world economics, and world communication breeds crises of collective insecurity.

Insofar as the impact of our economy on the world environment is erratic as well as large, the consequences for political insecurity are grave.

- D3. Our future economic impact will actively affect the strategic security of Russia, notably in the Far East, the Middle East, and Europe.

We have already examined this chain of effects. Whether or not we plan it that way, our exports will in fact influence the sense of security in Russia. Our salesmen, engineers, and technicians, as well as our wholly or partly owned enterprises, will affect the balance of power.

Our relation to the oil reserves of the Middle East cannot be overlooked by any power.

- D4. To some extent the future will be affected by our direct exports to Russia.

In the immediate future, we shall no doubt export machine tools, machinery, and other goods to aid in reconstructing Russian economy. In return, we shall receive certain raw materials. There is little question that these operations will be mutually beneficial, in the economic sense, or that they will make for friendly relations while they continue.

- D5. One alternative theoretically available to us is to transform the structure of our economy. Assume that the new structure is a territorially independent, nonexchange economy.

A "territorially independent economy" is not necessarily cut off from trade and investment beyond its basic area. There are two forms of independent economies: (*a*) with exchange (foreign trade and investment); (*b*) without exchange (autarchy). And the first type (*a*) may trade exclusively through government channels or through both government and private channels. The mark of the territorially independent economy is that food and raw materials are sufficiently abundant for industry to con-

tinue at a comparatively active level when foreign economic ties are cut.

For many decades a dominant note in American policy was the demand for territorial independence by encouraging infant industry. We accomplished high-level industrialization by borrowing heavily from foreign investors (as well as by domestic savings and investment). With respect to capital we functioned as an "import-surplus economy," borrowing more than we loaned. Russia, on the other hand, has stepped up the tempo of industrialization by increasing the rate of domestic savings and investment. On security grounds, the Russian government has been apprehensive of foreign capitalists, engineers, and workers; in turn, foreign capital holders have been reluctant to agree to Russian rules. Hence Russia has been neither an export-surplus nor an import-surplus economy. "Import-export" accounts have tended to liquidate each constituent item over short periods. Neither America nor Russia explicitly sought autarchy (territorially independent, nonexchange economies).

Consider, however, a policy of autarchy for this country. Given the enormous variety of resources required by modern technology, it is evident that few countries are able to "live alone and like it," that is, to continue without

disaster to the standard of consumption. Our American prewar economy was far more independent than, say, that of Great Britain or Belgium. No one denies that America, Russia, and other vast powers can continue at a high level of production with little foreign contact (although at a high cost).

- D6. Were we to become a territorially independent, nonexchange economy, the effect of this change on Russia would depend, in part, on the "basic area" chosen by us.

Several "basic zones" might be selected: (*a*) We could develop an independent economy in the Western Hemisphere, including in addition to our territory all of middle and South America (through southern Brazil). (*b*) We might include the entire Western Hemisphere, bringing Canada and all of South America into the basic zone. (*c*) Another possibility is an Atlantic-Pacific economy, including Great Britain, in one direction, and the Philippines, southeastern Asia, Australia, and New Zealand in the other. (*d*) We might organize an extended Atlantic-Pacific economy, embracing as much of Western and Central Europe and as much of China, India, and the rest of Asia as remained outside the Russian zone. This policy means splitting the globe into two relatively self-sufficient economies.

If policies (*a*), and possibly (*b*), were adopted, American influence would cease to penetrate into the strategic belt near the Russian fortress and to this extent diminish any threat on our side against Russian security. Russia's tempo of postwar reconstruction would be slowed up to some extent by our failure to supply goods. But the same handicap would apply to Russia's neighbors, leaving the net security position favorable to Russia.

In the intermediate zone lying between ourselves and Russia, industrialization would be left to depend on internal saving and investment, since in the immediate future Russia would not be able to provide a sizable flow of machine tools, machinery, and "know-how" to areas lying outside its basic zone. Should Great Britain not be included in our basic region, Great Britain would be available to supply capital to the intermediate zone, although the volume would be comparatively small until the internal reconstruction of Britain is well along.

Were we to adopt policies (*c*) and (*d*), Russian security would not be enhanced. On the contrary, the appearance of an encircling global union could not fail to alarm the U.S.S.R.

There is, of course, no sound reason for assuming that Russia will forever refrain from trans-

forming itself by degrees into an export-surplus economy and improving its means of foreign economic penetration. Through the mechanism of state trusts, Russia can send goods abroad and build up trade balances or investments. So long as Russia can hold down the level of consumption, Soviet products can be “dumped” abroad. If we gave no support to industrialization tendencies in postwar China and other intermediate countries, Russia might eventually step into the vacuum.

Should this process reach significant dimensions, we should feel threatened by the expanding strength of Russia. Our response would be the same as that of any power when a dynamic power moves its effective zone closer. Today the dynamic power is ourselves; but tomorrow it may be Russia.

- D7. It is highly improbable that the United States will remodel its structure into a territorially independent, nonexchange economy.

It is unnecessary to discuss in detail why this is true. Our traditional ways of thinking take foreign trade and investment for granted as both necessary and desirable. Our professional economists have kept alive the traditions of free trade, systematically expounded by Adam Smith toward the end of the eighteenth century and

made potent by the secular gospel of Manchester textile interests when Manchester imported raw cotton from our southern states and turned it into goods that were pushed into every available market.

In practice, we have erected tariff walls against imports while at the same time we have pushed exports. Just how our exports of capital were to be repaid—since they can be repaid only in imports—was not solved in any rational way. We went ahead selling as much as possible and eventually began to loan as much as possible, postponing as long as possible the crisis of repayment—the receiving of imports.

Given our war-expanded machine-tool industries; given, also, our concern for prompt employment of returning soldiers and displaced workers from war industries; given, too, our specialty industries accustomed to serve some foreign markets, partly as a hedge against depression at home; given these factors and a number of others, it is improbable that we shall chalk out a zone and say to ourselves, “Thus far we trade and invest and no farther.”

Hence our great industries will push into many or all markets beyond our boundaries in the intermediate zone. And every expansion of our influence (every engineer, every facility, every

ownership claim) will contribute its mite to the global process of balancing power.

- D8. If, as anticipated, we continue to trade and invest abroad in all directions, the practical problem becomes how to reduce any deleterious consequences, notably in regard to national and world security.

At the end of the war, we may confidently forecast that much of our export capital will go to already industrialized countries like Britain, where we have thousands of interlacing threads of mutual interest. The Russian government has long since made overtures to us in connection not only with urgent rebuilding but concerning a ten-year program that includes expanding beyond the replacement of lost facilities. In Western Europe we shall no doubt have a hand in the new network of production.

During the same period we shall be importuned to aid in industrializing some areas where little industry has heretofore existed. These are the so-called "backward" countries or, more accurately, the non- or under-industrialized nations.

It is precisely these under-industrialized powers that complicate world security. Many of them lie directly in the intermediate zone between Russia and our country. Will the industrialization of these regions go forward harmoniously,

or will it lead to chronic crises of insecurity that culminate in constant fear of war and revolution?

From the past of world politics we know that the major powers are often able to avoid confronting one another directly until world crises are well advanced. They operate on one another obliquely in the smaller, weaker, and less industrialized areas. It was no accident that the prelude to World War I was played out in the Balkans or that the prologue to World War II included scenes in northern China, Spain, and Finland.

The question is how our postwar trade and investments directly and indirectly will affect security.

- D9. Although industrialization reveals basic similarities everywhere, opposite tendencies are emphasized in different countries; these differences are affected by our foreign trade and investment.

There are two dominant tendencies. At its extreme, one tendency provides a social structure in which a privileged few (either natives or persons of foreign culture, "imperialists") act to perpetuate themselves without substantially improving the position of the rest of the community. The standard of living of the masses is kept relatively depressed, in preliterate countries

through lack of public instruction in the skills appropriate to the new technology. In more industrialized countries, the control exercised by a dominant few is chiefly through the monopoly of violence, propaganda, and administration. Extremes of riches and poverty may be accentuated; the chasm between upper and lower income brackets is not filled by middle-income groups. There is a minimum of freedom in the choice of economic activity, in moving from one job or enterprise to another, in bargaining to settle the terms of work or trade. Decisions that restrict freedom in the market are made by despotic, not democratic, procedures. Little effort is made to root out social, political, and economic discriminations, which are as often used to play one part of the population against another and to prevent the growth of a united and free commonwealth. Let us call this *unbalanced industrialization* or, synonymously, predatory or exploitative industrialization.

The second type of industrialization involves much more sharing of power, income, and respect among the members of the community. Mass living standards are relatively higher, and the pattern of income distribution is more balanced. In the market there is freedom, not only in choosing the economic activity to be pursued, but in moving from one opportunity to another;

and effective bargaining occurs among groups. The power structure is relatively democratic. Social discriminations are held at a minimum or affirmatively attacked in the process of moving toward a relatively unified and free society. In contrast to the first type, this is *balanced industrialization*.

- D10. Unbalanced (predatory, exploitative) industrialization may build up war industry and thus directly exert a deleterious effect on world security.

Nazi Germany was a glaring example.

- D11. Unbalanced (predatory, exploitative) industrialization, by holding down consumption, instigates social unrest at home.

The ruling groups in Japan and Nazi Germany, fearful of unrest among peasants and workers, maintained rigid despotic regimes. They encouraged war psychology as an instrument of industrial discipline. (Symbols, in the short run at least, are cheaper than goods.)

- D12. Balanced industrialization keeps instability at a minimum.

It must not be supposed that such a thoroughgoing change as the introduction of modern industry can ever occur without giving rise to a considerable degree of social unrest. Smoothness

or severity of adjustment depends upon many factors, importantly, the compatibility between an established culture and the industrial way of life, the method of bringing the old and the new together.

Some pre-industrial societies have characteristics that expedite the transition that others resist. This is not only—or even primarily—a question of what utilization of labor has prevailed in the past (whether the economy is based on hunting, fishing, herding, farming); it is also influenced by the “conception of the self” that a culture induces in those who are reared in it. Some cultural ideals are inimical to saving, so great is the pressure toward consumption. Some cultural ideals are incompatible with individual ambition and risk taking, emphasizing self-effacement and ritual. These and many other differences among pre-industrial people have become known to us in systematic form through studies by social historians and social anthropologists. In Soviet Russia the incorporation into modern industrial life of hundreds of tribal cultures has been carried out partly on the basis of such investigations. To a certain extent this is true of the present-day trend of policy on the part of the colonial, or “trustee,” powers (Great Britain, the Netherlands, France, Belgium, the United States, for example).

It is even true that the acceptance of industrialization can first be obtained without many of the features of balance outlined above. But modern industrialism tends to spread as a whole, carrying special ideologies with it, especially individualism. In the widest sense we must understand that individualism is many-sided, comprising perspectives and institutions that are by no means part of a frictionless totality. Fundamentally, individualism is opposed to caste, opposed to discriminations based upon the position into which one is born, opposed to whatever stands in the way of equal opportunity for individual achievement. If there is to be achievement, the individual must have equal opportunity to mature his native talents into socially respected skill. A society is individualistic to the degree that, in ideology, it proclaims the dignity and worth of the individual and, in institutions, it provides equal opportunity for the acquisition, exercise, reward, and control of skill. Since the opposite of individualism is a caste society, both capitalist and socialist economies *may* be individualistic.

The political significance of balanced industrialization is that it keeps instability at a minimum. A steadily rising standard of living for the people as a whole, combined with a political leadership willing to share power, works against the accu-

mulation of discontent and the appearance of revolutionary or apprehensively reactionary regimes. Benefits are widely distributed as mass purchasing power increases, and adjustments to new goods and services go forward gradually and regularly throughout society.

The political consequence of flourishing middle-income groups has been noted from the earliest days of political insight and political science. Before Plato and Aristotle the Greek dramatist Euripides divided citizens into three classes, the useless rich, who are always greedy for more, the poor, who are devoured by envy, and those in the middle, who “save states.” The makers of the American Constitution were outspoken on the social consequences of imbalance. As James Madison put it in No. X of “The Federalist,” “the most common and durable source of factions has been the various and unequal distribution of property.” The body politic is endangered when extremes of wealth and poverty stand nakedly opposed to one another. The chasm deepens between the ruler “exploiter” and the “exploited” mass. Ordinary economic competition then turns into a power struggle, a class struggle, and the unity of the commonwealth breaks down.

D13. To the extent that American trade and investment strengthen predatory industrialization in

the countries separating us from Russia, our friendly relations with Russia will be jeopardized.

Assume, for instance, that our surpluses are made use of by a despotic ruling group to whip up the tempo of industrialization without sharing benefits in the form of a rising standard of living and freedom for broad masses of the population. The resulting social unrest gives the ruling group a sense of alienation from the people; hence they fear revolution. If social unrest increases in postwar China, Japan, India, and other countries marginal to the Soviet Union, the ruling groups of these countries will be in dread of Russian aid to their disaffected masses. The Russians, in turn, will feel surrounded by an ever-thickening wall of hostile governments that look to the United States for aid in keeping down their own masses and resisting Russia. (These relations will often be obscured by temporary diplomatic arrangements.)

On the other hand, balanced industrialization tends to close gaps between government and people. Social unrest stays at a manageable minimum. In a country where the level of social unrest is low there will be less fear of Russian "conspiracies." The Russians, in turn, will feel more secure when surrounded by less hostile governments. In the long run, Russia will have

less fear of us as potential supporters of an encircling belt of “reactionary” regimes.

- D14. Should the sense of insecurity grow, the Russians will undoubtedly defend themselves by infiltration (as well as by confrontation, flanking, and encirclement).

From past experience the Russians know that governments afraid of their masses fear Russia. The cheapest countermeasure open to Russia is to intensify diplomatic and propaganda activities designed to widen the gap between government and people in countries run by hostile governments.

Such a policy implies thorough exploitation of all grievances among racial, colonial, and economic minorities of every kind. This is of obvious importance to us, among whom racial cleavages run deep.

- D15. If the Russians feel less menaced, democratic tendencies will be strengthened inside that country.

Up to the present the ruling class of Russia has been a dictatorship dominated by the top members of the Communist party bureaucracy. The existing dictatorship has been able to override tendencies toward differentiation and disagreement by pointing to the fact—and, in the absence

of the fact, by playing upon the fear—of global attack on Russia. The tendencies, though denied expression, are not abolished; there are many incipient differences among the numerous regional, cultural, and skill components of Russian society. There are potential disagreements over the distribution of income (and other values) between semiskilled and skilled workers, middle and top management. Similar cleavages cut across industry, mining, transportation, and communication. Another line of conflict separates urban and rural economy. Yet another follows national and cultural sentiment. In a word, the vast edifice of dictatorial centralism has kept in the background but has not destroyed the pluralizing tendencies of any large-scale society. Such tendencies will reassert themselves when external danger is reduced.

D16. However, we cannot wisely assume that any strengthening of democratic tendencies in Russia will follow a straight line. Social processes often proceed in zigzag fashion; a drift toward democratizing dictatorship generates defensive measures on the part of the dictators.

Top officials, together with satellites who benefit from the *status quo*, fear the threat implied by a broader basis of recruitment. It can be foreseen that entrenched elements in the party hierarchy will seek to defer as long as possible changes that

genuinely broaden the basis of power. In defending their authority, dictatorships often try to silence internal criticism by sensationally calling attention to genuine or alleged foreign danger. Since repeated war scares lose the color of reality as a means of silencing disagreement, dictatorships often resort to more and more provocative behavior, not in the hope of actual war but rather in order to consolidate themselves at home by means of highly plausible external crises from which they intend to extricate themselves at the last moment by tactical maneuvers. This, of course, is an exceedingly dangerous game. In playing with fires of such magnitude, sparks often get out of hand.

- D17. In evaluating these possibilities it may be worth while to analyze in more detail the power process inside Russia.

The most influential elements in Russia are members of the Communist party. The most influential element in the party is the political committee. The members of this committee are not in practice selected by the top leader without regard to the feelings of others. Lenin did not arbitrarily dominate policy forming in his day, and there is no evidence that Stalin is utterly peremptory. After the eclipse of a strong leader like Lenin, time elapses before another personality rises with anything approaching

such moral ascendancy over his colleagues. Stalin did not immediately step into the shoes of Lenin but went through a long struggle with Trotsky and other dissenting leaders and their supporters.

Leadership in the party is recruited from many different sources, and every rising personality is to some extent bound to the "constituency" with which he is popular, especially since he is advanced by the higher leadership partly in consideration of this popularity. The social constitution of the country is thus reflected in the upper levels of the party structure, partly by premeditation, partly by unconscious adaptation. One man may have the railroad workers as the nucleus of his popularity. Another may depend upon mine- or office workers. Another may have the collective farmers of south Russia for a basic constituency. From whatever nucleus the leader rises, he has the possibility of broadening his effective constituency. The man who begins as a railroad leader may branch out to the miners or the workers in the communications industry. The leader close to the collective farmers of south Russia may move toward middle Russia and then reach out toward farmers in the remotest parts of the Soviet Union. The man who begins as a leader of factory workers in Moscow or Stalingrad may grow in popu-

larity beyond the limits of one plant until he is the recognized mouthpiece of all the factory workers of the city or region.

This process is partly counteracted, of course, by the deliberate policy of the central bureaucracy, a policy aimed at preventing leaders from becoming too closely identified with special territorial, cultural, or skill interests. The tendency is to keep officials on the move, rendering them dependent upon the favor of the entrenched leadership, not upon a constituency. The incorporating of popular local figures is a well-known method of historical hierarchies and is endorsed in communist theory and practice. The local, intimate, face-to-face character of "basic politics" continually runs counter to the tendencies of the center to insist upon impersonality. Yet in practice and within limits the incorporation into the regime of "natural leaders" who spring up in the seedbeds of local life is one condition of continuing vitality

- D18. How is the Russian political process affected when foreign danger is believed to be less grave?

Constituent members of Russian society become less inclined to sacrifice themselves for future generations. Skilled factory workers want more pay for shorter hours. Mineworkers insist on higher pay than office workers, stressing occu-

pational hazard. Agricultural workers in the south insist on paying lower taxes to the central government on the plea that the resources of the region are drained to other parts of the Soviet Union. Scientific workers connected with agricultural colleges and experiment stations are certain to ask for more money and better facilities. In this way dozens and hundreds and thousands of particular interests become more active, and party leaders who give moral support to various claims rise in popularity with specific groups. These rising leaders threaten the popularity of officials entrenched in the upper branches of the hierarchy.

As a means of stifling criticism, these older elements will doubtless reaffirm in the future what they have successfully affirmed in the past—that Russia is encircled by a hostile world. The United States will figure as the chief encircler. (In the past Great Britain, Germany, Japan, and Poland have performed this role.) The encirclement theme can be embellished by more or less fantastic accounts of supersubtle diplomacy or business-guided conspiracy emanating from the United States and its “monopoly business interests.” These elements will be dramatized as instigators of anti-Russian sentiment and activity among Japanese and Chinese, and among the inhabitants of southeastern Asia, the Pacific

Islands, India, the Middle East, northern Africa, and Western Europe.

The level and the circumstances of insecurity inside Russia affect the fate of the rivalries that continue within the party, though usually below the surface, between those whose chief skill is the propagation of doctrine and the exponents of other skills (violence, party administration, departmental administration, industrial management, for example). In the emergency of active war, when it is expedient to cooperate with noncommunist allies against a common enemy, doctrinal laxity is permitted. As such an emergency recedes, the elements in the party who combine doctrinal proficiency with service in the armed forces, or the police, or the management of production can hope to improve their position by seeking to “purify” the party of “opportunistic” elements. A strong core of propagandists and agitators is an asset when a fifth column of disciplined professional revolutionaries is needed abroad, as in time of war or crisis with states of alien doctrine and institution. Should internal insecurity move to a low level, doctrinal points gradually would subside in the power struggle, giving way to a progressive ideological dilution of the party. On the whole, the doctrinal skills appear to flourish when the waters are troubled between communist and noncommunist states.

D19. Although the structure of Russia avoids the disturbing consequences that automatically arise from an unstable export-surplus economy, the world economy may be upset by decisions made on the basis of political rather than economic considerations.

Since Russia is a highly governmentalized society, with a minimum of reliance on automatic economic processes, there is a strong tendency for every detail of foreign contact and internal adjustment to be reviewed in terms of its impact on power. It is relatively easy to disregard or to subordinate economic considerations, shifting arbitrarily from one foreign supplier or consumer to another, or dumping on the world market. If the decision makers of the Soviet Union decide to fish in troubled waters and to seek immediate advantage by playing one group against another on the basis of mixed economic and power considerations, the result will be the "politicizing" of all contacts with Russia and of more and more contacts throughout the world community. Private business groups faced by such pressure will appeal to their governments for permission to combine in foreign trade monopolies, and for diplomatic support. As the machinery for restricting the market is perfected, each proposed transaction involving goods and services will be viewed less and less in strictly economic terms.

Under such circumstances power balancing becomes steadily more dominant in the world picture. If this process intensifies—as it may well do—the level of world insecurity rises and Russia and America will gradually transform themselves into “garrison states,” states in which all decisions are deliberately and continually made with a view to strengthening the fighting effectiveness of the state. Within each state the ruling group will be recruited to an ever greater extent from specialists whose skill is violence (military, naval, air, police). Other groups such as business men, accustomed to the competitive market (whose distinctive skill is bargaining), will decline in influence. So, too, will civilians skilled in party organization, propaganda, and government administration.

- D20. We are particularly concerned with threats to world security from economic processes over which we are able to exercise direct control.

We have pointed out that our economic structure is such that we are an important source of initiative for change in the countries lying between us and Russia. Up to the present our economic structure, though dynamic and changeable, has not invariably been expansive. The tempo has been erratic; hence the impact on the outside world has been unstable. Our system is subject to protracted swings between high and

low levels of employment. Our foreign trade and investments abroad have fluctuated violently, with an inevitable unsettling effect upon world economy. Our aggregate supply of dollars (imports, tourist expenditures, services, lending, and investment) to foreign countries amounted to \$7.4 billion in 1929. In 1932, the amount dropped to \$2.4 billion.<sup>1</sup> It is hardly necessary to comment upon the disturbing impact of such enormous shifts. Certainly one aim of our total policy in the future must be more stability within our own system.

In passing, it may be pointed out that if the globe were divided into superareas, each organized as territorially independent, nonexchange economies, economic freedom might ultimately be established by slowly multiplying exchange among these areas, as confidence rises in the idea that more exchange would not prejudice economic stability or political independence. We have, however, seen how tenuous is any hope that lies in this direction in view of the factors that attend the expectation of violence under a rigid power-balancing system.

D21. We may take note once more of the special opportunity of the intermediate powers to contribute to world security.

<sup>1</sup> *The United States in World Economy*, U.S. Department of Commerce, Economic Series 23, 1943.

Statesmanship in the countries where industrialization is new in particular calls for policies of economic development that retain the loyalty of the community as a whole. Long-run interests are served by balanced, not predatory industrialization and by refraining from policies that sow suspicion among the major powers.

## *E. International Trade and Investment Policy*

- E1. Several trade and investment methods are available means to the end of harmonizing our economic and our security aims.

At home many measures are appropriate to the goal of combining private competitive enterprise with a more regular tempo of economic development. Such measures successfully executed cannot fail to counteract the unsettling effect of our economic impact upon world stability.

Besides the steps taken primarily in the interests of internal economic stability, means are at hand to encourage the growth of balanced, not predatory, industrialization abroad, especially in the intermediate region between the United States and Russia.

The over-all goals of national policy in these spheres can be stated affirmatively: To handle

economic means in ways conducive to a high and stable level of productive employment and a rising standard of living, and to maintain national and world security (reducing the likelihood of World War III).

E2. Certain broad principles of policy are appropriate guides to the choice and application of the methods designed to aid balanced, not predatory industrialization.

*a.* Stimulate production, not militarization. (This does not need to be elaborated; we want peace, not war.)

*b.* Enlarge the buying power of the mass market. (The market for our consumption-goods industries depends on the prosperity of the people as a whole.)

*c.* Encourage the removal of restrictions on production and exchange.

*d.* Increase the area within which it is possible to engage in economic transactions without having to consider political implications.

*e.* Through responsible channels encourage governments with broad popular support.

These principles are consistent with some of the basic goal values of American life, of which a primary instance is the *greatest freedom for the greatest number*. Though freedom is a basic goal,

it is not exclusive. A society that aspires toward freedom pursues other values as well, such as a rising standard of living. At times we sacrifice one value for another—as in war, when we are prepared to relinquish life, property, and many specific political freedoms. The aim of politics, in the sense of statesmanship, is to use the instruments of power as a means of maximizing the values of all members of the community and, in particular, of harmonizing the achievement of all other values with freedom.

Hence a proper function of government as we understand it is to *improve the efficiency of private choice as an instrument of the common good.*

Private choice serves the common good when free of constraint, when exercised in reasonably stable circumstances, and when based upon adequate information. We use government wisely, therefore, when we employ it to provide a security framework, a technical framework, and an information framework for private activity.

The *framework of security* is a frame of civic peace. Private choices are most free when there is an effective monopoly of constraint in the hands of government that it is seldom necessary to apply in practice but that is available to protect the integrity of the community from external attack

and internal injustice. Within the area of security, private agreements of a nondiscriminatory character are to be enforced by consensus and the law.

The *technical frame* is designed to remove technical limitations upon the satisfactory functioning of private choice. We depend upon government for a stable unit of exchange, for the control of monopoly, for the reduction of trade barriers, and for measures to prevent or neutralize the consequences of extremely erratic fluctuations in production.

The *informational frame* provides the raw material of private decision on public policy. The individual is an efficient judge of the common good when there is freedom of communication and when the media provide an adequate supply of fact and interpretation. We conceive one function of government to be the keeping open of channels of communication and the taking of initiative to provide needed information in competition with all other sources.

- E3. The following paragraphs characterize some available methods of economic adjustment with respect to foreign trade and investment that should implement the objectives and principles outlined in previous pages.

It is assumed that, in addition to these methods, there is world agreement upon technical measures for maintaining the stability of the exchanges, for avoiding discrimination, and for reducing restrictive practices. It is obvious that any arsenal of procedures must be properly timed and teamed in order to serve as efficient instruments of policy.

*a.* Our investors, governmental and private, need to discover and to support enterprises that move foreign economies toward balanced industrialization.

This is a matter of adequate commercial and industrial information. The path of least resistance is to learn about the needs of governments and of big private businesses. More thorough coverage is necessary if new, independent, and productive enterprises, and opportunities for enterprise, are to be disclosed, enabling the potential investor to use his ordinary standards of estimating risk, uncertainty, and profit and at the same time to act in consistency with national policy.

*b.* In concluding loan arrangements and administering agreements, it is important to threaten the self-respect of a government as little as possible.

Loans defaulted by governments can be collected only by procedures that involve the total prestige of the nations concerned. When honor and sovereignty are thought to be directly and irrevocably at stake, there are ample opportunities to poison friendly and productive relations. Hence there are advantages in “depoliticizing” specific investments as completely as possible.

Most public utilities call for large outlays of capital and are generally held to be appropriate economic areas for government activity. Hence, if there is to be investment in utilities, governments are frequently involved. Nevertheless, it is possible to apply the principle stated above and to involve central governments as little as possible in transactions. One technique is to handle the transfer of capital through the purchase of municipal rather than national obligations or of obligations issued by subsidiary parts of the central government (special “authorities” or “administrations” for railway, telecommunications, and the like). Another technique has been applied by the Export-Import Bank. A loan to a private American business man or corporation is guaranteed if the applicant has an agreement with a foreign government. In case of default, the default is technically to a private person, and head-on government-to-government collisions are avoided or diminished in intensity.

One means of reducing possible embarrassment to any one government is to involve all governments in a web of multinational agreements and joint agencies. This is one virtue of world-bank and world-stabilization-fund arrangements. Such setups afford opportunities to bring technical experts together in place of leaders responsible for total policy. Moreover, through such mechanisms the special interests of a single country or bloc of countries can be modified toward a more general world interest.

*c.* A closely related and more positive principle is to defer to self-respect by providing for the participation of representative local interests.

Joint participation is one of the well-tried means of encouraging a smooth flow of trade and investment. In recent years this has become more important in view of certain major developments in world politics, notably the rise of "independence nationalism" and of agitation against "imperialism." Communist propaganda has been especially successful in arousing the spokesmen of the colonial and half-colonial countries to protest against measures, real or fancied, that retard their industrialization or condemn them to injurious exploitation. China, southeastern Asia, India—all these people and many others have been stirred not only by the technological results of the impact of the West but

by the language of nationalism and anti-imperialism. If local interests acting in conjunction with foreign investors are recruited from elements unpopular with the people as a whole, the true aim of local participation is defeated. The participating elements need the confidence not of despotically inclined minorities but of vital groups throughout society.

*d.* A convenient device of spreading skill in the industrial arts while carrying out a policy of joint control is the management corporation.

It is possible to vest control in joint agencies and enterprises or in local hands and at the same time gain the benefit of modern science and know-how. Active management can be carried out on a contract basis by specialized corporations. The mechanism is most familiar in construction work, where engineering concerns have built port facilities, warehouses, bridges, highways, manufacturing plants, and other installations and looked after at least the initial operating stages. American, British, German, and other foreign engineers played an enormous role in industrializing Russia. The foreign specialist is a transitional phenomenon, a carrier of technological and managerial skill from the lands of well-developed industry to regions of new development. Not permanent tutelage but an opportunity to aid some "backward" country

to join the modern world economy is the dream of many gifted engineers who have played a conspicuous part in conquering the globe for modern methods. These engineers and managers conquer as teachers, not as dictators—a special form of civilized advance.

Management and engineering concerns can and do develop national subsidiaries or cooperating local corporations as part of the development of a given area.

As a means of encouraging balanced trade and investment in underdeveloped and nongovernmentalized areas, use can be made of the trading or investment corporation. The old general-purpose trading company successfully demonstrated that a network of local connections aids in bringing specific business opportunities to light.

*e.* One principle is to multiply participants in the lending-borrowing relation.

In the past our outgoing investments to a country like Great Britain have sustained almost every conceivable kind of economic activity and flowed through many channels. Americans bought governmental obligations. We established branch plants. There were corporation-to-corporation relations. Private investments went not only to huge enterprises but to middle-

sized and even small ones. In short, barriers to economic specialization and cooperation have been low: the great number of loan receivers have made for productive, friendly relations.

It is evident that when funds are siphoned through a single narrow channel, political rather than economic considerations are likely to be involved in each transaction. In some nonindustrial countries, special problems arise in attempting to multiply the number of loan receivers. Local elements in control of the government try to obtain as big a "cut" as possible on every transaction. They stand like highwaymen, ready to exact a toll from every lender-borrower. The problem is acute because they are dressed not as brigands but as government officials able to rally at least some elements of the local population to their aid in the name of national honor whenever they are dissatisfied with the "take." Such unstable areas present maximum opportunity for the clash of power and call for joint arrangements among the powers to facilitate peaceful economic development.

There are circumstances in which the single funnel has advantages, at least over the short term. Foreign interests may have turned a country into a cockpit by playing off one region, faction, party, or army against another. In the interests of unified, independent existence, a

single channel may perform a positive service to security and economic well-being.

*f.* Some enterprises occupy a monopoly position at home and are exposed in foreign countries to the competition of all-governmental or government-supported monopolies. Under such circumstances government regulation of both national and multinational agencies is indicated.

A method of regulation, in addition to trade and industrial commissions, is joint participation of public and private capital. In some British corporations the government ownership interest is represented on the board of directors, though it is understood that the government will take no active part in management. The government's director is chiefly a two-way information channel. Our own Reconstruction Finance Corporation was careful to intervene as little as possible in the active management of the banks supported by loans during the depression. In order to emphasize the relatively passive role of government representatives, we might designate a trustee for government property interests. The trustee would sit with the directors. Regulation would be carried out through special organs of government.

Multinational agencies can be used not only for general regulation of international economic

activity but in order to accomplish special tasks of mutual interest. Special corporations might be set up to administer the industry of defeated powers along lines settled by general agreement. Each corporation could have representatives of the American, British, Russian, and other cooperating governments. (After a lapse of years the defeated powers should be included.) Joint action among these governments can prevent many of the misunderstandings that spring up when policies are separately executed and when basic information depends on espionage.

*g.* In order to remove economic transactions as far as possible from the disturbing effect of political considerations, it is important to encourage governments to agree upon the policy of depoliticizing many types of transaction.

Government-controlled economies can agree to allow several agencies, rather than a single agency, to enter into foreign economic relations and within a broad framework of policy to proceed with economic considerations uppermost.

*h.* As a means of adjusting the claims of a creditor to the fluctuating level of business in a debtor country, rely on equity capital if possible.

In 1932, the dollars required by foreign countries to meet fixed-debt service payment to the United

States (assuming no defaults or adjustments) aggregated \$900 million, the same as in 1929. Meanwhile, the dollars supplied by us to foreign countries went down 68 per cent.

Debtor countries are less damaged when their external obligations automatically adapt themselves to the actual volume of economic activity. In this respect equity investments are preferable to long-term loans. There is friction whenever a government refuses to permit the transfer of funds, but political repercussions are less if the obligation is private.

## *F. Ideology, Economy, and Security*

- F1. In estimating the prospective success of measures undertaken in the interests of production and security, we must evaluate the ideological differences that separate Russia and America. Before going into detail, a general point can be made: Political ideologies are always changing, no matter how dogmatic and rigid they look to the outsider.

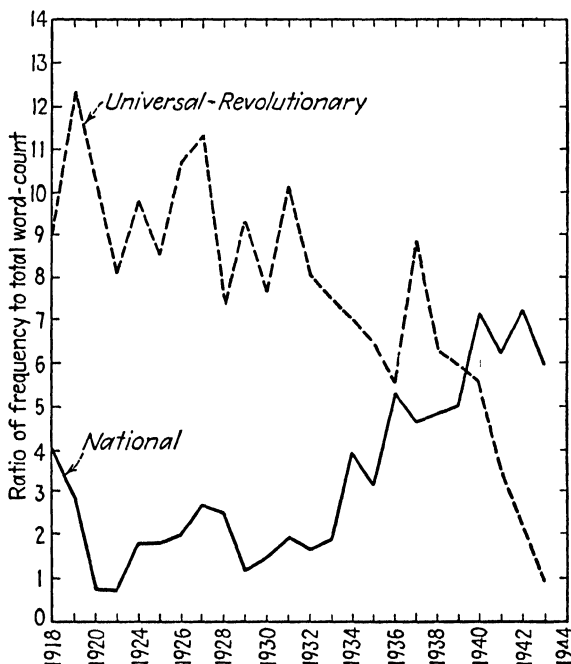
A striking example is afforded by the history of the ideology in the name of which power was seized in Russia in 1917. Lenin, Trotsky, Stalin, and their associates seized power in the name not of Russian nationalism but of a world-wide proletarian revolution. The key symbols were universal, not parochial. Official speech was studded with all-embracing symbols, such as "international," "Communist International," "world revolution," "world October," "world revolt," "mankind," "global," "internationalism." Words connected with nationalism and

patriotism were in eclipse. Terms like “fatherland” or “our land” were seldom invoked; indeed, they were aggressively stigmatized as counter-revolutionary.

In ensuing years subtle changes took place in the relative prominence of these key symbols. This is apparent when we examine the frequency with which key terms are used in the May Day slogans put out by the Communist party of the Soviet Union. The graph on the following page shows the striking trend from 1918 through 1943. The broken line shows the frequency of universal and revolutionary terms in relation to the total number of words in May Day slogans. The frequency is expressed as a percentage of the occurrence of the symbols to the total number of words. It is obvious that the relative frequency was high in the early years and that the trend has been downward. In 1919, for instance, over 12 per cent of the words were universal and revolutionary. By 1943 the figure was less than 1 per cent.

The unbroken line shows national symbols. Even a cursory glance indicates a steady rising trend. The low points were actually in 1920 and 1922 (less than 1 per cent). Since 1940, nationalistic terms account for 6 or 7 per cent of the total.

“NATIONAL” AND “UNIVERSAL-REVOLUTIONARY”  
 SYMBOLS IN MAY-DAY SLOGANS OF THE  
 COMMUNIST PARTY (S.U.)  
 (Symbol Groupings)



NOTE.—In the preparation of this graph the writer wishes to acknowledge the collaboration of Dr. Sergei Yakobson, Russian specialist, and Joseph M. Goldsen, on technical matters. Data for 1921 and 1923 are unavailable.

Whatever the future may be, the trend of Russian ideology has been steadily away from the symbols of world revolution toward the parochial vocabulary of nationalism.

Institutions are likewise dynamic.

The ever-changing life of institutions is amply illustrated in our own history. When the Constitution was written, the Electoral College was expected to be a deliberative body, not a rubber stamp; political parties were not foreseen; the place of the Supreme Court was not clearly anticipated.

In future relations with Russia, we must be prepared for shifts in idea and institution in our country and in Russia.

Many official changes are expressed in the New Soviet Constitution, but paralleling and often surpassing these formal pronouncements in importance are adjustments in the rules of private property, the practice of allowing substantial wage differentials, the restoration of the prestige of military rank, and the like.

F2. With the defeat of Nazi racialism in this war, Russia and the United States, together with other major powers, become unified once more in formal declarations of purpose. America and Russia unite, in particular, in proclaiming the dignity and worth of the individual.

Russia's ideals, whatever her practices, have been fervently democratic. The dictatorship of the proletariat was called a temporary phase

in the march toward the socialist society of today. Today's society is expected eventually to give way to a fully communist one. An outstanding characteristic of such a communistic society is that coercion is at a minimum and separate interests are voluntarily brought in harmony with one another. This dissipation of the coercive function of the state is what Engels foresaw as "the withering away of the state." Karl Marx, it may be remembered, wrote in moving ethical terms about the free man's commonwealth to be ushered into human affairs with the appearance of a classless society.

Unmistakably, the outstanding spokesmen of proletarian socialism and of American idealism talk the same language of respect for human personality. Regardless of differences in institutional method, regardless of reservations about the future course of social and political development, the prophets of democracy, socialism, and communism have been one in declared moral aim.

In the postwar world, ideological controversies among the major powers will be over the instruments appropriate to the moral purpose on which they are all, in general terms, agreed. No doubt many Russians will continue to assert that America, and other capitalistic states, are hypocrites when they voice democratic values.

They will continue to say, in moments of irritation or alarm, that behind professions of loyalty to man lurks the hope of making a world safe for private monopoly. In turn, many Americans will no doubt continue to assail the sincerity of Russia's loyalty to democratic ideals and denounce soviet institutions for making the world safe for the dictatorship of a single dominant party (or military bureaucracy).

This clash of criticism and self-praise can have healthy results if it strengthens genuinely democratic tendencies in both countries. Every institution deserves to be kept on trial with respect to its ideological purity: Is it consistent with the definition of human dignity? Is it in fact compatible with the achievement of a free society?

- F3. In order to move toward a more perfect realization of freedom, Russia's problem is to modify an all-encompassing bureaucratic dictatorship into a flexibly balanced society.

Russia needs to move from centralization to decentralization, from dictatorship to democracy, from regimented communication to free communication.

- F4. Our principal problem is to achieve a more stable economic basis for freedom.

We have many elements of balance in our institutions. But what we have of freedom is imperiled at frequent intervals by the results of economic insecurity and, over longer periods, by the inroads upon genuine business enterprise of economic restrictionism.

- F5. Viewing the world as a whole, the nonsocialist world is plainly on the defensive.

The nonsocialist world has been crippled by losing faith in itself, losing faith in its capacity to live up to its own professed ideals of freedom. The gigantic collapse of the thirties, following hard upon the recovery of private enterprise from many of the controls imposed in World War I, was a disillusioning blow. Government measures adopted in England, France, and the United States were able to ameliorate the lot of the unemployed, but they did not succeed in starting up the flow of private investment in private business enterprise. Was socialism—with “dictatorship” or “democracy”—after all inevitable?

By discovering how to square institutions with ideals, a new burst of self-confidence, based on restored self-respect, can release new energies in the nonsocialist world.

- F6. There is no need of conceding greater perfection to the Russian system.

Even if we are convinced that Russia has substantially solved the problem of economic stability, at least for the immediate future, and has abolished unemployment and established social security, there is no ground as yet for asserting that Russia has solved the problem of freedom.

- F7. The system of competitive private enterprise, when actually in operation, provides a decentralized economic basis for freedom.

It is possible for many people to establish an economic stake by buying and selling in the open market. They are not normally dependent upon the whims of one big boss in private monopoly, in government bureaucracy, in military bureaucracy, or in a single dominant party. The relatively impersonal processes of the market thus provide economic security on the basis of which many men have the courage to speak out openly in criticism of the "top." The business man—that is to say, the man whose specialty is bargaining in a genuinely competitive market—is thus a valuable balancing factor in our society. He is capable of offering open, argumentative resistance to tendencies toward bureaucracy in business or government. Farmers and workers, too, can bargain collectively and act as creative, autonomous factors in society, rather than as tools of the central bureaucracy.

Free enterprise and free government can thus strengthen one another in the future as they so often have in the past. In general, we know that freedom is favored by a balanced, not a regimented, social structure.

The Russians in their turn may decentralize and democratize within the framework of a governmentalized society. It is most unlikely that they will reestablish private ownership in the significant means of production. It is probable, however, that the pluralizing tendencies in Russian life will give increasing autonomy to production syndicates in agriculture, industry, and distribution. Already, differences in income and the piecework system of payment are accepted in theory and practice. For a long time to come, however, it will still not be possible for the individual to emancipate himself from party and governmental leaders. But respect for spheres of functional freedom may grow up in practice; if so, the system will move toward competitive public, as distinct from competitive private, enterprise.

The adjustment of the two systems to one another can be facilitated by the development of various degrees of fusion in the intermediate areas. In nations possessing a long tradition of democracy, the likelihood that socialism can be combined with democracy is greatest.

Some economies can be not “all-socialist” but “socialist-primacy” economies; others can be not “all-capitalist” but “capitalist-primacy” economies. It is convenient to use the term “dictatorship” for a temporary concentration of effective and formal power in a few hands. Thus capitalist or socialist dictatorships can be democratic if they are conceived as emergency suspensions of democracy, or as transitional steps toward democracy. The word “despotism” is here used to mean both tyrannies and absolutisms. That form of despotism or dictatorship in which a number of capitalistic institutions are found has often been called fascist. There is, however, no such agreement upon a term for despotism or dictatorship combined with many socialist institutions. Sometimes, when fascism is made a synonym of despotism, “social (socialist)-fascist” is the term.

- F8. Manifestly, both systems have great technical problems in achieving the ideals of a free society.

The Russian system is organized as a gigantic hierarchy, and there is a chain of command from top to bottom. Theoretically, there is a rising stream of initiative and control from below. In practice, however, these devices of mass participation have been kept strictly within bounds by the tight, centralized discipline of the Communist party. In the future, as initia-

tives multiply from below, democratic centralism may come closer to democratic theory. And this largely depends on world political security.

Our chief technical difficulty is finding workable rules of balance.

Prospects of genuine freedom are best when social structure is flexibly balanced, when there is no supergovernment, superbusiness, or superfaction of any kind. When our nation set out upon its independent course at the end of the eighteenth century, the philosophy and practice of balance were widely understood in theory and equipped with effective institutions. Many practices appropriate to balance are well known to every civic-minded and trained person in the United States. We believe in checking the executive power of the presidency by means of a Congress and a Supreme Court. We believe in checking the power of local regions and of the central government by dividing authority between them. We believe in delimiting the authority of a government official in relation to the private citizens. (This is the special function of the Bill of Rights, with its list of freedoms.)

The missing link in the American system of balance was not foreseen by our forefathers because it was not a problem when our Constitution was written. In the 1780's there were

very few private associations between the individual and his family, on the one side, and the government or church on the other. With the expansion of population, with the subdivision of technical processes of production, there has developed an enormously intricate web of private associations. We take for granted these businesses, fraternities, societies, trade associations, trade unions, and the rest.

Although we favor private associations, we have enough experience to recognize that despotic tendencies may arise not only inside government but inside organizations that operate outside government. This is not only the case with local gangsters who control by violence a given line of economic enterprise; it applies with greater force to the giant organizations that exercise monopolistic control over the processes of production.

There are, of course, important economic grounds for rejecting private monopoly, except the natural monopolies. We must recognize, however, that from the point of view of a free society the objection to monopoly is less economic than political and moral. As monopolies expand, influence of every kind concentrates in fewer and fewer hands. There is danger of building up outside the government private dictatorships, a process that destroys the balanced social

structure on which we believe freedom depends. We therefore oppose large private monopolies not primarily because they are uneconomic, not primarily because they are big, but because they may be despotic, irresponsible, and, hence, immoral. They are neither consistent nor compatible with a free society.

### *G. Conclusion*

G1. Our analysis of the future of world politics, employment, and enterprise has led to the special consideration of the future course of American-Russian relations. Certainly it is a mistake to assume that war for global mastery between the United States and Russia is inevitable. The future depends upon factors over which we can exercise much control. Crises of world insecurity are favored by whatever results in erratic rates of social development in different parts of the world and in the world as a whole. Our economy, in particular, is a source of erratic change, partly because it is unbalanced in time and space. We swing through cycles of great magnitude and we expel surpluses beyond our basic area. Our economic impact modifies the balance of power, and in the postwar world the effect will be to complicate our relations with the other most powerful state on the globe, Russia. By stabilizing our economy at home

and strengthening balanced rather than predatory economies abroad, we can defer, and perhaps avoid, a final clash.

America and Russia *can* work together for their own good and the good of humanity.

As Alexis de Tocqueville remarked a century ago of Russia and America:

“Their starting-point is different, and their courses are not the same; yet each of them seems marked out by the will of heaven to sway the destinies of half the globe.”

With the Russian czarism and American republicanism of that day before his eyes, De Tocqueville also wrote:

“The Anglo-American relies upon personal interest to accomplish his ends and give free scope to the unguided strength and common sense of the people; the Russian centres all the authority of society in a single arm. The principal instrument of the former is freedom; of the latter, servitude.”

No doubt we are today less confident of the capacity of unbridled personal choice to serve the public good, and possibly Russia is less dependent on absolutism than a century ago. Yet, in somewhat different form, the issue remains the same—on the one side, the recon-

ciliation of private conceptions of interest with the security necessary for freedom; on the other side, the reconciliation of authoritarian institutions with freedom. Today we can confidently predict that Russia and America together seem marked by the will of heaven to sway the destinies of all the globe.



A NOTE ON THE COMMITTEE  
FOR ECONOMIC DEVELOPMENT  
AND ITS RESEARCH PROGRAM

The Committee for Economic Development was organized in August, 1942, by a group of business leaders who were convinced that the attainment and maintenance of high employment after the war dare not be left to chance. To seize the opportunities for unprecedented peacetime prosperity in the postwar era and to avoid the real perils of mass unemployment or mass government employment, they believed that individual employers, while in no degree relaxing their efforts toward military victory, must begin to plan promptly, realistically, and boldly for rapid reconversion and vigorous expansion after the war.

There is widespread agreement among economists that American prosperity after the war calls for the sustained employment of 7 to 10 million more workers than in 1940, our banner peacetime year hitherto. The only sound road to such increased employment is the enlargement of production and sales of goods and services to a level some 30 to 45 per cent higher

than that of 1940. This meant that business men had to plan for postwar business on a greatly expanded basis as compared to any known peacetime year.

To assist them to make their maximum contribution toward this goal, the Committee for Economic Development—through its Field Development Division—has been working locally in more than 2900 counties and communities in all states of the union. More than 65,000 business men have been serving as members of these committees, aiding as many as possible of the nation's 2 million private employers in the planning of their postwar production and employment.

No pattern or over-all program has been imposed on these local committees. Each is autonomous, since each understands the peculiar problems of its community better than can any outsider. Yet the problems they had to meet and the tools they needed were in basic respects the same.

Therefore, tested procedures for making both postwar production and employment plans have been supplied to them by the national C.E.D. office. In addition, the country's outstanding specialists in industrial management, in product design, in advertising and selling, and in training of sales personnel have placed their skills freely at the service of all cooperating business men, through handbooks, films, training courses, business clinics, and forums for the local committees.

To plan for the future, the businessman needs particularly some measure for estimating postwar

demand for his individual product. Another important service of C.E.D. was its postwar market analysis, conducted with the cooperation of many trade associations and leading industrial firms and covering more than 500 finished-goods products. The findings of this two-year study were made available to business and to the public in a report *American Industry Looks Ahead*, issued in August of this year.

Even with the best of tools the businessman knows he cannot be wholly successful in carrying out plans for postwar expansion unless national policies prevail that make business expansion possible. To define what these national policies of government, business, and labor should be to encourage higher production and more jobs is the special task of the C.E.D. Research Division. This is the purpose of the research reports, of which this volume is the eighth.

To the long-range economic questions involved in this undertaking have been added the particular economic problems arising out of the war. Both areas have been studied. It is hoped that the reports, as a group, will provide the information that many have been seeking concerning problems intimately related to the life of each of us, as well as to the future of our society.

The authors of these reports have already won distinction in their own fields. Perhaps more important is the fact that their previous work has demonstrated not only the competence but the vigor of thought which these complex problems demand. Knowing,

however, that the problems that would be scrutinized—demobilization of the war economy, taxation, monetary policy, international trade, agriculture, and the like—are not separate ones, but are integrated and must be studied in relationship one to the other, the C.E.D. sought to make possible an exchange of information and views by the experts and, equally important, between the scholars and businessmen.

What may be a unique scheme of conferences was established, the objective being to blend the practical experience and judgment of the business world with the scholars' knowledge of the action of economic forces. A Research Committee consisting of representative successful business men was set up; to this group was added a Research Advisory Board whose members are recognized as among our leading social scientists; and finally, the persons who would be responsible for the individual reports were named, to comprise the Research Staff.

The subject matter of each report is discussed by the members of these three groups, meeting together. "Discussed" is an inadequate term. "Earnestly argued, and for long hours" does more justice to the work. The author of the report therefore has the benefit of criticism and suggestion by many other competent minds. He is able to follow closely the development of the reports on other economic matters that affect his own study.

No effort is made to arrive at absolute agreement. There is no single answer to the problems that are

being studied. What is gained is agreement as to the determinative factors in each problem, and the possible results to be achieved by differing methods of handling the problem. The author of the report has full responsibility, and complete freedom, for proposing whatever action or solution seems advisable to him. There is only one rule—the approach must be from the standpoint of the general welfare and not from that of any special economic or political group; the objective must be high production and high employment in a democratic society.

Since the author is free to present his own conclusions and does not speak for the Research Committee or for the Research Advisory Board, the Research Committee will issue, for each study, where desirable, a separate C.E.D. *policy statement*. This may endorse all of the recommendations arrived at by the author, or it may disagree with some.

The research studies already under way divide roughly into two parts:

- A. *The transition from war to peace*: the problems involved in the early attainment of high levels of employment and production;
- B. *The longer-term fundamental problems* involved in the maintenance of high levels of productive employment after the transition period has passed.

The subjects to be covered by the individual monographs in the two series are:

A. *The Transition from War to Peace:*

1. *The Liquidation of War Production*, by A. D. H. Kaplan, The Brookings Institution (already published). The problems involved in the cancellation of war contracts and the disposal of government-owned surplus supplies, plants, and capital equipment are weighed quantitatively as well as qualitatively. How much war plant has the government financed, and what part of it could be put into civilian production? What criteria should prevail in selecting the producers to be released first from war manufactures, as the war production program is curtailed? How and when should surplus goods be sold? Rapid resumption of peace-time production, with conditions favorable to high levels of employment, is the gauge by which the recommendations are measured.
2. *Demobilization of Wartime Economic Controls*, by John Maurice Clark, Professor of Economics, Columbia University (already published). When and how should the wartime controls be removed? The interdependency of the wartime controls of production, manpower, prices, wages, rationing, credit policies, and others is made clear. How relaxation of each control may affect the peacetime economy—in terms of demand and supply, and therefore in terms of job and production levels—is

weighed. The conditions that can be expected to prevail at different stages of the transition from a wartime to a peacetime economy are outlined, with emphasis on the variables with which we must be prepared to deal. Professor Clark does not overlook the significance of attitudes and objectives.

3. *Manpower Demobilization and Reemployment*, by Robert R. Nathan, Consulting Economist, and Emmett H. Welch, Chief, Economic Statistics Unit, Bureau of the Census. The relationship of demobilization policy to re-employment. Recommendations are made for a program that would avoid long-period joblessness among returning servicemen as well as war workers.
4. *Providing for Unemployed Workers in the Transition*, by Richard A. Lester, Associate Professor of Economics, Duke University (already published). An estimate of the size and the duration of transition unemployment. The efficacy of public works employment, relief employment, the adequacy of unemployment compensation, wartime savings, dismissal pay and the like are appraised. A program is developed to provide for the maintenance of workers who will be out of jobs in the transition from war to peace.
5. *Financing Industry during the Transition from War to Peace*, by Charles C. Abbott, Associate

Professor of Business Economics, Harvard University. The sources upon which business has relied for its capital are examined, along with the current financial condition of large and small corporations. These two are weighed against the likely needs of financing by industry for reconversion and expansion in the transition years following the war.

6. *Monetary and Banking Policies in the Postwar Transition Period*, by John K. Langum, Vice-president, Federal Reserve Bank of Chicago. What monetary and banking policies can do to encourage production and employment. Federal fiscal policy is analyzed in its relationship to the financial requirements of business in reconversion and expansion. The significance of monetary policies prior to the war and the money and banking conditions that will stem from war financing are reviewed. The relationship of business spending to other money flows and the resultant production pattern is discussed.

B. *The Longer-term Fundamental Problems:*

1. *Production, Jobs and Taxes*, by Harold M. Groves, Professor of Economics, University of Wisconsin (already published). A study of the federal tax structure as it affects the creation of jobs. This is to be followed by a comprehensive report, now in press, on the

development of a constructive tax policy. The larger report inquires into the problems of state and local, as well as federal, taxation.

2. *Agriculture in an Unstable Economy*, by Theodore W. Schultz, Professor of Agricultural Economics, The University of Chicago (already published). An investigation going to the roots of the "farm problem." The significance of excess labor resources on farms, the failure of price mechanisms to induce shifts of resources out of agriculture, the differences between the farm and industrial sectors in responding to reduced demand. The importance to farmers of continued prosperity in business. A solution to the farm problem without resort to price floors or restrictions on output.
3. *International Trade and Domestic Employment*, by Calvin B. Hoover, Dean of the Graduate School of Arts and Sciences, Duke University (already published). An examination of the kind of foreign trade policies and mechanisms we can adopt that will increase our gains from international trade and also contribute to world peace. A statement of the requirements in terms of the economies of other countries as well as our own.
4. *Business Arrangements in Foreign Trade*, by Edward S. Mason, Professor of Economics, Harvard University. A study of cartels and

other forms of international business organizations.

5. *Minimizing Business Fluctuations and Unemployment*, a major series of studies which will be undertaken during the coming year, by John Maurice Clark, K. E. Boulding, M. de Chazeau, Albert G. Hart, Gardiner C. Means, Howard B. Myers, Theodore O. Yntema, and others to be appointed.
6. *The Special Problems of Small Business*, by A. D. H. Kaplan, The Brookings Institution, assisted by J. K. Wexman. An inquiry into the competitive position and the needs of small business.
7. *Providing Adequate Incentives for Enterprise*, by C. E. Griffin, Professor of Business Economics, University of Michigan.
8. *The "Billion Dollar Questions."* By Theodore O. Yntema, Gardiner C. Means, and Howard B. Myers. An economic primer posing the basic economic problems to be faced in a free enterprise system.

C. *Supplementary Papers:*

1. *The Economics of a Free Society*, by the Hon. William Benton, Assistant Secretary of State. (Published in October, 1944, issue of *Fortune* Magazine.)
2. *Personnel Problems of the Postwar Transition Period*, by Charles A. Myers, Assistant Professor of Industrial Relations, Massachusetts

- Institute of Technology (already published).  
An examination of the problems that will confront employers in connection with the rehiring of servicemen and war workers, and issues that will arise in the shift of the work force from wartime to peacetime production.
3. *Federal Tax Reform*, by Henry C. Simons, Associate Professor of Economics, The University of Chicago. The development of a basic philosophy of taxation to simplify the federal tax structure and distribute the tax burden among individuals in relation to their incomes.
  4. *Incidence of Taxation*, by William Vickrey, formerly Tax Research Division, Treasury Department.
  5. *World Politics Faces Economics*, by Harold Lasswell, Director of War Communications Research, Library of Congress (the present volume).
  6. *Changes in Substantive Law, Legal Processes and Government Organization to Maintain Conditions Favorable to Competition*, by Corwin Edwards, Professor of Economics, Northwestern University.

These are the subjects so far authorized by the Research Committee of C.E.D. Others may be undertaken at a later date. These subject titles will not necessarily be the same as the book titles when finally published.

EXCERPTS FROM BY-LAWS OF THE  
COMMITTEE FOR ECONOMIC  
DEVELOPMENT CONCERNING  
THE RESEARCH PROGRAM

*Section 3. Research Committee.*

It shall be the responsibility of the Research Committee to initiate studies into the principles of business policy and of public policy which will foster the full contribution by industry and commerce in the post-war period to the attainment of high and secure standards of living for people in all walks of life through maximum employment and high productivity in the domestic economy. All research is to be thoroughly objective in character, and the approach in each instance is to be from the standpoint of the general welfare and not from that of any special political or economic group.

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The determination of whether or not a study shall be published shall rest solely with the Research Director and the Research Advisory Board. . . . A copy of any manuscript reported for publication shall be submitted to each member of the Research Advisory Board, of the Research Committee, of the Board of Trustees, and to the Chairman and Vice-chairman of the Field Development Committee. For each subject to be so submitted the Research Director, after con-

sulting with the Chairman of the Research Advisory Board, shall appoint a Reading Committee of three members of the Board. Thereupon, as a special assignment each member of the Reading Committee shall read the manuscript and within fifteen days from its assignment to him shall signify his approval or disapproval for publication. If two out of the three Reading Committee members signify their approval, the manuscript shall be published at the expense of the Corporation. . . . In no case shall publication necessarily constitute endorsement by the Committee for Economic Development, the Board of Trustees, the Research Committee or by the Research Advisory Board of the manuscript's conclusions. Upon approval for publication, the Research Director shall notify all members of the Research Advisory Board and no manuscript may be published until fifteen days following such notification. The interval is allowed for the receipt of any memorandum of comment, reservation, or dissent that any member of the Research Advisory Board may wish to express. Should a member of the Research Advisory Board so request, his memorandum of comment, reservation, or dissent, which must be signed, shall be published with the manuscript. Any signed comment, reservation, or dissent which the Research Director may wish to express or have expressed by others shall at his request be published with the manuscript. . . . In the event the manuscript is not approved for publication at the Corporation's expense as above provided, the individual or

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### *Supplementary Papers*

The Research Director may recommend to the Editorial Board for publication as a Supplementary Paper any manuscript (other than a regular research report) . . . which in his opinion should be made publicly available because it constitutes an important contribution to the understanding of a problem on which research has been initiated by the Research Committee.

An Editorial Board for Supplementary Papers shall be established consisting of five members: The Research Director, two members from the Research Committee, and two members from the Research Advisory Board. The members from the Research Committee and the members from the Research Advisory Board shall be appointed by the respective chairmen of those bodies. The Research Director shall be the chairman of the Editorial Board and shall act as Editor of the Supplementary Papers. . . . If a majority of the members of the Editorial Board vote for publication, the manuscript shall be published as one of a series of Supplementary Papers, separate and distinct from the regular research reports. . . . Publication does not constitute endorsement of the author's statements by the Committee for Economic Development, by the Board of Trustees, by the Research Committee, or by the Research Advisory Board.

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