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COMPARISONS OF THE UNITED STATES
AND SOVIET ECONOMIES

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Before the
Subcommittee on Economic Statistics

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PART III



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II

LETTERS OF TRANSMITTAL

NOVEMBER 10, 1959.

HON. PAUL H. DOUGLAS,
Chairman, Joint Economic Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR DOUGLAS: Transmitted herewith is part III of a series of papers submitted by the panelists invited to appear before the Subcommittee on Economic Statistics in connection with the subcommittee's current study of "Comparisons of the United States and Soviet Economies." These papers are based on materials released October 2 and October 26 in parts I and II.

This study is being conducted in accordance with instructions from the full committee as announced in the Joint Economic Committee's Report on the 1959 Economic Report of the President. The study grows out of previous work of the Joint Economic Committee during the 83d and 58th Congresses.

It should be recognized, as was stated in the earlier studies, that the problems of making comparisons between any two national economies are exceedingly complex and even more so when those economies are at different stages of development and have different policy objectives. Such limitations are carefully set forth in the papers of the opening panel in part I.

The papers are presented in advance of the subcommittee's hearings in accordance with the Joint Economic Committee's usual practice in order to provide members of the subcommittee and the participating panelists an opportunity to examine thoroughly the analyses and findings in preparation for the discussions at the hearings.

RICHARD BOLLING,
Chairman, Subcommittee on Economic Statistics.

OCTOBER 15, 1959.

NOVEMBER 4, 1959.

HON. RICHARD BOLLING,
Chairman, Subcommittee on Economic Statistics,
House of Representatives, Washington, D.C.

DEAR REPRESENTATIVE BOLLING: Transmitted herewith is part III of the series of papers submitted by the panelists invited to appear before the Subcommittee on Economic Statistics at the hearings to be held November 16-20.

The first paper in this volume is a continuation of part II since printing complications did not permit it to be included in part II with the rest of the papers from private policymakers.

The following three papers present a summary and analysis of the policy implications of the subject papers published in parts I and II.

Part I contains papers dealing with the subjects of "Problems of Soviet, United States Comparisons," "Population and Labor Force," "Industry," "Transportation," "Agriculture," and "Levels of Living and Incentives in the Soviet and United States Economies." Part II deals with "National Income and Product: A Comparison of Economic Structures, Trends, and Prospects"; "Foreign Economic Activities"; and an "Evaluation of the Russian Economic Threat by Private Policymakers."

The papers are presented as submitted by the panelists without deletions.

JOHN W. LEHMAN,
Economist, Subcommittee on Economic Statistics.

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(PART II—CONTINUED)

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COMPARISONS OF THE UNITED STATES AND SOVIET ECONOMIES

EVALUATION OF THE RUSSIAN ECONOMIC THREAT BY PRIVATE POLICYMAKERS (PART II—CONTINUED)¹

BASIC DISTINCTIONS BETWEEN THE SOVIET ECONOMY AND AMERICAN ECONOMY

(By Jay Lovestone, Director of International Publications, CIO-AFL,
Washington, D.C.)

The economy of a country is much more than a compilation and comparison of production figures. The men and women who work in industry, agriculture, and the services are more important. They are the people behind the figures. The human element is the decisive factor in the economy of every nation.

In the last resort, production is dependent on the material and spiritual well-being of those who work. With the development of industrialization and modern technology, rising living standards, reduction in the hours of work, decent conditions of labor, a voice in the economic process and respect for human dignity, take on decisive importance as the criteria for evaluating an economy.

Toward furthering these ends there exists in the American economy a system of checks and balances—a system of countervailing powers. Within this system, big economic power is checked, regulated and limited by trade unions, farmers' cooperatives, and the State. The enactment of antitrust legislation, establishment of the Securities and Exchange Commission, Federal farm price support, the Wagner Act, minimum wage and other labor legislation dealing with the rights and prerogatives of labor, social security provisions, and the graduated income tax symbolize the role of the State in the American economy.

In view of these facts, the conception of American capitalism expounded by Khrushchev during his recent sojourn in our country, does not correspond with reality. In fact, the very characteristics he attributes to the American economy are inherent features of the Soviet economy. In the economic system of the U.S.S.R., there is a terrific concentration of monopoly power in the hands of a few persons. The Soviet state is solely their instrument. In the Soviet economy, the workers are defenseless and exploited. What they call trade unions in the U.S.S.R. are nothing but lackeys of the Communist Party monopoly State as the sole employer. And the gulf between the social classes is deep.

In the United States, economic progress is becoming more and more synonymous with social progress. The American worker has the

¹ Because of printing complications the following paper could not be included in order in pt. II.

means of striving for, and has been securing an, increasing share of the Nation's wealth.

On the other hand, the Soviet economy serves first and foremost the interests of the Communist dictatorship. At home, the Soviet economy is geared above all else to maintaining and strengthening the power of the Communist Party ruling clique. Abroad, the Soviet economic system is harnessed to aggression, imperialist expansion, and world conquest. The Soviet economy rests on top priority for the development of heavy industry—at the expense of consumer goods industries and agriculture. The Soviet economy is essentially a war economy financed and maintained through intense exploitation of the workers (low wages and speedup), the peasants (compulsory deliveries at low prices) and the consumers (high prices and scarcity of goods).

While there have been changes in the Soviet economy since Stalin's death, these have not been basic. American labor has watched Soviet economic developments with keen and continuous interest. In August 1958, AFL-CIO President George Meany analyzed and evaluated the Soviet and American economies in his study entitled "American and Soviet Economy—Contrast and Comparison." On October 26, 1958, Trud, central organ of the so-called Soviet trade unions, issued a special supplement in which it sought at length to refute this American labor evaluation. In the January 1959 issue of the AFL-CIO Free Trade Union News, Mr. Meany replied to the Trud rebuttal. There soon followed an enraged Trud rejoinder which dripped sulfuric invective and slander.

From the viewpoint of American labor, an understanding of the basic differences between the two countries is most urgent at the present juncture of our country's history. In regard to American labor's attitude toward the economy of our Nation, AFL-CIO President George Meany, in his address of October 17, 1957, before the International Industrial Development Conference, made it clear that:

American labor believes private enterprise has been and can be a great force for economic and social progress. Nor do we rule out Government intervention, regulation, or enterprise when the people think conditions require it. Private and public enterprise can get along together well in a free society.

While we take the position that labor has a vital interest in the preservation of our free enterprise system, we do not seek to impose American economic forms on any other country * * *. We point to the fact that without benefit of dogmas or cliches, without a political party of our own, we of American labor have steadily reduced the gap between the great productive capacity of our country and the economic capacity (purchasing power) of our working people. We take pride also in the fact that our trade union movement has played a major role in assuring that improvement of the economic conditions of the people should keep pace with * * * industrial development, technical progress, and higher productivity.

The American economy differs from the Soviet in two basic ways: (1) The Soviet economy is virtually a total state economy. Whatever farm cooperatives still remain, own their land only in name. In the U.S.S.R., the state has final and complete authority over every phase and expression of economic life and activity. (2) The Soviet state is controlled and run by a single monolithic political party.

In the U.S.S.R., there exists a political machine with absolute power to determine completely and to direct forcefully the economic and social structure of the country, the way in which its people get their livelihood and may live. This political machine—the Communist

Party—is the residuary of all power—economic, military, social, political, cultural, religious. Regardless of the liberal-sounding phrases which might be used by those who happen to control the Communist Party, at any particular moment, such a society and its economy are totalitarian to their core, antidemocratic.

Unless we keep uppermost in our minds this overriding feature which distinguishes the Communist economy from ours, all comparison and contrast of the two industrial systems would be conducted in a vacuum and would be worthless or even dangerously misleading. Consequently, in judging the trends or the progress of the Soviet economy, we should guard against applying mechanically and arbitrarily the yardsticks or criteria of evaluation we employ in appraising our own economy.

1. SOVIET ECONOMIC AIMS

The Soviet economy is dual in character. It is national. It is, at the same time, Communist and, therefore, worldwide in its overall and ultimate objective. Given this dual character, the aims of Soviet economy are:

1. To speed the building of heavy industry as the base of the country's economic development and strength.

2. To secure the development of heavy industry so as to make the U.S.S.R. ever more independent of countries outside of its area of control.

3. To gear the development of heavy industry to the creation of a gigantic military machine which can aggressively extend and not only defend the Soviet domain.

4. To utilize its technological progress and industrial prowess for the purpose of infiltrating, penetrating, and subverting, especially the industrially underdeveloped lands through trade, outright grants, and technical assistance.

5. To attain such economic progress and strength as will make the Communist system serve as a magnet and model especially for the industrially underdeveloped countries and, thereby, further hasten Moscow's conquest of the world and its remolding on the Soviet pattern.

According to Khrushchev, the "growth of industrial and agricultural production is the battering ram with which we shall smash the capitalist system, enhance the influence of the ideas of Marxism-Leninism, strengthen the Socialist camp and contribute to the victory of the cause of peace throughout the world." In his talk, in January 1957, at a reception in Mao Tse-tung's Embassy in Moscow, the Soviet dictator struck this keynote: "We will, of course, contribute to a certain extent to the more rapid victory of the new by our activities in building socialism and communism in our countries. The force of example is a great force." Even more explosive emphasis on this objective of Soviet economic development was placed by Khrushchev in May 1957 when he boasted that the Soviets would "soon catch up to the U.S. level of per capita output of meat, milk, and butter; then, we shall have shot a highly powerful torpedo at the underpinnings of capitalism."

The last boast is rather revealing. The United States is, according to Khrushchev, a capitalist country with which he wants his dictator-

ship to coexist. For years, the United States has far exceeded the Soviet Union in the production and consumption of these and other necessary consumer goods. But the U.S. Government never utilized this overwhelming American economic superiority to "torpedo the underpinnings" of the Soviet system. This Khrushchev threat takes on special import in the light of his repeated expressions of devotion to "peaceful coexistence" with other countries regardless of their social system.

6. To provide its people with at least the minimum consumer goods so that they can sustain life and produce.

7. To further these ends without regard for human cost to the people at home and the rest of the world.

Denial of trade union and other rights of democratic organization to workers and farmers, low wages, speedup, poor housing, famine conditions for millions in rural areas, marked differences in remuneration for various sectors of the productive forces, very heavy taxation (turnover or sales tax), persistent shortages of consumer goods, forced labor, severe punishment for those resisting any economic measure, and militarization of economy as a whole—these are only part of the price paid by the Soviet peoples for the growth of their economy.

For more than 100 years, Socialists of every hue and cry have told the world that what mankind needs most is an economy in which production would be for use. They have emphasized that they seek to establish an economy in which production would be developed planfully and scientifically, for use, and not for private profit or war. According to official Kremlin decree and dogma, the Socialist society has already been established in the U.S.S.R. Inside the Soviet Union, no one would dare to challenge this Kremlin claim, unless he craved disaster. So once powerful a political figure as Molotov, Lenin's associate and Stalin's closest collaborator, was publicly humiliated and severely punished for having used a formulation which did not specify clearly that socialism had already been built and that communism was beginning in the U.S.S.R.

Yet, it is precisely in the U.S.S.R., where socialism is allegedly established and the building of communism is proceeding apace that production for use continues to take a back seat. The quantity of consumers' goods and the housing now available are so inadequate and shoddy that Khrushchev has just had to issue a special decree promising improvement. The overwhelming concentration on heavy industry, geared to developing capacity for waging aggressive warfare, has created an imbalance in Soviet economic development and growth. The resulting acute shortage of consumer goods and the low wage scales even in the urban areas are in part confirmed by the fact that about 3 million city folks have, for years, been engaged in the "private subsidiary economy" of owning cattle. Sensing danger in this situation, the Kremlin issued a decree prohibiting—as of October 1, 1959—all residents of large cities, except in some eastern areas, from owning privately such cattle.

The primary purpose of Communist production is not to provide consumer goods, housing and the material base for cultural enrichment. The motivating force of Soviet economy is the strengthening of the Communist dictatorship and its oppressive powers at home and aggressive powers abroad.

2. JUSTIFYING HUMAN COST

Some who defend the forced collectivization of agriculture and rapid heavy industrialization—even at the catastrophic cost entailed in human as well as material resources—seek a historic justification of the economic policy laid down by and carried out under Stalin and now zealously pursued under Khrushchev. They contend that all progress has its cost and that such cost is historically unavoidable. They argue, for example, that in order to have its industrial revolution, Britain had to pay a heavy price in human misery—child labor, long hours, low wages, miserable standards of consumption, and generally degrading standards and conditions of life and labor for the great mass of the people.

Whether Britain had to pay so heavy a human price for the economic achievements of its industrial revolution is debatable. Few would today deny that many avoidable mistakes were made in the advancement of this industrial revolution. However, it must be remembered that Britain was a pioneer in the industrial revolution. It had practically no experience of others on which to draw and from which to benefit.

But, for the U.S.S.R., the situation has been quite different. The Bolsheviks, though seeking to build a new and different type of economy, had considerable experience on which to draw—Russian, British, German, American, French, Japanese among others. It could and did call upon the technical and engineering skills and assistance of the more industrially developed countries. It secured substantial credits from other lands to help its capital development and accumulation.

Last, but not least, the Communist rulers have designated themselves the champions of humanity and enemies of “capitalist inhumanity.” Champions of humanity should certainly not resort to dooming to death millions and to sentencing even more to concentration camps and prisons in order to assure speedy collectivization of agriculture and heavy industrialization. The sundry crimes of the “cult of the individual” attributed to Stalin by Khrushchev were largely rooted in the fanatical and ruthless pursuit of this economic program.

What is more, the forced pace of Soviet economic growth—overwhelmingly in heavy industrialization—has, from its very outset, been motivated by and calculated to serve the imperialist expansionist foreign policy of the U.S.S.R. The Soviet economy continues to give secondary and inadequate consideration for the welfare of its own people at home in order to utilize its maximum resources for the pursuit of a policy of cold and hot warfare against other peoples abroad. In this situation, the rate of Soviet economic growth has a sinister import for the American standards of life and labor, for human rights and for world peace. We face a challenge and threat involving not only the two economies, but two ways of life.

WHEREIN THE THREAT

The world has now had more than 40 years of the Soviet system and its economy. No matter what fallacies one may see in Communist economics, no matter how utterly inhuman the foundation

Rapid Growth

and practices of the Communist economy may be, no matter what serious weaknesses may have characterized its development, it is a fact that this totalitarian system has been able to develop large-scale production.

It is not the rate of Soviet economic growth, or the size of its gross national product, which disturbs American labor or need disturb our country. If India, Britain, Germany, or Japan were now chalking up the achievements claimed or achieved by the Soviet economy, none of us would be really disturbed. Only the nature and aims of the Soviet economy, only the driving purpose behind its rate and volume of growth, provide cause for concern. Here lies the real threat of the Soviet economy. Were its capacities and talents geared primarily to the production of consumer goods and higher living standards for the Soviet peoples, were its nature and overriding international purpose different, there would be no such fears.

American labor seeks to win for itself the highest living standards. We strive and, if need be, strike to secure continuous improvements of our conditions of life and labor under our economy.

On the basis of our experience and the experience of our colleagues in other lands, we have learned that in no country can the workers receive their just share of the national product, fair play, and decent conditions unless they enjoy the fundamental democratic rights of freedom of association and organization—such as the right to organize into free trade unions, to bargain collectively and effectively, and to strike. This means the right to organize and build unions free from control by employers—private, corporate or government—political parties, or any other outside interests or agencies. Under the Soviet system and in its economy, the workingmen and workingwomen are denied this right.

American labor would like to see the workers of all countries—and that includes the workers of the Soviet empire—enjoy human freedom, get higher wages, shorter hours, and increased benefits of modern technology. Our attitude is motivated not only by humanitarian considerations, but also by a measure of enlightened self-interest. Furthermore, the workers of such countries, suffering from low pay and degrading standards of work, turn out goods for the world market at murderously competitive prices. Such low-wage competition tends to undermine our own wage scales and conditions. Furthermore, impoverished hungry nations are not good customers in international trade.

In short, American labor is deeply concerned because of two grave dangers which emanate from the degraded and degrading position which the workers occupy in the Soviet economy. These dangers are the potential competitive menace of the growth of Soviet production based on low pay and poor standards, even on forced labor conditions; and the enhanced power for aggression and war which such exploitation and oppression give to the Communist Party dictatorship.

A TOTALITARIAN STATE ECONOMY

The dictatorships which have come in the wake of the two World Wars have systematically perverted and distorted the meaning of words which, for years, had a comparatively clear connotation. "So-

cialism," "communism," "capitalism," "right," and "left," have lost the meaning they once had. It is necessary to keep this in mind, if we are to characterize properly the type of economy under which the Soviet people are now working, and hoping to get more out of life.

The late Rudolf Hilferding was eminently qualified to aid our understanding the nature of the Soviet economy. Hilferding's *Das Finanzkapital* was utilized extensively by V.I. Lenin in developing his theory of imperialism. This outstanding scholar of the international social-democratic movement also had practical economic experience as Finance Minister under Streseman in 1923. His clash with the former Reichsbank President Hjalmar Schacht had more significant for coming events than realized at the time. Hilferding had to flee Nazi rule and was murdered in a Paris prison by Gestapo agents. These are no mean credentials for anyone called upon to evaluate the nature of the Soviet economy. In his essay on "State Capitalism or Totalitarian State Economy", Hilferding wrote:

The Marxist sectarian cannot grasp the idea that present-day state power, having achieved independence, is unfolding its enormous strength according to its own laws, subjecting social forces and compelling them to serve its ends for a short or long period of time.

Therefore, neither the Russian nor the totalitarian system in general is determined by the character of the economy. On the contrary, *it is the economy that is determined by the policy of the ruling power and subjected to the aims and purposes of this power. The totalitarian power lives by the economy, but not for the economy.* * * * [Our emphasis.]

Once subjected to the state, the economy secures the continued existence of this form of government. * * * [Our emphasis.]

For this reason, the controversy as to whether the economic system of the Soviet Union is "capitalist" or "socialist" seems to me rather pointless. It is neither. It represents a totalitarian state economy, i.e., a system to which the economies of [Nazi] Germany and [Fascist] Italy are drawing closer and closer (Socialist Courier, New York, May 1940).

The nearly two decades which have elapsed since this evaluation was made have confirmed its basic soundness. The latest changes in the administration of the Soviet economy bring into bold relief its totalitarian state character.

Talk about the state withering away with the "building of socialism" is being heard less and less in Soviet ruling circles these days. Instead, there is increasing talk about the state becoming the dominant force in determining the "factors of ideological and moral influence in all spheres of life." We quote:

As we approach communism, the role of the Communist Party, which is the directing and guiding force of the Soviet state, the directing nucleus of all the organizations of the workers, both communal and state, increases and will continue to increase in the future. This is due to the fact that in the period of transition from socialism to communism, the factors of ideological and moral influence in all spheres of life become more important and at the same time the factors of the administrative influence become weaker.

(P.S. Romashkin, Moscow University Bulletin (July 1959).) [Our emphasis.]

But according to Lenin, not only the state but also the Communist Party will "wither away" in the Communist society. At the 21st Congress of the C.P.S.U., Khrushchev acknowledged that: "Marxism-Leninism teaches that under communism the state will wither away and the functions of public administration will lose their political character and turn into management of society's affairs directly by the people."

Not only Romashkin but Khrushchev has abandoned this Lenin theory. The Soviet dictator has been stressing that the Communist Party will exist much longer than the state. Khrushchev holds that the Communist Party is needed to build communism. Therefore, he insists that the Communist Party should be strengthened and its role enhanced. According to Khrushchev, the Communist Party will function as the integrating organ of society for a long time after the state has "withered away."

In this spirit, Khrushchev admonished his 21st Congress that: "We cannot oversimplify and conceive of the process of the withering away of the agencies of state as something like the turning of leaves in autumn when the branches are left bare as the leaves fall." He acknowledged that the "withering of the state" would not bring the Soviet people greater democracy which he held up to contempt for "glittering parliamentary oratory," "political deals among the parties," "setting up a flowery screen of 'free elections' behind which capital is omnipotent and the people are actually disenfranchised." He stressed that the Soviet state—particularly its security agencies and armed forces—will be strengthened and not "wither away." And why? Because the U.S.S.R. was threatened by "imperialist attack." This is what Stalin always said.

What is involved in this discussion is no mere quarrel over sterile dogma but the future of mankind.

1. ROLE OF BUREAUCRACY

The growth of Soviet industry has led to a change in the social composition of the U.S.S.R. There has been an increase in the number of workers. The section of the population consisting of managers, technicians, engineers, scientists, and government administrative and industrial experts has likewise grown considerably. The latter constitute a vast bureaucracy enjoying marked social and economic privileges. Since this sector of Soviet society is more educated, better paid and more privileged than the others, some have developed the notion that they are becoming the "new class" of rulers. Some experts have even embraced the notion that this group of bureaucrats will lead Russia toward democratization of the state, liberalization of the economy, and a peaceful international course. Hilferding has shown why such notions have no foundation in reality:

In reality, the "bureaucracy" is not an independent bearer of power. In accordance with its structure as well as function, it is only an instrument in the hands of the real rulers. It is organized as a hierarchy and subordinated to the commanding power. *It receives but does not give orders.* Any functionary, as Trotsky justly put it, "can be sacrificed by his superior in the hierarchial system in order to decrease any kind of dissatisfaction." And these are the new masters of production, the substitute for the capitalists. Stalin thoroughly exploded this myth when, during the last purges, he ordered shot, among others, thousands of industrial managers.

It is not the bureaucracy that rules, but he who gives order to the bureaucracy.

This is the reality which should not be obscured by constructing alleged domination by a "bureaucracy" which is in fact subordinate to the government to the same extent as are the rest of the people. This is true, even though some modest crumbs from the master's table may be doled out to it—without, of course, a guarantee that other crumbs are to follow and at the price of constant danger to their very lives. Their material share does not constitute any important portion of the social product. Nevertheless, the

psychological effect of such a differentiation may be quite considerable. (Socialist Courier, May 1940.) [Our emphasis.]

2. BUREAUCRATIC PLANNING FROM ABOVE

The totalitarian state economy of the U.S.S.R. cannot be understood or judged on the basis of the criteria applied to other economies. Why? Hilferding has very correctly pointed out that:

*It is the essence of a totalitarian state that it subjects the economy to its aims. The economy is deprived of its own laws; it becomes a controlled economy. One this control is effected, * * * the character and extent of needs are then determined by the state. * * ** [Our emphasis.]

Prices lose their regulating function and become merely means of distribution. The economy, and with it the exponents of economic activity, are more or less subjected to the state, becoming its subordinates. The economy loses the primacy which it held under bourgeois society. * * *

Policy is actually determined by a small circle of those who are in power. It is their interest, their ideas as to what is required to maintain, exploit, and strengthen their own power that determines the policy which they impose as law upon the subordinated economy. (Socialist Courier, May 1940.) [Our emphasis.]

A totalitarian state economy may enjoy certain advantages of centralized direction and capacity for concentrating all-out effort and resources on the attainment of a particular target. But the totalitarian state economy is inevitably ridden with a topheavy bureaucracy and all the evils and shortcomings that this implies. Bureaucratic planning is not as wonderful or efficient as some would like us to believe it is. In fact, bureaucratic planning has hurt the quality of production and impeded economic progress in the Soviet Union.

On June 29, 1959, at the plenary session of the Central Committee of the C.P.S.U., Khrushchev himself gave some examples of bureaucracy at work in the Soviet economy. He showed that, since the fulfillment of the production plans by a factory is measured by tons, then the bigger the tonnage of a factory's output the more it has fulfilled its assignment. To what absurdities this can lead was thus disclosed by Khrushchev when he discussed the production of chandeliers:

It became the tradition to produce not only beautiful chandeliers to adorn the house, but the heaviest possible. This was because the heavier the chandeliers a factory produces, the more it gets, as its output is calculated by the ton. So factories made chandeliers weighing hundreds of pounds and fulfill the plan. But who needs such a plan?

The same problem plagues the furniture industry. According to Khrushchev, the Soviet furniture factories prefer to make "massive armchairs" because these weigh more and their plans are thus fulfilled. However, the Soviet people prefer ordinary chairs and, therefore, seek foreign furniture.

At the same June 1959 session of the Central Committee of the C.P.S.U., Khrushchev made the following criticism:

We have bought several hundreds of millions of rubles worth of chemical and other equipment * * *. During the past 3 years several thousand different machines and instruments have been bought abroad. The plan provides for erecting an installation made of imported equipment at the Novo-Kuibyshev Oil Refinery to supply the Stalinogorsky Plant with raw materials. All the equipment has arrived, but actual construction has not been started * * *. Imported equipment for the Dnepropetrovsk Tire Plant has been lying around since last November. It is already beginning to rust, yet the Committee for Chemistry has

not yet finished drawing up the technical blueprints. It is not clear what technical blueprints have to do with it. We bought the plant together with all the equipment.

In 1955-56, cardboard machines bought in Sweden and Finland arrived for the Kotlas Pulp and Paper Mill of the Archangel Economic Council. Yet it is planned to put these machines into operation only in the fourth quarter of 1961.

The prevailing wage system for engineers and technicians does not tend to enhance their interest in developing new production techniques and modernizing the plants. V. T. Zabaluyev, chairman of the Novosibirsk Economic Council put his finger on this situation when he pointed out that the State Labor and Wages Committee of the U.S.S.R. Council of Ministers divides enterprises in different categories on the basis of the number of workers employed. The greater the number of workers it has, the higher is the wage fund received by the enterprise.

However, to be modern and efficient, a factory must turn to automation with its consequent reduction of the number of workers employed. Precisely for this reason, the technical cadres of a given enterprise are afraid to modernize their factory. When they employ fewer workers, they are put into a lower category, their wage fund is cut, and their wages, therefore, lowered.

The aforementioned are typical difficulties inherent in and the consequence of the system of bureaucratic planning from above. Such practices are not merely the isolated mistaken acts of old and rigid individual officials, as Khrushchev would have us believe. The June 1959 plenary session show that the 1957 reorganization plan did not solve this problem. It, therefore, decided to institute stricter control of management by Communist Party Control Commissions. But this is no solution either. Increased party control will only stifle still more personal initiative and criticism and prevent the growth and exercise of personal responsibility and initiative.

This situation cannot be remedied by even the strong Communist Party demands that management and workers assume greater personal responsibility. Personal responsibility is identical with personal initiative. In a totalitarian state where one party controls and directs all life, the development of personal responsibility and individual initiative—especially in the economy—would endanger the entire totalitarian structure. Consequently, even the most earnest steps in the direction of greater economic freedom are very seriously limited in a totalitarian society. The Yugoslav trend toward increased restrictions on the works councils and the latest antiliberal policies for tightening economic controls in Poland confirm this fact.

RECENT CHANGES IN ADMINISTRATION OF SOVIET ECONOMY

Because of the nature of the Soviet dictatorship and its totalitarian state economy, it is often hard to distinguish between fact and fiction in government or party statements. Not infrequently, that which is hailed as an absolute truth at one Communist conclave is branded by the following conference as a total fraud and calculated deception.

A significant example of this application of the strategy of political factionalism to economic policy was cited by AFL-CIO President George Meany when he wrote:

For example, in his address to the plenary meeting of the Central Committee of the Soviet Communist Party on December 15, 1958, Khrushchev admitted that

his former intimate friend and leader, his predecessor as Party General Secretary, Malenkov, "deceived the Communist Party and the Soviet people when he told the 19th Party Congress (1952) that the grain harvest in the country had reached 8 billion poods—whereas it actually had been less than * * *."

At the closing session of the Supreme Soviet in August 1953, Malenkov, in his report (for which Khrushchev and all the others in the Kremlin ruling clique voted) boasted before the entire world that "our country is assured of grain." But 6 months later, Russia was in the throes of a grain crisis" (American and Soviet Economy—Contrast and Comparison.)

I. WHAT, WHEN AND WHY

In view of the basic Soviet aims persistently proclaimed and ruthlessly pursued by Lenin, Stalin, and Khrushchev, wishful thinking in regard to the changes that have recently taken place in the Soviet economy would be very dangerous. Exaggeration or underestimation of Soviet economic strength on our part could only lead us to misjudge the direction and misunderstand the social consequences of these changes.

Moscow's shot at the moon, timed at the start of his westward trip, was described by Khrushchev as merely "a pleasant coincidence." Most of us took the Kremlin's moon shot as a rude and not so pleasant, though effectively timed, reminder of Soviet industrial achievements and even superiority in certain technological spheres—especially in the technology of outer space operations. During his recent tour of our country, Khrushchev repeatedly boasted about Soviet technological achievements. Yet, on June 29, 1959, only about 10 weeks before his departure for the United States and Camp David, Khrushchev told a full meeting of the Central Committee of the C.P.S.U. that: "We must wage a determined struggle against waste, slovenliness, and lack of discipline in our enterprises, as well as against absenteeism and loafing." And Aristov—Khrushchev's expert on automation—went even further and said:

There are roughly 80 steel rolling mills in the plants of the R.F.S.R., of which only 3 are modern ones, while the rest of them—77—are antiquated machines built in the 19th and even in the 18th centuries. Labor productivity in some of them are 20 to 30 times lower than in the modern ones. In some of them, unfortunately, rolling cages are still being used to roll roofing iron according to the old Ural manner * * * which entails heavy physical strain.

This is certainly not the picture of an economy whose overall capacity could be measured or symbolized by sputniks and luniks. Nor is it the model, up-to-date, Soviet economy which Khrushchev, Mikoyan, and Kozlov have shown to prominent tourists in the U.S.S.R. Where is the contradiction? And why? Under the Soviet system, the ruling group, especially the topmost dictator decides which phase of the Soviet economy (or anything else) in the U.S.S.R. should be brought into the foreground of public attention at any particular moment. With Khrushchev, as with other totalitarian dictators (like Mussolini, Hitler, and Stalin), the why and wherefore of what he says at a specific moment, the timing, can be even more significant than its contents. When he thinks it is necessary to impress some prominent foreign visitor or visiting expert—or some country which is industrially underdeveloped—Khrushchev emphasizes the prowess and bright side of the Soviet economy. However, when he finds it necessary to have the Central Committee of the C.P.S.U. approve certain changes in economic policy, Khrushchev turns his attention to the darker side.

2. ALL ROUND EXPANSION OF PARTY CONTROL

On July 2, 1959, Pravda gave the real reason for Khrushchev and Aristov having painted the above gloomy picture. Pravda had the following headline in reporting the most important excerpts of Khrushchev's address of June 29: "All-round expansion of social control concerning the execution of decisions taken." In order to change this gloomy picture, Communist Party control of the industrial, technological, and economic fields was to be greatly extended and intensified. Toward this end, the Central Committee of the C.P.S.U. decided upon a most important change in the administration of the Soviet economy. We quote:

So as to increase the control over the activities of the administration, the Central Committee of the Communist Party of the Soviet Union has found it advisable to set up at the lowest levels of the party organization (party cells) in the industrial plants, transportation, the building industry, trade, as well as in the planning organizations, design offices, and scientific research institutes, carrying out orders for plants and building projects, committees drawn from members and candidates of the party *for the purpose of establishing controls by the party organizations over the activities of the administration* (Pravda, July 13, 1959).

Why was this sweeping decree issued? What does this decree mean for the Soviet economy? For one thing, the huge growth and the modernization of Soviet industry require some degree of decentralization of the economy. Furthermore, the hopes Khrushchev had placed in 1957 in his production conferences curbing the power of the local and regional economic bureaucracy did not materialize. That is why, at the June 1959 plenary session of the Central Committee of the C.P.S.U., Khrushchev lashed out at the regional economic officials and managers. He charged them with negligence, irresponsibility, bureaucratism, technical conservatism, and selfish local interests.

To overcome such weaknesses, the party was to strengthen its control over the entire Soviet economy by setting up control commissions within the party organizations of enterprises in industry, transportation, construction, and trade as well as design organizations, drafting bureaus, and research institutes. Through its "control committees" at the lowest levels, the Communist Party will have greater control of the managers, manufacturers, engineers, technicians, scientists, and their research institutes and exercise systematic control of the fulfillment of production targets, export orders, quality of products, housing, production costs, transportation, and the introduction of new technological and automation devices.

In addition, "they must look after the observance of state discipline by all enterprise officials and must fight against the appearance of local interest or a narrow departmental approach." Thus, these new commissions have economic and political tasks. They are to be subordinated to the party secretaries in the enterprises and account for all their activities to them. Khrushchev aims to strengthen the authority of the party secretaries in dealing with any manager who may be rebellious. Significantly, the production conferences play no role in this latest reorganization. After only one year of existence, they outlived their usefulness to Khrushchev. Communist Party organs have replaced them. Thus ended one of the best ballyhooed liberalization measures introduced by Khrushchev.

This extension of Communist Party domination over the Soviet economy is a move calculated to enhance the authority and enlarge

decisively the power of the Communist Party and the omnipotence of its top leader. The total subordination of the economic and technical experts to the professional party bureaucrats (who owe their privileged position and very existence to Khrushchev and his machine) is not an act of genuine decentralization or liberalization of the Soviet economy.

It is rather significant that this Communist Party move on the economic field comes right after the C.P.S.U. has firmed up its stranglehold on the State Security Services, on the Government bureaucracy (abolition of several ministries), on the Red Army (Zhukov), and on the intellectual and academic arena (educational reform).

3. SOME IMMEDIATE CONSEQUENCES

One of the reasons given by Khrushchev for his decentralization program was that it would increase the responsibility of the local officials. As if to prove the validity of this argument, there soon manifested itself, especially in the border republics, a tendency to have local nationals replace the Russian officials. In some areas, efforts were made to give priority to local needs in the process of fulfilling the State economic plans. But the Kremlin lost no time in denouncing these manifestations as "nationalistic." On July 13, 1959, the very day of the launching of the latest revision of industrial administration, there was reported a serious purge of the Azerbaidjan Communist Party. I. D. Mustafayev was fired as First Party secretary, the party bureau was purged, and a major shake-up hit the top Communist Party and Government officialdom.

The purged comrades were punished for not carrying out the decisions of the 20th and 21st Party Congresses, for having neglected the raising of livestock and cotton—the two principal pillars of agriculture in this Republic, and for the lag in oil production. They were castigated with special severity for their "improper attitude toward the selection, training, and promotion of cadres," "localism," and failure to struggle against sundry manifestations of capitalist ideology—especially in regard to tendencies toward private ownership. The very comrades who took seriously Khrushchev's promise that the decentralization program would permit them more initiative were now accused of local nationalist tendencies leading to lack of regard for "proletarian internationalism" and a wrong attitude toward "the idea of friendship of the peoples of the U.S.S.R."

According to Pravda, August 13, 1959, the Republic Conference on Ideological Questions, called by the Uzbek Communist Party, revealed tendencies toward private ownership, theft of Socialist property, hooliganism, drunkenness, and all else that goes under "survivals of the past." The Tashkent Party Committee secretary, F. Hodzhaev warned the conference that nationalist survivals were especially dangerous in the economic field where "for the sake of local interests, state interests were relegated to oblivion." Taking the cue, the conference emphasized the urgency of the Soviet and Uzbek people choosing cadres on the basis of their technical qualifications and without nationalistic prejudices.

Khrushchev has dispatched many thousands of Russians, skilled Bulgarians, and deported Hungarian craftsmen to Kazakhstan. In recent months, there has been more widespread discontent here than

even in Azerbaijan and Turkmenistan where Moscow had to appoint new security chiefs in September 1959. In the latest issue of the Soviet journal, *Kommunist*, N. Djandildin, Kazakhstan Party secretary, complains against secret opposition to the Soviet Union's exploitation of this Republic's great natural wealth and against the hostility to the "participation in this matter of representatives of other brotherly republics." Konstantin F. Lunev, deputy chairman of the Soviet State Security Committee, has been rushed to Kazakhstan where he is to take full charge of all security operations. For Khrushchev's political career, Kazakhstan, with the third largest population of the constituent republics of the U.S.S.R. is very vital. It contains many of the virgin lands whose development has been a dramatic and decisive part of the dictator's agricultural program.

Enthusiasm for the Kremlin's "proletarian internationalism" seems to be lagging also in the Baltic republics. In mid-July 1959, the Lithuanian First Party secretary, Antonas Snehkus, found it necessary to pay tribute to the "great historic achievements of the Russian revolutionary proletariat" and to rant against "hostile propaganda from abroad." Recently the Deputy Prime Minister of Latvia, E. K. Berkloy, who is also a member of the Latvian Party Presidium, was removed from his high post on the ground that he was opposed to the development of heavy industry.

The objective effect of Moscow's latest industrial program has been to stimulate growing resentment against Russification and all that it implies for the minority nationalities. The above-cited removals reveal more than teething troubles in the childhood stages of "decentralization." Here might well be the seedbed of new difficulties for the Soviet economy as a result of the party taking over direction of economic operations.

TRADE UNION AND MANAGEMENT CONTROL IN THE U. S. S. R.

At every stage and in every phase of their struggle for power, the Bolsheviks realized the great importance of the trade unions as basic organizations of the working people. It has always been cardinal to the Bolsheviks' doctrine that with their seizure of power, their party was to have complete control of these labor organizations. In pursuit of this unalterable course, the Bolshevik Party line, on the field of labor, has evolved from the militant policy of "workers' control of production" (Lenin, in June 1917) to the present complete control of workers for production.

After much debate, the Tenth Congress of the Soviet Communist Party (March 1921) adopted a resolution offered in the name of Lenin and nine others—"The Platform of the Ten." This resolution laid down the Communist doctrine that the trade unions are to be "auxiliary organs of the proletarian state" and, as such, were "schools for communism." It spelled the doom of free trade unionism under the Soviets and stressed that, ideologically, these labor organizations were to follow the leadership of the Communist Party through the medium of Communist fractions. Moreover, the Communist Party was to supervise all appointments to trade union posts and all union nominations to leading positions in the economic apparatus.

1. ROOTS OF BASIC COMMUNIST POLICY

At the eleventh party conference, December 1921, the final nail was hammered into the coffin of free trade unionism in the Soviet domain. The resolution it adopted set the rules for welding firmly and permanently the domination of these organizations by the Communist Party. We quote:

Taking into consideration the enormous significance of the trade union movement and the danger of opportunist deviations therein without the constant and firm leadership of the party, the conference resolves to *direct to trade union positions of responsibility only experienced party members of long standing, who in the past have not belonged to any other political party.* The replacement of leading trade unionists must be carried out with the necessary gradualness and caution. The minimum length of party membership required for an appointment is:—pre-October 1917 membership for chairmen and secretaries of union central committees; 3 years membership for secretaries of provincial trade union councils.

This Leninist resolution has served as the foundation of all Soviet "trade union" policy down through the subsequent years. The "trade union" reforms promulgated under Khrushchev are rooted in the above Leninist policy.

At the time of the February 1917 democratic revolution in Russia, factory and works committees emerged spontaneously and raised the slogan—"workers' control" of management. This slogan was very popular and won them much support. The Bolsheviks hastened to champion and take over this slogan. They soon won control of the factory committees and exploited them for conquering the trade unions which were then under Menshevik leadership. Then, the moment they grabbed all power in Russia and took over the trade unions, the Bolsheviks lost no time in changing the character of the factory and works committees by stripping them of all influence on the administrations of enterprises.

In the twenties, the Communist Party increasingly limited the activities of these committees to the strengthening of labor discipline, and the raising of the workers' productivity. By the end of the twenties, the Soviet "trade unions" branded as heresy any attempt by these committees to defend the interests of the workers in regard to the determination of wage scales and the hiring and firing of workers.

At the plenary session of the Central Council of Trade Unions (July 1933), its secretary, G. D. Weinberg, declared that only the leaders of the economy, administration, and management could determine wages. Otherwise, he insisted, the principle of one-man rule in the enterprises would be endangered and emphasized that:

Too many comrades in the enterprises take the position that trade unions should have as much to say regarding wage questions as management. This is basically wrong * * * This position * * * is a left opportunist's deviation which must be liquidated.

In the thirties, the decline of the "trade unions" proceeded apace. Their overriding objective became the promotion of production. The factory and works committees were likewise geared to the same objective and became rather unpopular with the workers.

During World War II, the factory and works committees occupied themselves mainly with the needs of the workers and their families

outside the factories by making available to them homes, canteens, clubs, libraries, health ambulatories, etc. They paid no attention to the job interests of the workers. At best, they took a passive attitude toward wage issues. In the factories, they played more and more the role of agents of management—slave drivers.

There was no immediate change in the situation after Stalin's death. But by 1954, the 11th Congress of the Soviet "Trade Unions" decided that—in order to secure the maximum increase in production—the factory and works committees were to concentrate on introducing "progressive, technically justified, production norms." It only emphasized the role of the factory and works committees as auxiliaries of management.

2. TWO MORE DECREES

Two important decrees affecting "trade unions" in the U.S.S.R. were made public in July 1958. These were: (1) the "Rights of factory, works, and local trade union committees" and (2) "Permanent production conferences in industrial enterprises, on construction sites, in Sovchozes, MTS, and RTS." They were hailed as expanding the rights of workers' representatives in the factories, and heralded as vital elements of "industrial democracy." It is important to examine the background of these decrees.

In December 1957, the plenary session of the Central Committee of the C.P.S.U. decided to modify the functions of the factory and works committees. Its resolution on the "Activities of the Trade Unions in the U.S.S.R." again emphasized that the central task of the "trade unions" was the "mobilization of the masses for the struggle for a mighty upswing of all branches of the economy." It also decreed that the fulfillment of this task required the "participation of the workers in the management of production." Toward this end, the functions of the factory and works committees of the "trade unions" were to be expanded.

Henceforth, management was to be permitted to decide on wage questions only "after coordination" with the factory and works committees. The subject of "wage questions" included the revision of the old and the setting of new production norms, wage classifications of workers and salaried employees, job classification in regard to hourly payments, piece rates and bonuses for engineers and technicians. The noted student of Soviet labor, Dr. Solomon M. Schwarz, maintains that "after coordination" does not mean joint decision by management and the factory and works committees. Management continues to make the decisions. The fact that management is to obtain their agreement "after coordination" does not mean that the final decision depends on its securing agreement with the factory and works committees.

The decree further stipulated that works and salaried employees could not be dismissed without the consent of the committees. This represents an enlargement of their rights. The committees were also to deal with the needs of the workers outside the plants. Apartments owned by the enterprises were, henceforth, to be assigned only after a joint decision by management and the committees. Hitherto, management alone exercised this prerogative. These are the two relatively minor concessions made to the "trade unions."

More importance should be attached the provision in the decree that participation by the factory and works committees must be sought in the establishment of production and capital investment plans. The committees had this right previously, but it was mainly on paper. Now management has the duty to report to the committees about the fulfillment of the production plan; the obligations resulting from collective agreements; measures for improving working conditions, and the material and cultural care of workers and salaried employees. The factory and works committees could now call for the elimination of whatever weaknesses these reports disclosed. They could propose to higher organs measures for improving the factory operations and the living and working conditions. Then, these higher organs would examine such proposals and inform the committees about any corrective action to be taken.

Management was under obligation to consult the committees regarding the appointment of personnel to leading positions, but it was not obliged to heed their advice.

Finally, the factory and works committees were to have the right to propose to the appropriate organizations the dismissal or punishment of leading personnel for violating the provisions of the collective agreement or labor legislation. Here too, these appropriate organizations would report their findings to the committees.

The Permanent Production Conference was the new organ created for enabling the committees to carry out their responsibilities. These conferences were to meet only once in several months, but they would have a permanent presidium to work under the guidance of the committees. The production conference was charged with the task of securing the fulfillment and overfulfillment of the production plan. Management had the duty to eliminate the weaknesses in the work at the plants as disclosed by the production conference and to inform the conference about the situation in the enterprise. The regional economic councils, ministries, and other economic organs were to help the production conferences in their activities.

3. IS KHRUSHCHEV INTRODUCING INDUSTRIAL DEMOCRACY?

Did these decrees signify moves toward industrial democracy? The answer is: No. The much ballyhooed-expansion of the committees' rights is neither extensive nor decisive. The most important issue confronting any organization which calls itself a trade union is wages. Relative to this issue, the decree provides only for "co-ordination" between committee and management. In case of any dispute or conflict over wages, management has the last word.

And in regard to most of the other labor problems and needs involving improvement of working conditions, the committees have the right only to propose. In respect to the appointment of the leading personnel, management makes the final decision. The old Communist principle of one-man rule in the enterprise is maintained.

In evaluating the importance of these conferences, we must keep in mind that they were set up in connection with the comprehensive industrial reorganization which took place in the summer of 1957. It will be recalled that Moscow had then ordered the dissolution of

a number of economic ministries and the transfer of their functions to 105 regional economic councils.

This entire course was dictated by political party interests, no less than economic considerations. In an economic sense, this was a major move to streamline the Soviet economy by decentralizing it and cutting down the power of the bureaucracy. Politically, this was an integral part of the campaign waged by Khrushchev against his rivals in the struggle over who shall succeed Stalin. Malenkov had the support of the economic bureaucracy and this base of his support had to be weakened.

But soon after the new setup was completed, the regional economic councils and the managers of the large enterprises were subjected to charges of "local selfishness", autonomous aspirations, lack of co-operation with other regional councils, and lack of "state discipline." Khrushchev had counted on the production conferences as a means of preventing such deviations and trends toward independence on the part of local and regional economic officials. Through these new organs, Khrushchev had hoped to exercise adequate control of the managers who were, (in consequence of the "decentralization" program), supposed to be removed from direct and strict supervision by Moscow.

In this light, it is clear that the new "rights" conferred on the factory and works committees and the establishment of the production conferences cannot be considered as concessions by the Kremlin to the desires of the Soviet workers for more freedom. These bodies are even more impotent than the Yugoslav works councils. And the latter, contrary to Tito's claims, do not at all assure workers' participation in the management of enterprises.

The Soviet factory and works committees and the production conferences are not at all like the works councils in the free world or the shop committees and shop stewards as we know them in our country. Moreover, when Moscow issued even the anemic decrees of July 1958, it acted to prevent any development toward industrial democracy as we know it or codetermination as practiced in Germany. The Kremlin simultaneously expanded and intensified Communist Party control over all economic organs—including the so-called trade unions.

MUCH ADO ABOUT VERY LITTLE

The last 2 years have been a hardening of Communist policies towards the workers in the U.S.S.R. Since 1957, there has been an increasingly strong emphasis on the fulfillment of production plans. There has also been a marked stepping up of "Socialist competition" which has taken the new form of "Brigades of Communist Labor." There are already 60,000 such "Brigades."

To cap it all, Communist Party control is being expanded and intensified on the field of labor and economy in particular.

1. KHRUSHCHEV CONTROL COMPLETE

The 12th Congress of the Soviet "Trade Unions" was held in March 1959. It elected a new central council of 197 members instead of the 174 its predecessor had. But a very high proportion of the former members was not re-elected. Only 36 of the preceding 174 members

were re-elected. All the others are new. This sweeping change in the Soviet "Trade Union" leadership reflects and is part of Khrushchev's systematic drive to man and control the leading body of all Soviet organizations and authorities. The Kremlin dictator is staffing all such organs with new personnel that is absolutely loyal to him and dependent on him for their future.

In some circles there has been much talk about some insignificant changes made during the last 4 years in respect to the status of the Soviet worker. An examination of the Khrushchev labor reforms relative to the freedom of labor will show how little they mean. A case in point is the decree of April 25, 1956, which was supposed to lift the ban against changing employment and the compulsory shifting of workers from one plan to another. In this connection, Paul Barton, the well-known student of Soviet labor conditions, has pointed out that:

* * * The freedom to choose and change employment have not, in fact, been restored at all. A worker who leaves his job against the wish of the director runs the risk of being entangled in a whole network of constraint and administrative chicanery, which may finally prevent him from being hired where he wished. The police, from whom, on the presentation of his internal passport, he must obtain permission before every change of residence can forbid him to leave his home. Even if he manages to find work where he lives, he may be threatened by "organized recruitment," a process by which the authorities obtain labor for the sweating industries.

Besides this, he will lose, for 6 months, the right to sick pay and, permanently, his seniority on which depends the extent of various social benefits. A revealing fact is that on March 23, 1956—that is, 1 month before abolition of the ban on change of employment, the Soviet of the city of Moscow passed a special decree to enforce the strict observance of the rules relating to interior passports; a new decree was passed to this effect on April 18, 1958 (Bulletin of the Executive Committee of the Moscow City Soviet of Workers' Deputies, 1958, No. 11).

To be sure, these modifications of the legislation make the workers' lives a little easier. But at the same time, that is clearly not its aim. This lies in enabling the managers and the authorities to apply restrictions on the wage earners in a more varied, subtle and hence more efficient manner; drastic measures are not always the most effective.

The same applies to all the other changes which have occurred in recent years. There is no question at all of ending the exploitation and servitude imposed on the workers by Stalin; Khrushchev simply wants to eliminate the disorganizing effects which a rigid policy has on industrial relations and even on production.

After all, Stalin himself did as much during the period of spring 1934 to summer 1938; it did not prevent him from crushing the workers again, and more than ever, from December 1938 onward, when he judged that industrial relations were in sufficiently good order (AFL-CIO Free Trade Union News, July 1959).

2. CHANGING THE WAGE SCALES

During the last 4 years, the Soviet Government has been changing the wage scales. Many of these had been in force since before the war; some, even date back to 1932. The new wage scales, though better adapted to the current price level, actually differ little from the old in their structure. Again, Paul Barton has shed welcome light here:

A very great wage differential is still the basic feature. Thus the new scales applied to the building trade include seven grades of skill; the rates for the seventh grade being 2.8 times higher than those for the first (Soviet Trade Unions 1955, No. 11). For the chemical industry, eight grades have been set up—the highest of which is paid according to a rate 2.6 times, and for certain categories of work (the extraction of and enriching of ores) even 3 times

higher than that of the lowest (Socialist Labour, 1958, No. 2). In the production of slate, four scales with eight grades each have been introduced—with the following coefficients of the eighth: 2.97, 2.56, 2.39 and 2.38 (Socialist Labour, 1958, No. 2). For the oil and gas industry, there are six to seven grades and the coefficient of the highest varies between 2 and 2.6 (Socialist Labour, 1958, No. 7).

Although the reform tends to simplify the wage system, the number of rates clearly remains too high * * *.

Furthermore, the working out of the new wage scales is extraordinarily lengthy and the authorities concerned do not seem to have a very clear idea in accordance with what principles they should proceed. Thus, in his speech at the recent National Congress of Trade Unions, the president of the State Commission for Questions of Labor and Wages declared that an effort would, henceforth, be made to reduce somewhat the difference between the lowest and the highest wages. But, at the same time, he asserted that any tendency toward egalitarianism must be rigorously suppressed. On the other hand, he announced that wage scales would, in the future, be set up for individual districts (economic areas) rather than for individual industries (Trud, March 27, 1959). Obviously, such a method is likely only to increase the chaos which already reigns in this field (AFL-CIO Nouvelles du Mouvement Syndicale Libre, August 1959).

3. ANOTHER UNFULFILLED PROMISE

One of the first demands of labor everywhere has been for the shorter workweek. From the human and cultural viewpoint, this has always been desirable. Thanks to modern industry, the shorter workweek is not not only practical but even necessary, economically speaking.

Among the very first decrees of the Soviet dictatorship was the one limiting the workday to 8 hours (October 29, 1917). However, the 12th Soviet Communist Party Congress, held 6 years later, stated that the labor laws regarding the "length of a working day for the various categories of workers" were not really enforced. By October 15, 1927, the Soviet Communist Party Central Committee, headed by Stalin promised a 7-hour day in order to win support in the fight against Trotsky.

But by January 26, 1940, the 8-hour day was officially reestablished because "the strained international situation and the threat of war compelled the Soviet state to abandon temporarily the level of legal guarantees already reached."

The Khrushchev promise for a 7-hour, 5-day week—the shortest in the world—should be judged in the light of similar promises for a shorter workweek made in the past. What is more, this promise, like all the others he has made in regard to labor sharing in the benefits of Soviet industrial progress, is contingent upon an intensified speedup of production; that is, upon intensified exploitation of the worker. In order to have a shorter workday, the workers would have to work much harder to receive the pay they received before. This is confirmed by the U.S.S.R. State Planning Committee's Economics Research Institute which recently declared that—

three-fourths of the total increment of industrial output in the next 7 years will be obtained from increased labor productivity (World Economics and International Relations, June 1959, No. 6, pp. 3-20).

4. CONSUMERS' GOODS—STILL ANOTHER PROMISE

Recently orders have been handed down by the Kremlin to raise the quantity and quality of consumers' goods. The dearth of con-

sumers' goods has reached a point where even Pravda recently had to say:

We have mastered the sputniks. We have mastered the atomic icebreaker. We have mastered the greatest atomic power stations in the world. Let us now take the trouble to produce a down pillow or a pair of pliers that will draw a nail.

Toward overcoming this terrible situation, there has been proposed a 3-year plan for increasing the production of consumer goods. It is proposed to increase, by 1961, the production of such goods by about 40 percent as compared with the 1958 total of 45,500 million rubles. If fulfilled, this plan would, by the end of 1961, provide every Soviet subject with an additional 97 rubles' worth of consumer goods. Whether the ruble be 10 or 4 to the dollar, this 3-year plan will provide a pitiful addition to the average Soviet subject.

The Soviet budget for 1960 reveals that Khrushchev is intensifying the Kremlin policy of emphasizing heavy industrial development rather than providing consumer goods. Less than 25 percent of the Soviet gross national production goes into consumer goods. In contrast, about 70 percent of our country's gross national product goes into consumer goods and services.

Moscow is able to finance its heavy industrial investment largely through miserably low wages and a very high turnover tax (sales tax) on consumer goods. On the average, present Soviet sales taxes constitute 40 to 50 rubles out of every hundred spent on consumer goods in state stores. More than that. Though Soviet industry has, in the last 5 years, been increasing its production and decreasing its costs, practically none of these benefits has been passed on to the consumer public in the form of lower prices.

From all of this, it is clear that, with all its "reforms" and promises, the Communist economy is based on increasing exploitation of the workers.

SUMMARY

The well-being of the American people urgently requires that our Nation step up the rate of its economic growth. The Soviet threat only makes American economic expansion still more urgent.

Labor, management, the farmers, the scientists and technicians, and our educators should cooperate to foster a higher rate of growth. Wherever necessary, Government aid should be enlisted toward this end. Such a Government role and assistance, in cooperation with the voluntary forces of our national community, can only strengthen our economic system and our free society as a whole.

In the Soviet economy, the rate of growth has been attained more rapidly in gross national output than in increased per capita productivity. Furthermore, in comparison with its rate of increase in gross national product and per capita productivity, the rate of increase in per capita purchasing power has been lagging in the U.S.S.R.

The high rate of Soviet economic growth has also been attained in very great measure at the expense of labor's democratic rights and by denying the Soviet peoples freedom.

American labor is for an expanding economy in freedom. Our Nation has the natural resources, the skilled labor force, the vitality, the seriousness of purpose, and sense of direction to achieve a greater

rate of economic growth without being forced into it. AFL-CIO President George Meany has thus summed up the viewpoint of American labor:

We believe that a higher rate of growth will produce a greater degree of price stability, particularly if the Nation's preoccupation is shifted from the fear of inflation to the need for economic growth. * * *

The AFL-CIO has always indicated a concern over price rises, but has emphasized that growth, not inflation, was the greatest challenge before this Nation. Without growth, we will jeopardize our strength as a Nation both at home and abroad.

In our free society, the trade unions play a vital independent part in the economy of the land. The free trade unions will continue to be the decisive factor in reducing any gap which may develop between increased national productive capacity and the Nation's capacity to repurchase the products for consumption. Without free trade unions, there is always the danger of such a gap developing, especially as a result of an accelerated rate of economic growth. As the primary and decisive force for assuring rising standards of living commensurate with a rising technology, America's free trade unions serve to stabilize and strengthen our economy, and also to spare our economy the inhuman features attendant to the high rate of Soviet economic growth.

Through promoting full employment, production, and purchasing power for millions of Americans who still have inadequate income, housing, education, and health facilities, our country can accelerate its rate of growth.

Through systematically eliminating and abolishing race prejudice, we can end one of the most costly and wasteful ailments afflicting our economy.

Through helping the industrially underdeveloped nations develop their economies and improve their living standards, we can assist in creating a greater area of free world prosperity.

The AFL-CIO has repeatedly urged the holding of a free world economic conference to work out a common program for promoting world prosperity in freedom. Such a common program can strengthen our economy, help its growth and assure its playing an increasingly constructive world role.

American labor believes that a free society can be far more creative and stronger in the economic and in every other field of human endeavor than the most total of all totalitarian societies (communism). Individual freedom and initiative may not be measurable statistically, but they are priceless assets and provide human intellectual resources and capacities far superior to the regimented society.

American labor has never and will never be sparing in its efforts to make our economic system, our free society, far more attractive to the rising new nations of Africa and Asia than any totalitarian state economy and dictatorship.

The reserves of vital forces in our Nation and its economy are enormous. We have nowhere near tapped them. We can and must do so, not only for the sake of our own people, not only for the sake of the entire free world, but also for the sake of the Soviet peoples whose great creative genius can truly serve world peace and social progress once they enjoy democratic rights and live and work in freedom and at peace with all their neighbors and the rest of the nations.

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SUMMARY AND POLICY IMPLICATIONS

SOVIET ECONOMIC GROWTH AND U.S. POLICY

(By Willard L. Thorp, Merrill Center for Economics, Amherst College, Amherst, Mass.)

THE CHALLENGE

The slogans

"To catch up with and surpass the United States" is an incessant Soviet slogan. Sometimes it is put in rather specific terms, as when Nikita Khrushchev a little more than 2 years ago announced a campaign to overtake the United States in the per capita output of butter, milk, and meat by 1961 at the latest (Johnson and Kahan, p. 220). Or the prediction may be in more general terms, such as "In the next 10 to 12 years we will surpass the United States both in physical production and in production per head of the population while in agriculture this will be accomplished much earlier."¹ Still another declaration made very recently in Vladivostok runs as follows: "The United States produces for the time being more output than we do and has a high standard of living, but the time is not far distant when we shall catch up with and surpass the United States. Soviet people are firmly convinced of this."²

These calls for systematic economic competition as the expression of "peaceful coexistence" are not suddenly manufactured for the moment. Communists have always believed that their system would prove to be superior to "capitalism" and that time was all that was required for this superiority to be demonstrated. Khrushchev has transformed "the long-held and prestige-laden Soviet objective of 'catching up with America' * * * into something approaching a national obsession" (Heymann, p. 1). The Soviet emphasis on economic growth is probably of greatest importance for domestic consumption as a continual indication of achievement and of ultimate benefit. To become the richest and most powerful nation in the world is the goal which justifies all present sacrifices.

The slogans may also be important in their effect on the less developed countries. The Soviet Union says, "We were like you, and see where we are now." Its representatives continually point to its success in industrial progress, without of course mentioning the sacrifices in human lives, the compulsions applied to the population, or the relatively slow rate of improvement in the level of living. In areas where economic development has come to be the dominant national objective, the Communist presents himself as representing a demonstrable and successful means to this end (Colm, p. 542).

¹ Address by Nikita Khrushchev, National Press Club, Washington, D.C., Sept. 16, 1959.
² Thomas P. Whitney, "Crossed Fingers Didn't Nullify Mr. K.'s Threat," the Washington Post, p. E 1, Oct. 18, 1959.

It is hard to see any purpose in presenting this same challenge in the United States, as Khrushchev did so repeatedly. It might be expected that, if any reaction were felt at all, it presumably would be either to disregard the claim as a normal Slavic overstatement, or to take it seriously and set under way an enormous effort to protect our way of life. The fact is that in the United States there is no comparable drive to keep ahead of Russia. To be sure, in special areas the Soviet bogey is produced by one group or another in the effort to stir us to action—in connection with military and space matters, in education, and in foreign aid. But no one is concerned to make sure that our per capita production of butter continues to exceed that of the U.S.S.R. Perhaps Khrushchev regards this as a symbol of catching up with the United States in general, but Americans and Russians may have rather different ambitions concerning the use of butter. Furthermore, the butter comparison will always be inadequate since the United States meets the demand in part by an output of margarine far greater than that of the Soviet Union (Campbell, p. 25). And anyway, if the Soviet Union produced twice the amount of butter per capita as the United States, it would seem to be irrelevant to us and our requirements. In fact, in the United States, butter has been regarded from time to time as a "surplus commodity."

The problem of definition

If the contest is not one of butter production, what is it to cover and what is to be the scoring system? We have gradually developed certain national accounting measures for comparing our own progress over periods of time, gross national product (or national income) and national wealth. They require masses of specific data relating to all kinds of economic activity and a means of aggregating such varying items as the production of sugar, steel, professional baseball games, police protection, and the services of retail stores. Although it will be suggested in a later section that intercountry comparisons of gross national product are virtually meaningless, and there are reasons for being skeptical of such comparisons over time even for the same country, a number of contributors have struggled with the problems of trying to put together comparable measurements of economic growth of such kind.

Over and over they point out that the specific data concerning production and consumption in the Soviet economy, while considerably improved in both quantity and quality in the last few years, still involve important gaps and uncertainties. Secondly, the task of aggregating these separate indicators into total measures is extremely difficult because of the absence of any meaningful price system to use for weighting purposes. Third, the projection of past trends into the future is extremely hazardous. And, fourth, comparisons between the Soviet and American economy really involve an attempt at comparing two quite different economic structures and situations. Much depends upon the system of valuation. If the test was personal prowess, we should have to recognize that the Soviet Union puts out a better team of women's track athletes and usually wins at chess, but there are no Russian stars in golf or tennis. How make an overall comparison with us? Similarly, the Soviet Union is rapidly increasing its production of steel, but obviously has no interest in trying

to exceed our output of automobiles in the foreseeable future. What is important in the summation?

Still another problem in any competition is how to score. Are points to be awarded solely for rate of growth without regard to the level of the base or the width of the gap? For example, how score the record for electric power (Vennard, p. 477)?

Millions of kilowatts of capacity

	United States	U.S.S.R.
1957.....	146.2	48.4
1965.....	245.0	108.0
Actual increase.....	98.8	59.6
Percent increase.....	67.6	123.1

In spite of the substantial percentage increase in the U.S.S.R., it is still further behind at the end of the period than at the beginning. If one is talking of surpassing, then the problem becomes one of estimating rates of growth in the distant future under conditions which are bound to change as a result of developments of the present and immediate future.

Gross national product comparisons

Having all of these difficulties in mind, let us look at a typical calculation of Soviet and American gross national product, even though we may feel that it is the wrong way to score a game which cannot be played (Colm, p. 534):

[1958 dollars]

	Actual		Projected	
	1950	1958	1965	1970
Soviet GNP per capita.....	643	918	1,227	1,512
U.S. GNP per capita.....	2,316	2,540	3,230	3,692
Percent Soviet to United States.....	28	36	38	41

As a first approximation of an answer to the predictions, these figures certainly do not suggest much likelihood for Soviet primacy being achieved in the immediate future. It should be noted that these figures may be somewhat optimistic for the United States, since there is no allowance for any significant periods of interruption of American growth. At a slower rate, it might be that the gap would stop widening in about 1970. There still would be an enormous difference in level to be overcome.

It should be noted that any specific comparisons of rates of past growth of gross national product depend upon the periods under examination, and there are no prolonged "normal" periods. If one compares gross national products in the last few years, say 1955-58, the results are exceedingly favorable to the U.S.S.R., due to its own extraordinary harvest in 1958 and the recession in business activity in the United States at the same time (Bronstein, p. 391). If one takes very long periods, 1870-1913 and 1913-55, the average annual growth rate in Russia in both of them seems to have been only slightly

higher than in the United States (Nutter, p. 105). There are various reasons why it is hazardous indeed to project figures like these very far into the future. But there still remain some reasons to suggest why they have very little meaning even for the present.

Reasons for noncomparability

In actual fact, there are several basic reasons why simple statistical comparisons of growth rates in the United States and U.S.S.R. economies are likely to be meaningless, even if one disregards the statistical pitfalls which have been so clearly pointed out by various contributors. (See, for example, Campbell, pp. 13-30; Nutter, p. 95; Gale and Johnson, p. 201; Colm, p. 532.) The first is the different pattern and purpose of the economies. The two economies are producing different things. The planners of the Soviet economy have put their emphasis on the development of basic industries as a basis for military strength and a potential source of an expanded supply of consumer goods. Heavy industry is a necessary power base for the attainment of political-military objectives (Hardt, p. 122). The basic industries in the American economy are growing as a part of a more balanced operation with consumer goods as the center of the development. The Soviet economy therefore has much more uneven growth rates, with less emphasis (until very recently) on housing, clothing, and the more highly nutritive foodstuffs, and yet we might argue that these should be the chief measures of progress. One ingenious calculation which pictures the basic difference in emphasis gives the following approximations (Bronstein, p. 385):

U.S.S.R. gross national product as percent of United States, 1955

Consumption-----	28.5
Investment-----	57.7
Defense-----	84.3
Government administration-----	152.3
Total-----	37.8

In the comparisons, it should be remembered that there is about a 20-percent difference in population, which presumably would influence the consumption figure more than any of the others. Also, consumption covers many items, and Soviet per capita consumption levels are nearer the United States in food and clothing than in durable consumers' goods, housing, and personal services. In the United States, added income is likely to be spent on travel, including the automobile, rather than on added food and clothing (Turgeon, p. 338). Another indication of different treatment of the consumer is shown in the statistics of the use of electricity, where 80 percent in U.S.S.R. goes for industrial purposes as compared with 48 percent in the United States (Vennard, p. 473). In comparing the two economies, one must keep in mind that increases in heavy industry can be done on a massive basis with no problems of variety of items or manifold technologies as in the case of consumer goods. On the other hand, the higher the level of consumer goods, the more luxuries and frivolities are included.

A second difference is the continued existence of a much larger part of the Soviet population on the farm, in spite of the rapid growth of industrial centers. The fluidity of the American population tends

to prevent wide gaps in living standards between urban and rural. In Russia the evidence would indicate that there has been little gain in the level of living in the rural area, where slightly more than half the population still lived in 1959 (Kantner, p. 64). The process of shift to the city is likely to be related to a rapid rate of growth, but growth measures fail to indicate how widely the benefits are distributed.

A third difference is in the degree of economic maturity. While economic development clearly is not a uniform process for all countries, the populations in the lesser developed countries are largely engaged in agriculture. As the percentage devoted to agriculture declines, industry moves up; the third stage is the appearance of services as a major economic activity. And at this point, increases in productivity by means of capital additions are not only much more difficult but also not necessarily recorded in national product, for example, improved medical care. This difference in maturity is clearly shown in the following table (Bronstein, p. 383):

Percent of national income by sector of origin, 1955

	U.S.S.R.	United States
Agriculture.....	27.1	4.6
Industry and construction.....	36.6	40.7
Transportation and communications.....	5.0	6.5
Services and trade.....	31.3	48.2

These figures may underestimate the importance of agriculture in the Soviet GNP because of an inadequate allowance for land rent. A similar contrast between the economies would appear if the labor forces were compared. Figures for the Soviet Union in terms of the percentage of the total population dependent on agricultural occupations are: 1928, 74.8 percent; 1940, 53.7 percent; 1955, 44.1 percent (Eason, p. 89). Growth rates are likely to be higher during the shift from agriculture to industry than in the later stages when services and trade become important.

The fourth difference has to do with services rendered by past accumulations of social capital. Thus, measures of gross national product do not fully reflect the benefits of past savings, be they in the form of thousands of miles of surfaced roads or used automobiles and washing machines still giving service. Even if two individuals or economies have equal current incomes, their actual level of living reflects their accumulations of wealth, much of which is productive or at least provides satisfactions, but is not reflected in the current income record.

A fifth difference has to do with the percentage of the two populations in the labor force. The statistical evidence is exceedingly limited, but estimates made for 1955 put 95 percent of the males and 62.8 percent of the females aged 16 and over in the Soviet labor force (Eason, p. 79). Compared with other countries including the United States, this is very high. In part it reflects the high percentage of the population engaged in agriculture, but it also reflects the industrialization drive, and the fact that women have always comprised an important part of the Russian labor force, even in Czarist days. In comparing countries, it seems clear that the age at which the youth

enters the labor force (a function largely of the education system), the treatment of the aged, and the distribution of leisure time all should be part of the consideration.

One other difficulty for any statistical comparison arises directly from the fact that the Soviet Union is a planned economy, and that is the difficulty of relying for weights upon an arbitrary price structure. In a market economy, one has some basis for feeling that values have some relationship to use, that production and consumption have a rather close connection. In a planned economy, the measure is "production" and this corresponds to activity. The digging and refilling of useless holes in the ground might be included in the national product if it were part of the national plan. In such case, the effort to provide an aggregate measure of production is particularly confusing, since the pattern is whatever the planners wish to make it (Nutter, p. 118).

For these and other reasons, the notion of surpassing the United States and the efforts to calculate comparable rates of growth are not very meaningful. Presumably, Khrushchev will feel that this has been achieved when the statistical records of the U.S.S.R. on a per capita basis show higher figures than the United States in the production of some such list of products as oil, coal, electric power, steel, butter, milk, meat, and sugar. But what about neckties, pianos, washing machines, bicycles, electric shavers, cosmetics, picnic plates, cameras, evening dresses, and a thousand other more or less important items which are part of the American national product? And what about the backlogs of several suits of clothes or several pairs of shoes per person and more than one radio per home? Perhaps the widest gap of all is that in housing, where the American standard far exceeds that of the Soviet both in quantity and quality, and where any year's production is only a tiny fraction of the total group of structures inherited from the past. It would appear that the Soviet definition of surpassing the United States is primarily in their terms of certain selected items which are important as basic to the economy, but which certainly do not measure the total achievement of an economy in our terms.

RUSSIA'S ECONOMIC GROWTH

The record of the past

Even though we must regard with great skepticism the efforts to make national comparisons, it is useful to consider what the contributors had to say concerning Russia's own record of development. In general, there seems to be agreement that a rapid rate of growth has been maintained in the industrial sector, that agricultural output has shown little expansion until the last few years, that there are many more urban services, and that great emphasis has been placed upon economic growth at points which would contribute to military strength.

Growth has been most rapid in industries which have contributed to the industrial base, with electric power having very high priority along with metallurgy (ferrous and nonferrous), machine building, and chemicals. Investment in transport facilities seems to have ranked low, though above raising the level of living, including residential and commercial construction. Agriculture has only recently

come in as a claimant for much added investment. The emphasis upon structural changes which are related to electrification as the "leading sector" seems to have minimized certain other structural changes common to other countries—the shift from solid to liquid fuel, the shift from ferrous to nonferrous metals for a number of uses, and the rise of service industries (Hardt, p. 126).

A number of elements have contributed to the high rate of expansion in the past. By deliberate plan, consumption has been restricted and economic growth has been given priority. The state has been able to devote a high percentage of the national income to investment in plant and equipment. The basic elements of the rapid growth have been this high rate of investment plus a large expansion in the labor force, made possible by the shift in population from the farm to the industrial centers. These factors have been utilized in accordance with the available Western technology already tested and demonstrated elsewhere. For agriculture, there has been recently a large increase in the sown area, a small increase in the total labor input, and a marked increase in the use of fertilizer (Johnson and Kahan, p. 210; Bornstein, p. 392; Petersen, p. 518).

Prospects for the future

The key problem is of course not so much one of the past as of the future. Can these high rates of growth be expected to continue? Even if one were merely projecting past trends, this would be difficult because of the absence of any moderately long period of undisturbed development. In addition, all the earlier comments about difficulties of comparison come into play. How much will the U.S.S.R. follow the pattern of the United States, or will it develop a different pattern of production and consumption? If, for example, the automobile continues to be deemphasized in the Soviet Union, this may mean that they will depend upon mass transportation facilities, without the same sort of highway development or the garages, filling stations, and traffic policemen required by a country on wheels, not to mention the production of millions of new cars every year. To what other ends will all these resources be put?

A number of contributors have pointed out considerations which may tend to retard the Soviet rate of growth in the future, although there is no suggestion of any sudden or sharp change. First, the large expansion in the industrial labor force which has played such a part in the past will be difficult to maintain, particularly during the next decade. The annual increase in population 16 to 59 years is falling rapidly under the delayed impact on the labor force of the enormous birth deficit of the war, to a point of virtually no change in 1961, after which it increases again but slowly (Kantner, p. 38). This shortage may be met in part by further reducing household and private activities, putting the school population to work, and further urban migration (housing shortages may impede this (Boddy, p. 401)). However, there is not much room for expansion. Compared to other countries, the percentage of the population engaged in economic activity is already very high, being estimated for 1955 at 95 percent of the men and 62.8 percent of the women over 16 years of age (Eason, p. 79). Furthermore, a reduction in the workweek has been promised from 45 to 40 hours by 1962 (Bornstein, p. 393).

For agricultural expansion, the retarding influence may be in terms of land. Much of the increase in agricultural yield in the last several years has come from increasing the crop area, and there now is virtually no additional suitable land. Increased output will therefore depend on increased yields and on the growth of higher cost but more valuable livestock and dairy production (Bornstein, p. 393). In the latter case, the required expansion in feed availability is an enormous task, quite improbable of achievement (Johnson and Kahan, p. 227). The agricultural resources of the Soviet Union are better adapted to the production of food grains than of the feed grains which are essential for meat production (Shuman, p. 497).

Soviet per capita production of meat, poultry, and eggs is far below that of the United States. Not only are the problems of growth in these areas a matter of widespread application of technology, but a supplemental industrial system is necessary to process, package, transport, store, and distribute farm products. The limited amount of milk reaching consumers is an illustration of the fact that facilities are inadequate for refrigeration, transportation, and distribution of perishable products. Forecasts in the agricultural field are difficult to make, but, while some increase in farm output is to be expected, the increases probably will be at a slower rate (Volin, p. 288).

The development in industry has required tremendous investments of capital. It may not be possible to continue such a heavy emphasis upon investment since concessions may have to be made to the demands for greater increases in the level of living. The increase in cultural exchanges may be one source of this demand. Furthermore, investment cannot continue indefinitely to be devoted to basic industries but must go ultimately into the making of final products—if steel capacity keeps on expanding it cannot go entirely into machinery to make machinery. If there is a trend to shift toward consumers goods, and Khrushchev has declared this to be so, it will require capital to go into a much wider variety of uses than in the past, and greatly increase the problem of efficient operation when compared with a simpler input-output pattern.

Even if the rate of investment remains high, some retardation of industrial growth may be expected. The increasing emphasis upon labor-saving, the extension of investment to lower priority uses and locations, and the rapid rise in maintenance and replacement requirements will all tend to employ capital without increases in output at earlier rates. On the other hand, administrative and planning improvements may offset these added costs (Hardt, pp. 138, 140).

This raises the question of technology and what can be expected to happen to productivity, an extremely difficult question. Presumably, labor productivity will rise as capital increases more rapidly than labor force. But even here there may be a sort of diminishing return, particularly as expansion is directed to the consumer goods industries. The programs to increase per capita supplies of food and clothing and added housing space imply a shift in the assignment of investment, with more going to agriculture, light industry, and housing and less to producers' goods and basic industries. While investment may provide as high a return when used in the former as in the latter, it no longer is dedicated to producing more investment goods and thus operating on a compounding basis (Bornstein, p. 393). It

is suggested also that shortages may be developing in some lines of high quality basic raw materials, which may, of course, increase real costs (Boddy, p. 401).

As to new technology, there is very little evidence of Soviet innovation except the demonstrations of the sputniks. In the past, the U.S.S.R. has been able to take over much of scientific and engineering discovery at virtually no cost. It seems to be true that important technological developments cannot long be suppressed by any nation. Presumably, with the emphasis upon engineering education, Soviet industry should be able to take advantage of any new industrial developments. However, they started with a huge backlog of unexploited but known technology, and it may be that some of their progress has been in the form of catching up—a process which cannot go on forever. Of course, their own scientists will undoubtedly make contributions which may provide temporary advantages from time to time.

A still added deterrent to growth, in the sense of additions to productive capacity, may come from Soviet policy choices of how much national product to devote to military and space development, how much aid to other countries in the bloc and China, and how much credit to extend to certain of the less developed countries. Any of these purposes, like a shift in concern about Soviet consumers, will direct resources away from use for increasing industrial capacity. On the other hand, it is conceivable that international tensions will lessen and that military requirements might be reduced. Given the threatened labor shortage in the Soviet Union, any reduction in military manpower requirements will not only ease the burden of carrying military establishments in the national budget but would contribute added bodies directly to the labor force.

One may note these various retarding factors, yet certainly one cannot conclude that the rate of Russian economic growth is likely to fall at all sharply. The Soviet system has had certain advantages in the past of available labor, land, and the capacity to maintain a high rate of investment. As it advances, it will face more and more difficult problems of organization and balance. Nevertheless, it seems clear that the Soviet system has not become rigid in structure and procedures, and there is still room for considerably greater productivity and efficiency in its operation. The great emphasis upon education and technical training has not yet had a full opportunity to demonstrate what its significance will be. The apparent success of the recent economic reorganization of the industrial sector of the economy suggests the possibility of further steps from time to time in improving its operation (Boddy, p. 401). It is worthy of note that Soviet economists are beginning to take note of input-output analysis and advanced computer methods for application to problems of planning (Levine, p. 173).

The new 7-year plan does not suggest any major changes from the past. Investment still is to go largely into industry, and mostly into the basic industries. Of the 65 percent of total investment which is to go into industry, the four leading subdivisions are petroleum and natural gas, electric power, chemicals, and ferrous metallurgy. While housing is supposed to get 15 percent of the total, agriculture will get only 8 percent and transportation 6 percent (Hardt, p. 141). For

any discussion of U.S. policy, it seems only prudent to assume that the U.S.S.R. will continue her rapid growth, even though there may be a gradual decline in the rate of increase over the years.

THE ECONOMIC SIGNIFICANCE OF SOVIET GROWTH

The requirement of security

For purposes of U.S. policy considerations, then, let us assume that Soviet growth will continue at something like its present rate. This does not mean the "surpassing" of the United States in the foreseeable future according to our criteria, but it does mean a continued rapid increase in industrial capacity and a considerably slower increase in agricultural production. What is the significance of this for the United States?

We believe in economic growth for ourselves and for other countries. The Marshall plan was directed at the reestablishment of Western Europe's productive capacity, and our aid to less developed countries is directed at reducing disease, ignorance, and poverty—objectives which require economic support for their achievement. We are happy to see the advance in productivity and the level of living in France, Germany, Italy, and Japan. We would undoubtedly be unconcerned about Russian progress were it not for the presence of a threat of aggression. But the cold war is a fact, and even hot war comes to the surface in a limited way from time to time. We cannot sit back comfortably in a world which also contains Communist countries whose goal is world domination and whose means are everything which is available.

Economic growth means a greater control over the production of goods and services, a higher potential to use economic resources in any direction. A larger and rapidly growing national product will provide the U.S.S.R. with a greater economic base for military purposes, a possible improvement in the level of living of the Soviet population, resources for further scientific and technical progress, and a higher potential in foreign aid and trade. It would provide a demonstration of the practicality of communism as a way to economic development (Bornstein, p. 395). In what ways can this affect us?

Without any doubt, the area of our greatest concern must be that of security, and to that end we are already maintaining an enormous peacetime military budget. We know that military strength has priority in the Soviet scheme of things. While economic growth increases the size of the military program which is possible, no country in peacetime ever approaches the limit. In fact, expenditures on national defense among countries with comparable resources are much more a function of a sense of urgency and willingness to sacrifice than of rates of economic growth. Our own estimates of defense requirements have varied from time to time with little relationship to our ability to spend (Peterson, p. 520).

Similarly, it is not clear that the Soviet military effort is limited by the capacity of its economy. Everything points to its being given absolute priority, and other demands having to take a poor second place. But the other demands are there and undoubtedly growth does tend to ease the conflicts among claims on the budget. Nevertheless, we probably should assume that the Soviet military threat, in terms of those things which an economy can provide, is already well serv-

iced, and our policies must not assume that there are economic limitations on Soviet military planning. The direct military threat to us will not be greatly increased by further economic progress in the Soviet Union.

U.S.-U.S.S.R. trade

The direct economic contact between the U.S.S.R. and the United States is small and economically unimportant. To be sure, if the United States removed its bans on furs and crabmeat, there might be some increase in trade, but postwar U.S. exports to the Soviet bloc have been extremely small. While some exports to the Soviet bloc are on our list of strategic goods subject to export licensing control, this list is limited and wide areas of trade are unrestricted. Since 1951, U.S. tariff rates have been higher on imports from the bloc than from other countries, but only a small portion of Soviet exports are affected. While the United States used to import manganese and chrome from the U.S.S.R. new sources have been developed during the last decade and there is no reason to expect that this trade would be resumed on any considerable scale.

The strategic trade controls were never as important in their effect on U.S. trade as on the countries of Western Europe, which historically carried on much greater trade with the countries in the Soviet bloc. Probably the controls did delay the Soviet armament effort at the time they were imposed. Their later impact was to cause the bloc to develop its own production of the products which were subject to restriction. Today there is no evidence that trade restrictions are even a pinprick, and it may well be that the countries of Western Europe would gain more through exchanges with the bloc than would the bloc countries—it being assumed that trade would not take place unless both parties benefited. Of course, there are items in which trade should not take place, but any such list is small indeed in these days when technical and engineering information is so readily available. There is much to be said for reducing to the absolute minimum the effort to maintain strategic trade controls. This does not mean, of course, that there is any argument for promoting trade with the U.S.S.R. by such methods as credit extension. Trade with the satellites is a different matter; for there may be good reasons for increasing our economic relations with them, in the hope of encouraging some degree of independence on their part (Allen, p. 420).

Third country trade

The direct impact of Soviet growth on international economic relations will be potentially greatest on third countries through the possible expansion in trade and credits. Since 1953, Communist bloc trade has been rising rapidly, although it still is small compared with the volume of exchanges among free world countries. There are no important products whose trade is dominated by the bloc, although in a few cases, if one considers particular products and particular countries, the bloc may represent a significant proportion of trade (Allen, p. 404). Raw materials, fuels, and grain constitute perhaps 70 percent of the exports, though foreign sales of machinery and equipment are increasing. On the import side, bloc purchases of machinery and equipment are between one-fourth and one-third of imports, the balance being chiefly raw materials. In fact, one of the striking characteristics

of Soviet and bloc trade in general is the small proportion of consumer goods which is involved.

To some extent, the Communist drive for self-sufficiency has reduced the need to import raw materials—expanded cotton acreage and the erection of synthetic rubber plants demonstrate this tendency. The 7-year plan schedules substantial increases in imports. Eastern Europe will continue to need raw material and food imports on a large scale. On the other hand, there can be no question but that facility to export has increased. That the Soviet Union can be an exporter of machinery is a definite result of the building up of its own capital goods industries. Furthermore, during the last few years, the U.S.S.R. has moved into an important position as an exporter of grains. Wheat exports have risen to the levels reached during the early years of the century, replacing wheat from the United States and other western suppliers in several free world markets (Shuman, p. 502). Pressure for further industrialization has created a Soviet demand for more highly technical and specialized machinery, even though it may at the same time be exporting simpler types of capital goods. Exports also may expand of wheat, petroleum, aluminum, and possibly tin (Allen, p. 419).

In presenting the 1960 budget to the Supreme Soviet, the Soviet planning chief, Mr. Kosygin, is reported to have told of a planned 25 percent gain in foreign trade, this on top of an earlier report that Soviet foreign trade during the first half of this year was 20 percent above that in the same period of 1958. He particularly mentioned increased oil production as permitting an expansion of exports in that commodity.³

While there may be economic motivation underlying the expansion of Soviet trade, it is undoubtedly entwined with political considerations. Centralized control makes trade more readily subject to manipulation. Friends can be rewarded and enemies punished by shifts in the trade pattern. The Soviet Union has demonstrated that it can turn trade on (Iceland, Burma, Egypt) or off (Israel, Yugoslavia, Japan) at the spur of the moment (Aubrey, p. 455).

One can fear this increase in Soviet capabilities as creating a greater capacity to disrupt world markets, as happened recently in the case of tin and a few similar incidents. However, there are not many commodity situations which are very vulnerable. Furthermore, the bloc now looks to trade as an important adjunct to the domestic economy and disruption of markets would not contribute to this goal. Trade is more important for purposes of making friends, becoming respectable, winning favor through good deeds, demonstrating technical capacity and operational skill, and, incidentally, undercutting the leading position of the United States. Economic warfare for political purposes seems to be the exception rather than the rule. (Allen, p. 416; Aubrey, p. 455.) Efforts to use trade to win friends among raw material producers have appeared in the case of fish from Iceland, rice from Burma, cotton from Egypt and Syria, wool and meat from Uruguay and Argentina (Aubrey, p. 465).

The Soviet aid program

The expansion of Soviet trade cannot be discussed properly without including the recent development of long-term credit extension,

³ Harry Schwartz, "Soviet Spurs Its Exports," New York Times, Oct. 28, 1959, p. 12.

sometimes called aid. Here the problem is primarily that of relations with the lesser developed countries, many of which are politically neutralist, undecided, and unshaped as to their economies. It is clear that the amount of western trade and aid far exceeds that of the Soviet bloc, except in a few areas where the bloc has concentrated its efforts, such as Afghanistan, Indonesia, Iraq, and the United Arab Republic. Whether such aid will greatly expand in the future is difficult to guess. The economic growth of the U.S.S.R. gives it the capability, but there are other demands on the output which may be stronger. Certainly there is no prospect that Soviet bloc aid will come anywhere near equaling in scale that of the free world.

The subject might be dismissed at this point, were it not that there is some evidence that the much smaller Communist trade and aid activities are particularly effective in their psychological-political impact, a short-run reaction quite different from long-run economic benefit (Aubrey, p. 445). Changes which are important to the economic and social fabric of the recipient country are likely not to be spectacular and the results appear so gradually as not to impress the ordinary observer. The Soviets seem to place much more weight that does the West on the process of giving and the effect of conspicuous projects. It hopes to break western alliances and gain political influence by the selective use of small amounts of assistance and a great deal of publicity (Allen, p. 420). There are lavish displays of respect and friendship, exchanges of high level visits, presentations of conspicuous gifts, and efforts to demonstrate how timely and unconditional Soviet aid is.

Another difference appears in the case of technical assistance, where the West is apt to give priority to basic needs like agriculture, health, and education, while Communist bloc experts serve in mineral development, power, transportation, heavy industry, and the like. Bloc assistance in this form has been increasing rapidly. Frequently it is part of a larger package consisting of loans, development goods, and a bilateral trade agreement. The services of experts are not free, but are charged against the loan or separately, at relatively high charges. While the United States contributes in both dollars and manpower to the United Nations expanded program of technical assistance, the participation of the Sino-Soviet bloc in this program is very small (Aubrey, p. 449).

The difference in the aid field are well known. The much larger American program is widely distributed. A considerable part of the program consists of military assistance and defense support—a direct recognition of the cold war and the importance of joint security. The Soviet focus in its aid program is first aimed at knitting together the members of the Soviet bloc and then at winning friends and influencing uncommitted nations. In general, it appears that the Soviet Union has been skillful in creating the impression that the objective of the United States is to export our specific political and economic institutions along with our aid, while they allege that Soviet aid is free from political motivation (Colm, p. 543).

There is considerable room for increasing the actual effectiveness of the American aid program. One illustration of the ineptitude of American policy in action is evidenced in our surplus-disposal legis-

lation. While the bloc has purchased surpluses from time to time from raw material producing countries, the United States is in the fortunate position of possessing surpluses in commodities for which many countries have a shortage. We talk about this program as surplus-disposal rather than aid, and regard the transfer as a sale even though we promptly lend most of the local currency proceeds back to the recipient country for its economic development. Not only is the impression given that aid is being given by the recipient to the United States by ridding it of a burdensome surplus, but the notion of aid is negated by the insistence that the transaction is a sale.

U.S. policy

Neither trade nor aid activities for either the U.S.S.R. or the United States are related in any close degree to our rates of economic growth. They are matters of international policy which are determined on other grounds. If the United States growth rate were higher and the U.S.S.R. growth rate were lower, it is doubtful if this would affect in any way the volume of trade and aid in either country. What is important for U.S. policy is the shift in Soviet policy away from its autarchic orientation to more active participation in international transactions. This may be largely a strictly economic development, but it does open up the possibilities of economic warfare (Peterson, p. 520).

One cannot argue that trade with the Soviet bloc is necessarily a bad thing. In the normal course of trade both parties obtain a benefit. If there are surpluses of certain commodities in the free world which can be exchanged with the bloc for other products for which there is a greater demand, it would seem to be economically desirable. In the best known cases of the Soviet purchases of surpluses—rice from Burma, cotton from Egypt, fish from Iceland—the markets of the free world were clearly less attractive than the Soviet's, whose system and situation permitted it to absorb such products without much thought of profit or loss. Conversely, in the case of Yugoslavia, the problem was to find ways and means to help it break away from its dependence on trade with the Soviet bloc (Aubrey, p. 458).

The real problem arising from trade and credits does not lie in the particular transaction but in the effect upon the independence of the country involved. If the bloc as a purchaser obtains such a preferred position as to be able to use it for political pressures, then the consequences may be serious. The power of the Soviet bloc over those who sell to it will vary inversely with the alternative markets available to the suppliers. The degree of dependence is related to the opportunities on which a country can fall back in case of pressure from the bloc. No country needs to yield to economic pressures from the Soviet if it knows that alternative opportunities will be available either through the operation of the market or through deliberate western policy. This then relates to the degree to which the West provides trade opportunities and healthy markets. From this point of view, the western position is weakened by fluctuations in demand due to recessions, by wide variations in commodity prices, by shifting inventory holdings, and finally, by the lack of any machinery to deal quickly with an emergency in some commodity market. American policy has shown only sporadic interest in the problem of stabilizing

markets, but price and volume fluctuations are emerging as a most important matter for many lesser developed countries.

Much the same can be said about the possibility of the bloc using its position as a supplier to disturb the world's markets. Russian exports can create problems; for example, in the case of both petroleum and wheat, the free world's markets are adequately supplied and any substantial additions by the bloc would be disturbing. The basic problem here is not new, and no easy answer for dealing with surpluses has yet been discovered. However, since less developed countries would often be the competitive supplier subjected to any new price squeeze resulting from Soviet exports, the political advantage to the bloc of such actions is not clear. Again, the answer has to lie in bringing more stability into the Western World and in reducing trade barriers. It does not lie in any attempt to isolate the bloc from the world's markets.

Finally, as to Soviet aid (trade based upon credits) again one cannot conclude that this is necessarily undesirable. The lesser developed countries have a great capacity to absorb aid. It does not follow that aid from the United States has no beneficial effect in our behalf while Soviet bloc aid is greatly to its advantage. In fact, given the much greater pressure upon Russian resources for military security and for investment purposes, the extension of credit to foreign countries is a much greater burden than for the West. The problem again is not so much one of the transactions being undesirable as of their ultimate effect in creating dependence of the recipient upon the Soviet bloc.

It seems clear that both the United States and the U.S.S.R. are strong enough so that they can fully support such military requirements and foreign economic policies as they require. The relative rates of economic growth are not the key elements in either of these areas.

In the face of a potentially greater volume of bloc trade and credits, there seems to be no basic reason for any new directions in American foreign economic policy except to give more consideration to the importance of market stabilization. The policies of lowering trade barriers and of cooperating in economic development programs through loans and technical assistance are both basic to the strengthening of the free world and the limiting of dangerous dependence on the bloc. These are programs which were developed in their own right and not as defensive countermeasures. We should certainly wish them to be as efficient and effective as possible, and the Soviet challenge may serve to point up inadequacies which otherwise might not be uncovered. The fact that the Soviet bloc may devote more and more of its resources to trade and aid is no reason for us to become doubtful about our own programs. If we can find ways to strengthen them, we should do so in any event.

THE AMERICAN IMAGE

The images of the United States and U.S.S.R.

What is very important is the image of each country which is created in people's minds throughout the world. The great danger is that the Soviet Union will become associated with growth while the

Western countries will be maneuvered into positions where they seem to be more interested in security and stability. To be sure, the United States has taken the lead in giving actual assistance to the less developed countries, but the representatives of the Soviet Union have talked incessantly of growth. Through their emphasis upon growth and their use of selected figures and soaring charts in speeches, trade fairs, and propaganda generally, the Communists have tended to appropriate to themselves the association with such a purpose. This is further supported by demonstrations of machinery with moving parts which are certain to impress the nonsophisticated audience. Nothing has helped them more in the underdeveloped countries than to point over an over to their own success in industrial development (without describing the human costs, of course) (Colm, p. 542).

It is of course true that the actual comparisons between the rate of growth of the U.S.S.R. and the United States probably will have very little direct impact on the loyalties of individuals in the committed areas. It will not add members to the Communist parties in the free world nor create opposition in the Soviet-Sino world. If any rates of growth are significant, they might be those providing a reasonably direct comparison between countries at more or less the same stage of development—India and China, South and North Korea, West and East Germany. Assuming that the basic statistical data were comparable, probably an impossible assumption, these might have some meaning. The economic growth record in numbers with decimal points of distant countries such as the U.S.S.R. and the United States will seem quite irrelevant to most people, except as meanings are read into them through propaganda channels. They can be impressive as symbols of some broader characteristics (Petersen, p. 522). There might be more sense, for some limited purposes, in comparing the total strength of the Soviet bloc with the combined NATO powers. But even here any measure of economic strength needs very careful definition and it is doubtful if statistical measures will command or repel support. Their greatest use probably would be to arouse people to greater efforts within each country.

Actually, a great many elements contribute to the creation of an image of a country in the minds of people in other countries. So far as the United States and the Soviet Union are concerned, it has been suggested that "the apparent conflict is one of 19th century images rather than of one of modern economic actualities" (Aubrey, p. 454). At any rate, the Communists are ready to appeal to anticolonial and nationalistic sentiments, raising old suspicions of imperialism against the West. Or they stress the false idea that Western aid is loaded with political conditions, that it either is a debasing charitable gift or a usurious loan, while dealings with the Soviet Union will be "businesslike." Somehow, the West is trying to promote its own specific political and economic institutions while the Communists claim to have no such thought in mind. Woven through all this is the notion of economic growth because that is what the critical countries are interested in. And it is because of the contribution that this makes to the images that our rate of growth and that of the Soviets need to be understood and appraised in their proper settings. We need to consider most carefully all the elements that tend to create unfavorable impressions of us. Some of them need only to be explained; others may represent weaknesses which can and should be corrected.

A sense of purpose

It is possible to carry this problem of images a bit further. Two of our major prophets, Walter Lippmann and George Kennan, have recently given us their reactions to their own images of the two countries. Lippmann said:

The critical weakness of our society is that for the time being our people do not have great purposes which they are united in wanting to achieve. The public mood of the country is defensive, to hold on and to conserve, not to push forward and to create. We talk about ourselves these days as if we were a completed society, one which has achieved its purposes, and has no further great business to transact.

The strength of the Soviet regime, which accounts for its hardness and its toughness and also for its cruelty, is that it is above all else a purposeful society in which all the main energies of the people are directed and dedicated to its purposes. This sense of purpose accounts for the astounding success of the regime in science and in technology both civilian and military. The Soviet nation has its energies and its resources focused on purposes which its rulers define, and all else must make way for the achievement of these purposes.

Thus in our encounter with the Soviet rulers, in the confrontation of the two social orders, the question is whether this country can recover what for the time being it does not have—a sense of great purpose and of high destiny. This is the crucial point. For without a revival of American purpose, Mr. K. is likely to win the competitive race in which he is the challenger.⁴

Kennan said:

If you ask me—as a historian, let us say—whether a country in the state this country is in today: with no highly developed sense of natural purpose, with the overwhelming accent of life on personal comfort and amusement, with a dearth of public services and a surfeit of privately sold gadgetry, with a chaotic transportation system, with its great urban areas being gradually disintegrated by the leading switch to motor transportation, with an educational system where quality has been extensively sacrificed to quantity, and with insufficient social discipline even to keep its major industries functioning without grievous interruptions—if you ask me whether such a country has, over the long run, good chances of competing with a purposeful, serious and disciplined society such as that of the Soviet Union, I must say that the answer is “no.”⁵

Both statements are probably too complimentary to the Soviet Union and too harsh on our own society. If the order and discipline in the U.S.S.R. is the result of fear and coercion, the dedication to the leaders' purposes is perhaps not quite so admirable, though it may be frightening. Our national objective has been one of maximizing individual development and this almost by definition does not lead to a specific social objective except that of individual freedom. We have recognized social objectives largely in negative terms—to prevent serious depressions or to provide for our national defense. But in today's world, there are purposes to be achieved and one can question whether we have been sufficiently committed to them. Three of them have been discussed earlier in this paper—the assurance of adequate defense, the strengthening of the international trading system, and the providing of assistance to countries for their economic development programs. In all three cases, there are some fine pages in the record, but too many are blank and some are spotted. Clearly we can do a great deal better in our international relations and many specific suggestions have been presented by the contributors to this series of papers.

Our relations with the less developed countries are particularly important, for these are the “swing” areas. It is all complicated by

⁴ Walter Lippmann, “Today and Tomorrow,” Sept. 17, 1959.

⁵ George F. Kennan, address before Woman's National Democratic Club, Oct. 22, 1959.

many crosscurrents of history, prejudice, and the difficulty of adapting our own procedures to new problems. But if we decide that this is a really important matter for the future of the free world and ourselves, we should be able to make the objective of economic development a unifying force in the free world. In such case, the statistics would matter little if the purpose was clearly evident.

One further aspect of Soviet growth needs to be noted—the possible impact of Soviet growth upon the Soviet Union itself. What will be the effects of higher levels of living and expanded education on Soviet motivations and goals? Under such circumstances, will the ambition to bring the rest of the world to communism be strengthened or lessened? It has already been suggested that further economic growth will not greatly enhance the ability of the Soviet to express its hostility toward the West. Perhaps rising living standards may lead to humanizing political and economic changes within the Soviet society, the emergence of a different type of leadership, and a less truculent attitude toward the outside world (Petersen, 523). Speculation along these lines may be of great importance to one seeking optimistically for some ultimate basis for peaceful coexistence, but clearly any such development is a long run away. If the contributors to the series of papers are correct, the goal to surpass the United States will take a long time to achieve, although even the goal may fade in its intensity if there is substantial improvement in the provision of comforts and necessities. The distant hope cannot be given much weight in the consideration of present policies.

SUMMARY AND POLICY IMPLICATIONS

(By W. W. Rostow, Massachusetts Institute of Technology,
Cambridge, Mass.)

AN OVERRIDING CONCLUSION

Let me begin by foreshadowing a major conclusion of this submission.

I believe I speak for virtually all the panelists who addressed themselves to the implications of their analyses for American policy when I say this: Our dangers do not lie primarily in the size of the Soviet economy or its overall rate of growth. Our dangers lie in a particular allocation of Soviet resources; in particular Soviet policies; in the way we Americans now conceive of our problems on the world scene; and, consequently, in the way we allocate our resources, human and material. It will be a grave disservice if the occasion of this distinguished collection of economic analyses obscures this conclusion and perpetuates a somewhat overtechnical and quantitative approach to problems which in the end, come to rest, not in Soviet growth or even in comparative economics, but in American habits of thought and in American policies.

The fate of the United States does not depend on immutable laws of economic growth nor on the curving path of index numbers; it depends upon the actions we Americans take or fail to take; and ultimately it comes to rest on our faith in the democratic process.

Because I believe this to be true, the summary presented below is followed by a statement of policy implications which may appear to transgress the limits of my assigned theme and perhaps, even, the terms of reference of the Joint Committee. But I commend to you this broad interpretation of what we are trying to get at; for I assume we are all concerned here not with a study of the wealth of nations but with the protection of the national interest and the cause of human freedom everywhere.

This paper begins with a brief summary of what the panelists have established; I shall then attempt to place their major findings in a general historical perspective; and, finally, I shall try to identify what appear to me to be the real challenges which lie behind the Soviet statistics and the real implications of this study for American thought, policy, and action.

A SUMMARY OF FINDINGS

Doing some violence to the meticulously stated conclusions of the panelists, the relative position and prospects of the Soviet and American economies may be summarized as follows:

1. *Population and working force*

Soviet war losses and recent fertility rates set against the rise in the American birth rate have yielded over the past generation a dramatic narrowing in the relative size of the Russian and American populations. Between 1939 and 1959 the Russian margin in population size over the United States decreased from 46 to 18 percent. Although significant shifts in the structure of both populations will occur over the next decade, the gap is not likely to open significantly during this period either for the population as a whole or in those categories most relevant to economic and military activity. With respect to birth rates, there appears to be some stability in the surprisingly high American rate which emerged in the postwar decade, while there are scattered suggestions, at least, that accelerated urbanization and higher living standards may tend to depress somewhat the Soviet rate. In any case, it is important for Americans to realize that the old historic image of Russia—as a nation where the population mass was vastly greater than our own—is no longer correct. We are, roughly speaking, two nations of about the same population size. With respect to the two industrial working forces, there is a similar crude equivalence brought about despite the higher participation of females in Soviet economic activity because of the much higher proportion of the American population in nonagricultural pursuits. In attitudes toward productivity, the Soviet Union has moved away from an earlier concentration on manipulating masses of unskilled labor, in a situation of relative manpower abundance, toward a concern with productivity per man more nearly like that which has historically characterized the United States. This shift is dramatized by the reduction in the role of forced labor in the Soviet economy in recent years, and by the emphasis now placed on mechanization and automation in industry.

2. *Agriculture*

After a long period of notably sluggish productivity in agriculture, Soviet policy has moved with some success to improve incentives and organization and to increase output of higher grade foods. In addition, a radical increase in the use of commercial fertilizers is apparently now under consideration. Although Soviet productivity per man is likely to remain below the American figures over the next decade (and the Soviet proportion of manpower in agriculture to remain high by American standards) substantial improvements in the productivity of Soviet agriculture and in the food supply are in prospect.

3. *Capital*

The rate of Soviet gross investment (about 25 percent of GNP) is likely to persist and to remain slightly above the American rate (about 20 percent of GNP including Government investment). Recent changes in investment criteria have probably improved somewhat the efficiency of Soviet investment; and the continued concentration of investment in industrial sectors—as opposed to services, transport, etc.—will probably continue to keep the Soviet rate of increase in GNP higher than the American rate.

4. *Transport and power*

Transport and power, representing two sectors on which the whole economic structure depend, are useful indexes for comparison. With respect to transport, Russia remains and is likely to remain for the next decade, more heavily dependent than the United States on the intensive use of its railway net. In 1957 less than 40 percent of American intercity traffic moved by rail; the roughly equivalent Soviet figure was 90 percent. Some increase in Soviet road and pipeline transport is planned; but the major technical change appears to be a shift of rail lines to diesel and electric power. Total American freight traffic is about twice the Soviet figure. With respect to energy, both nations are well endowed with resources sufficiently economical to justify only a relatively slow introduction of atomic energy. Both use hydro and steam power in the proportion of about 1 to 4; the United States generated in 1957 about 3½ times as many kilowatt-hours as the U.S.S.R. On the other hand, the United States uses about half its electric power for industrial purposes, the Soviet Union perhaps 80 percent. Technically there appears to be increased emphasis in the U.S.S.R. on thermal rather than hydropower; and the relation of power sources to industrial areas has led to virtuosity in high voltage transmission.

5. *Management and incentives*

Over the past 30 years the Soviet Union has devised a framework of education and administration, compulsion and incentives which yield men and institutions capable of operating a modern, rapidly growing economy. The working norms and methods of this system differ both from the initial standards of egalitarian communism and from those which have emerged in contemporary American society. Recent efforts have decentralized some areas of Soviet administration, without diminishing the ultimate ability of Moscow to allocate resources. Soviet education for management has typically a higher technological component than the typically more humanistic American general education. Although, to a limited extent, interesting similarities can be noted between Russian and American modes and problems of administration, the Soviet industrialist operates in a setting where his relations to the working force, to the consuming public, to the political process, and to the law are radically different from those of his American counterpart.

6. *Industrial output, productivity, national income, and growth rate*

Despite enormous difficulties in useful comparative measurement, a high degree of consensus now exists among American experts on the Soviet Union with respect to the overall course and prospects of the Russian economy. In 1955, Soviet industrial output was not more than a third of American, perhaps substantially less; industrial productivity per man, certainly below one-third; and GNP, about 40 percent. Soviet industrial output is likely to continue to increase, despite some factors making for deceleration, at about 8 percent per annum, GNP at about 6 percent. Assuming optimistically a rise of 4.4 percent in the rate of increase of American GNP, the ratio of Soviet to American GNP would rise from its figure of 43 percent in 1958 to 48 percent in 1970, the equivalent per capita figures being

36 and 41 percent. A 3 percent U.S. growth rate would lift Soviet GNP slightly over 50 percent of the American figure by 1970. Given the differences in growth rate this would mean that the Soviet Union would dispose for the first time of a larger annual increment in GNP than the United States, at the end of the coming decade.

7. *Standard of living*

International comparisons of living standards are the most difficult of all relative measurements. But something like the following appears to be true: Soviet housing standards per family are about a fourth of the American average; food consumption per head somewhat better than one-half; clothing, a bit less than half; medical services, public parks, etc., similar to American standards. In durable consumers' goods and travel, the Soviet standard of living is, as it were, just entering the competition. The prospects for a significant improvement in Soviet food, shelter, and clothing for the next decade are good; and certain types of durable consumers' goods are under rapid expansion. No serious effort is now planned to manufacture and diffuse the automobile on a mass basis; and new housing will remain principally large urban apartment buildings. Except in a few particular categories (e.g., fish, woolen fabrics, and butter) there is little likelihood that Soviet consumption per capita will exceed the American figures, down to 1965. Taken all-in-all, a rise in the Soviet standard of living from something like one-third to about 40 percent of the American level is to be anticipated over the next decade.

8. *Military expenditures*

When corrected for all the relevant factors, Soviet military expenditures are at about the same level as American outlays; that is to say, the Soviet Government is allocating more than twice the proportion of GNP to military purposes than the American Government.

9. *Foreign aid*

Although Communist bloc foreign-aid figures in no way measure the scale nor define the nature of the Communist threat in Asia, the Middle East, Africa, and Latin America, Soviet military and economic assistance to underdeveloped areas was about half the level of American assistance in the period 1954-59. In addition, Moscow may have granted important assistance to Communist China over these years, although it is not certain. In 1959, some 4,700 Soviet technicians were engaged on work in the free world, about 75 percent of the number of Americans.

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THE STAGES OF AMERICAN AND RUSSIAN GROWTH

To make sense of this broad picture, and to pose the questions it raises for American policy, it is important to look far back in the history of the United States and Russia. For in comparing the two countries, we are looking at societies at quite different points in their own evolution. I shall here use, if I may, the concept of stages of growth which I developed last year in some lectures at Cambridge University. This analysis would define societies as falling into the following broad categories: the traditional society; the preconditions for takeoff; the drive to technological maturity; the age of high mass consumption.

The patterns of American and Russian evolution since they underwent the preconditioning for takeoff present both startling similarities and profound and persistent differences. American industrialization took hold seriously in the two decades before the Civil War, although there had been a considerable prior development of modern textile industries, notably in New England. This period of American takeoff centered on the building of a railway net reaching out to the Middle West. This enterprise created a national market and brought to life vigorous modern coal, iron, and heavy engineering industries. In the period after the Civil War, the railway net was thrown out to the Pacific; and from the 1880's down to the first decade of this century, the American economy concentrated on spreading modern technology—rooted in the fabrication of steel—out over the other sectors of the economy. At about 1900, the American economy was technologically mature; that is, the bulk of then existing technology had been applied to our resources. Technological development proceeded, of course, as the new possibilities of electricity, chemicals, and the internal combustion engine unfolded; but Americans turned their minds increasingly to the larger purposes to which this mature establishment should be used.

At about the turn of the century, Americans developed new concepts of their status on the world scene; and in the progressive period they began to soften some of the harshness and to remove some of the inequities which had arisen in the post-Civil War decades, as the economy drove on from the railway age to technological maturity.

But, when the possibilities of technological maturity had been sorted out, Americans, in effect, decided to use their industrial machine to create a new way of life. This way of life was based on the mobility which the mass diffusion of the automobile could afford; on the single family house in the suburbs; and on the ample use of electrical and gas-powered household gadgets, to ease the burdens of the household at a time when it became progressively more difficult to recruit domestic service. This revolutionary change in the American way of life was both permitted by (and it further stimulated) rapid growth in certain important manufacturing industries; notably light engineering, electricity, rubber, oil, and chemicals. The process of diffusion took place in two great periods of expansion: the boom of the 1920's; and the sustained prosperity of the first decade after the Second World War.

During the postwar decade, however, Americans began to behave as if they preferred larger families to an increase in income along the familiar lines. Whatever the underlying human motives involved, it is clear that the rise in the American birth rate and the foreseeable expansion in the American population has become a new central fact in our economy. In addition, as American incomes rose, our people have tended to spend this increase on various kinds of services rather than on manufactured products. Finally, as the great American inner migration proceeded, we have built up vast requirements for social overhead capital: to round out the new suburbs; to reconstruct the old city centers; and to meet the requirements for the enlarging American population.

Russian industrialization took a firm grip some 40 years after the process had begun in the United States—in, say, the 1880's. And

the Russian equivalent of the American pre-Civil War takeoff took place in the decades before the First World War. Like the American takeoff, the Russian first phase of industrialization centered about the rapid building of a railway network which, as in the American case, linked agricultural and raw material producing areas to the cities, creating a national market and stimulating modern coal, iron, and heavy engineering sectors. The Russian drive to technological maturity took place, essentially between the end of the 1920's and the 1950's.

In terms of these stages of growth, Russia is now roughly at the level of the United States in the first decade of the 20th century; but it comes to maturity at a different, more advanced level of technology. And Russia, like the United States and nations which have achieved technological maturity, confronts the question, To what larger purposes should its mature establishment be put—to enlarge Russian power on the world scene, to soften the harshness of the drive to maturity, or to enlarge consumption? But before examining the balance that Soviet policy has struck among these three alternatives in the 1950's, let us look back at the principal differences between the evolution of Russian and American growth.

First, Russia faced a far more difficult problem than the United States in preparing itself for industrial growth. It began in the 19th century with a traditional form of autocratic monarchy which, in many ways, obstructed the road to modernization. It faced, as well, intractable problems of land tenure, an illiterate serfdom, overpopulation on the land, the lack of a free-wheeling commercial middle class, a culture which initially placed a low premium on modern productive economic activity. The United States was provided with vigorous, independent landowning farmers, and an ample supply of enterprising men of commerce, as well as a social and political system that took easily to industrialization, outside the South. Thus, in order to industrialize, Russia had to overcome the drag of a traditional society, whereas the United States had only to overcome the high attractions of continuing to be a supplier of foodstuffs and raw materials. Contemporary Russian society still bears the marks of this struggle.

Second, throughout this sequence, American consumption per head, at each stage of growth, was higher than in Russia. Basically, this resulted from a more favorable American balance between population and resources; but the tendency was reinforced in both Czarist and Soviet Russia by constraints imposed by the state on the level of mass consumption.

Third, the drive to maturity took place in the United States, after the Civil War, in a setting of relative political freedom in a society tightly linked to the international economy, at a time of peace, and, generally, with rising standards of consumption per head. In Russia it occurred in the three decades after 1928, in a virtually closed economy, against a background of war and preparations for war, which did not slow the spread of technology, but which did limit the rise of consumption; and it occurred with something over 10 million members of the working force regularly in forced labor down to very recent years.

Fourth, the Soviet drive to maturity took place not only with constraints on consumption in general but severe restraints in two major

sectors of the economy, not fully represented in indexes of industrial production—agriculture and housing. In housing, the Soviet Union lived substantially off the Czarist capital stock down to recent years, minimizing housing outlays, letting space per family shrink; in agriculture it invested heavily, but within a framework of collectivization that kept productivity pathologically low, once Lenin's N. E. P. was abandoned in 1929. In addition, Russia has invested very little indeed in a modern road system, which has drawn so much American capital.

Thus, the statistical equality in historical pace between Soviet and American industrialization, which Professor Nutter has so well dramatized, has been achieved by a radically higher proportion of Soviet investment in the heavy and metalworking industries than in the United States, imparting a major statistical advantage to Russia in comparison of indexes of industrial growth. And this difference in the pattern of investment was reinforced by the following two further quite real technical factors enjoyed by any latecomer: The ratio of net to gross investment during the industrialization drive was higher in Russia than in the United States, and the pool of unapplied technological possibilities was greater than in the United States. Both of these latter advantages are, essentially, transient; that is, as Russia has come to maturity, it must allocate increased relative proportions of its resources to meet depreciation; and, as it catches up with modern technology over the full range of its resources, it can enjoy, like the United States and the other mature economies, only the annual increment to technology, as it were, rather than a large unapplied backlog.

Nevertheless, as several of your panelists have strongly emphasized, on the eve of the 1960's we must assume that the Russian rate of growth will be higher than the American. This difference stems primarily from the way that Soviet Government has decided since Stalin's death to balance its choice among the three postmaturity alternatives.

Since 1953, the Soviet Union has, to a degree, reduced the harshness of police state rule and cut down on forced labor. To a degree it has increased the level of consumption of the Russian peoples. But its basic decision has been to use the annual increments in production to maintain a very large military establishment and to continue pressing for enlarged power on the world scene. Quite consciously, Soviet policy is postponing the age of the mass automobile and the single family house—the revolution which seized the United States in the 1920's, Western Europe in the 1950's—in order to make a bid for primacy in world power. Technically, this has meant that a much higher proportion of Russian investment than American has continued to go into manufacturing sectors rather than into construction and services. It is this relative concentration of Soviet investment in manufactures—and especially in industry related to military potential, which largely explains the higher Soviet than American rate of growth—now and for the next decade.

In historical terms, the challenge posed for the United States is whether a nation which has gone beyond the age of the automobile and suburbia and is concerning itself with larger families, travel, the refinement and differentiation of consumption, and the various uses of leisure can cope with a nation now arrived at technological maturity, pressing out on the world scene with high ambition, to see how far

it can go, even at the expense of postponing the satisfactions (and problems) of the mass automobile and the single family house.

In policy terms, the challenge posed for the United States is symbolized—not defined, but symbolized—by the fact that a nation with less than half our GNP, living at about a third of our standard of welfare, is spending as much on military affairs as we are; putting 75 percent as many technicians and 50 percent as much capital as we are into the non-Communist world, quite aside from its allocations of men and credit within the Communist bloc.

THE MULTIPLE DIMENSIONS OF THE SOVIET CHALLENGE

To understand the real nature of the Soviet challenge—and what the Soviet Government evidently means by “competitive coexistence”—it is necessary now to go beyond economic analysis and consider what Moscow is trying to accomplish.

X Although Soviet policy objectives are primarily military, political, and psychological, they are based on an economic fact: the arrival of Russia at technological maturity. This means that the Soviet Union has the resources and technological capacity to mount a wider variety of military and economic programs than in the past. In the immediate postwar years, for example, the Soviet military threat was confined to the power of the Red Army. At the present time, it controls a full spectrum of military power ranging from ICBM's to conventional infantry and, one might add, “volunteers.” A decade or so ago, Soviet trade and credit operations as well as technical assistance programs on the present scale would have been unthinkable. At the present time the Soviet Union has the evident capacity to conduct such operations on a regular expanding basis if it chooses to do so.

Here one specific aspect of the Soviet growth rate should be noted. A 6 percent rate of increase in Soviet GNP means that the Government disposes each year of something like the equivalent of \$12 billion for whatever purposes it chooses. Although the level of American gross national product is more than twice that of the Soviet Union, an average growth rate of 3 percent means that the American economy as a whole—not the Government—disposes of an increment of, say, only some \$15 billion. I shall consider later the implications of the different procedures for allocating this increment; but in the discussion of specific dimensions of Soviet policy which follows, the wide range of capabilities and the flexibility afforded by government control over an annual increment not much less than our own should be borne in mind.

1. *The threat of major war*

The main weight of Soviet policy is being articulated to the Russian peoples and to the world in terms of a nonmilitary struggle, which is, indeed, being energetically and frankly pursued. But there is no evidence whatsoever that the Soviet military effort is being reduced; and there are no grounds for building American policy on the assumption that if the Soviet Government believed that it enjoyed a sufficient advantage in nuclear weapons to take out American retaliatory power at a blow, it would not do so. Inhibitions may well exist in the Soviet political system against such a course of action; but there is no objective basis for believing that the United States would be safe should

the gap in military capabilities be permitted to open to such an extent. Put another way, we Americans have no right before man or God to tempt Moscow's planners with this possibility. At the present time and for some years—until we create a highly dispersed deterrent system—our ability to make this course of action irrational appears to hinge on an ability to get sufficient advance warning of a Soviet missile attack to put our bombers in the air; and on the pace at which we “harden” our bases. These slender threads on which American safety now rests illustrates the dangers of analyzing the Soviet threat in conventional economic terms. Essentially since 1953 when the mounting of a fusion bomb in a rocket became feasible, the Soviet Union has made a plunge for primacy in this particular weapons system. The American military danger arises from the advantage Russia has achieved in this relatively narrow area, rather than from the rough equivalence in American and Soviet total military outlays in recent years. Although it is evident that the Soviet Government is not building its policy on the certainty or even likelihood that it will get far enough ahead of the United States to take out our retaliatory power at a blow, its allocations for military purposes (including air defense) and the military doctrines now developing within the Soviet military establishment are wholly consistent with a missile salvo being regarded as one among several possible routes to world primacy—coexistence or no coexistence.

2. *The threat of limited war*

Similarly, there is no evidence in Soviet military allocations nor in Soviet military doctrine that the use of arms short of an all-out atomic war has been ruled out. On the contrary, the evidence remains that the Soviet Union has continued to modernize its ground force in ways which would make possible combat with either conventional or tactical atomic weapons. Moreover, just as the Geneva Conference of 1955 was accompanied by the disruptive Czech arms deal with Egypt, the present exploration of the possibilities of arms reduction and control is accompanied by Chinese Communist incursions across their southern border. This lively threat is, again, not illuminated by comparative economic analysis of the Russian and American economies.

And we must look at the problem of building deterrence to limited war in even broader terms.

First, there is the fact that, since 1947—from the threat to Greece and Turkey to the latest attacks on Quemoy and Matsu—we have in the end met limited aggression not by using strategic airpower with nuclear weapons, but by hurriedly mobilizing some form of limited countermeasure. There has been a gap between our emphasis on nuclear weapons in diplomatic theory and budget allocations on the one hand, and our policy when the chips were down, on the other. It is quite likely that if we and our opponents understood better how we would in fact behave, in the face of limited aggression, we would have seen fewer forays across the truce lines since the end of the Second World War. Our concentration on the big weapons has tempted them in the past and may tempt them again.

Second, in Europe we now confront a situation where our allies are increasingly unwilling to accept a situation where limited aggression may still occur and their only recourse is to rely on counterattack with nuclear weapons under circumstances where Soviet missiles could

evidently overwhelm them and where the United States would have to reckon on direct attack. Increasingly, thoughtful Europeans have come to understand that stability in that region demands increased nonnuclear strength.

Finally, and perhaps most important of all, we must begin to understand that if we make progress toward placing nuclear weapons under international control, we must have an alternative conventional basis for maintaining security. In the long run, by slow stages, we may well move, if all goes well, to very low levels of armaments of all types. In that process, however, we cannot negotiate confidently and safely unless we can mount alternative forms of defense, should a breakthrough come that would neutralize nuclear weapons.

In short, the nature of the Soviet challenge—including the Soviet challenge to put forward concrete proposals for step-by-step movement toward the control of nuclear armaments—requires that we take the problem of deterring limited aggression much more seriously than we have done in the past 15 years.

3. Diplomatic blackmail

Since the early months of 1956 down through the Berlin crisis, the Soviet Union has on a number of occasions used the threat of its missile capabilities to strengthen the hand of its diplomacy. Again, this is a form of threat which cannot be defined with reference to economic analysis. It comes, in the end, to a simple test of nerve and will.

4. The political penetration of the underdeveloped areas

Soviet policy in Asia, the Middle East, Africa, and Latin America is increasingly discussed under the heading of "The Economic Offensive." This leads to complicated efforts to compare the scale of Soviet and American aid on a quantitative basis. And, indeed, it is quite clear that Soviet technical and economic assistance to underdeveloped areas in the free world as well as Soviet trade policy have been significant forms for creating areas of political influence and sympathy in various parts of the world. But analysis confined to these familiar dimensions misses the main point and the fundamental nature of the Soviet threat. It is quite evident from Communist thought, writing, and policy that their goal in Asia, the Middle East, Africa, and parts of Latin America is a repetition in some form of the story of China from, say, 1927 to 1949; that is, Soviet analysts look to a progressive failure of the non-Communist regimes in these areas to solve the problems of modernization and economic growth, leading to frustration, internal turmoil, and to acceptance of the Communist alternative as a way of organizing these transitional societies. Thus, the central challenge confronting the United States and the Western World in the underdeveloped areas is not, somehow, to outstrip Russian loans and technical assistance. The challenge is to mount our own positive long-term policies designed to maximize the chance that these transitional societies will emerge into modernization without losing their independence and without foreclosing the possibility of progressively more democratic political development. Additional American and free world resources are required in this effort; and Soviet aid and trade policies play some role in the mounting of this challenge—which is, I believe, the route to world power that Moscow now regards:

as most likely. But to understand and deal with that challenge we must abandon a numbers racket approach and look directly and with insight at the problems of transitional societies and what we can do to help them.

5. *The fragmentation of the Atlantic alliance*

It is clear that Soviet policy is immensely alert to the possibility of exploiting schisms as among the Western European nations and as between Western Europe and the United States. Offers of East-West trade play some part in this Soviet policy; but its primary tools are military, political, and psychological—combined with the fact that Moscow controls Eastern Germany and, therefore, the possibility of German unity. This major Soviet effort is only obliquely related to Soviet and American growth rates; and the American response lies in the area of new ideas and institutional arrangements within the Western Alliance—which is now very rich—rather than in new American expenditures.

6. *The psychological image*

In support of these various efforts to achieve or to prepare for a breakthrough to world primacy, the Soviet Union is mounting a remarkable and sustained effort to project to the external world and to the Russian peoples a quite particular image. That image is of an ardent, energetic, and technically competent competitor closing fast on—and preparing to supersede—a front runner who has lost the capacity to deal with his problems and prefers to go down in the style to which he has become accustomed rather than to maintain his position. Leaving aside the various American contributions to the persuasiveness of this image in the outside world, this campaign has its foundations in three dimensions of Soviet policy: a somewhat dubious numerical approach to “catching up” with the American economy which, nevertheless, is rooted in the high momentum and technological maturity of the Soviet economy;¹ an exceedingly solid set of Soviet achievements in missiles technology (military and nonmilitary) and a sporadically successful projection of the Soviet Union as the leader in the quest for peace. At home, the building of Soviet policy around the objective of catching up with the United States and with the American standards of living has proved an exceedingly successful device for unifying Soviet society, appealing as it does to three strong motivations evident in the Russian peoples: a deep nationalist pride, a desire for higher standards of living, and a passion for peace. In these dimensions of the Soviet challenge, the high momentum of the Soviet economy has played some part, but it is by no means the sole basis of the challenge.

THE AMERICAN AGENDA

We turn now to the following question: In the light of the purposes of our society, at home and on the world scene, what lines of action are suggested by these multiple Soviet challenges; and what role, if

¹ The professional Soviet literature on “catching up” with the United States suggests the objective in the next decade is to equal or surpass American production in certain key sectors related to military potential (e.g., steel) rather than to exceed American levels of GNP or to exceed American consumption levels on the American pattern.

any, does the growth rate and economic policy play in shaping an effective American response? ²

The elements in an effective American military and foreign policy are, I suspect, quite clear to us all and likely to command something of a consensus. They come to this. By our military dispositions, we must continue to make either major or limited war an irrational undertaking for Communists. On this basis we must use our economic resources and our political and human insight to the full in doing what we can to insure that the nations of Asia, the Middle East, Africa, and Latin America remain independent and move through their difficult transitions to modernization in ways which keep open the possibility of a democratic evolution for their societies. In order to execute these military and creative missions, we must form up a new set of relationships with the resurgent nations of Western Europe and Japan. And from this solid free world base, we must maintain an endless diplomatic initiative and an endless sympathetic dialog with the Soviet leadership seeking to exploit every serious possibility for movement toward the effective international control of armaments.

In three categories this requires more American public expenditure: to be specific (but not necessarily inclusive) to "harden" American bases in the period of Soviet missile advantage; to provide an adequate airlift for the deterrence of limited war; and to develop an American contribution to an international aid scheme for underdeveloped areas which would be adequate to the task.

I am not prepared to estimate the amount by which American public expenditures need to be increased to cover these three policy objectives; but I would say this much. It is perfectly clear that the United States is not so poor that it cannot pay the bill for an adequate national effort; nor does the difficulty lie in the potentials for American growth over, say, the next decade. The problem lies in the attitudes of mind and the procedures we bring to bear in allocating resources for public purposes; and it lies in the way we are seeking to handle the problem of inflation. It is to these themes that I now turn.

THE POTENTIALS OF AMERICAN GROWTH

The potentials for American growth in the next decade would, I believe, permit us both chronic full employment and one of those surges of growth which transcend the long period average of 3 percent per annum increase in GNP. I am a little skeptical that we can attain 5 percent rate of increase; but a 4 percent rate of increase could be within our grasp if our growth potentials are fully and well used. I hold this view because there are three powerful expansionary forces now operating within the American economy: the rise in population, the acceleration of research and development, and the society's massive requirements for social overhead capital. A 4-percent growth in GNP would yield our society an annual increment for all purposes of well over \$20 billion over the next decade. The first proposition is,

²In this discussion I shall leave aside a question which concerns many Americans, including myself; namely, the question of whether we are allocating enough resources to education, urban reconstruction, roads, water development, and other forms of social overhead capital on whose adequacy the quality of American society partially depends. I shall consider merely the relation between an adequate American response to our position on the world scene and the American economy. However, what is said here about allocation and inflation policy are relevant equally to domestic, military, and foreign policy.

therefore, that I can envisage no increase in American public outlays required to deal with the Soviet threats which could not easily be met by a society with over a \$500 billion GNP and a more than \$20 billion annual increment in GNP.

The achievement of a high rate of growth is, however, neither automatic nor assured; we shall have to find new ways of handling the inflation problem, and we shall have to take special steps to assure that the potentials for productivity increase are, in fact, exploited. These matters are considered below. But first it is necessary to examine directly our most fundamental problem—the American method for allocating resources between the private and public sectors.

THE ALLOCATION PROBLEM

The root cause of our difficulty lies not in our income or our growth potential but in certain American habits of mind, carried over from earlier phases of our history, and in the workings of the political process, as they affect the allocation of resources. This interplay of intellectual conception and conventional politics conspire to make it difficult for Americans to increase the scale of public outlays except at moments of acute crisis. Here lies a danger to the national interest as well as a threat to the quality of American society.

Specifically, the working concepts of modern economics encourage the view that public outlays should be accommodated to the natural ebb and flow of the private sector, perhaps to be expanded at times of recession but certainly to be restrained when the private sectors exhibit high momentum.⁵ This perspective, carried over inappropriately from an era of depression and peace to a time of chronic cold war and secular expansion, constitutes a powerful deterrent to outlays in the public sector, especially at a time of chronic prosperity; for it renders difficult a rational choice between marginal outlays in the public and private sectors, without extraordinary exertions of political leadership which have not been forthcoming. Without such efforts, the calculation takes the form of a crude clash between the total claims of the state as against the individual family budget, in which the latter enjoys an evident *prima facie* advantage. The existing level of taxation acquires a degree of acceptability as citizens accommodate themselves to its burdens. Familiarity breeds not contempt but stoicism. Lacking a concerted effort of political leadership to dramatize the meaning of marginal shifts from the private to the public sector, it is difficult to generate the political base for tax increases or other forms of restraint on private outlays; e.g., checks on installment spending. This leads politicians, except under acute crisis circumstances, to work out the pattern of public outlays within ceilings determined by what the existing tax schedules—the arbitrary product of the last acute crisis—will yield at existing levels of income, if indeed it does not lead to inappropriate tax reductions.

It is essentially these two features of the American scene which have made our response to the changing directions of challenge in the cold war so sluggish on the one hand and convulsive on the other.

⁵ For example: "It is true that Federal spending increased much less rapidly than did the Nation's total expenditure after 1954. It may justly be held, however, that there was a need for special restraint on the Government's part at a time when the rest of the economy was displaying extreme exuberance"; see A. F. Burns, "Prosperity Without Inflation," New York, 1957, p. 40.

Neither our concepts of political economy nor our notions of politics have made it possible to deal with threats to the national interest in a forehanded flexible way. We have shifted erratically from the moods and political economy of peace, to those of war. In the interval between, say, mid-1948 and the attack in Korea, for example, men in responsibility came to believe that a military budget beyond \$15 billion was a threat to the American way of life. After the convulsive reaction to the Korean war had lifted military outlays more than threefold, this new range became again accepted as a line to be defended with a quite irrational ideological fervor.

The heart of the Soviet challenge lies, then, in presenting us with a situation where our interests may be eroded away, without palpable crisis, to a point where a traditional convulsive American response will no longer suffice. Our conceptions and methods of allocation to the public sector are inappropriate to a world caught up in a technological arms race and a slow grinding struggle for power and ideological conception in the underdeveloped areas. It is not the Soviet growth rate we need fear but a mode of American allocation which tends to imprison us at a level of public outlays determined by our arbitrary response to the last major crisis.

THE INFLATION PROBLEM

The allocation problem has been made more difficult in recent years by the way we have thought and acted with respect to inflation. The debate on inflation in the Western World has been dominated by men whose training has led them to examine prices almost wholly in terms of effective demand. One school says that effective demand must be restrained by fiscal and monetary means if prices are to remain constant, even at the cost of a low rate of growth. The other school says that effective demand must be sufficient to main full employment and rapid growth, even if this means a steady rise in prices. Both lines of thought derive directly from the experiences and concepts of the inter-war years.

It is time that we freed ourselves from the vocabulary and concepts and quarrels of an earlier generation. It is time that we looked squarely at the situation as it is on the eve of the 1960's. It is time that we accepted the challenge to create a policy of full employment without inflation. Here I would echo Tocqueville's statement: "In politics one perishes from too much memory."

In my view the inflation problem of the 1950's is only superficially to be analyzed as the product of a peculiar wage push or effective demand pull. More fundamentally it arises from a historical change in the institutional methods and attitudes brought to bear in setting industrial and farm prices on the one hand and wages on the other.

These changes have two effects. First they render it difficult to pass along productivity increases in lower prices. The common expectation is that prices can only move in one direction: up. In turn, this throws almost the whole burden of achieving a rise in real wages on money wage negotiations, where the expectation is that money wages also can only rise. This expectation forces businessmen to seek to hedge, in order to protect their profits, and labor leaders to hedge in order to protect the real wages of labor. Wage negotiations are

thus complicated because business negotiators must try to discount the effect of probable wage increases and labor negotiators must try to discount the effect on real wages of probable price increases. In trying to hedge against inflation, they perpetuate inflation at the expense of the public interest. The existence, as it were, of a firm price floor is compounded by the second major institutional fact: money wage bargains are struck in a setting largely divorced from price policy—and from the course of average national productivity—where the negotiators feel little responsibility except a short run responsibility to their immediate constituents.

The challenge confronting our democracy is to change the setting in which price and wage policies are established and to make the public interest and public presence felt. We must fashion price and wage policies under chronic high employment conditions, which are judged equitable and which allocate increases in real income by some method other than that we now have; that is, a method where money wage rates are increased more than the rise in average productivity, and then corrected by inflation. There appears to be no way of achieving a better result via conventional fiscal and monetary policy, without also bringing about changes in price policy which would permit a substantial part of the increase in real wages to assume the form of price decreases made possible by higher productivity. In this connection, it is an often forgotten lesson of economic history that periods of relative peace in labor relations have tended also to be periods of declining trend in living costs.

THE RELEVANCE OF THE GROWTH RATE

Having tried to break through the Soviet economic data to identify the concrete dimensions of the Soviet challenge and to break through the American statistics to identify the real nature of our problem, let me say a word about the American growth rate. As Report IV of the Rockefeller Bros. Fund special studies project dramatized, a high rate of growth in gross national product makes it possible to enlarge both private income per head and public outlays, at existing tax rates. Put another way, the higher the growth rate, the less the potential clash between the claims of the two sectors. But, a high rate of growth, in itself, does not guarantee that the public sector will be adequately supplied with resources: for the American allocation system does not automatically maintain constant fixed percentage allocations to various purposes (assuming for a moment that such a system would yield increases adequate to the national interest at high rates of growth in GNP). Without purposeful efforts the natural tendency of the American system is for public outlays to decline as a percentage of total resources, except at intervals of acknowledged crisis.

In fact, as a rough approximation, it is quite accurate to identify the Soviet advantage over the United States as consisting in a more stable percentage allocation to military and foreign policy sectors, starting from a high initial percentage base, at a time of rapid increase in Soviet GNP. Soviet allocations follow a regular path of expansion accommodated to the high rate of growth of GNP. American allocations follow a convulsive path, moving from plateau to (downward sloping) plateau, as crises dictate.

There is every reason for us to seek a higher American rate of growth, and notably an accelerated increase in productivity. Such an

achievement could ease the problem of allocation and ease the problem of inflation. But it would not automatically remove from us the hard choices of allocation, nor would it remove the challenge to the democratic process represented by the need to control inflation without stagnation or damping the rate of growth.

THE PROBLEM OF INCREASING AMERICAN PRODUCTIVITY

Here I should like to bring to bear some insights derived from work as an economic historian.

As one examines the story of economic growth in the past, it is possible to identify for each economy, over each substantial period of time, the sectors whose disproportionately rapid growth made it possible for the economy as a whole to continue to grow. These leading sectors have, historically, been connected with new forms of technology: modern cotton textiles, the railroads, steel, electricity, chemicals, and so on. The power of these sectors in affecting the overall rate of growth derived from the fact that they directly and indirectly stimulated productivity in other sectors: they set up new direct demands such as the railway demand for coal, iron, and engineering products; and they also opened up, through what we call external economy effects, wholly new avenues of economic development.

Now economic history also tells us that each cyclical expansion was dominated by a group of leading sectors, whose rapid increase provided the effective demand which brought the economy to full employment. But the leading sectors in a boom were not necessarily also leading growth sectors. For example, some booms have been based mainly on a rapid expansion in housing rather than on the rapid diffusion of new branches of technology. Housing, unfortunately, has not been subjected to a major technological revolution with strong secondary effects on productivity. An expansion in housing will certainly increase effective demand and employment; but it will not, in itself, bring about a strong stimulus to productivity.

This distinction between the effect of leading sectors on productivity and effective demand becomes of peculiar importance to the United States at the present stage of our history. We are emerging, as I suggested earlier, from the process of diffusing a new level and pattern of consumption based on the automobile, electric-powered gadgets, etc. While that process of diffusion proceeded, we collected powerful and general productivity benefits in a wide range of industries directly and indirectly connected with the new patterns of consumption. Moreover, as we look around the world, we can see that Western Europe, Japan, as well as Russia and Eastern Europe are now enjoying or may shortly enjoy the productivity effects which stem from pressing consumption on into the new high ranges which the United States (along with Canada and Scandinavia) first explored.

As nearly as we can make out, Americans, as they have become richer, have tended to allocate their increase in income to larger families and increased outlays on services, rather than to manufactured products. The expansion in population and the increased demand for services will help to maintain full employment in the United States. There is no shortage of effective demand in prospect unless the Government creates it by a dour and persistent deflationary

policy. On the other hand, a lateral expansion of our facilities to accommodate a larger population and increased outlays on education, travel, health, and so forth are not likely to induce new technological revolutions with powerful and widespread secondary effects on the Nation's productivity level.

In short, we cannot look to the leading sectors in the next wave of business expansion—the leading sectors in effective demand—also to yield the rapid increases in productivity associated with leading growth sectors. Here, as I say, the American position differs radically from that of Western Europe, Japan, and the Soviet Union, where high income elasticity of demand is still associated more largely with manufacturing sectors, where productivity gains are still to be had. Some such distinction in historical phase now contributes a bit to the present embarrassment of the American balance of payments.

In facing this situation we are not, however, without resource. We all know that we live in a world where science and technology are expanding at an unprecedented rate; and that research and development in industry is expanding at something like 10 percent per annum. Can we not count on these developments to outweigh the consequences of our high income elasticity of demand for babies and services?

I believe there is some reason for caution here. In both scale and apparent effectiveness, industrial research and development has been historically concentrated in a relatively few sectors, linked in their very origins to modern science—electricity, chemicals, and aeronautics. These sectors—as well as atomic energy and electronics—will certainly yield general productivity benefits to the economy, over the next decade; but the concentration in both scale and quality of research and development in a relatively few fields, may not yield us the national result we would like to see. We should beware, particularly in research and development, of global statistics: the general lesson of research and development is that results are proportionate to quality rather than scale. Moreover, a great deal of contemporary research and development is directed to fields of military interest from which the civilian economy benefits only in indirect and uncertain ways.

In my view it would be wholesome, therefore, to place the issue of productivity high on the national agenda. It might be useful, for example, for task forces of private and public authorities jointly and systematically to examine the productivity potentials in various major sectors of the American economy with three objectives in mind. First, to identify the specific technical and institutional bottlenecks which need to be overcome in order to achieve more rapid expansion in productivity. Second, to see whether it might not be in the common interest to allocate increased research and development talent of the first order to those older and less glamorous fields where deceleration or decline has long since set in, but where very substantial proportions of the Nation's resources are still consumed; for example, cotton textiles, railroads, housing construction. The objective would be to correct a little the natural tendency, familiar to economic historians, for the new, rapidly expanding fields to absorb a disproportionate percentage of first-class talent. Third, we might systematically examine the extent to which entrepreneurship in the various sectors is or is not effectively bringing to bear the potentials which

already exist for increased productivity, and we might then consider what incentives might be created to bring average levels of productivity closer to best-proved standards.

Among the particular sectors that deserve close examination is what might broadly be called staff work both within government and in the private economy. Some of us hold the view that we Americans have carried over into staff work criteria of specialization derived historically from notions of scientific management which originated in the problems of running a railroad system, an army in peacetime, and a machine shop.⁴ This leads to overmanned, overfragmented staffs, with tremendous inertia built into them, consuming their energies in maintaining the status quo, radically damping the pace of innovation. The increasing role of government in all our lives as well as the increasing role of staff work in the private sector, absorbing as staff work does so high a proportion of first rate human capital, may justify a serious examination of this prejudice.

It may seem odd to commend productivity teams to a nation which still leads the world in productivity and which, for so long, has been able to count on high productivity as an almost automatic byproduct of its evolution. But we must bear in mind that high productivity is not enough; it is the pace of increase that will help determine how easy or difficult it will be to meet our domestic and international challenges. And we should also bear in mind that the stage of growth which the United States has attained has altered the old tight connection between areas of high income elasticity of demand and high technological momentum. History appears to have decreed that, in order to remain a front runner, we shall have to continue to pioneer—in this case to pioneer in engineering productivity increases along a broad front. And in facing this challenge we should not complain, for a front runner's status is never automatically sustained. It must be constantly renewed.

CAN THE DEMOCRATIC PROCESS SOLVE THESE PROBLEMS?

The burden of this argument is, then, that the challenge the Nation confronts, finally, have major economic dimensions: The challenges of adequate and forehanded allocation to the public sector; of dealing with inflation without damping the rate of growth; of creating an environment and a public policy which would accelerate the rise of productivity on a broad front.⁵ Each of these is a direct challenge to the vitality of the democratic political process in the United States. As members of the Joint Economic Committee are well aware, there are many Americans (including, I would surmise, certain of your panelists) who would take the view that efforts by the American political process to come to grips with them would inevitably result either in more economic loss than the gain sought; or, in political damage to our society which would outweigh the possible economic gain.

⁴ See, for example, E. E. Morison (ed.), "The American Style," New York, 1958, chapters by George F. Kennan and W. W. Rostow, and the commentary of Richard M. Bissell, Jr.

⁵ To this might be added the challenge of dealing with the problem of international reserves and the pressure on the American balance of payments without damaging and, if possible, by strengthening the unity of the free world—the latter by no means an impossible objective. But I have set this problem aside since it arises mainly from the inner dynamics of the free world's economies; although Soviet policy and pressure play a role by forcing the United States to maintain such high levels of dollar outlays abroad.

One can reply that other democratic societies have, at various times, dealt more or less successfully with each of these problems, without losing their fundamental values; for example, the American Marshall plan effort of 1947-48, conducted without the stimulus of military operations, but with strong political leadership which succeeded in getting support for a quite sharp increase in the public budget; for example, the efforts of the Netherlands to accommodate real wages to the average level of productivity increase in the economy; for example, the performance of western Europeans, at our strong urging, in stimulating substantial productivity increases after the Second World War.

But it would be wrong to rest the American case for accepting this tough agenda merely on the basis of analogy. Times are different, nations differ, and problems are never quite the same.

The real case must be negative on the one hand, positive on the other.

Negatively we know that four of our worst mistakes in modern history arose from a fear that our democracy could not deal with the problems it faced, without losing its essence. I refer, of course, to the belief of the Republican administration after 1929 that it could not deal with the great depression without risking unacceptable damage to capitalism; to the belief of isolationists in both parties that we could not deal with Hitler and the Axis without permanently damaging basic qualities in our society; to the belief of the Democratic administration before June 1950 that our society could not afford a military budget of more than \$15 billion; and, I would add, the similar belief of the present administration that its overriding mission has been to reduce the public budget it inherited, despite the accelerated challenge it has faced since 1953 in many dimensions.

The lesson of our recent history is that every time the men in authority decided that some problem was too tough for democracy to lick, and that they had to evade the problem in order to save democracy, we have gotten into a quite deep hole; and in all but the fourth case, where the bill is still to be reckoned, democracy was, in the end, much more searchingly and dangerously threatened than if the challenge had been accepted in the first place, at an early stage of the difficulty.

But there is a positive case as well. The positive case is not only that the democratic technique, energetically applied, has proved capable of handling such awkward problems as severe unemployment, major war, and limited war; it is also the simple faith that if any problem is soluble by human beings it is best solved, in the long run, by responsible freemen, subject to the mixture of freedom and self-discipline which is the essence of the democratic process when it works. Without that faith the struggle in which we are engaged lacks meaning.

Our experience of the past century and three quarters should convince us that the democratic process in the United States is tough, resilient, and capable of handling whatever problems the flow of history may place on our agenda.

A CONCLUSION

Now, a final word. Khrushchev's Russia is not the first nation to arrive at technological maturity, feel its oats, look over the field,

and decide the old front runner was ripe for the taking. In our own time we have faced such moods and policies from Germany and Japan.

In the past these fast-closing nations have been persuaded to accept the fact that the world was not their oyster and to settle down as part of the international community only by defeat in major war. Major war was then necessary because the older powers did not so conduct themselves as to make major war a totally irrational undertaking.

In Russia we do not face a nation irrevocably committed to pursue power by major war unless we tempt it beyond endurance by our weakness during the period of the missile gap. The main hope for Soviet world leadership lies in various other dimensions, notably in their hope that the Western World and the democratic principle will fail in Asia, the Middle East, Africa, and Latin America. Moreover, I believe that there may well be men in Russia who already perceive that the rise of new nations, in the southern half of the globe, and in China, in a world of atomic weapons, may require a much higher degree of collaboration with the United States than even Khrushchev's challenge to compete peacefully would imply; they may begin to count not on burying us, but on making common cause with us over a widening range of problems. The discussions about ending H-bomb tests, with all they imply about Moscow's worries concerning the spread of atomic weapons, are a small beginning in this direction.

I doubt very much that Mr. Khrushchev is sure exactly where peaceful coexistence will end: in a missile salvo; in a protracted and dangerous struggle in the underdeveloped areas; or in a peace in which Russia accepts its destiny as a very great power, in a world of many diverse substantial powers. The answer lies not in the Kremlin's plans, but in what the free world does or fails to do, notably over the next decade. It is too much to ask of Russians at this stage of their history not to exploit every weakness we may offer. It is the strength and effectiveness of our response to the Soviet challenge—in all of its dimensions—which will determine the final meaning of peaceful coexistence.

Between now and 1970 a decisive test will take place. The real lesson of your panelists' papers is that there is nothing in the structure or growth rates of the two economies that will automatically determine the outcome of this test. The answer lies in whether our political leadership mobilizes the evidently ample resources that lie to hand—resources of will, of skill, of talent, of commitment to the American heritage, as well as goods and services—to do the job.

REFLECTIONS ON THE ECONOMIC RACE

(By Harry Schwartz, the New York Times, New York City)

The Subcommittee on Economic Statistics of the Joint Economic Committee of Congress has performed a major public service by its initiative in focusing public attention on Soviet-American economic comparisons. The two volumes of materials on this issue already released are the richest, systematic treasure trove of information on this subject which have become recently available in the public domain.¹

I am appreciative both of the honor and of the responsibility involved in being invited to comment on these materials. In offering the comments below, however, I am giving only my own opinions and do not speak for the New York Times, my employer.

A GENERAL STATEMENT

The picture presented by the bulk of materials prepared for the subcommittee may be summarized somewhat as follows: Soviet production is still well below that of the United States, but is increasing far more rapidly and—what should not be forgotten—far more steadily than is that of the United States. Moreover the increasing Soviet output consists to a much larger degree of goods which serve to further the national power of the Soviet Union than does the product and services mix of the U.S. economy. As a result the standard of living of the American people is far higher than that of the Soviet people, but the efficiency of Soviet utilization of resources for power purposes is far greater than our own. Any long continuation of these trends must pose the most serious questions about the future of our society and our way of life.

George F. Kennan, former U.S. Ambassador to the Soviet Union, has recently stated the issue in words which seem to me to deserve the most serious consideration:

If you ask me—as a historian, let us say—whether a country in the state this country is in today: With no highly developed sense of national purpose, with the overwhelming accent of life on personal comfort and amusement, with a dearth of public services and a surfeit of privately sold gadgetry, with a chaotic transportation system, with its great urban areas being gradually disintegrated by the head-long switch to motor transportation, with an educational system where quality has been extensively sacrificed to quantity, fanned with insufficient social discipline even to keep its major industries functioning without grievous interruptions—if you ask me whether such a country has over the long run good chances of competing with a purposeful, serious, and disciplined society such as that of the Soviet Union, I must say that the answer is “No.”²

Behind Mr. Kennan's anxiety, which I share, is I believe this unpleasant fact. The Soviet Union, with a gross national product less than half of ours, is today effectively our military equal and our superior in the most exciting contemporary adventure of the human

¹ “Comparisons of the United States and Soviet Economies. Paper Submitted by Panelists Appearing Before the Subcommittee on Economic Statistics.” Joint Economic Committee, Congress of the United States. Washington: Government Printing Office, 1959. pts. I and II. These volumes will be cited below simply as pt. I or pt. II as appropriate.

² Quotation is taken from the text of Mr. Kennan's speech last Oct. 22.

race: the exploration of space. If Soviet world power and prestige have risen so high on such a relatively small economic base compared to ours, one can only look forward with foreboding to the situation which will develop as Soviet production increases and the economic gap between us and the Soviet Union diminishes, as diminish it will. Moreover in this world where abysmal poverty is still the lot of most of the world's people, the example of superior Soviet speed in raising production is exercising and, if continued, will exercise the greatest attraction upon the masses and leaders of South America, Asia, and Africa where most of the world's people and most of the world's poverty are concentrated.

We know that the rulers of the Soviet Union are dedicated to maximally rapid increase of the production base for their power position. Against the record of their disturbing achievements since 1945 we must expect they will continue to progress relatively rapidly in the years ahead. If we are to remain an effective bulwark for democracy, we must improve our own performance in terms of speed and amount of economic advance. We must also improve the allocation of our resources so as to get a mix of products and services more nearly corresponding to our national needs in this competition for survival.

RECENT AND FUTURE SOVIET INDUSTRIAL GROWTH

The key to the policy problems facing us lies in the speed of the future growth of Soviet heavy industry. On the basis of the evidence already presented to this committee, I think we may assume that other fields of the Soviet economy—agriculture, standard of living, transportation, etc.—will continue to improve at rates which will probably be adequate to keep the Soviet people quiescent, even if still far from fully satisfied, and the Soviet economy operating. Premier Khrushchev's recent speeches in Siberia made clear his knowledge of the desire of the Soviet people for lower prices, more and better goods, and the like. But the concessions already given—for example the increased durable consumer goods production goals for 1961—and those he could make if pressed seem adequate to prevent serious political trouble. But the emphasis on heavy industry continues and will continue.

It seems useful at this point to introduce into the record the latest data on recent growth of Soviet key heavy industrial raw materials production, and the plans for their increased output next year.

Soviet production of key commodities, 1955, 1959, and 1960 plan

Commodity	Units	1955	1959	1960 goal	1960 goal as percent of 1955
Pig iron.....	Million metric tons.....	33.3	43.0	47.0	142
Steel.....	do.....	45.3	60.3	65.0	143
Coal.....	do.....	391.3	507.0	516.0	132
Oil.....	do.....	70.8	129.2	144.0	203
Natural gas.....	Billion cubic meters.....	10.4	35.0	53.0	510
Electricity.....	Billion kilowatt-hours.....	170.2	262.8	291.0	171
Cement.....	Million metric tons.....	22.5	38.5	45.5	202

Sources: 1955, Narodnoye Khozyaistvo SSSR v 1958 Godu, pp. 158-165. 1959, Steel, oil and electricity figures from A. I. Mikoyan's speech in Izvestia, Oct. 24, 1959. Remaining figures estimated on basis of 9-month production figures in Pravda, Oct. 15, 1959. 1960 goal, Aleksei N. Kosygin's speech in Pravda, Oct. 28, 1959.

This is not an unimpressive performance, especially when we bear in mind that our recent evidence regarding the principles governing Soviet industrial planning suggests that the 1960 goals shown above have been estimated realistically and will probably be attained or very closely approached. As I have pointed out elsewhere in detail,³ the published 1960 goals for Soviet industry are—with the exception of oil and gas—below the original goals of the sixth 5-year plan for that year. Those original goals, the data suggest, may be reached in 1961 or 1962 at the latest. But even though the sixth 5-year plan had to be abandoned, the production increase that now appears likely for the 1956-60 period can in no way encourage complacency on our part.

One value of the data above, I believe, is that they provide information useful for making minimum estimates of likely Soviet production of these key commodities in 1965 and 1970. We can do this by adding to the 1960 goals, the apparent absolute increases in outputs of these commodities since 1955. The result is an estimate of Soviet 1965 production on the assumption merely that the indicated absolute increase achieved during 1956-60 will be repeated in the next half decade. This is a minimal estimate of possible 1965 Soviet production because this technique implies immediately a significant slowdown in the rate of growth of the production of these commodities. In addition, it will be a far easier task for the larger Soviet economy of the early 1960's to achieve a given absolute amount of production increase than it was for the smaller Soviet economy of the late 1950's. Adding the same absolute figures for apparent 1956-60 production increase to the minimal 1965 estimates gives us similarly an even more minimal estimate of Soviet production of these commodities in 1970. Let us look at the results of these calculations, and compare them with the official Soviet goals for 1965 and also American production of these commodities in 1958:

Minimum estimates of Soviet output of key commodities in 1965 and 1970, Soviet goals for 1965, and U.S. output in 1958

Commodity	Units	Minimum estimates		Soviet 1965 goals	U.S. 1958 output
		1965	1970		
Pig iron.....	Million metric tons	60.7	74.4	65-70	52.4
Steel.....	do.....	84.7	104.4	86-91	77.2
Coal.....	do.....	1 600.0	1 700.0	596-609	382.8
Oil.....	do.....	217.2	290.4	230-240	330.8
Natural gas.....	Billion cubic meters.....	95.6	138.2	150	311.9
Electricity.....	Billion kilowatt-hours.....	411.8	532.0	500-520	724.0
Cement.....	Million metric tons.....	68.5	91.5	75-81	53.1

¹ Arbitrary estimates which are below the minima calculated by the technique otherwise applied in these tables because of announced Soviet intention sharply to reduce growth of coal output.

Sources: Soviet 1965 goals from *Izvestia*, Nov. 14, 1958. U.S. 1958 output from Survey of Current Business, March and April 1959.

My own belief is that, barring war or unlikely major political disturbance in the Soviet Union, the minimum estimates are very likely to be reached or even exceeded, particularly in 1970, by the dates indicated. Let us look at some of the implications of this belief,

³ The New York Times, Nov. 2, 1959.

bearing in mind that the minimum estimates for 1965 are very conservative and imply a substantial failure of the current Soviet 7 year plan to reach even its minimum targets for 1965:

1. In 1965 Soviet heavy industry will be producing substantially more than did the corresponding industry of the United States in 1958. It should be noted that the minimum 1965 estimates for pig iron, steel, coal, and cement are all well above actual production in this country last year. Moreover, bearing in mind the fact that Soviet output of automobiles and other consumer durable goods in 1965 will certainly be still far below the corresponding output of these goods here last year, Soviet production of heavy machinery, armaments, and other goods important primarily from the point of view of national power is likely to be far greater in 1965 than was corresponding American production last year. The implications of this for the magnitude of the Soviet challenge in such fields as international trade and foreign economic aid would seem to be both obvious and disturbing.

2. Even on the basis of these minimum estimates, the Soviet output of these commodities is growing so rapidly that within the next very few years it will be perfectly feasible for Soviet production of pig iron, steel, and cement to exceed ours if we have only a moderate recession or suffer anything resembling this year's prolonged steel strike. Last year already the recession-caused reduction in our steel output permitted Soviet steel production to exceed 70 percent of our own for the first time in Soviet history.

3. Looking ahead to 1970, we may note that the estimates of minimum likely Soviet output for that year are, in the case of pig iron and steel, approximately of the magnitude of this country's record production. Bearing in mind too the fact that far less of Soviet electricity output is used for direct consumer needs than is true here, the conclusion seems inescapable that by 1970 the Soviet Union's heavy industry will be capable of producing at least as much as, and probably more than, our heavy industry ever has in our history. And here, too, of course, the differences in product mix between our heavy industry—with its emphasis on consumer durables—and Soviet heavy industry is very pertinent.

The conclusion seems inescapable that we are in the eve of a tremendous increase in Soviet capabilities of all kinds and of a vast expansion in Soviet competitive power against us. It also seems likely that the next decade will see Soviet capabilities outstrip our own in many different fields unless the United States substantially lifts its output not only above the levels of recession-ridden 1958 but also above past record levels, or changes its patterns of resource use, or both.

PRESENT AND FUTURE COMMUNIST BLOC STRENGTH

But it is important to remember that growing Communist capabilities are not restricted by the Soviet Union's potentialities. For many purposes of policy formation it is essential to bear in mind the growing economic strength of the total Communist bloc. Premier Khrushchev has already boasted that in 1965 he expects the Communist nations to be producing over half of the world's industrial output.⁴ While we need not accept this prediction as certain of

⁴ *Izvestia*, Nov. 14, 1958.

fulfillment, it is worth taking a brief look at the growing output of the Communist bloc as compared with that of the non-Communist world and also at a minimal estimate of what the Communist bloc output may be in 1965:

Output of the Communist bloc in 1950 and 1958, free world output in 1958, and minimum estimate of Communist bloc output in 1965

Commodity	Units	Communist bloc output			Free world 1958 out- put
		1950 actual	1958 actual	1965 estimate	
Pig iron.....	Million metric tons.....	24.7	64.8	104.9	134.8
Steel.....	do.....	36.1	80.1	124.1	189.5
Electricity.....	Billion kilowatt-hours.....	140.0	362.5	585.0	1,400.0
Cement.....	Million metric tons.....	21.0	61.6	104.6	150.0

¹ Very rough estimate.

Sources: Communist bloc 1950 and 1958 figures from *Voprosy Ekonomiki* No. 9, 1959, p. 76. Free world figures based on U.N. data.

The minimal nature of the 1965 estimates given above must be stressed. The estimates were arrived at rather mechanically by assuming merely that at the very least the Communist bloc economies will be able to increase the absolute amount of output of these commodities as much during the 7-year period 1959-65 as they actually did during the 8-year preceding period 1951-58. Actually, bearing in mind the still vast potentialities of economic growth in Communist China, it would not be at all surprising if in 1965 Communist bloc production equalled or exceeded the following somewhat higher figures: pig-iron, 120 million metric tons; steel, 150 million metric tons; electricity, 650 billion kilowatt-hours; and cement, 120 million metric tons. And, of course, in comparing the free world and Communist bloc output totals we must bear in mind how very differently the Communists use their steel and electricity as compared to the way we use them.

But even the rather minimal 1965 estimates given in the table above show that we must be prepared to witness a very great expansion of total Communist bloc production and economic power in the years immediately ahead. The free world as a whole has no more right to complacency than does the United States alone. Moreover, it should be borne in mind that the Communist bloc as a whole has only about half as many people as does the free world. Hence when population is considered even the minimal 1965 estimates of the table above give Communist bloc per capita 1965 production estimates substantially exceeding the actual per capita free world figures for 1958 in the case of pig iron, steel, and cement. This is a useful reminder that the free world consists not only of highly industrialized countries such as our own and the nations of Western Europe, but also of many underdeveloped countries in Asia, Africa, and South America which at present contribute very little indeed to the industrial strength of the non-Communist world.

SOME POLICY IMPLICATIONS

The policy implications of the above analysis obviously depend upon one's assumptions as to the likely future relations between the

Soviet Union and the United States. So far as I can see, the most likely assumption here is that a state of uneasy absence of armed conflict will prevail between these two great states in the foreseeable future. And instead of shooting at each other, the two States—and the kinds of societies they represent—will be competing for the minds of men everywhere in terms of performance. This is what Premier Khrushchev obviously has in mind when he talks of peaceful coexistence and peaceful competition. And he has said often enough that he expects to show the superiority of his way of life by superior performance, most particularly by way of superior performance in raising production.

There would seem already to be in this country a substantial amount of informed and responsible opinion which recognizes that we must meet this challenge and this competition within the framework of our democratic institutions. I take it that this recognition is, at least in part, behind such suggestions as President Eisenhower's proposal last January for a committee to set up long-range national goals as well as last year's recommendation by the Rockefeller Bros. Fund study group on the national economy that this Nation seek to expand its output more rapidly and more regularly than in the past, perhaps by 5 percent per annum. Others, such as Prof. J. K. Galbraith, of Harvard University, in his influential book, "The Affluent Society," have stressed also the need for reallocation of our national resources so that social needs for education, housing, medical care and the like are relatively better met in the future than they have been even in the past prosperous post-World War II decade and a half. It seems to me that these and related trends in our public opinion provide important component parts of any adequate attempt to frame a national policy capable of meeting the massive and growing challenge of the Soviet Union and its allies. Certainly the record of recession-ridden 1958 and of 1959, when roughly 85 percent of our steel capacity was shut down by a strike which lasted almost 4 months, does not inspire confidence that business as usual attitudes have any hope of meeting the challenge.

President Eisenhower has repeatedly called in recent months for national self-discipline. By that I take it the President means that the different elements in our economy and our society must take the Nation's needs into account, as well as their own self-interest, in determining their actions. Certainly the perspectives we meet in facing the challenge of the Soviet Union, where discipline is coercively applied to the entire population, strengthens the importance of the American people heeding the President's appeal.

Against this background it is disturbing to read the statement of Howard C. Petersen.⁵ The overall impact of his statement, I am afraid, will be to give aid and comfort to those who would prefer not to compete, to continue business as usual in the Micawberish hope that something will turn up which will change and improve the unhappy perspectives before us. Mr. Petersen properly disparages the "vaguely felt fears that we cannot afford to do what is necessary" for defense and foreign aid. Yet it is precisely those who hold such fears—who are likely to be most receptive to Mr. Petersen's not so vague hints that any real attempt to compete economically with the Soviet.

⁵ Pt. II, pp. 517-527.

Union must inevitably mean the fastening of socialist bondage upon our economy. At least that is my reading of his assertion that any serious effort to raise our growth rate would require "a degree of governmental intervention in economic life that would change the very character of our free economy." The implied notion that the distinguished persons involved in the Rockefeller Brothers Fund report on the national economy may be in some way heralds of American socialism is curious, to say the least.

I would suggest that there are at least two basic errors in Mr. Petersen's thinking:

First, I believe Mr. Petersen seriously underestimates the flexibility and viability of our private enterprise economy, and its potentialities for adapting itself to the changing needs of our society. A quarter of a century ago, in the 1930's, there were those who similarly raised the specter of socialist slavery against laws providing for social security, unemployment insurance, wage and hour regulation and the like. With the wisdom of hindsight we have come to understand that these changes strengthened rather than weakened our free economy. I would argue rather that there are still very large and untapped reservoirs of flexibility and adaptation which can be drawn upon for fruitful partnership between all key elements in our economic life and government so as successfully to resist a challenge which threatens the very existence of private enterprise and of freedom. After all, defeat in the economic war could be as disastrous as defeat in a shooting war used to be before nuclear weapons made shooting wars involving their use intolerable.

We have, I would point out, social and political mechanisms which would permit leaders of all key elements in our society to hammer out needed national policy without the Draconian government coercion Mr. Petersen fears. Why cannot the top leaders of Government, business, labor, agriculture, and other key groups meet at the American Assembly or some similar forum to face the serious problems posed before us by the Soviet challenge and come to an agreed set of solutions? The attempt, at least, would seem worthwhile. Obviously if each group in our society puts maximization of its own interest before all other goals, such common policy would be difficult indeed to secure. But in the face of the common danger can we not hope for the voluntary self-discipline of all groups to play a greater role in the future than it has played in the past? We are often told these days, by Walter Lippmann, George Kennan, and others, that as a nation we lack a sense of national purpose. Could not such meetings define the purposes of our Nation and measures to implement those purposes?

To create the climate of public opinion which would make possible fruitful cooperation of the type suggested above obviously requires leadership. That is the challenge before all responsible public figures today. We have recently seen effective leadership exercised in mobilizing public resentment and anger against those who practiced fraud via the television screens in our homes. Is it unreasonable to hope that we may have leadership to mobilize public opinion for solution of the far more serious problem of the future survival of the free society and free economy we treasure?

Mr. Petersen's second error, I believe, lies in his estimate of the order of magnitude of the resources required to raise our rate of growth. On the basis of what he himself recognizes is the flimsiest possible kind of evidence he raises the specter that it would take something like \$75 billion a year in extra expenditures to raise our growth rate from 3 to 5 percent annually.

My own suspicion is that Mr. Petersen radically underestimates the potentials for rapid expansion of production in our economy, supposing the markets can be provided to give incentives for maximum production and productivity. Surely Mr. Petersen is aware of the significant fraction of our resources which is inefficiently, wastefully, or partially employed because of lack of markets. Moreover we are living at the beginning of the automation revolution, in an era when technological progress is moving exponentially to give us better ways of making old goods as well as new goods we never had before. We have had some glimpses of the fantastic potentials for production increase in our economy in the performance of our war industry during World War II and in the astonishing rise of our agricultural productivity since 1940.

As will be clear from the above, my belief is that Mr. Petersen takes too static, even unimaginative, a view of our potentialities within the framework of our democratic and private enterprise institutions. Those institutions have successfully met all previous tests in our history, and I see no reason to suppose they cannot meet the present test if we use to the full our resources of imaginativeness, inventiveness, and intelligence. That this will require changes in some of our past practices and habits, is clear, of course, but then all life is a process of change and adaptation to new circumstances. What I do not believe is that the changes we need carry the dangers Mr. Petersen raises so gloomily. And I am particularly baffled by his attitude when I see that in this same statement he supports higher taxes for defense and foreign aid, higher taxes which cannot help—to use his own words—“curtailing the freedom of families to choose between consumption and saving and between work and leisure * * *.” The real danger, I fear, is that we will do too little and too late to meet the Soviet economic challenge, rather than that we will engage in any mindless, reckless rush to change our basic institutions.

Some months ago a speaker at the National War College began his lecture by reminding his audience that the barbarian tribes which conquered Rome had a far smaller gross national product than did the rich, effete civilization they overcame. We need not labor the analogy, and of course our Soviet competitors are not barbarians, though there have been barbaric periods in not too distant Soviet history. I shall end by noting that the remark is a useful reminder that what is important for survival is not only the size of total production, but also the composition of that production and what it is used for.

