

Y4
.J 89/2

DOC EXP
KANSAS STATE UNIVERSITY LIBRARIES LEGISLATIVE REFERENCE

Prquet

411

EXPORT OF STRATEGIC MATERIALS TO THE
PT. 4 U.S.S.R. AND OTHER SOVIET BLOC COUNTRIES

GOVERNMENT
Storage

4 - JAN 28
Copy _____ 1963

Barcode with number: A11600 679113

ADM
AC

HEARINGS
BEFORE THE
COMMITTEE TO INVESTIGATE THE
OPERATION OF THE INTERNAL SECURITY
OTHER INTERNAL SECURITY LAWS
OF THE
COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

EIGHTY-SEVENTH CONGRESS
SECOND SESSION

PART 4

OCTOBER 26, 1962

Printed for the use of the Committee on the Judiciary

LEGISLATIVE REFERENCE
SERVICE

JAN 29 1963



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1962

AY
782
133
479

COMMITTEE ON THE JUDICIARY

JAMES O. EASTLAND, Mississippi, *Chairman*

ESTES KEFAUVER, Tennessee
OLIN D. JOHNSTON, South Carolina
JOHN L. McCLELLAN, Arkansas
SAM J. ERVIN, Jr., North Carolina
JOHN A. CARROLL, Colorado
THOMAS J. DODD, Connecticut
PHILIP A. HART, Michigan
EDWARD V. LONG, Missouri

ALEXANDER WILEY, Wisconsin
EVERETT MCKINLEY DIRKSEN, Illinois
ROMAN L. HRUSKA, Nebraska
KENNETH B. KEATING, New York
HIRAM L. FONG, Hawaii
HUGH SCOTT, Pennsylvania

SUBCOMMITTEE TO INVESTIGATE THE ADMINISTRATION OF THE INTERNAL SECURITY ACT AND OTHER INTERNAL SECURITY LAWS

JAMES O. EASTLAND, Mississippi, *Chairman*
THOMAS J. DODD, Connecticut, *Vice Chairman*

OLIN D. JOHNSTON, South Carolina
JOHN L. McCLELLAN, Arkansas
SAM J. ERVIN, Jr., North Carolina

ROMAN L. HRUSKA, Nebraska
EVERETT MCKINLEY DIRKSEN, Illinois
KENNETH B. KEATING, New York
HUGH SCOTT, Pennsylvania

J. G. SOURWINE, *Counsel*
BENJAMIN MANDEL, *Director of Research*

LEGISLATIVE REFERENCE
SERVICE

JAN 29 1953



CONTENTS

WITNESSES

Joseph P. Drago, president, Local Lodge No. 893, International Association of Machinists.....	Page 449
Philip H. Snyder, New York, N.Y.....	434
Robert Strausz-Hupé, professor of political science and director of the Foreign Policy Research Institute, University of Pennsylvania.....	413

CONTENTS

PREFACE

1	Introduction
10	Chapter I. The History of the United States
15	Chapter II. The Constitution of the United States
20	Chapter III. The Federal Government
25	Chapter IV. The State Governments
30	Chapter V. The Judiciary
35	Chapter VI. The Executive
40	Chapter VII. The Legislative
45	Chapter VIII. The Administration
50	Chapter IX. The Foreign Relations
55	Chapter X. The Internal Affairs
60	Chapter XI. The Social and Economic Conditions
65	Chapter XII. The Education
70	Chapter XIII. The Religion
75	Chapter XIV. The Arts and Sciences
80	Chapter XV. The Literature
85	Chapter XVI. The Music
90	Chapter XVII. The Drama
95	Chapter XVIII. The Poetry
100	Chapter XIX. The Prose
105	Chapter XX. The History of the United States
110	Chapter XXI. The History of the United States
115	Chapter XXII. The History of the United States
120	Chapter XXIII. The History of the United States
125	Chapter XXIV. The History of the United States
130	Chapter XXV. The History of the United States
135	Chapter XXVI. The History of the United States
140	Chapter XXVII. The History of the United States
145	Chapter XXVIII. The History of the United States
150	Chapter XXIX. The History of the United States
155	Chapter XXX. The History of the United States
160	Chapter XXXI. The History of the United States
165	Chapter XXXII. The History of the United States
170	Chapter XXXIII. The History of the United States
175	Chapter XXXIV. The History of the United States
180	Chapter XXXV. The History of the United States
185	Chapter XXXVI. The History of the United States
190	Chapter XXXVII. The History of the United States
195	Chapter XXXVIII. The History of the United States
200	Chapter XXXIX. The History of the United States
205	Chapter XL. The History of the United States
210	Chapter XLI. The History of the United States
215	Chapter XLII. The History of the United States
220	Chapter XLIII. The History of the United States
225	Chapter XLIV. The History of the United States
230	Chapter XLV. The History of the United States
235	Chapter XLVI. The History of the United States
240	Chapter XLVII. The History of the United States
245	Chapter XLVIII. The History of the United States
250	Chapter XLIX. The History of the United States
255	Chapter L. The History of the United States

EXPORT OF STRATEGIC MATERIALS TO THE U.S.S.R. AND OTHER SOVIET BLOC COUNTRIES

FRIDAY, OCTOBER 26, 1962

U.S. SENATE,
SUBCOMMITTEE TO INVESTIGATE THE ADMINISTRATION
OF THE INTERNAL SECURITY ACT AND OTHER INTERNAL
SECURITY LAWS, OF THE COMMITTEE ON THE JUDICIARY,
New York, N.Y.

The subcommittee met, pursuant to recess, in room 129, U.S. Courthouse, Foley Square, New York, N.Y., Senator Kenneth B. Keating presiding.

Also present: Samuel J. Scott, assistant counsel; William F. McManus, and Patricia Connell, assistants to chief counsel.

Senator KEATING. The subcommittee will come to order.

(Preceding the earlier testimony Acting Chairman Keating made the following statement:)

"These hearings are a continuation of the Senate Internal Security Subcommittee's inquiry into trade between the free world and the Communist bloc.

"Our investigations to date have established that, over a period of many years, the free world has been making a direct contribution to the Communist military and industrial strength by sales of vital materials and technology to the Soviet bloc. Unless the United States and our allies are willing to institute more realistic curbs on bloc procurement this buildup will continue, despite the critical confrontation of East and West now taking place in many areas of the world, such as Cuba, Berlin, and Vietnam.

"The Soviet bloc has relied heavily on procurement from the West in the period of its growth as a world power. The Soviets have obtained pipeline equipment from Italy and other countries, which has enabled them to greatly expand the flow of Communist oil into Western markets.

"The Red Chinese have received Viscount jet prop airplanes with strategically classed navigation equipment which could be used to transport troops to Laos, Vietnam, and other Asian battlefronts.

"Chemicals, plastics, electronic equipment, and machine tools have flowed from the West to many Communist bloc countries at an inexplicable rate.

"The bloc countries have been able, partly as a result of this procurement, to export their own machinery and technology to other countries always with tight political strings attached. And yet, according to Commerce Department figures, in 1961 we shipped \$1,468,000 worth of

steel sheet and strip to the bloc. We also exported \$1,550,000 worth of aluminum ores and \$1,072,000 in industrial machinery. This is despite the fact that all such trade is supposedly restricted by our Export Control Act, the Battle Act, the regulations issued pursuant to the Trading With the Enemy Act, and CoCom controls. CoCom is the agency, headquartered in Paris and made up of 14 NATO countries, which deals with this problem of strategic trade with the Communist bloc.

"It seems amazing that these materials, having such an obvious industrial and strategic potential, continue to be shipped to the bloc. We have failed completely to mobilize anything resembling a free world global economic offensive against communism.

"The President, prior to the institution of the quarantine on shipments of offensive weapons to Cuba, had announced that new shipping regulations would be issued to curb delivery to Cuba of many other items of importance to the Cuban economy.

"The quarantine proclamation indicates that, under a narrow definition of offensive weapons, practically the only items affected by the quarantine will be surface-to-surface missiles, bomber aircraft, and related equipment, items which can clearly be identified as offensive equipment.

"Even Mig fighters, torpedo boats, tanks, amphibious vehicles apparently are excepted from the blockade and will be allowed to go through.

"Under these circumstances, the proposed shipping regulations announced prior to the quarantine, which would close U.S. ports to ships delivering other vital cargoes to Cuba are as important as ever, perhaps more important.

"The commendable steps the President has taken to protect us from the immediate threat posed by Soviet missiles in Cuba should not deter other measures which are still urgently required to isolate Cuba and encourage its ultimate collapse. It is ridiculous to permit a continuation of the existing practice of having one ship carry goods to Cuba on a westward journey and U.S. foreign aid material on the homeward trip.

"All shipping—not just the shipment of offensive weapons—contributes to Castro's strength and his hold on the Cuban people.

"We must not neglect our long-term strategy for bringing Castro down and weakening communism throughout the world in dealing with the immediate threat to the United States.

"I am confident that these hearings will provide valuable information as to the methods and extent of bloc procurement from the free world and what we should and can do about it.

"The testimony of Mr. Snyder, Mr. Drago and Dr. Strausz-Hupé will be illuminating in this area."

Senator KEATING. Our first witness is Dr. Robert Strausz-Hupé.
Mr. SCOTT. Dr. Strausz-Hupé is director of the Foreign Policy Research Institute of the University of Pennsylvania.

Senator KEATING. I neglected to put the accent on your name in my introduction and I apologize.

Dr. Strausz-Hupé, we are very happy to have you here and we will be interested in listening to you.

Mr. SCOTT. Dr. Strausz-Hupé, will you state your full name and address?

STATEMENT OF ROBERT STRAUZ-HUPÉ

Dr. STRAUZ-HUPÉ. My name is Robert Strausz-Hupé, University of Pennsylvania, Philadelphia.

Mr. SCOTT. And your profession?

Dr. STRAUZ-HUPÉ. I am a professor of political science and a director of the Foreign Research Institute of the university.

Mr. SCOTT. Dr. Strausz-Hupé, you are here under subpoena; is that correct?

Dr. STRAUZ-HUPÉ. Yes.

Mr. SCOTT. Mr. Chairman, I would like to offer for the record a copy of the service of the subpoena.

Senator KEATING. That will be received.

(The document referred to was marked "Exhibit No. 23" and reads as follows:)

(EXHIBIT No. 23)

UNITED STATES OF AMERICA

CONGRESS OF THE UNITED STATES

To Robert Strausz-Hupé, University of Pennsylvania, South 36th Street, Philadelphia, Pa., Greeting:

Pursuant to lawful authority, you are hereby commanded to appear before the Subcommittee on Internal Security of the Committee on the Judiciary of the Senate of the United States, on Friday, October 26, 1962, at 10:30 o'clock a.m., at their committee room, 129 Federal Court House, Foley Square, New York, N.Y., then and there to testify what you may know relative to the subject matters under consideration by said committee, pursuant to S. Res. 366, approved by the 81st Congress, 2d session, as amended and extended, and S. Res. 264, agreed to February 7, 1962.

Hereof fail not, as you will answer your default under the pains and penalties in such cases made and provided.

To Samuel J. Scott, to serve and return.

Given under my hand, by order of the committee, this 23d day of October, in the year of our Lord one thousand nine hundred and sixty-two.

JAMES O. EASTLAND, U.S.S.,
*Chairman, Committee on the Judiciary,
and the Subcommittee on Internal Security.*

OCTOBER 26, 1962.

I made service of the within subpoena by hand the within-named Robert Strausz-Hupé, at New York, N.Y., at 10:15 o'clock a.m., on the 26th day of October 1962.

SAMUEL J. SCOTT.

Mr. SCOTT. Mr. Chairman, Dr. Robert Strausz-Hupé is a man of national stature in economics, foreign policy, and he has not only served as a consultant to the U.S. Senate Foreign Relations Committee, but also he has produced a number of publications in the area, as well as articles which appeared in the U.S. News & World Report, Western World, the Yale Review, and many others. They are listed in a biographical résumé which has been supplied by Dr. Strausz-Hupé and which I would like to submit for the record.

Senator KEATING. This will be received for the record.

(The biographical sketch referred to was marked "Exhibit No. 24" and reads as follows:)

ROBERT STRAUZ-HUPÉ

Born: Vienna, Austria, March 25, 1903.

A.M., Ph. D., University of Pennsylvania, 1944-46.

Appointments, University of Pennsylvania:

Special lecturer, 1940-46.

Associate professor of political science, 1946-52.

Professor of political science, 1952-.

Chairman, International Relations Group Committee, 1952-59.

Director, Foreign Policy Research Institute, 1955-.

Executive editor, ORBIS, 1957-.

Other positions:

Associate editor, *Current History*, 1939-41.

Consultant, United Nations (Migration and Settlement Division of Secretariat), 1948-51.

Director, U.S. Government project, 1943-45.

Lecturer, Air War College, Army War College, National War College, Armed Forces Staff College, National Defense College, NATO Defense College.

Visiting professor, College of Europe, Bruges, 1951.

Lecturer, University of Madrid, Spain, 1951.

Director, National Strategy Seminar, National War College, summer 1959.

Consultant, The President's Committee To Study the U.S. Military Assistance Program (Draper Committee), 1959.

Consultant, U.S. Senate Foreign Relations Committee, 1959.

Consultant, Rockefeller Bros. Fund, 1959.

Haynes lecturer, University of Redlands, Calif., December 1960.

Consultant, U.S. Army Chemical Corps, 1961.

Consultant, Operations Evaluation Group, Department of the Navy, 1960-.

NATO professor of government, University of Heidelberg, Germany, summer 1961.

Lieutenant colonel, U.S. Army Reserve (retired).

Publications:

"Geopolitics," Putnam, 1942.

"The Balance of Tomorrow," Putnam, 1945.

"The Zone of Indifference," Putnam, 1952 (published in London as "The Estrangement of Western Man," Gollance, 1953).

"International Relations" (with Stefan T. Possony), second edition, McGraw-Hill, 1954.

"American-Asian Tensions" (with Alvin J. Cottrell and James E. Dougherty), Praeger, 1954.

"Power and Community," Praeger, 1955.

"The Idea of Colonialism," edited with H. W. Hazard, Praeger, 1958.

"Protracted Conflict" (with William R. Kintner, Alvin J. Cottrell, and James E. Dougherty), Harper & Bros., 1959.

"A Forward Strategy for America" (with William R. Kintner and Stefan T. Possony), Harper & Bros., 1961.

Articles:

The Annals of the American Academy of Political and Social Science.

The Review of Politics.

The Saturday Evening Post.

Current History.

Yale Review.

The New Leader.

Air University Quarterly Review.

Proceedings of the U.S. Naval Institute.

Fortune.

The Reporter.

Orbis.

U.S. News & World Report.

Confluence.

Western World.

Saturday Review of Literature.

The Fifteen Nations.

The Officer.

Mr. SCOTT. Dr. Strausz-Hupé, you have a statement for the record.

Dr. STRAUZ-HUPÉ. May I read it?

Mr. SCOTT. Sir?

Dr. STRAUZ-HUPÉ. May I read it, Mr. Counsel?

Mr. SCOTT. Do you have a copy?

Dr. STRAUZ-HUPÉ. Yes, I have a copy here.

Senator KEATING. Yes, we will be glad to have you proceed in your own manner.

Let me express our gratitude to you for being here, and at the same time point out we still have two more witnesses to hear and we are anxious in the late morning or in the early afternoon, to conclude these hearings.

So, if there is any way where you feel you could summarize without injuring your presentation, we would be happy to have you do that.

Dr. STRAUZ-HUPÉ. Very well, Mr. Senator.

Senator KEATING. All of it will be made a part of the record.

Dr. STRAUZ-HUPÉ. Thank you, sir.

The global struggle pits all Western countries against the Sino-Soviet bloc. It is, therefore, unfortunate that nearly all of the detailed comparative studies have been limited to the economics of the U.S.S.R. and the United States.

Only too often, the economic significance of Western Europe and other free industrial nations, of Eastern Europe and China, is dragged into the discussion merely as an afterthought. Yet all three regions are economically important; all are intimately linked in one way or another to the principal contestants.

The economic role of Eastern Europe, for example, has been rather consistently undervalued in Western efforts to assess bloc strategy. There can be little doubt now that the ambitious industrialization program which the Communists have pursued in Eastern Europe has significantly advanced Soviet strategic purposes.

It has (1) enhanced the Soviets' overall capabilities in the areas of both military and nonmilitary technology; (2) contributed substantially to the economic development of China; and (3) raised the Communist bloc's capabilities for carrying on the economic and political penetration of the underdeveloped areas.

Similarly Western Europe seems to be a "forgotten region" in American economic strategy. Yet the six members of the European Common Market alone have a population nearly equal to ours and a total product approximating that of the U.S.S.R.

During the last decade, this fastest growing region of the free world outproduced the Soviet Union in crude steel and manufactured 10 times as many passenger automobiles as the entire Sino-Soviet bloc. Their projected rates of heavy industrial growth¹ fall somewhere between those of the Soviet Union and the United States during the 1960's.

When we include Great Britain, Scandinavia, and other members of the OEEC in the designation "Western Europe," the economic capacities of that region dwarf those of Eastern Europe in terms of both total and per capita product.

¹ On Aug. 21, 1960, the Executive Commission of the Common Market in Brussels officially estimated that, after a somewhat sluggish 1959, industrial production of the six would grow at about 11 percent in 1960, and 6 percent in 1961; New York Times, Aug. 22, 1960.

But, again, the crucial question is whether the free industrial nations will integrate their economic efforts and for what purposes they will put their massive productive power to work.

Before attempting to answer this question, a word must be said about the impact of China's entry into the Communist bloc upon the world economic balance. Resourcewise, the accession of China enhances the bloc's capabilities for waging conflict.

Let us not forget that China, then still in a chaotic state, though armed with Soviet weapons, frustrated a powerful U.S. expeditionary force for 3 years in Korea. In the "economics" of conflict, a nation with an astute strategic doctrine—one which exploits the caution or pusillanimity of an opponent—may go far with meager resources.

Consideration of her capita production and "standard of living" economics, however, suggests the incorporation of China resulted in a heavy drain on the resources of the Communist bloc. China's expanding population, now approaching 700 million, necessitates rapid industrialization, which requires aid from the bloc's industrial members.

While the "build China" policy causes resentments in Eastern Europe,² it would be erroneous to think of China as a net liability to the Communist bloc. During the past decade, China has contributed major political assets to the Communist cause. During the next decade, she will offer increasing economic competition to Japan and India in southeast Asia.

In the meantime, China's development needs strain the productive resources of other bloc members. But meeting that demand could actually spur the bloc's internal economic consolidation.

Admittedly, China is not so fully integrated into the bloc economy as the Soviet-exploited colonies of Eastern Europe. Peking's rugged independence precludes such subservience, but most authorities agree that it is still to China's economic and strategic interest to maintain close ties with the U.S.S.R. and the East European Communist states.³

Internally, China's Communist program illustrates the ruthlessness with which her productive base is being reorganized. Her radical approach to the tasks of growth seems almost to embarrass a post-Stalin Kremlin. Its psychological and economic impact is presently impossible to calculate. In the long run, however, the Communist management and exploitation of the Chinese economy will probably strengthen the bloc's power base for the waging of world conflict.

The Communist economic threat, like its other forms, must be understood before it can be thwarted. The free world must soundly assess, for example, the bloc's so-called economic offensive, a subject of divergent comments in recent years.

Communist foreign trade policies are viewed calmly by those who note that the bloc's transactions with the free world comprise less

² East Europe's exports to China and her two Asian satellites (North Korea and North Vietnam) have invariably exceeded imports from those countries, both in volume and in usefulness. Such imports from the Far East as corn, tobacco, peanuts, pig iron, silks, and handicraft products, do not satisfy Eastern Europe's real economic wants. But the East Europeans have little choice in the matter. The only alternative to accepting goods of marginal utility is to watch the credit balances in China rise dangerously high while waiting several years until the capital equipment delivered to China could be paid for from its productive earnings. Cf. Jan Wazelski, "Communist Economic Strategy: The Role of East Central Europe," Washington, National Planning Association, 1959, pp. 86-88.

³ The Mutual Economic Assistance Council (Comecon) meeting in Budapest in July 1960 announced that the U.S.S.R. and the East European Communist countries had decided on long-term coordination of their economic plans for a 25-year period.

than 5 percent of the international trade total. The real menace arises, however, from the mischief a flexible state trading monopoly can wreak, dealing with individual firms and even unwary governments in free countries.

Concentrating their resources upon promising targets, the Soviets can wage economic warfare in selected commodities and in selected markets. Divisive effects of Soviet trade with Europe have already assumed serious proportions, notably in oil.

Within 5 years the U.S.S.R. will control a quarter of the free world's export trade in oil.

I am repeating here the statement which was made so very much more elaborately than I can do.⁴

Soviet Commonwealth trade, though still relatively small in amount, has been on the increase. Soviet pricing permits the United Kingdom to improve its terms of trade while the U.S.S.R. builds up sterling surpluses to cover trade deficits with other Commonwealth countries. British policy thus contributes to what could become a disturbing situation: The Commonwealth countries, increasingly dependent upon a Soviet market, might find Soviet purchasing power a political club over their heads.

Given their present levels of trade, the Soviets can undersell Western producers whenever they wish to practice "dumping." State-administered prices need not reflect real costs. The State trading apparatus can intensify its offensive against a specific target country simply by manipulating the proper line of goods. It can purchase a free country's export surpluses and later dump them in another market—for example, Egypt's cotton, Burma's rice, Indonesia's rubber and tin—either to acquire desired currencies or disrupt local market economics. Barter can become a weapon to reduce the earnings of Western countries—for example, Soviet oil bartered for Brazilian coffee cuts Brazilian purchases of oil in hard-currency areas.

The long list of techniques includes preemptive buying, "conspicuous buying"—to rescue foundering economies distressed by large unmarketable surpluses—the extension of low-interest loans, and the manipulation of foreign exchange and stock market values—frequently through the use of "disguised accounts".

This is not to suggest, of course, that all of the bloc's foreign transactions are primarily motivated by political rather than economic considerations. Most transactions undoubtedly are calculated to satisfy real economic needs. But the important point is that all foreign transactions are weighed in the strategic balance by a high command

⁴ The Soviet's current 7-year plan calls for doubling crude oil output by 1965 (tripling by 1972). Between 1955 and 1960 Soviet oil exports more than tripled while the number of countries receiving it increased from 20 to 30. They now include: Italy, Egypt, Finland, Sweden, West Germany, India, Brazil, Uruguay, Lebanon, Ghana, Guinea, Tunisia, and, of course, Cuba. During 1950, Soviet negotiators sought agreements to sell oil to Canada, Ethiopia, and Ceylon. Exports for 1959 were 25,372,000 metric tons, compared with 18,138,000 in 1958. Attractive to underdeveloped countries is Russian willingness to enter into barter deals or to accept local currency in payment, irrespective of its convertibility. Free world oil companies can meet Russian competition when it comes to price, quality, or delivery reliability, but their normal commercial operations cannot match Soviet payment terms in many exchange-poor countries.

The one disadvantage at which the U.S.S.R. now finds itself is in transportation. Until now, most Russian oil moved to ports by rail or barge, but pipelines to the Baltic and Black Seas are under construction. Russia lacks sufficient tanker tonnage to carry all of her oil exports, but has usually been bailed out of this difficulty by free world shipping companies. Expanding Russian tanker construction will reduce this dependence. Even more ominous, increasing Soviet oil production could trigger a dumping campaign, at depreciated prices, to disrupt the oil-based economy of Middle East nations.

interested in a number of interrelated objectives—strengthening the bloc's power base, penetrating the underdeveloped areas, and loosening and dislodging Western positions in Asia, Africa, and South America.

In executing their strategy, the Communists have effectively integrated economics and politics. In underdeveloped areas, they support and encourage nationalist policies which jeopardize either the earnings or the resources of Western nations.

Granted that the bloc's exportable surpluses are still relatively meager compared to those of the free industrial nations, the Communists hope to reorient selected, underdeveloped national economies toward the bloc, and thus to encroach upon Western markets and supply sources.

Until now their major export item has been military hardware; but the Soviets and their East European satellites are developing an export capability in light and heavy industrial equipment.

In fact, emphasis on industrialization programs, combined with an agricultural policy which seems to fail almost deliberately, enables Communist planners to equate "foreign aid" with "mutually beneficial foreign trade."

Some Western States, saddled with large agricultural surpluses, find themselves unable to do business with new Afro-Asian nations dependent upon exporting one or two agricultural commodities. By carefully directing their low-interest industrial credits, the Soviets undoubtedly seek economic footholds in the early phase of their general political offensive.

Between 1955 and 1960, the bloc made significant efforts to penetrate Afghanistan, Finland, Burma, Egypt, Syria, Iceland, India, Ceylon, Iran, Cuba, Indonesia, and Guinea. In accenting capital formation and military technology, the Communists seem to be building for a day when the bloc will become a massive industrial processing system for the raw material exports of many underdeveloped countries—a new and greater Britain, wielding the economic power to set world prices on its own terms.

The Soviets always have bought, and are buying now, from the West whatever seems expedient for the success of their development plans. Imports of heavy machinery from Europe and the United States contributed much to the first 5-year plan, especially in the period 1929-31.

In recent years, Soviet planners have been anxious to purchase—usually on long-term credit—whole chemical plants, machinery for the production of synthetic fibers and plastics, wood-processing machinery, equipment for rolling nonferrous metals as well as for manufacturing pipe and gas lines, and textile machinery.

There are still not a few industrialists in the free world who, for the sake of immediate gains, are willing to sell capital equipment to an adversary who has blandly promised to bury them. The Soviet Union is not a mass producer in all sectors of industry. Geared primarily to the output of military weapons, it has sadly neglected the development of many important industries.

The Soviets, decades behind the United States in some technological areas, want desperately to catch up the easy way—by technological and financial borrowing. When Western businessmen succumb to the

lure of Communist bloc trade, they help to open the planners' bottlenecks, thereby alleviating popular dissatisfaction with the performance of Communist regimes. At the same time, they help the Communists to lay the foundations for future export capacities which will some day be harnessed to the conduct of economic warfare against the West.

Senator KEATING. And by giving them this strategic equipment and material and machinery and entire plants it permits them to divert their own capacities to the manufacture of military hardware and weapons of war.

Dr. STRAUZ-HUPÉ. This is particularly true since the Soviet economy, unlike our affluent economy, is a very tight economy. Thus a small displacement of resources from one sector to the other, snafus the whole plan.

The spectacle of capitalist producers importuning their government for wider latitude in trading with the bloc reinforces the self-confidence of the Communists, who regard it as *prima facie* evidence of mounting difficulties within the capitalist market system.

Western businessmen, the Communists assert, are beginning to feel the pinch of contracting markets as the "parallel Socialist world market" grows stronger. Communist trade delegations, bent on buying desired capital items, dangle before Western exporters the prospect of greatly increased bloc imports of consumer goods, even including the vision of the "limitless" China market.

But after the "trade fair" enthusiasm subsides, orders for consumer goods usually dissolve in thin air. Western industrialists are left with definite requests only for specialized capital shipments—technologically our most advanced wares.

At the beginning of 1960, West European firms had commitments to export from \$200 to \$300 million worth of the most sophisticated machine tools, including, for example, a 60-foot vertical boring machine that could be used for machining missile engine shells. Some of the items on order are more advanced than any comparable ones now in operation in the United States.

Economic expansion of the West is likely to produce further industrial surpluses which, in the absence of concerted protective measures, will further enhance the drawing power of the bloc.

Great Britain—her erstwhile colonial markets dwindling while her continental competitors expand—its peculiarly vulnerable. While British exports to both the United States and Western Europe showed substantial increases in 1959 over 1958, those to the U.S.S.R. rose a startling 30 percent.

Moreover, for 5 years the British have constantly and successfully urged the relaxation of Coordinating Committee (CoCom) restrictions on trade with China. The British Board of Trade has approved for export to China such items as machine tools, electric motors and generators, motor vehicles and tractors, railway locomotives and other railway equipment, combustion engines, scientific instruments, rubber tires, and chemical products—goods vital to China's development plans.

Meanwhile, Franco-Soviet and West German-East German trade is also on the upswing. Until now, most American businessmen have regarded the potentialities of Soviet bloc trade with either self-

restraint or indifference. But it is inevitable that, as other members of the free world alliance break ranks to increase trade links with the bloc, U.S. businessmen will begin to feel that they are losing commercial advantages to their less squeamish competitors.

In a protracted economic conflict the term "strategic goods" encompasses more than direct contributions to military-industrial potential. The facile distinction between war potential and peaceful industrial potential as the criterion of East-West trade falls wide of the mark.

According to Communist concepts of power, any trade which facilitates industrial development is strategically important. Trade with the West supplies the bloc with equipment which improves its technological levels, satisfies popular desires, expands the industrial power base, and increases its future capacity to export and thereby disrupt free markets. For a system which has abundantly proved its ability to harness economic capacity to purposes of global power accumulation, such trade is undeniably strategic.⁵

In order to appreciate fully the significance for the Soviets of trade with the West, we need to understand better the limitations and internal problems of their system. They are by no means 10 feet tall, and we need not gull ourselves by overestimating their current economic capabilities.

Soviet planners are faced with a number of difficulties, some temporary, others of a more enduring character. Underfulfillment of planned goals in the agricultural sector poses chronic problems and will continue to do so. Opening virgin lands in the Soviet East requires large numbers of new tractors at a time when replacement of old equipment everywhere is a pressing need.

Furthermore, the Soviet chemical and electronics industries, except in a few strategically important sectors, lag far behind their counterparts in the Western industrial countries.

Moscow's achievements in the production of rocket fuels, sputniks and luniks have served to distract our attention from a wide area of techno-industrial backwardness.

Spectacular space achievements have undoubtedly paid off strategically and politically. But they are less significant as tokens of practical economic progress than is commonly supposed. They tell us what Soviet scientists are capable of doing when the regime concentrates resources upon projects for the purpose of building military power and impressing the outside world, but they do not tell us the story of what the regime has left undone for the benefit of Soviet citizens in the smaller cities and villages.⁶

Nearly every visitor to the U.S.S.R. who has strayed from the Moscow-Leningrad-Kiev circuit has found it hard to imagine that a

⁵ For example: In 1959, the Soviets tried to purchase large-size pipe in the United States but the deal was vetoed by the Department of Commerce. The Soviets then placed orders with two West German firms for 165,000 tons of large pipe (up to 40 inches), valued at about \$40 million. At first glance, pipe may appear to be a nonstrategic item. But it is generally believed that the Soviets want the pipe to carry natural gas from recently exploited sources behind the Urals to the East European satellites. The sale of such pipe by the West facilitates the process of intrabloc economic integration and this, decidedly, is a strategic development.

⁶ The situation can perhaps best be illustrated from a cartoon that appeared in the Soviet humor magazine, *Krokodil*. An inventor who had designed a new button-sewing machine went to the planning offices to request an allocation of resources for its development. The bureaucrat looked at the inventor incredulously. "Button-sewing machine," he exclaimed. "In the age of sputniks, who needs buttons."

nation, most of whose people live under conditions which a Westerner would have deemed primitive in 1900, could ever have gained a lead in space technology.

Within recent years, the problem of depreciation, too, has reared its ugly head. During the Stalin era relatively little attention was paid to maintenance of plant. The general rule was simply to operate all productive machinery at full speed and as long as it would run. Service and repair were regarded as nuisances to be tolerated only when absolutely necessary, and allocation of resources for purposes of replacing a piece of equipment before it finally collapses from wear was deemed wasteful.

Consequently, one of the chief characteristics of the Soviet economy is a widespread obsolescence which has resulted in an appalling under-employment of resources.⁷

Actually, the question of depreciation did not appear acute when the bulk of the productive machinery in the U.S.S.R. was still fairly new. Indeed it cannot be called "acute" even now, but the Khrushchev regime apparently realizes that the time has come to adopt a more sensible approach, and a great part of the 7-year plan is devoted to modernization.

Within the next few years, much old equipment will have to be replaced. For machinery originally purchased from the West, the Soviets will probably find replacement from abroad cheaper than undertaking the retooling effort themselves.

They have already manifested a desire to modernize their textile industry in this manner. This industry is a real burden upon the economy, with its antiquated machinery, its inordinate waste of manpower, and its inability to turn out a product which can be sold in quantity in foreign markets (apart from the unsophisticated rural areas of the satellite countries).

Hence their wish to buy "turnkey"⁸ textile factories from the West.

Once an up-to-date plant has been installed, the retooling to replace other dilapidated factories can begin. The Soviets are clever technological imitators. This does not mean that they themselves could not design a modern textile factory if they put their minds to the task. They do not propose, however, to assign their best technological brains to such an economically costly but strategically menial effort.

If they can procure the model from the West, mediocre technicians can be entrusted with the job of copying it. Meanwhile, their best engineers need not be diverted from more important work.

Problems confronting Soviet planners⁹ are compounded by a criti-

⁷ Over 100,000 small electric powerplants, for example, which produce only 10 percent of the total output, employ more than 800,000 workers and produce 1 kilowatt-hour at 1 to 2 rubles, while 90 percent of the output is produced by large power stations employing less than 200,000 workers at a cost of about 8 kopeks (that is, 0.08 rubles) per kilowatt-hour.

⁸ A "turnkey" factory (a term employed by the Soviets themselves) is one in which the outside supplier designs it, builds it, installs all the equipment, and trains Soviet citizens to operate it. When the entire process has been completed, he turns over the key to the Soviet managers.

⁹ It is not possible here to review all of the internal economic problems facing the U.S.S.R. But there is no doubt that the Soviets today find themselves under pressure along many economic fronts. The opening up of new regions will place an added burden on an already overloaded transportation system. The current Soviet plan calls for higher outlays in transportation, but it seems highly improbable that the enormous backlog will be filled. The Soviets are also beginning to realize that within the next decade they must start to reconcile the location of their industry with the location of future energy resources

cal manpower shortage, the significance of which was not diminished by recent reports of "technological unemployment" in the U.S.S.R. The marked dip in the population growth as a result of severe wartime losses is now making itself felt in the scarcity of young men who are available for military service and the labor force.

This situation has compelled a revision of educational policy (e.g., by transferring academically less promising students from the universities to the labor force; by lengthening the schoolday in the lower grades, thus releasing women from home duties) and the widely advertised reduction of conventional military forces.

There is, of course, a huge pool of labor in the agricultural sector, where manpower is grossly wasted.¹⁰

Transferring labor from the agricultural to the industrial-urban sector raises serious problems of rural reorganization, farm output, technical training, and housing.

The average worker's productivity in the industrial sector of the economy approximates one-third of that of the U.S. worker. But, significantly, this disparity is greatest in consumer goods and least in strategic industries. The key, however, to raising total industrial output is to increase worker productivity through technological improvements. In the long run, the manpower shortage may prove to be a blessing for Soviet industry.

Western imports of sophisticated items will abet the Soviet's technological progress, since Soviet propensity for imitation (with nary a thought of patent rights) can turn a few hundred million dollars' worth of machinery into important Soviet bloc capabilities over the course of one or two decades.

In this light, determined efforts should be made to remove the lure of trade which now draws our private entrepreneurs to the Communist bloc market—especially trade on terms set by the Soviet trading monopoly.

The United States and its industrial allies should monitor whatever trade does take place and channel it into areas that yield an adequate economic as well as political return. Western exporters (their eyes on the company's next annual statement) are no match for Soviet central planners (whose vision extends into the strategic future).

The real need is for a free world trade organization to supervise exchanges with the bloc. Such an organization would protect free economies against individual pressures and the disruptive tactics of Soviet economic strategists.

Specifically, its task would be to induce free nations to close ranks for purposes of long-range self-protection and to obtain the member nations' agreement to (a) sell to bloc countries only in exchange for convertible currencies without extending credit; (b) limit sales primarily to raw materials and finished consumer goods; (c) cooperate

or else face the costly prospect of an overextended, inefficient productive system. While the Soviets plan a large increase in power generation, they are still not providing for adequate increases in distribution nets. Meanwhile, the Soviet worker is clamoring for improved living conditions in that least productive of areas requiring heavy outlays—housing.

¹⁰ The average output ratio per Soviet and American farmworker is about 1 to 8. If the comparison were to be drawn between Soviet agriculture and the 2 million commercial farms in the United States, the ratio would be closer to 1 to 25.

to rescue economically weak nations from dependence upon Soviet trade; (e) prohibit Soviet "dumping" within their borders and retaliate against other disruptive tactics by "dumping" in established Soviet foreign markets on which Moscow depends for the acquisition of desirable currencies; and (f) deny the benefits of trade liberalization to any bloc nation which refuses to abide by GATT rules, regardless of any existing most-favored-nation agreements.

Moreover, as George F. Kennan has suggested, trade should be made to "bring with it the normal incidental advantages of economic contact—extensive reciprocal travel and residence of businessmen in the other country, the establishment of close personal contact and associations, the intermingling, in short, not only of the economic life but also of the people of the two countries."¹¹ We should exact for the trade privileges which we grant to the Soviets widened loopholes in the Iron Curtain.

Minimizing the lure of Soviet trade is much easier said than done. The task requires a great deal more than passing NATO resolutions. A purely negative approach will not satisfy the dynamic entrepreneurial spirit which is a basic free world strength. Requisite to our needs is a vigorously articulated economic philosophy to furnish the frame for the policy programs which the free industrial nations see fit to adopt.

The total productive capacity of the free nations of the world, according to the most conservative estimates, is more than three times that of the entire Sino-Soviet bloc.

Together, these nations can create a self-sufficient and expanding community, able to maintain a decisive margin of economic superiority over the Communist bloc for an indefinitely long period and to fulfill the economic aspirations of all its members, producers as well as consumers.

Achievement of this objective, which should rank high in our economic strategy, will require greater cooperation, coordination, and integration than most of the free nations have hitherto been willing to accept. As the world's leading economic power, the United States should lead by example, not words, in developing a genuine working partnership. The ultimate responsibility is ours. Regional economic integration should be pursued along trade-creating rather than trade-diverting channels. The aim must be to develop a liberal international economic order instead of sowing the seeds of division within the free world.

In this effort, the cultivation of proper psychological attitudes will be of the utmost importance. We know that the long-range political and economic interests of the free nations promise abundant opportunities for multilateral growth and well-being.

But if our outlook remains narrowly nationalist and protectionist, we compound the insoluble dilemmas and conflicts of interest amongst ourselves. It would be extremely unfortunate if the economic strength of the free world were vitiated by hostile trading blocs within its ranks, or by fears that the expansion of other free national economies, singly or in groups, represents a more dangerous form of economic rivalry than does the Sino-Soviet bloc.

¹¹ "Peaceful Coexistence: A Western View," *Foreign Affairs*, vol. 38, January 1960, p. 185.

In essence, the question is whether the free world will contribute to the fulfillment of Stalin's "last thesis": that "capitalist" nations will succumb to narrow selfishness and thereby render themselves susceptible to being picked off one by one.

I thank you, Mr. Chairman.

Senator KEATING. We are very grateful to you, Dr. Strausz-Hupé. We are very grateful to you, indeed.

Mr. SCOTT. Mr. Chairman, in addition to the statement which has just been given by Dr. Strausz-Hupé entitled "Western Economic Strategy Toward the Communist Bloc," Dr. Strausz-Hupé also prepared, in May of 1962 under the auspices of the Foreign Policy Research Institute of the University of Pennsylvania, a study, a draft of which he furnished us, entitled "Can the Soviet Union 'Catch Up' With the United States?" This is to be published in the near future. Dr. Strausz-Hupé, would you be kind enough to submit a copy of this to us now for inclusion in the record?

Dr. STRAUZ-HUPÉ. I would be glad to do so.

Mr. SCOTT. Also would you care to comment on this draft briefly?

Dr. STRAUZ-HUPÉ. Thank you, sir.

I would be delighted if it would be part of the record.

Senator KEATING. It will be received for the record.

(The document referred to was marked "Exhibit No. 25" and reads as follows:)

(EXHIBIT No. 25)

CAN THE SOVIET UNION "CATCH UP" WITH THE UNITED STATES

By Robert Strausz-Hupé

Ever since Lenin's accession to power, the Soviets have sought to "catch up" with the United States. Lenin held up the example of American industry with its mass production and power resources as the model for Soviet industrialization. Stalin, after World War II, set the goals of Soviet planning as percentages of American industrial production indices. Premier Khrushchev still pays the United States a handsome compliment when he urges the Soviet peoples to make that sublime effort which is needed to "catch up" with, and surpass, the United States. There is nothing new about the Soviet exertions to draw abreast economically with the United States. What is new is the belief now held in many Western quarters that the Soviets might succeed in their endeavors. Americans, too, now feel that they are running a race.

How wide is the gap that still separates the Soviets from their goal—a goal that, too, is moving ahead? The answer to this question must be pieced together from Soviet published statistics and an assortment of data derived from a variety of sources, Soviet and non-Soviet. Whereas American statistics are, but for trifling details, accessible to everyone, Soviet statistics are not so much a vehicle of public information as they are an instrument of Soviet strategy and psychological warfare. Even the most searching analysis of Soviet statistical material yields no more than a general order of magnitudes and rough approximations.¹ In 1959, Allen W. Dulles, Director of the Central Intelligence Agency, stated before the Joint Economic Committee of the U.S. Congress that the Soviet gross national product had risen from 38 percent of the U.S. gross national product in 1955 to 45 percent in 1959.² This revelation did more to alert the American

¹ Francis P. Hoerber and Robert W. Campbell in their "Soviet Economic Potential 1960-70," prepared for the Office of the Chief of Research and Development, U.S. Army, by the Stanford Research Institute, Menlo Park, Calif., May 1961, supplied a calculation of the Soviet gross national product. I am indebted to them and the Chief of Research and Development, U.S. Army, for permission to use the findings of this study, especially the calculation of differential ruble-dollar conversion rates.

² Allen W. Dulles in a statement before the Subcommittee on Economic Statistics of the Joint Economic Committee, November 1959. See also: Herbert Block of the U.S. State Department in JEC, "Trends in Economic Growth, a Comparison of the Western Powers and the Soviet Bloc, Washington," 1957; Michael Kaser of the Secretariat of the Economic

public to the Soviet "economic threat" than perhaps any other official statement and launched a series of private studies that expanded and, in some respects, amended Mr. Dulles' estimate.

The principal difficulty of statistical computation lies in the disparate and arbitrarily fixed buying power of the ruble: for the Soviet consumer the ruble buys a great deal less than it buys for the Soviet state. Thus, for example, the ruble-dollar ratio for 1955 was 7.4:1 for consumption; 4.3:1 for investment and 3.4:1 for military expenditures. Actual Soviet prices differ from the real costs of production because of the inclusion of high tax mark-ups on consumer goods, a variegated profit (or subsidized loss pattern) and failure to include in price formations various costs such as rent and interest.

In 1959, the GNP of the United States was reported at \$482 billion. If this figure is adjusted to a cost-factor basis by deducting such nonfactor cost items of GNP as indirect business taxes, transfer payments and Government subsidies, the U.S. GNP for 1959 amounted to \$439 billion at adjusted prices. For the same year, the Soviet GNP has been calculated on a factor-cost basis at \$306 billion, or 63.4 percent of the U.S. GNP.

On first glance, the Soviet achievements seem startling: the Soviet economy has grown to three-fifths or two-thirds the size of the U.S. economy. Yet the explanation for so rapid a growth can be found by breaking down Soviet GNP into individual end-use sectors. In the Soviet Union, consumption accounts for 57.5 percent of the GNP; investment for 29.7 percent; military expenditure for 10.4 percent and Government administration for 2.4 percent. In the United States, the corresponding figures are 67.9 percent; 18.5 percent; 10 percent, and 3.6 percent. Again, on first glance, it must seem surprising that the Soviet military budget does not bite deeper into the GNP of the Soviet Union than into that of the United States. Much higher percentages have been mentioned. For example, Allen W. Dulles stated that "(Soviet) military effort, in terms of value, is roughly comparable to our own, a little less in terms of hardware but substantially more in terms of manpower." At the time of Mr. Dulles' statement major national security expenditures in the United States were reported as \$44 billion. Thus, if the Soviet effort was comparable in terms of dollar value, and if in 1959 Soviet GNP amounted to 45 percent—Mr. Dulles' own figure—of U.S. GNP, then the Soviet military program would have amounted to approximately 22 percent of the Soviet GNP. This estimate seems inconsistent both with the ruble totals that we can roughly estimate for other uses, and, more important still, with reasonable conversion ratios for rubles into dollars.

In terms of resource inputs, Soviet military expenditures in 1959 equaled those of the United States. Although the United States spent 10 percent of its larger GNP and the Soviet Union only 10.4 percent of its smaller GNP on military programs, this discrepancy is offset by the very low Soviet evaluation of manpower. In the United States, a much larger part of military expenditure goes into the pay and maintenance of the military and civilian personnel engaged in national defense than in the Soviet Union. Moreover, because of obvious geographical reasons, the United States maintains a vastly more elaborate and costly transportation system in order to deploy its military power than does the Soviet Union. In brief, the Soviet Union buys effective military power at a lower rate than the United States. It is not possible to deduce from this fact any plausible conclusions as regards the relative effectiveness of United States and Soviet military power. Yet there are valid reasons to assume that the military's share in the Soviet GNP is not much larger than, and perhaps not more than equal to, the military's share in the U.S. GNP.

The largest divergencies in a comparison between the Soviet and United States GNP's respectively are found in the sectors of consumption and investment. The Soviet Union invests more than the United States. Soviet invest-

Commission for Europe in the "Economic Bulletin for Europe," May 1957; Morris Bornstein, "A Comparison of Soviet and United States National Product," in JEC, "Comparisons of the U.S. and Soviet Economies," pt. II, Washington, November 1959; U.S. State Department, Office of Intelligence Research and Analysis, "Indicators of Economic Strength of Western Europe, Canada, United States, and Soviet Bloc, 1957," Aug. 15, 1958. The State Department has also released: Bureau of Intelligence and Research, "Intelligence Information Brief," No. 87, "United States Versus Soviet Spending for Major GNP Categories," and "The United States-Soviet Economic Race," which is an unclassified version of an Intelligence Report issued on Mar. 17, 1959. Oleg Hoeffding and Nancy Nimitz, "Soviet National Income and Product, 1949-55," Rand Corp., RM-2101, Apr. 6, 1959; CIA, "Soviet Manpower, 1960-70," an appendix to U.S. Senate, Committee on Foreign Relations, "Events Incident to the Summit Conference," hearings held May 27, June 1-2, 1960.

ment is concentrated in basic industry and growth projects and less on the consumer-oriented investment so important in the United States. Hence, consumption in the Soviet Union stands for less than 60 percent of the Soviet GNP. Since the Soviet GNP is only two-thirds that of the United States the Soviet population probably 15 percent larger than that of the United States, per capita consumption in the Soviet Union amounts to less than \$700 or only one-third of U.S. per capita consumption.

It is on hand of these comparative figures—figures calculated for 1955–59—that we must seek to project Soviet economic growth in the 1960's. On the basis of the 1955–59 figures for investment, a growth of Soviet GNP at about 6 percent per year (against 7 percent or more in the 1950's), appears feasible under the 7-year plan (1958–65), and probably beyond it to 1970. During the 1960's, the Soviet share of GNP allocated to investment will probably increase. The share of consumption, however, is likely to decrease even though consumption per capita is likely to rise at its present and, perhaps, even at a greater rate. As the Soviet GNP rises, military allocations could keep pace with the rise in investment and thus provide for a substantial increase in hardware, if not in manpower. With a constant relative allocation the resources directed to military purposes could increase 80 percent in the next 10 years.

An annual increase of 5 to 6 percent in productivity appears likely in the light of the 1955–59 performance. Improved productivity in agriculture could release 4 to 5 million workers to more productive industrial employment by 1965 and probably as many from 1965–70. The Soviet Union's program for further electrification, especially electrification of railroad transportation, and increased mechanization, too, appears feasible on the basis of past achievements. Further gains might well accrue from improved planning and organization and especially from advances in the science of economics.³ There is ample evidence that the Soviets are tending to introduce "bourgeois" economics into cost calculations, and that obsolete Marxist doctrines are no longer permitted to stand in the way of rational planning and management.

II

The Soviet Union's economic performance 1955–59 is impressive, quantitatively as well as qualitatively. These were the years of expanding foreign economic assistance, the sputniks and a noticeable improvement in the quantity and quality of consumer goods. By comparison, the United States, with a GNP growth rate of less than 3 percent appears to make a poor showing, and the Soviet Union's prospects for "catching up" sometime in the 1970's seem assured. Yet the business of fitting statistical projections for the future to past performance is nearly as dangerous as prophecy. (Thus, for example, projections of world population growth based upon pre-World War II growth rates proved spectacularly erroneous.) To be sure, there are the goals of the 7-year plan and, indisputably, the more highly differentiated and sophisticated economy of contemporary Russia. But there are, too, gaps in the West's knowledge about the Soviet Union and novel developments, the consequences of which might alter the 1955–59 pattern of Soviet economics.

To begin with, most of the calculations contained in current analyses of Soviet productivity and consumption appear to rely on statistical materials 2 to 3 years old. This is not so much due to the slow pace of Western analysts as it is to the peculiar nature of Soviet published statistics and the many delays caused by the need for screening the available data and checking them for errors and omissions. Indications are not lacking that the Soviet planners have hit some snags. Premier Khrushchev's much publicized labors in the field of Soviet agriculture may have been inspired as much by the experience of past failures as by the anticipation of future improvements.

The years 1960 and 1961 were years of declining agricultural production and, in some regions, of crop failure. Published statements in the press can but lead us to suspect that the Soviet Union which, on the basis of Czarist Russia's performance should be a major wheat-exporting country, has encountered difficulties in the way of feeding its own people. Premier Khrushchev himself conceded that the plans for mechanizing Soviet agriculture have not been met. Thus, the future transfer of manpower from agriculture to industry, on which contingency so much of Soviet industrial growth depends, appears to be fraught

³ W. W. Leontief, "The Decline and Rise of Soviet Economic Science," *Foreign Affairs*, January 1960, pp. 261–272.

with considerable problems. Similarly, the reduction of Soviet ground forces, announced with considerable fanfare 2 years ago, has been postponed. It is not clear whether the restoration of army cuts has been prompted by Premier Khrushchev's revision of world political estimates or rather the resistance of the military hierarchy to a diminishment of its vested interests. Be that as it may, difficulties in agriculture, the continued maintenance of a large ground force and the entry into the labor market of the "lean" age groups, i.e., age groups thinned by the lower birth rate of the war years, have culminated in an acute shortage of labor. Despite these developments, Premier Khrushchev felt compelled to woo the Soviet masses with promises of a shorter workweek and an increase in consumer goods. It would be surprising were Premier Khrushchev to find it easy to reconcile these contradictory tendencies without making some real sacrifices at the expense of the 7-year plan and plans still to be designed.

III

Economic statistics tell us about many economic things but not necessarily about the psychological conditions which influence the economic performance of a people. The quality of many consumer goods in the Soviet Union is dismally low, so low indeed that unit comparisons with consumer goods abroad are apt to be meaningless. There is probably not much of a difference qualitatively between, let us say, a television set available on a shelf in GUP, though perhaps not to the average Soviet consumer, and a Japanese or German one that can be purchased at a fair price in the open market. Yet there is simply no common frame of reference for average housing in the Soviet Union and average housing, let us say, in the United States or Great Britain. No doubt, the average worker's flat in Moscow, not to speak of less-favored localities, compares favorably with the slum quarters of Liverpool in the 1890's. It is no better than a dismal hovel compared with the average worker's home in the United States. Similar disparities, although perhaps less striking, can be observed in clothing, cosmetics, and household appliances. Not only are the average products of low quality, but the available choice between the various kinds of the same items is very narrow. The average Soviet consumer is denied the immense variety of choices which the average Western consumer takes for granted. Yet, the Soviet consumer has become gradually aware of this discrepancy. The long sojourn of Soviet troops in central Europe and the increase of two-way tourism as well as the penetration in the Soviet Union of Western films and exhibits have completed an image of Western life which, despite the Soviet Government's strenuous efforts to dim it, has raised the expectations of the Soviet consumer. Without exaggerating the effectiveness of popular pressures upon the Soviet rulers or underrating the efficiency of Communist "population control," we may still surmise that Premier Khrushchev is hard put to defend his investment program against the increasing appetite of his populace.

Yet the relative underdevelopment of consumer industry disadvantages not only the consuming public but also the capital goods industry, the cynosure of Soviet planning. The two industrial sectors are not unrelated to one another. The demands of the former stimulate the latter; a good deal of research and development in light industry accrues to the benefit of heavy industry. This type of "cross fertilization" is hampered by the lopsidedness of Soviet economic planning. More likely than not, this basic defect of the Soviet scheme for "catching up" with the United States will confront the Soviet planners with thorny problems of adjustment which the free market system solves spontaneously and as a matter of course.

Part of Premier Khrushchev's overall plan has been the scheme for the greater decentralization of economic decisionmaking. By Western standards this would be a sound procedure.⁴ It is not at all clear, however, how Soviet "decentralization" has been working out in fact. The paramountcy of central power and the rigid lines of command from the top have been so much an integral part of Soviet organization throughout its entire history that basic reforms might well be attended by unanticipated complications. Similarly, the decrease of overt police control might entail the slackening of work discipline, thus offsetting the increased individual initiative which better education and greater incentives are likely to elicit.

⁴ Herbert S. Levine, "The Centralized Planning of Supply in Soviet Industry," in U.S. Congress, JEC, "Comparisons of the United States and Soviet Economies," pt. I, Washington, 1959.

The imponderables of social and political change within the Soviet Union cannot be assessed easily by foreign observers—and perhaps not even by the Soviet rulers themselves. No less complex are the consequences which flow from the changing relationship within the Communist bloc. Accurate information on the contribution of the East European satellites to Soviet economic development and to Soviet programs for aid to China and neutralist nations is lacking. Yet there can be no doubt that East Germany, for example, has been an important cog in the economic system of Soviet power. More likely than not, the mass flights from East Germany have done well nigh irreparable damage to that country's economic productivity. If consumer expectations have risen in the Soviet Union, they have risen even more steeply in the East European satellite countries. The latter enjoy an even closer and better view of economic growth in Europe than do the Soviet peoples. Their rising demands for consumer goods, which cannot be controlled quite as easily as in the more effectively insulated Soviet Union, are likely to force their respective regimes to reshuffle their planning for economic growth. The losers from such a revision would be the Soviet Union, particularly as regards its foreign aid programs which, thus far, have depended heavily on the contribution of the satellite states' industrial products and technical know-how.

IV

If it were only a matter of first "catching up" with, and then surpassing the U.S. present economic growth, the Soviets might still look confidently toward cutting down the U.S. lead during the 1960's and ultimate victory in the race sometime during the 1970's. It is, however, a dangerous assumption that one's competitor, alerted to one's bid for first place in the race, will not bestir himself and even slacken his pace.

There are vast reserves of mechanical productivity and manpower on which the United States can draw, were it called upon to increase its economic efforts. The ease with which the U.S. economy met the expanded demand for military hardware and manpower during the Korean war without restricting perceptibly consumer spending, furnishes some indication of its abundant resources. By adding a negligible percentage of its GNP to the military-technological sector—let us say, up to 2 percent phased over the next 3 years—the United States can exercise considerable pressure upon the Soviets, forcing them to divert a proportionately larger share of their smaller GNP to their military budget. Such an increase of U.S. military spending would be particularly effective were it concentrated upon technologically complex and sophisticated weapons systems, for the relative cheapness of Soviet manpower stands to the advantage of "conventional" forces rather than to that of nuclear and space technology. In terms of real cost factors, it is unlikely that, for example, Soviet space technology can be developed more "cheaply" than U.S. space technology. In brief, a sudden spurt in selective U.S. military spending could disrupt the Soviet scheme for "catching up." Is it to overrate Premier Khrushchev's astuteness to surmise that his rising enthusiasm for disarmament is kindled by his desire to nip a real arms race in the bud?

Yet the United States, even without stepping up spectacularly its military expenditures, can dim the present hopes of its Soviet competitor. A substantial increase of the U.S. rate of economic growth does not depend so much on overall economic capacity as on policy. The resources needed for accelerated expansion are available; their allocation must wait upon decisions yet to be made mostly, though not exclusively, in the field of fiscal policy and labor-management relations. It is the resolution of these "domestic" issues that will determine with considerable finality as to whether the United States will let itself be outpaced by the Soviets. Suffice it here to say that these problems, though fraught with formidable political and psychological difficulties, do not defy rational solutions. President Kennedy's resolute bid for the "association" of the United States with the European Common Market points the way to the restoration of the U.S. competitive vigor and the stimulation of more rapid U.S. economic growth. To be sure, such an "association" will not by itself break the logjam of U.S. management-labor relationship, halt inflation, and remove the many absurdities of fiscal legislation and regulation. But it is bound to expose a good many abuses which have crept into the practices of private management and the trade unions and Government fiscal policy. The fresh winds of West European competition can be relied upon to sweep away a lot of the chaff, accumulated throughout the relatively easy years of U.S. postwar prosperity, which now hampers the economic progress of the United States. Once

the cleaning job has been done—a job that should be done regardless of the Soviet competitive threat—the Soviet plans for “catching up” will be in need of a severe reappraisal; a U.S. growth rate of $4\frac{1}{2}$ percent annually (instead of the current 3 percent), sustained for the next 15 years, is feasible technically.⁵ It is feasible in all respects—given the national will to accelerate economic progress.

We reach here the limits of economic analysis. In the last resort, economic development in the United States as well as in Western Europe and the Atlantic Community as a whole will be determined by political decisions. In turn, it will be these political decisions which will answer the questions posed for the United States and the rest of the world by Soviet economic growth.

V

The creation of the European Common Market has dealt a grievous blow to Communist dogma as well as to Soviet policy in Europe. The increasing wealth and rising average standard of living have punched a gaping hole into Communist theory; the political stability and growing military strength of Western Europe bar the Soviets' road to westward expansion via subversion and limited military probes. Yet, Western Europe could not have achieved economic unity without the political vision of Schuman, de Gasperi, and Adenauer, without the political rapprochement of France and Germany, and without the military protection of the North Atlantic Treaty Alliance. The accession of the United Kingdom to the European Common Market hinges, in large part, on the settlement of political issues, chiefly the problem of how to reconcile Britain's stake in Commonwealth leadership and historic predilection for balance-of-power politics with the objective of European political integration which is explicit in the Rome Treaty.

If Britain were to break with her irrecoverable past—the past of “splendid isolation”—and join resolutely in the making of a larger European Union, four important developments probably will be set in motion: (1) Britain's rate of economic growth, for the last 10 years one of the lowest in Europe, will increase; (2) Britain's trade within the wider Common Market will expand considerably; (3) the wider Common Market, swelled by Britain's contribution, will lengthen its stride of economic progress; and (4) the Soviet Union's trading position vis-a-vis the wider Common Market as a whole is likely to worsen. Increased intra-European trade will lessen the lure of the Communist bloc market; the credit terms of West European exporters to the Soviet Union are likely to stiffen. A closer “association” of the United States with a wider European Common Market is likely to reinforce these trends which, on balance, will affect Soviet foreign trade adversely. This is not to say that doing business with the Soviet Union, is under all circumstances, undesirable because it accrues inevitably to the one-sided advantage of the Soviet Union. Under present circumstances, it does exactly that.

A recent report to the Joint Economic Committee of the U.S. Congress contained the following conclusions: The Communist countries, and the U.S.S.R. in particular, derive perceptible and increasing value from their extrabloc trade. Nowhere in the bloc is there to be found the great volume and variety of technological innovation generated by the energy of competitive economic enterprises in the West. This fact is vividly underscored by the current campaign of procurement by the Communist nations of large blocks of modern technology, including complete plants, from Western Europe.

By comparison, the supply sources of the bloc are of marginal value to the free world trading countries. Goods of the kind normally exported by the bloc, either to the industrialized West or to less developed areas, can be easily replaced from other world market sources.

To the extent that the Communist nations uniformly employ the instrumentality of a trade monopoly, they place the smaller, profit-guided individual trader or private commercial firm at a distinct disadvantage from the standpoint of size and bargaining power.

Soviet trading agencies frequently involve their trade partners in closed bilateral deals in which the firm or country selling goods to the bloc is committed to purchase Soviet products, often at politically inspired prices. By such practices the regular multilateral channels of trade are short circuited, and the non-

⁵ See Robert Strausz-Hupé, William R. Kintner, and Stefan T. Possony, “A Forward Strategy for America” (New York: Harpers, 1961), pp. 340-341.

Soviet trade partner is denied a free choice in the goods to be bought with his export earnings.

The use of the state trading mechanism by the bloc countries as an adjunct to total internal economic planning has resulted in a preference for large, discontinuous transactions and a propensity to sell on short notice at distress prices. Significant dislocation of specific commodity markets, such as tin, aluminum, and petroleum, are part of the recent record. In the presence of an added strong political motive, the ability of the bloc's state enterprises, enjoying virtually unlimited subsidies from their national budgets, to undersell profit-motivated competitors, represents a serious potential for political and economic disruption in the future.⁶

No doubt a more closely coordinated Atlantic economy can defend itself better against the insidious practices of Soviet trading agencies, diminish the pull of the Soviet market on overeager Western exporters, harden credit terms, and enforce a better qualitative balance between bloc exports and imports. If there are things the Atlantic trading area does not need, they are Soviet gold and caviar. The Atlantic Community, as a whole, possesses all the gold stocks it requires for insuring currency stability; and even the most exacting gourmet cannot cavil at Iranian caviar which is in plentiful supply. Even in the absence of an Atlantic currency, though its introduction would answer conclusively the question of monetary stability, much can be accomplished by basic reforms such as the relief of the dollar from the inequitable distribution of the load of military assistance to some of the world's richest nations; a better distribution of the burden of economic assistance to the underdeveloped countries; the reinvigoration of the American and British economies; and the closer cooperation of central banks and international lending and development agencies particularly as regards the control and sterilization of hot money.⁷

Soviet performance in raising domestic productivity and expanding foreign trade appears all the more brilliant because of the shadows which shortsighted national trade rivalries cast over the free world. Hence, the question: can the Soviet Union catch up with the United States? needs rephrasing: can the Soviet Union "catch up" with a United States which has entered into a true partnership with Western Europe or, rather, can the Communist bloc "catch up" with a united West? Of course, it cannot for decades to come—and perhaps ever.

Premier Khrushchev, whatever his shortcomings, does not fail to perceive the wider dimensions of the protracted conflict between communism and Western democracy. The tacit assumption underlying Soviet planning for "catching up" with the United States is the continued division of the West. It is the task of Soviet conflict strategy to halt the movement toward Western unity and to break down the existing organizations of Western integration. The primary target of Soviet strategy is NATO, for the dissolution of NATO would isolate the United States and deprive Western Europe of that political and military security which guarantees its undisturbed economic development. The purpose of Premier Khrushchev's continued Berlin crisis has been to accomplish this wrecking job: to neutralize the German Federal Republic and thus to sabotage the Common Market together with Franco-German amity, to strengthen isolationist trends in Britain and to drive U.S. military power from Europe. Those who would settle with Premier Khrushchev for "free access" to Berlin and a "European security system" by agreeing to "mutual disengagement" and a freeze (with token inspection) of the present nuclear power relationship, appear blissfully oblivious of the political and military—the real—conditions of European and Atlantic economic integration.

All other things being equal, economic growth anywhere lies in the best interest of all peoples. If the rise in Soviet productivity entails rising standards of living in Russia or Poland or China, helps to expand international exchanges, and flows into the peaceful channels of international economic development, the United States need not quarrel with the Soviet purpose of "catching up." Unfortunately, in the case of the Communists, "all other things" are never equal. Behind the Soviet plan for industrialization lies a military purpose: to overawe and, if need be, to destroy the West. Soviet trade is an instrument of political warfare. If the Soviets, seeking to outcompete the West economically, do not rely exclusively on economic means; they employ military and political

⁶ See "A New Look at Trade Policy Toward the Communist Bloc," material prepared for the Subcommittee on Foreign Economic Policy of the Joint Economic Committee, U.S. Congress, Nov. 10, 1961, U.S. Government Printing Office, Washington, D.C., pp. 83-85.

⁷ See Morris Forgas, A proposal for a Bank for Economic Acceleration, a privately published monograph obtainable from the author, U.S. Freight Corp., New York, N.Y., 1961.

pressures to undo the work that Western enterprise has wrought. The Communists are, first and foremost, superb conflict strategists and only in second place, economists. Statistical data can tell us much about the Soviet economy, its rate of growth, and even the distribution of its productive efforts; they tell us relatively little about the motivation of Soviet leadership and its decidedly noneconomic urge to power.

The task of the United States and its Western Allies is to work hard and to join their immense resources in common efforts—and not to lose sight of the fact that competing with the Soviets is not a mere matter of raising economic productivity and increasing trade. The race is political and military. If we were surpassed, we would not drop to second place. There would be no place for us at all. Then the Soviets could dispense with comparative statistics of economic growth.

Dr. STRAUZS-HUPÉ. The main point here is one which I already had occasion to advert to, namely, the tightness of the Soviet economy. A relatively small input of foreign imports—be they toothbrushes or nylon stockings—permits the Soviet to divert scarce resources into the military technological sector. For the Soviet Union, any import, no matter what it is, is strategic because of that tightness of resources, especially of trained manpower.

You will note, for example, that in all Soviet institutions of higher learning, students are being designated for certain jobs. It is not left to the student to decide as to whether he is going to be an electrical engineer or a physicist or a social scientist. It is the university—the institution—that makes the choice for him.

Let us say that the Soviets have to build their own viscose plant instead of buying it for, I think, 25 million pounds sterling from England. They would have to divert funds and raw materials from other industrial developments. It means that they have to train a certain number of men in viscose technology and all kinds of specialists to service this plant. These men will not be available to the industrial—the military technological sector.

This is a condition that does not obtain in our country where there is always a slack in available manpower. We have, usually, an ample supply of personnel for virtually anything we want to do. This is not so in the Soviet Union. This is one of the primary points stressed in this document.

Senator KEATING. And the same is true in the field of shipping.

If the free world ships assist the Soviet Union in shipping items which are not purely military items from Russia to one of her satellites, that relieves the Soviet Union, which is not a great naval power and is short of ships, from sending that kind of item to her satellites, and permits the Russians to use all or most of their shipping for military items.

Dr. STRAUZS-HUPÉ. Right, sir; rather than expanding their merchant marine and diverting young men into the merchant marine officer corps.

Mr. SCOTT. Dr. Strausz-Hupé, at the time you submitted this paper "Can the Soviet Union 'Catch Up' With the United States?" by letter dated September 6, 1962, you commented, in addition, on the problem of Soviet gold.

Mr. Chairman, at this time I would like to submit a copy of that September 6 letter for the record and ask Dr. Strausz-Hupé to elaborate or briefly furnish further comments concerning his thoughts on this matter.

Senator KEATING. The letter will be received and we will be glad to hear from Dr. Strausz-Hupé on the gold problem.

(The letter referred to was marked "Exhibit No. 26" and retained in the subcommittee files.)

Dr. STRAUZ-HUPÉ. Thank you, sir. There is one paragraph. I would like to read it.

Senator KEATING. Yes.

Dr. STRAUZ-HUPÉ. It reads: I surmise, on the basis of available and very inadequate data, that Soviet gold holdings are smaller than those of the United States and that the cost of Soviet gold production is very high. Nonetheless, Soviet gold should be considered as an important factor in Soviet trade policy and, potentially, Soviet economic warfare. I do not believe that, for the time being, we need fear massive dumping of Soviet gold for the purpose of disturbing Western currency rates and commodity markets. Let me hasten to say, however, that, small as is this danger at present, the Western countries should evolve policies to deal with such contingencies should they occur. Currently, a very large part of Soviet imports are paid for in gold. Western contractors are being paid indirectly in gold. The Soviets purchase foreign currency against gold in order to settle their bills.

This gold cannot be considered as an addition to the West's wealth. There is no likelihood that the Soviets would even agree to repurchase the gold which they sell and pay for it with goods of their manufacture. If Western exporters feel that they must do business with the Soviets they should do so on a barter basis. There is no reason, for example, why British deliveries to the Soviets of textile manufacturing equipment should not be paid for by goods that Britain really needs or can sell on world markets as, for example, manganese or Soviet oil drilling equipment. Shipments of gold do not enrich the British economy except insofar as Britain can use the gold thus acquired for the purchase of other currencies. But this merely shifts the burden upon another member of the trading community. This complex of problems should be made a topic of discussion in the NATO Council where it might be possible to suggest common policies and to agree upon a strategy which would force the Soviets to come across with real value as a quid pro quo for Western imports.

Senator KEATING. Thank you very much.

We are very grateful to you for your contribution.

Mr. SCOTT. Dr. Strausz-Hupé, you have read and are familiar with the statement given by the Secretary of State before the House Select Committee on Export Control on October 25, 1961?¹

Dr. STRAUZ-HUPÉ. That is right, sir.

Mr. SCOTT. Dr. Strausz-Hupé had some comments on that, Mr. Chairman, and he forwarded those by letter dated September 10, 1962. I would like to submit a copy of that letter for the record.

Senator KEATING. Those will be received for the record.

¹ See app. I, p. 461.

(The letter referred to was marked "Exhibit No. 27" and reads as follows:)

(EXHIBIT No. 27)

UNIVERSITY OF PENNSYLVANIA,
FOREIGN POLICY RESEARCH INSTITUTE,
Philadelphia, Pa., September 10, 1962.

MR. SAMUEL J. SCOTT,
Assistant Counsel, Senate Internal Security Subcommittee,
Washington, D.C.

DEAR MR. SCOTT: This is to thank you for the copy of the hearings before the Select Committee on Export Control and the copy of the statement of Secretary of State Dean Rusk on October 25, 1961. I read the latter. As far as the criteria for determining the strategic usefulness of imports into the Soviet Union are concerned, the Secretary's statement is unobjectionable (pp. 3-4). In my last letter to you I expressed my views on Soviet gold in payment for Western imports. This consideration might suggest an inquiry which might elicit the views of the Secretary of State.

Some of the assumptions introduced by the Secretary (p. 5) stand in need of amplification. Historically, foreign trade has contributed little toward influencing peoples "toward national attitudes which will make their country a responsible and peaceful member of the community of nations." If foreign trade could influence attitudes, the Germans and the Italians should have never gone to war, and their share in world trade was a great deal larger than that of the Soviet Union has been—and is likely to be for many years to come. This passage in the Secretary's statement is part and parcel of this administration's doctrine, namely, that personal contacts and trade can influence significantly the attitude of the Communist bloc countries. I do not know—no one knows—as to whether this assumption will be borne out by events. The fact is that historic precedent does not support this assumption. Moreover, the Communist trading agencies control foreign trade so tightly that they can reduce the personal element—the contact between foreign purveyors and the individual citizens of Communist countries—to a minuscule minimum.

I have difficulty in following the argument advanced by officials of the administration in the course of the hearings of February 5, 1962, namely, that export licenses were granted because the Soviets could have obtained the same item, in the fullness of time, from manufacturers in one or the other NATO country. It seems to me that it would have been better had the license been denied and every pressure been exerted upon the allied countries to interdict the export of the item in question. The only valid conclusion that one can draw from this example is that allied cooperation is not what it should be. In any case, the United States, as the leader of the allies, should set an example and not anticipate by a questionable action the questionable action which it expects an ally to take. I am quite aware of the fact that the CoCom record of the United States is much better than that of its allies; but that does not mean that we should lower our standards because our allies will not raise theirs. To the contrary, we should keep our standards as high as possible and use every means of persuasion at our disposal to induce our allies to do likewise.

This brings us to the general question: What imports help the Soviets to increase their military power and which do not? The fact is that all imports help the Soviets to increase their military power either because they contribute directly to the Soviet military-technological establishment or because they permit the Soviets to shift factors of production from the so-called civilian sector into the military-technological sector. I am inclined to believe that the Soviet economy is running so close to capacity that there is very little slack on which the military-technological sector can draw. This means that the fit between the civilian and the military economy is so tight that imports of any kind provide welcome relief—and thus accrue ultimately to the benefit of the military sector.

I realize that this is the most controversial aspect of the East-West trade problem. The Secretary, in his statement of October 25, 1961, contributes relatively little to the determination of this issue.

As I made clear in my previous correspondence, I am far less sanguine about the positive results of our policies toward Yugoslavia and Poland than is the Secretary. Tito's dealings with the Afro-Asian neutrals and his consistent support of all major Soviet foreign policies have certainly not accrued to our benefit. The alleged rapid rate of growth of the Yugoslav economy has been paid for mostly by our money. If the Secretary argues that "Yugoslavia's economy has undergone a process of decentralization with definite elements of competition and individual incentive," he should give us chapter and verse of this contention. There is some "decentralization" and "incentive" in all Communist countries and, for all I know, even in China. But does this circumstance in any way decrease the effectiveness of totalitarian control? Of course, it does not. It would be surprising if, in exchange for our enormous largesse to Yugoslavia, we had not gotten something in return. The question is: has this return been commensurate with our investment, and what would have been the advantages which we would have derived from an alternate course?

The conclusions which I derive from the Secretary's statement are these: first, there is as yet no agreed definition of "strategic goods" that is meaningful in terms of the actual conditions of the Soviet economy; secondly, the NATO allies are still as far as ever from a common policy on exports to the Soviet Union and its satellites; thirdly, the effectiveness of NATO strategy is constantly undermined by disagreement on economic policy vis-a-vis the Communist bloc.

With best regards,
Sincerely yours,

ROBERT STRAUZ-HUPÉ.

Mr. SCOTT. I believe that in the interest of brevity this is pretty well complete, isn't it, Dr. Strausz-Hupé?

Dr. STRAUZ-HUPÉ. That is right, sir.

Mr. SCOTT. Do you desire to make any further comment on it?

Dr. STRAUZ-HUPÉ. I do not deem it necessary.

Mr. SCOTT. I have no further questions, Mr. Chairman.

Senator KEATING. Thank you very much, we appreciate your help and your focusing interest on this extremely important problem.

The committee will now take a 5-minute recess.

(Short recess.)

Senator KEATING. The committee will come to order.

Our next witness is Mr. Snyder.

Mr. Snyder, thank you very much. We appreciate your being here. You may proceed in your own way.

Mr. SCOTT. Mr. Snyder, will you state your full name for the record.

STATEMENT OF PHILIP H. SNYDER

Mr. SNYDER. Philip H. Snyder.

Mr. SCOTT. And your business or profession?

Mr. SNYDER. I am in the exporting and export management business. I have also served as a lecturer and consultant on the subject of foreign trade.

Senator KEATING. You may be seated, Mr. Snyder.

Mr. SCOTT. You are here under subpoena?

Mr. SNYDER. Yes, sir.

Mr. SCOTT. Mr. Chairman, I would like to offer for the record a copy of the subpoena, reflecting its service.

Senator KEATING. That will be received.

(The subpoena referred to was marked "Exhibit No. 29" and reads as follows:)

(EXHIBIT No. 29)

UNITED STATES OF AMERICA

CONGRESS OF THE UNITED STATES

To Philip H. Snyder, 321 Broadway, New York, N.Y., Greeting:

Pursuant to lawful authority, you are hereby commanded to appear before the Subcommittee on Internal Security of the Committee on the Judiciary of the Senate of the United States, on Friday, October 26, 1962, at 10:30 o'clock a.m., at their committee room, 129 Federal Court House, Foley Square, New York, N.Y., then and there to testify what you may know relative to the subject matters under consideration by said committee, pursuant to S. Res. 366, approved by the 81st Congress, 2d session, as amended and extended, and S. Res. 264, agreed to February 7, 1962.

Hereof fail not, as you will answer your default under the pains and penalties in such cases made and provided.

To Samuel J. Scott to serve and return.

Given under my hand, by order of the committee, this 23d day of October, in the year of our Lord one thousand nine hundred and sixty-two.

JAMES O. EASTLAND, U.S.S.,
*Chairman, Committee on the Judiciary
and the Subcommittee on Internal Security.*

OCTOBER 25, 1962.

I made service of the within subpoena by hand the within-named Philip H. Snyder, at New York, N.Y., at 4:30 o'clock p.m., on the 25th day of October, 1962.

SAMUEL J. SCOTT.

Mr. SCOTT. In addition, I would like to offer for the record the biographic résumé of the background, experience, and training of Mr. Snyder.

Senator KEATING. This will be received.

(The biographic sketch referred to was marked "Exhibit No. 30" and reads as follows:)

EXHIBIT No. 30

PHILIP H. SNYDER, 321 BROADWAY, NEW YORK CITY

BACKGROUND INFORMATION

Business: Foreign trade. Formed own exporting company in 1947. Also have functioned as combination export manager and consultant.

Memberships: U.S. Department of Commerce-New York Regional Export Expansion Council. Central American Chamber of Commerce in the United States (director). American Institute of Management. World Trade Club of New York.

Education: Attended New York University. Also attended University of San Carlos Field School, Guatamala, in conjunction with the Middle American Institute of Tulane University.

Travel: During military service—Morocco, Algeria, Italy, Austria, Germany, France, England.

Subsequent to military service, made commercial trips to Mexico, Guatamala, Honduras, El Salvador, Nicaragua, Costa Rica, Panama, Colombia, Ecuador, Peru, Venezuela, Dominican Republic, Cuba, Haiti, Netherlands Antilles, and other Caribbean lands.

Personal: Age, 39. Born New York City. Interests—archeology, history, philately, numismatics. Veteran of World War II—served with U.S. Army in North African and European theaters of operation.

Recent special activities: Visiting lecturer (on international trade) at Fairleigh Dickinson University, N.J., and at Nassau College, New York.

Speaker at American Management Association, Rubber Manufacturers Association, League of Women Voters, Management Institute, New York University.

Also, panelist at various official and privately sponsored export trade conferences and seminars.

Testified before U.S. Senate Select Subcommittee on Small Business. Active in various export expansion and foreign trade development programs.

Mr. SCOTT. This has been furnished by Mr. Snyder to the committee. Senator KEATING. All right.

Mr. SCOTT. Mr. Snyder, you have a statement for the record?

Mr. SNYDER. Yes, I do.

Senator KEATING. You may proceed in your own way, and your entire statement will be made a part of the record. You may summarize it or read excerpts or handle it in whatever way you feel, bearing in mind the problem which the committee faces in trying to complete the hearings as soon as possible.

Mr. SNYDER. Thank you.

I am going to address myself to the vital matter of the exporter and America's security.

Maintenance of a nation's security depends on many considerations. In the flow of time and history, emphasis and techniques change. Entire nations and peoples have consigned themselves to oblivion because they could not or did not want to recognize and act upon the realities of the moment.

In our day, friends and foes alike are telling us that we must face a new type warfare. It will not be a war of bullets and bombs, but of commodities and cargoes. The concept of such conflict may be new to many Americans. Yet, not to prepare adequately for such eventuality, and not to understand its theory and practice, can result in our losing our way of life.

All conflicts, regardless of their nature, require individuals trained and dedicated to carry their side to victory. The American exporter is destined to play a key role. He shall be able to do, or undo, what no diplomat or soldier traditionally could. The influence of the exporter can reach levels that are not readily achieved by the most accomplished political strategist. The exporter can win "strong points" that would be beyond the reach of the bravest paratrooper. One ton of printed propaganda could not be as effective as one good deed effected by one exporter in the right place at the right time.

If we consider the extraordinary character of our times, then it is inevitable that we must be ready and able to cope with unprecedented situations, that will, in turn, require unprecedented measures. Now the importance of export activity has reached unparalleled attention in our national concern. There is hardly one responsible American either in public or private life, who will dispute the tremendous importance that export trade is now assuming. Yet, what do we really know about the individuals and firms who operate in this critical area of activity?

Events dictate that patterns and procedures in foreign trading, old and new, must now be subjected to virtual day-to-day review. Billions of dollars in business, millions of jobs, the continued dynamic expansion of our economy, and our position in a turbulent world are now influenced by how well we understand the meaning and mechanism of international commerce.

Donald K. David, vice chairman of the Ford Foundation stated:

We have not been a country of exporters. England has been, Germany has been, France has been, but we have not been. And now it has become Government policy to encourage exporters * * *. We need to export because of our balance of payments, but we need to export for more * * *. We need to export to support the position of the United States in the world.

It is usually through necessity, rather than choice, that nations become adept at export trading. One prime reason that the United States is not now a country of accomplished exporters is due to the fact that, up until quite recently, there seemed to be no urgent or compelling reasons for us to make any sort of sustained commercial efforts beyond our shores.

The American industrial plant is enormous; the capacity and potential to produce and distribute is outstanding. We can produce and export more than any other country. In this respect, the world has stood in awe of us. Yet we only export about 5 percent of our gross national product. This is about the lowest percentage of any major industrial nation in the free world. Premier Khrushchev, when he said that he would bury us through trade competition, well knew of our much greater existing economic and industrial powers. But he also knew of our weaknesses and vulnerabilities.

Today, the number of functioning export associations formed under the Webb-Pomerene law is about half that which existed in the United States 30 years ago. Paradoxically, while interest in forming such export associations sharply declined, our volume of exports has actually reached the record level of \$20 billions per year or about 16 percent of the total world foreign trade.

Yet the known number of first-class export associations and organizations in the United States have been falling off. Not to understand the meaning of such incongruous patterns in this vital area of activity, is to gamble recklessly with the welfare of our Nation.

Countries that once were impoverished and war ravaged are now actually showing faster and more dynamic industrial growth than we are. They no longer desperately depend on us as they once did. Rather, we are showing signs of increasing dependency on them.

Once our high exports were due to worldwide dislocation and shortages. Now much of our export volume is due to and depends on the economic boom and unprecedented prosperity of other countries. An analysis might show that a substantial percentage of our exports are not a result of any great marketing efforts on our part. Today we get a chill when a cold wind blows through the economic structure of foreign lands.

We cannot expect to always have it our way, and purely on our terms, and in our good time. The pendulum is now swinging the other way, and as uncomfortable as it might be for a lot of Americans, we have to give some priority in our thinking to this business called exports. We also have to take a close look at that special group of businessmen whom we refer to as exporters. For they can help bring victory or defeat in any world economic warfare.

Exports are not just statistics of so many tons, gallons, or yards of products shipped each week from our ports. It is also men and women

who directly and indirectly work to sell, package, and ship these billions of dollars in national products.

It is the exporter and the people who work with him, who will largely determine our patterns and success in the international give and take. Our foreign business activities and the carrying out of the same will, in turn, influence the domestic phase of our economy.

It will be the exporter who will not only be instrumental in the quantity, but also the quality of our export sales.

We cannot always remain the leading exporter of goods in the world, purely because we have the current productive capacity that others might not have. Nor can we casually dismiss our becoming increasingly enmeshed in new strategies and tactics developing in the cold war, which will be more economic than military in essence. As this becomes a clearer reality, can our American exporters hold their own against determined foreign counterparts, who have been trained for years to fight the battle of the marketplace, no matter where or when?

A Swedish businessman recently commented on the fact that he personally has never known an American exporter to call on his firm in Sweden. This despite the fact that his firm has for years been interested in buying from the United States and is considered in Sweden to be one of the most important in its field.

He further stated that exporters from many other countries and as far away as China have visited his city. While this Swedish businessman and his firm wanted to buy American products, trips to the United States were necessary in order to best make the purchases. This travel cannot always be done and therefore these Swedish businessmen find it easier to place many of their import orders with exporters of other countries who regularly visit Sweden.

According to this Swedish businessman, some of the most active exporters operating in Sweden today are from Communist countries and a certain percentage of the income received from their exports to countries like Sweden are diverted to finance political activities there.

Just this week our country's gold position was further weakened by the loss of another \$50 million in gold. This might not have happened if more American businessmen were more active overseas.

A Sudanese businessman during a visit to the United States inquired as to why so few American exporters ever have visited his important African country. He also pressed the point that exporters of other countries were very active in the Sudan while there was a marked absence of Americans.

One of the top executives of an important American concern told of his visit to Singapore, a most strategic trade center in Asia. This executive was surprised to be informed by his local Singapore representative that he was the first American businessman that he had personally ever known.

The significance of this lack of American businessmen in a sensitive area like Singapore is something that must not be overlooked. There are numerous countries where an American exporter is seldom encountered. This lack of American commercial travelers in many world areas is now as detrimental as would be the absence of American diplomatic personnel from these same areas.

Senator KEATING. Mr. Snyder, what you have been talking about is something which I am very interested in due to my position on the Commerce Committee, and you have put your finger on something extremely important in my judgment. This committee is the Internal Security Committee dealing with shipment of strategic goods to bloc countries, and I wonder if I could ask you to move along to that area of it which relates to trade with Communist countries.

Of course, all of your statement will be put in the record.

The point is that, unless the statement is somewhat summarized, we will just be too short of time. It will all be placed in the record, but if there is a part of it which deals specifically with trade with the Soviet bloc, we would be grateful if you could turn to that.

Mr. SNYDER. There is no part of the statement that deals specifically with trade with the Soviet bloc in a direct sense; only in an indirect sense. What is suggested in all of this is that, if we are to maintain a better control of our exports and make efficient and wise disposition of our exports, we have to better understand not only techniques but also the people who are exporting. No number of laws or regulations are going to help unless we first have a better quality of exporting activity and better understanding and motivation among the people who are actually handling our export trade.

This is an area which has been completely overlooked, and this is the essence of what I am trying to develop here.

Mr. SCOTT. Mr. Chairman, Mr. Snyder in his comments and talks with me indicated his interest here is in the East-West trade, since one of the means of effective export control is to point out the necessity of licensing and controlling the exporters themselves, knowing what are the requirements before a man can be an exporter, what do we do to check into his background, to see that he will comply with the Control Act.

Is that correct, Mr. Snyder?

Mr. SNYDER. A number of possibilities have been discussed and careful evaluation would be in order.

Mr. SCOTT. Would you care to comment? You are familiar with the licensing of foreign freight forwarders. It is required that the Maritime Administration issue a license. What should be done with respect to exporters?

Mr. SNYDER. As I cover in my statement here, there is no requirement whatsoever as to licensing required of anyone to engage in the export business of the United States.

Literally anybody can engage in the export trade.

Senator KEATING. It is only in the items in which they are allowed to trade that there is any control whatever. Is that correct?

Mr. SNYDER. The only people who are required to have a license, in order to conduct their routine business and are connected with international commerce are the foreign trade freight forwarders, who are the shipping agents, and who do not negotiate and conduct the sales.

It is the exporters who negotiate these sales and there are no, absolutely no, requirements made upon this group, other than the existing regulations as to what can be exported at any given time and where to.

Senator KEATING. It is your contention, and the thesis which you develop in your statement that there should be some licensing arrangement, governmental licensing arrangements, for exporters?

Mr. SNYDER. I have raised a number of questions here which deal primarily with how little we know about this important area of activity. There has been a lot of talk about exports, and we well recognize the importance of this, and we also recognize that this is an area in which we can win or lose the economic war.

Now, obviously, if we are talking about economic war, we have to know who is going to fight this economic war. We have been talking in generalities. We have to deal now with specifics. We have to deal with men and women, and we have to know who they are, how well trained and how motivated they are. If we don't know who they are, we can't expect much from them. And obviously, we can't win an economic war if we don't know who is going to fight the economic war.

Senator KEATING. Do you make in your statement definite recommendations for tightening up in that area?

Mr. SNYDER. I have made a series of recommendations of which the Senate subcommittee already has a copy. I had originally suggested that they be discussed in an executive session.

Senator KEATING. The paper which you kindly sent to us, dated March 28, 1962, includes these recommendations, does it not?

Mr. SNYDER. Yes, sir; it does.

Senator KEATING. Is it your feeling that this should not be made a part of the record?

Mr. SNYDER. That was my original suggestion.

Senator KEATING. Let us consider that. We appreciate the recommendations you have made, and we will consider whether there would be any security element involved in making that a supplement to your testimony here this morning.

Where you do make specific recommendations, are they repeated in this statement of this morning?

Mr. SNYDER. No; they are not repeated.

Senator KEATING. Well, we are very grateful to you, and we will make your entire statement a part of the record of these hearings, including these very pertinent questions which you set forth on page 18 of your statement.

(Mr. Snyder's prepared statement continues as follows:)

Hundreds of thousands of foreign businessmen, while regularly contacted by the exporters of other nations, have never seen an American exporter. Many of these same foreign businessmen support our point of view and are influential in their own communities. Nevertheless, they find themselves in the position of never having known personally their American counterparts in business. While we have a long tradition of being missionaries to foreign lands, we do not extend this, in any substantial degree, to the economic spheres of activity. Soviet commercial missionaries are rapidly increasing their operations, particularly in the underdeveloped countries. It is no coincidence that, despite severe production problems, the Soviet bloc has nevertheless been able, during the past 5 years, to treble their exports to 41 underdeveloped countries.

We know that the American exporter is a key individual in maintaining our strength and status. We know that if he is, as a group, inadequate, uninspired, or unpatriotic, then our Nation can feel the consequences. But what do we really know about our exporters? Are they numerically adequate? Are they sufficiently trained? Are they properly imbued with the special responsibilities which they must assume when dealing with diverse communities and peoples? Are they linguistically well trained? Are they actually reflecting a wholesome image of

our country to the peoples of other lands? As incredible as it may seem, no private or Government organization has ever attempted to seriously study such questions.

There are no existing up to date and comprehensive evaluations of these people who are now being charged with the responsibility of transacting and expanding our multibillion-dollar foreign trade.

In our country we have, on more than one occasion, attempted to make more intensive studies of obscure wildlife than we have of the men and methods involved in one of the most critical phases of our economic existence. This is an oversight which as a country, we neither can afford nor can we tolerate, if we hope to remain the first-class power that we now are.

It would be unthinkable to send to sea an aircraft carrier that was manned by a crew which was indiscriminately recruited from a crowd on Times Square. Yet, our world trade activity, so necessary to maintain our economic strength, is handled by an unknown number of men, with unknown backgrounds, unknown training, skills, and loyalties. Nor do we know exactly how much of American export trade is expedited by Americans and how much by people of other nationalities.

We know more about—and require more—from any cabdriver than we do of the exporter. To qualify as a cabdriver in a city like New York, a man must not only demonstrate proficiency in the handling of his vehicle, but also must be prepared to answer inquiry as to his character and background. To engage in the waste trade, have a bootblack stand, or be a cabaret entertainer requires the answering of a number of questions before a license is issued.

Can it be said that the role of "exporter" is any less essential to the national interest than any of the above diverse pursuits? Yet, a man who would not be permitted to engage in any of these pursuits could always go into the export business. It is possible for a man to have been convicted of a major crime, be a member of some fanatical extremist political group, and still function as an "exporter."

U.S. aid funds have been paid to some exporters who engaged in fraudulent operations. In the course of a few years time, one exporter caused considerable losses to at least 24 Asiatic importers of steel products by shipping merchandise of considerably less value than what had been anticipated. Some of these orders were financed through U.S. Government programs. As a result, money was lost by our country and a number of foreign businessmen may now be questioning American reliability.

Quite recently, a conspiracy to defraud the Agency for International Development was brought to light. Before the so-called exporters could be brought to account, they had already absconded with a considerable sum of U.S. dollars and fled the country. These people had, since their arrival in this country, operated freely as exporters. It seems nobody in authority thought it important enough to ask some questions as to their export activities.

Whenever such incidents come to light, they can set up waves of foreign resentments and suspicions against us, which can only serve the interests of our enemies. The ethical and scrupulous American exporter suffers in a secondary way when such incidents occur. He is often put on "trial" for the sins of others, who do not truly represent the best among us.

Fraudulent and unethical practices are bad enough in any locality but when they occur in commerce between nations, then considerably more can be at stake than may be generally realized. We already know what a fuss was created in one otherwise minor incident involving a member of our Peace Corps, serving in a foreign country. It does not require much stretch of the imagination to visualize some of the incidents, often with little substance, which could be stirred up in our commercial dealings with people that are perhaps not too sophisticated in the ways of international export-import.

One of the greatest strengths of this country is our great reservoir of know-how and technical knowledge. How much technical data is improperly removed or exported each year from the United States is a matter of conjecture. Currently, it is easier to remove from this country \$100,000 worth of technical data than it is for an exporter to ship out \$100 worth of pajamas. It may not be necessary for other nations to buy our product, when they can perhaps go one better and have the actual manufacturing processes instead. There are exporters who are either unaware of or simply ignore export control regulations as they are now constituted. At a growing rate, important American technical data, know-how, and industrial capacities embodied in licensee agreements

made with firms abroad have been removed from our country. The question of whether a licensee agreement set up with a firm abroad is good or bad in terms of our national interest, is unfortunately not too often asked.

Our Nation's security can be jeopardized in more than one way. Each incident which involves one of our exporters, no matter how small, can reflect on the American image. As in perhaps all other areas of endeavor, every caliber of humanity can be found represented within the exporting community. The "perfect" exporter, like the "perfect" man, is more of an ideal than a reality. Nevertheless, prevailing world circumstances demand a much higher degree of performance from the exporter than would ordinarily be sought.

Even where there are no infractions of law involved, an exporter can unknowingly create unwanted incidents. Recently, a Dutch businessman came to the United States complaining bitterly about the decorum and methods of some of our exporters. He even wanted to arrange an appointment with President Kennedy to further dramatize his feelings. In this instance, the complaints proved to be much ado about nothing. This Dutch businessman was treated with every courtesy during his stay here, and he had to concede that Americans are really not as bad or ill intentioned as he had imagined.

Up till now, we have hardly given any thought to setting down even minimum requirements for a person to meet, in order to have the privilege of engaging in export trade—and a privilege it should be.

A private soldier, when inducted into the Army, is "screened," lectured, evaluated, and trained for service in peace and war. An individual in the military service is even informed as to what his decorum should be, if and when he comes into contact with people of other nationalities, persuasions, or cultures. A soldier also is supposed to play the role of a "good will" ambassador for his country in addition to defending his country when the need arises.

American exporters are not now being fully informed as to what their country expects of them. Nor are our exporters in the least being evaluated for their capabilities. I do not know how many of them truly reflect the best or the worst that is America. Perhaps never before in our history did we have to think of exporters in the same breath as soldiers. No less an authority than Paul Henri Spaak, former Secretary General of NATO, has stated that the wars of the future will not be military in the same sense that we knew in World Wars I and II. Rather, he felt that the major contests in the future will be fought out on economic lines. We spend billions of dollars to prepare for military war that may never be fought, while on the other hand, we spend virtually nothing to develop the special personnel and methods required for the new ways of war, the economic war that has, in fact, already begun. We are not even sure of who will be the "soldiers" in such economic conflict. History has repeatedly shown that seemingly formidable nations have been brought to their knees because they could not or did not want to understand the utterly new tactics employed against them by adversaries who were often considerably inferior in other respects.

Other nations are alert to the importance of exporters. In many foreign countries, the individuals engaging in export trade are very well trained and are imbued with a sense of purpose that is hardly known here. We cannot be casual about this matter. We cannot afford to be second best in our efforts to have the finest of exporters.

It is sobering to observe the seriousness and determination which other countries are displaying in stepping up the worldwide activities of their exporters. Countries like England, Italy, and Japan supplement their already well-trained cadres of exporters with quasi-official export trade organizations. They will not leave any possibilities uncovered in their constant quest for more and better exports. In the heart of London, there is a sign 20 feet high which flashes the message: "Either Exports Go Up or Britain Goes Down."

Ludwig Erhard, Economic Minister of West Germany, is reported to have made the observation: "We failed in two wars to conquer the Middle East with soldiers, but now we have done it with salesmen. What we failed to do with cannon, we have accomplished with sample cases." There are supposed to be about 500 well-trained West German salesmen based in Egypt. These salesmen speak the languages of the Middle East. It has been estimated that, within a 10-year period, from 1945 to 1955, these salesmen have increased West German exports to the eastern Mediterranean area from \$10 million a year to well over \$700 million a year. West Germany is now the leading exporter to Greece,

Iran, and Syria. Despite the fact that the West German factories are hard pressed to deliver on orders to the booming markets close to home, they are nevertheless, pushing export sales constantly. West Germany is expected within the near future to be the leading world exporter in manufactured goods. The possibility of the United States losing such leadership would have seemed incredible if suggested only a few years ago.

The absence of the American exporter is most marked in those very areas of the world where our national interests would most require him to be. Not only do countless American industries lose the possibilities of more business but we also forfeit priceless opportunities to present, in a personal and practicable way, the strength and values of our free enterprise system.

It is particularly in the underdeveloped and developing countries that such opportunities are most overlooked. While statistics may show the quantities of American merchandise being exported, they do not reveal exactly how much of our sales are really made by third country exporters and not by American exporters.

In perhaps less than one-tenth of the countries which gained their independence in the aftermath of World War II, can we be considered to be the leading suppliers of manufactured goods. In at least 25 underdeveloped African and Asian countries, U.S. exports of manufactured goods represent 6 percent or less of the imports of the respective country in that category.

This situation exists despite the fact that the United States produces almost half of all free world manufactures and still has plenty of unused capacity to go. On the other hand, a country like West Germany, which accounts for about one-tenth of the free world manufacturing output, exports almost as much manufactured goods as we do and leads us in exports to a growing list of countries. The West Germans have attained this worthy record despite the fact that their factories are substantially working to maximum capacity and despite their labor shortages.

But it is not only major industrial countries like West Germany who have recognized and developed the true potential of their exporters. Every little country seeking its place in the sun has placed its exporters in the forefront. Countries like the Netherlands and Israel in 1961 led the United States in exports of manufactured goods to the important African country of Nigeria.

Switzerland led us in manufactured exports to Ghana. They also led us in Laos; a country into which we have in the past, poured hundreds of millions of dollars.

All this suggests that there are simply not enough American exporters in circulation throughout the world.

Despite the enormous potential of the African Continent, with its many newly created countries, we find that of every 100 Americans traveling abroad in the first quarter of 1962, only 2 indicated they would visit African countries. No doubt, in some parts of Africa, the sight of an American exporter must be rarer than a mink coat.

In the last quarter of 1961, out of 136,200 Americans traveling abroad, only 10 indicated they would travel to such countries as Malaya and Ghana. With the exception of industrialized Japan and Hong Kong, the percentage of American travelers to Asiatic countries ranged from zero to 3 percent. Figures are even lower for African areas.

The actual number of American businessmen visiting underdeveloped countries is even lower than available statistics reveal, since it has been estimated that only about 10 percent of those to whom passports are issued actually do travel for business purposes.

Even in as important a country as India, with a population of almost a half billion people (of whom about 5 percent have the equivalent purchasing power of Americans), there are now perhaps no more than 30 American salesmen. One reliable source recently arrived from New Delhi has stated that there are currently no American exporters in that city. At the same time, it is estimated there are currently in New Delhi about 200 English, 22 Japanese, 12 West German, and innumerable other foreign salesmen active in the capital of India. Exporters and salesmen from Communist countries are also quite active throughout these areas, but often they are categorized as technicians.

Currently, the most accessible and attractive markets in the world for our exports are to be found among the countries of Western Europe. Not only are we doing a mediocre job of genuinely promoting our exports there, but we are

not even, in many instances, putting ourselves out to supply the stated needs of leading European buyers.

The world-famous firm of Volkswagenwerk of West Germany has had difficulty in getting American companies to sell to them. Heinz Nordhoff, chairman of Volkswagenwerk, has pointed out that of 500 letters which that firm sent to American companies, 40 percent did not even bother to reply. Only 10 percent responded positively.

We must ponder the fact that each sale of American-made products not made to firms like Volkswagenwerk can be lost to competing and enemy economies. If a firm of the caliber of Volkswagenwerk has such experiences with Americans, then what can a budding umbrella maker in some little underdeveloped country expect?

Throughout the world, there are mounting and even desperate pressures for bigger and better exporting activity. In some countries, inefficient or indifferent exporting is tantamount to economic sabotage. In Yugoslavia an exporter could, in certain instances, be put in jail if he did not faithfully fulfill his contractual obligations to a foreign buyer.

In Korea, an exporter enjoys some commercial privileges over that of other Korean businessmen. His role is considered special in the survival of that country.

In a country like India, exporters are being asked to enroll in special programs designed to better further the national interest. Three Indian governmental agencies have been at work developing a program which they hope will increase confidence of foreign importers in Indian exporters, and in turn, in Indian-made products.

A number of special facilities are offered to the Indian exporter if he enrolls in the Government inspired program. As an obligation of enrollment, the Indian exporter must formulate an export plan to be coordinated with a nationwide export program. In addition, exporters must be prepared to justify to the enrolling authority their inability to fill an order from a foreign buyer. Also, other obligations must be met by the exporters such as: a code of conduct, preshipment inspection, standards of quality and packing of goods, standard contract forms for export, and acceptance of adjudicative decisions of the enrolling authority. We would do well to study this Indian exporter program.

If we are to bear the mantle of free world leadership, then we must be first-class in all our endeavors. To be inadequate in any area that contributes to national power, can be a dangerous proposition. If it is true that we are now being challenged to a worldwide economic contest, then we must not be second rate.

We must divest ourselves of approaches to foreign trade that were already obsolescent decades ago. In our world today, deficiencies in exports mean not just that millions of people could conceivably have their livelihood affected but can also mean the weakening and destruction of an entire nation. Not only must we as a country be concerned with the matter of how our foreign trade is actually effected, but also there is the question of who is handling it, and who will be doing it in the future.

Today, all significant U.S. commercial exports are essentially handled by various groups which are generally categorized as follows: exporting manufacturers, merchant exporters, export representatives, export management companies or combination export managers. Reports of the numerical strength in each of these categories of exporters are conflicting. Let us consider some of these exporter categories and figures cited for them:

The first category includes actual manufacturers who produce for the domestic market, but still maintain export departments to handle development of sales of their products to foreign markets.

The most widely used estimate has it that there are about 12,000 exporting manufacturers out of an approximate total of 300,000 manufacturers in the United States. There are some who question this estimate and think that the percentage of exporting U.S. manufacturers is actually at an incredibly low figure of 2 percent. Even if we accept the higher figure, it is still about the lowest percentage of exporting manufacturers to be found among the leading industrial nations of the free world. Even if the figure of 12,000 manufacturers is reasonably correct, we still have no idea of how efficiently they really handle their export operations. We do not really know how many additional manufacturers are directly entering the export field each year. Nor are we fully

informed on how many manufacturers give up their export departments each year.

Aside from the above indicated exporting manufacturers, a significant percentage of our foreign business is transacted by merchant exporters. These merchant exporters, a number of whom were born in foreign lands, usually manufacture nothing themselves but rather, buy and sell independently, and strictly for their own accounts. Merchant exporters have been prime movers of goods in international trade since virtually the dawn of civilization. Their procedures and techniques have been handed down from one generation to another. The role that merchant exporters have played in our international trade has, in the past, been most significant.

Between the categories of "exporting manufacturer" and "merchant exporter," we have intermediary types of exporting setups. Chiefly, we have the export representatives, export management companies or combination export managers. These latter organizations are usually independent specialists in export trade, who, usually for a fee or commission or other special arrangement, develop and manage the export operations of one or more manufacturers who want export business, but do not want to do the actual job themselves.

According to figures released by the Bureau of Census in 1960, under the heading of "Wholesale Trade" a total of 2,618 persons or firms are listed as "exporters," and a total of 693 as "export agents."

Presumably, the former figure refers to nonmanufacturing or merchant exporters, while the latter figure can be construed to mean export representatives or export management companies, who manage or sell for manufacturers on a commission basis. These figures do not tell us much about the true exporter population of the United States.

The New York State Department of Commerce has indicated that it has a listing of about 800 individuals or firms in New York who have been categorized as "export agents or representatives." This is more than the Bureau of Census listing under the category of "export agents" for the entire Nation.

According to one estimate, 95 percent of all U.S. exports are actually effected by as few as 1,500 firms. Another estimate has it that there are about 300 first-class export management or combination export managers in our country, and they, in turn, handle the export sales of 3,000 manufacturers. Still another estimate has it that there are about 600 to 1,000 first-class combination export managers in the United States.

Under the heading of "Exporter," the New York Telephone Red Book listed 400 names in 1936; in 1940, there were 1,760 names listed; and in 1950, there were almost 5,000 names listed. Exactly who these individuals or firms were, and how they operated is not known. We do not know with any certainty how many of these individuals or firms listing themselves in the telephone directory as exporters were in reality just that. It is not rare to find various nonreporting firms listing themselves as exporters. Also, there are individuals who operate under a variety of entirely different names or designations, and these throw off accurate counts. Recently, one exporter brought up on charges of conspiring to ship strategic materials to ultimate Iron Curtain country destinations was found to be operating seven concerns, each with a different name. We do not know how many so-called export firms are really dummy concerns covering up other activities.

Also confusing our exporter count are the "moonlight exporters" who are individuals that take a flyer at international trade after hours on a job. For the nominal cost of some stationary and postage stamps, anyone can include himself in a mystical fraternity of exporters.

Further, much of our exports are not initiated by Americans at all, but by numerous foreign importers who, in a secondary way, create an exporter role for themselves. This is the "phantom exporter" whose number no statistic has begun to reveal.

As to how many exporters of all categories there are in the United States, there appears to be no answer that can be regarded as accurate.

It has already been noted that even the most minimum of standards are not required of anyone desiring to become an exporter of U.S. products or services. Nor has there been evolved a serious suggestion for codes of standards and ethics that could be strictly applied to our export trade activity. On the other hand, our U.S. freight forwarders, who serve primarily as shipping agents for exporters, have been subject to critical study by both local as well as Federal regulatory agencies. The licensing and regulating of freight forwarders is now more or

less an accepted fact. The functions and services of these freight forwarders have been extensively reviewed. The courts have not always been in complete agreement as to whether freight forwarders are even engaged in international commerce.

Paradoxically, the vital group of exporters whom the freight forwarders service, and who are actually the people who initiate and negotiate billions of dollars of business, have never been subjected to any intensive study or inquiry on the scale that has been applied to freight forwarders.

For a foreign freight forwarder to now obtain a license, he must show that he is "ready, willing, and able" to carry out forwarding functions. He must demonstrate experience, knowledge, and also show that he has not been recently convicted of a serious crime.

If an improper, or illegal, shipment of goods is sent out of the country, it is the exporter who has the basic accountability. The freight forwarder's principal role is to prepare export documents, book freight space, and generally expedite the movement of shipments for the exporter, for which he receives modest fees or commissions.

A freight forwarder could conceivably be requested to prepare an export customs declaration on a shipment purportedly of refrigerators but which might instead actually be important electronic equipment. Unless such a freight forwarder knows the true nature of the shipment or is in collusion with the exporter attempting such deception, then he really cannot be called to account. To many freight forwarders, the exporters for whom they perform services may be faceless voices on a telephone and little more. Yet there is legislation to regulate freight forwarders, but nothing of the sort has been seriously suggested for those that the freight forwarder services. The final responsibility of our Nation's vital multibillion-dollar export business is left to thousands of people whose true nature is largely obscure.

Our long-term requirements for national export expansion will become increasingly insistent. It is a matter of economic health and even a matter of our national life or death that dictates we must be effective and efficient in exporting. Among our American exporters today, we already have some highly dedicated and trained individuals. But we urgently need a much greater number for the task ahead. The development and proper training of a good exporter cannot be effectively done in a matter of a few weeks or months. Yet the need is now; tomorrow may be too late.

A prediction has been made that, within 25 years, one of every six American businessmen will be involved in foreign trade. Yet, we do not know much about the proficiency of the American exporting community, let alone its capability to cope with the demanding future. It has been estimated that within less than 20 years, one out of every four students who complete college will be working in a foreign city. Our potential exports to Latin America by 1975 alone could reach the tremendous figure of \$40 billion per year, or about double our current exports to the entire world. We have not given too much thought as to how we shall even begin to prepare for this world of tomorrow and its enormous requirements.

For some time, there has been a growing apprehension among concerned men in both public and private life, that existing educational facilities to train Americans in foreign trade studies are not adequate to the growing demand. A study made by the Library of Congress has also borne out of the fact that such educational facilities are not sufficient for the anticipated requirements.

One of the finest educational facilities existing today in the United States and which is exclusively devoted to training for international positions and trade is located on the site of an Air Force base in Arizona. This school, excellent as it is, has had facilities to graduate only 2,000 individuals in a period of about 10 years. Many of these graduates have taken positions with U.S. corporations that have overseas manufacturing or extractive operations. There are a number of schools and colleges throughout the United States that offer fine courses in subjects relating to foreign trade. Some far-sighted American corporations offer to selected employees special courses, particularly in foreign languages. Further, numerous special seminars, classes and trade clinics devoted to the study of export trade procedures and problems have been sponsored by local groups, and by our export expansion councils, which have been specially set up by the U.S. Department of Commerce. All this has been most noteworthy and of value.

However, the swiftly moving events and the requirements that our country must now meet in order to maintain its world leadership have made all of our existing facilities inadequate. Our national need requires that we have cadres of highly trained, dedicated, and patriotic export specialists.

Our American exporter must be as proficient in languages as are his foreign counterparts. He must thoroughly know not only foreign marketing techniques, but must know his geography and be well versed in the ethnic, cultural, and commercial patterns in which he is to find himself. He must respect the foreign people and customs which he may encounter.

He must understand thoroughly how, by doing his work well, he not only can help his business and his country, but also be a missionary of good will among people of the world. The American exporter can create a new and dynamic diplomacy. He can reflect the best in our way of life. We must never allow an "ugly American" counterpart to exist among our exporters. The American exporter, in his traveling to every corner of the world, can often befriend people that no diplomat ever sees. He can talk and communicate with other men throughout the world in a language of mutual interests that transcends politics. Men's minds can be reached through their economic well-being.

The American exporter can be the vehicle by which the concept of "world peace through world trade" can be given real meaning. Above all, our American exporter must not be a second-rate person. He has an important job to do and, in the execution of his work, can exert considerable influence for good. Throughout the years and without fanfare, some American exporters have created priceless friendships for our country.

All this requires a new and unprecedented approach to the function and meaning of the American exporter. President Kennedy has called on American businessmen to follow their heritage and to recapture the spirit and vitality of American traders of old.

We must recognize that first steps are overdue. Urgently required are sustained evaluations of existing patterns of our export trade, of who has been handling our export business, how it is being affected, and what must be the direction and procedures for the future.

Studies under both Government and private auspices should be immediately authorized to determine exactly what the role of exporters is to be in our international trade and in economic warfare. For the purposes of such studies, exporters should be regarded as any individual or firm who sells, offers, or trades products, materials, services, patents, processes, or techniques to foreign importers, their intermediaries, or agents.

To be considered in such studies, would be the following:

(1) How can unethical, poorly conceived, or irresponsible exporter practices damage or diminish the image of America throughout the world?

(a) What are foreign impressions and reactions to our exporters?

(b) What are the reasons for the rapidly rising number of complaints against American exporters?

(c) How could exporters, through their activities and contacts, better advance the position of America?

(2) How much should the exporter and commercial traveler know of the people, culture, or special problems localized in the foreign area in which he transacts his business?

(3) In addition to traditional functions, what other roles are implicit or are now required in exporting activity?

(4) Exactly how many exporters are there in the United States; what are their origins, groupings, and how well qualified are they in technique, language, and knowledge of the world?

(a) How do American exporters compare in motivations and training, compared with exporters for other countries?

(b) How do the foreign counterparts of the American exporters function?

(c) How does an exporter who works for or acts on behalf of a Communist or state-controlled enterprise function?

It is to be expected that one result of such studies would be to help create a better export tradition for America. We must do all possible to encourage the highest enthusiasms and the finest of values among present and future generations of American exporters. Our export activity must be understood in the light of contemporary realities. It must become as popular and important a career as any other that is to be found in American society. But, above all, we no longer can allow one of our greatest strengths: the exporters, to be, paradoxically, one of our greatest potential weaknesses.

Mr. SCOTT. Mr. Chairman, I have one question in regard to Mr. Snyder's experience and interest as an exporter. I am sure he is familiar with the Common Market and the Trade Expansion Act. Will that present any special problems for the U.S. exporter, Mr. Snyder, and if so, what would they be?

Mr. SNYDER. The purpose of the Trade Expansion Act was to—

Mr. SCOTT. Would it have any effect on the control of East-West trade in strategic equipment and material?

Mr. SNYDER. Well, I would say only in an indirect way. The question is again: what is the individual exporter going to do, and how is he going to interpret and act upon the provisions of the act.

Mr. SCOTT. I have no further questions, Mr. Chairman.

Senator KEATING. Thank you very much, Mr. Snyder.

Your statement will be made a part of the record. We are very grateful to you and we will determine whether these recommendations which you made to us on March 28 should or should not be made a part of the record. In any event they will certainly be considered by the committee. We express our gratitude to you for giving us this help.

Thank you very much.

(The following suggestions and recommendations, as submitted by Mr. Snyder on March 28, 1962, were later ordered printed in the record at this point:)

Studies under both Government and private auspices should be immediately authorized to determine what the role of exporters is to be in our international trade and in economic warfare.

For the purposes of such studies, an exporter should be regarded as any individual or firm who sells, offers, or trades products, services, patents, processes, or techniques to foreign importers, their intermediaries or agents.

To be considered in such studies would be the following:

(1) How can unethical, poorly conceived, or irresponsible exporter practices damage or diminish the image of America throughout the world?

(a) What are foreign impressions and reactions to our exporters?

(b) What are the reasons for the rapidly rising number of complaints against American exporters?

(c) Could exporters, through their activities and contacts, better advance the position of America throughout the world?

(2) How much should the exporter and commercial traveler know of the people, culture, or special problems localized in the foreign area in which he transacts his business?

(a) What is the awareness of exporters as to how American national interests can be affected by their contact with foreign people?

(3) In addition to conventional functions, what other roles are implicit or are now required in exporting activity?

(4) Exactly how many exporters are there in the United States, what are their origins, and how qualified are they in technique, language, and knowledge of the world?

(a) Are foreign exporters better motivated and trained than are the Americans?

(b) How do the foreign counterparts of the American exporters function?

(c) What are the functions of an exporter who works for or acts on behalf of a Communist or state-controlled enterprise?

Based on the above suggested studies, the following recommendations should be acted upon:

(1) Establish minimum requirements for an individual or firm to engage in export trade.

(2) Formulate a national code or standard for American exporters.

(3) Establish an Export Trade Commission to administer these recommendations and set up a system of penalties for those exporters who are proven violators. It will also serve as an agency to act upon the barring from American export trade of individuals or firms if it can be established that such barring is required for national security.

(a) The Export Trade Commission would express requirements for those seeking to engage in export trade in accordance with prevailing national need and security.

(4) Require the declaration of the intent to export or remove from the United States (or areas under U.S. jurisdiction) any patents, processes, and techniques.

(a) Regulate international licensing arrangements entered into by U.S. firms or affiliates.

(b) Regulate the disposal or sale of all U.S. processes and techniques to other nationals or countries.

(5) Formulate more effective educational programs to train and orient cadres of first-class American export manpower, who will be well equipped and motivated to serve their country well in worldwide economic warfare and growing international trade competitions.

(6) The establishment of specially constituted agencies or organizations for the purpose of mobilizing, initiating, and, in some instances, directing exporter functions in those areas which are not now being adequately covered by existing setups.

Senator KEATING. Mr. Joseph Drago.

Mr. Drago, I have had occasion to mention the action of your union and you specifically before. I must say that I commend you for the action which you took some time back, and we are very grateful to you for appearing before us here this morning.

Mr. SCOTT. Mr. Drago, would you state your full name?

STATEMENT OF JOSEPH P. DRAGO, PRESIDENT, LOCAL LODGE NO. 893, INTERNATIONAL ASSOCIATION OF MACHINISTS

Mr. DRAGO. Joseph Drago.

Mr. SCOTT. You are the president of Local Lodge No. 893, International Association of Machinists?

Mr. DRAGO. Yes, sir, I am, AFL-CIO.

Mr. SCOTT. Will you give us a brief description of your position, how long you have been there, and the type of work in which your group is engaged.

Mr. DRAGO. I am a machinist with the Stratos division of the Fairchild Stratos Corp. I have worked there for 14 years, I have been president of the local for 7 consecutive years.

Mr. SCOTT. You are here under subpoena, Mr. Drago?

Mr. DRAGO. I am.

Mr. SCOTT. Mr. Chairman, I would like to submit a copy of the subpoena and its service for the record.

Senator KEATING. That will be made a part of the record.

(The subpoena referred to was marked "Exhibit No. 32" and reads as follows:)

(EXHIBIT No. 32)

UNITED STATES OF AMERICA

CONGRESS OF THE UNITED STATES

To Joseph P. Drago, 37 Chester Street, East Northport, N.Y., Greeting:

Pursuant to lawful authority, you are hereby commanded to appear before the Subcommittee on Internal Security of the Committee on the Judiciary of the Senate of the United States, on Friday, October 26, 1962, at 10:30 o'clock, a.m.,

at their committee room, 129 Federal Court House, Foley Square, New York, N.Y., then and there to testify what you may know relative to the subject matters under consideration by said committee, pursuant to S. Res. 366, approved by the 81st Congress, 2d session, as amended and extended, and S. Res. 264 agreed to February 7, 1962.

Hereof fail not, as you will answer your default under the pains and penalties in such cases made and provided.

To Samuel J. Scott to serve and return.

Given under my hand, by order of the committee, this 23d day of October, in the year of our Lord one thousand nine hundred and sixty-two.

JAMES O. EASTLAND, U.S.S.,
*Chairman, Committee on the Judiciary
and the Subcommittee on Internal Security.*

OCT. 25, 1962.

I made service of the within subpoena by hand upon the within-named Joseph Drago, at New York City, New York, at 2:30 o'clock p.m., on the 25th day of October, 1962.

SAMUEL J. SCOTT.

MR. SCOTT. I mentioned the International Association of Machinists. Would you identify that further, from the standpoint of membership—international and also for your local.

MR. DRAGO. The international has approximately 1 million members throughout the United States and Canada. At one time our local lodge had approximately 500 members. We have now approximately 275 due to loss of defense contracts.

SENATOR KEATING. I am also acutely aware of that problem, as you know.

MR. SCOTT. Mr. Drago, do you have a statement for the record?

MR. DRAGO. Yes. I would like to read this brief statement, which will possibly give an idea of how we became aware of this particular problem and what we attempted to do about it.

On a working day in late December, I received an urgent call from Ron Pettit, steward in our 109 plant.

"Joe," he said, "you better hurry over here right away, we have a problem."

"What kind of problem?" I asked.

"Hold on to your hat," Ron said excitedly, "we're making some machinery to be sent to Russia."

"Come on," I answered angrily, "I don't have time for any jokes."

"No fooling, Joe," Ron insisted, "we're making machines for Russia."

I soon found myself taking the short ride to the 109 plant, feeling skeptical about the authenticity of Ron's report. How could we, a defense plant, be involved in manufacturing machines for Russia?

Ron met me at the door with several of the angry workers from the plant.

"Now what's this all about?" I asked.

"Come and see for yourself," was the answer.

Before I had an opportunity to enter the plant, Leo Lust, inspector, shoved a nameplate printed in Russian before my eyes.

"Now, Joe, explain this."

After seeing the Russian characters I knew that this was no joke. My first task was to calm the men from 109; they wanted to immediately go on strike; there was talk of contacting the Disabled American Vets to picket the plant, and the workers who were in-

involved with the actual building of the units wanted to disassemble what they had built.

I told the fellows we would have none of that; we were a law-abiding union with obligations to a contract, that we would thoroughly investigate the problem and then seek a solution.

In discussing the problem at great length, Ron Pettit and I felt that the company held the key to the answer. He related to me that the company had verbally confirmed the rumors that the machinery was going to Russia, however, the reasons for the shipment did not satisfy the men, nor myself.

Ron and I felt that we should go to a higher authority in the company to document what was said verbally and to perhaps change the company's mind.

A letter was written to Mr. Charles Collis, general manager, by the workers in the 109 plant, stating theirs and the union's views on the subject.

On December 27, we received a letter from Mr. R. Huston, manager of the 109 plant, on behalf of Mr. Collis. I have the letter with me.

The company flatly refused to accept our appeal to deny this shipment to Russia. The ponderous weight of blocking the export of this material now lay on our shoulders.

At our local lodge meeting in early January, the membership voted unanimously to take every and all legal measures to stop this material from falling into Communist hands. It was decided that Ron Pettit and I would leave as soon as possible for Washington, D.C., to seek guidance and advice from our international union.

The following afternoon we were in the Machinist Building, knocking on doors. This was the first shock wave of many; we were met with blind eyes and deaf ears. It was not until we were introduced to Mr. R. Faupl, who is the international representative assigned to foreign labor problems, that we found someone ready to listen to our story. He, as we, was appalled to discover a defense plant manufacturing economically strategic machinery for our enemies.

He informed us that he would do everything possible to help us in our cause. He arranged several appointments for us with the people in the State Department.

Now we felt that we were on the right track. Here was our opportunity to meet with well-informed knowledgeable people; here was our opportunity to obtain official answers to our layman questions; it was here we would leave our doubts and bring home justification for the company's rights to ship strategic machinery to Russia.

From behind the grand mahogany desk, and out of the well-padded leather seat came the official "rationalizations" which we were not looking for; along with the running verbal account of Mr. Rusk's policy concerning trade, we were presented with a mimeograph copy of his statement on "Trade" to the House Select Committee on Export Control (Oct. 25, 1961).¹

We cannot understand in our laymen minds, this confusing, ambiguous, and contradictory document which condones the sale of economically strategic goods to an enemy when the United States is asking its fighting men to give up their lives for its freedom.

¹ See app. I, p. 461.

Does this insane logic of sending to the Soviet Union all types of heavy capital goods reach out to John Q. Ivan on the street in Moscow and prove that the United States is friendly?

Well, no; because John Q. Ivan does not know of the good intentions of the United States. He only knows of the glory of the Soviet and only what the Soviet tells him of the United States.

When we questioned the validity of logic in the State Department's arguments, we were sent to the Commerce Department.

At our meeting with the Commerce Department, we were confronted with the same rationalizations as in the State Department.

We were discouraged and dismayed, but we were not beaten. We decided to go to the people with our story.

Soon after, we called a press conference with the New York City and local newspapers; we sent out petitions to all local and district lodges of the IAM-AFL-CIO in the United States, and we broadcasted our appeal during the annual meeting of the New York Council of Machinists condemning shipment of strategic and economic goods to Communist countries, and we gave speeches on the subject to groups and universities.

The response was gratifying. We found that many Americans believed as we do. Letters and petitions arrived from all parts of the country. We were now not alone in our fights.

The battle we are fighting is not just the battle of our small union, it is the battle of all Americans, but mostly, it is the battle of the legislators in Congress to fight. It is their obligation and duty to halt this shameful flow of strategic material to the Communists.

Mr. SCOTT. Mr. Drago, you mentioned in your statement a letter to Mr. Charles Collis, that was dated December 19, 1961.

Mr. DRAGO. Yes, sir; I have that letter.

Mr. SCOTT. Mr. Chairman, I would like to submit a copy of that for the record.

Senator KEATING. It will be received.

(The letter referred to was marked "Exhibit No. 33" and reads as follows:)

(EXHIBIT No. 33)

LOCAL LODGE No. 893,
INTERNATIONAL ASSOCIATION OF MACHINISTS, AFL-CIO,
Brightwaters, N.Y., December 19, 1961.

Mr. CHARLES COLLIS,
General Manager, Stratos Division.

DEAR MR. COLLIS: The purpose of this letter is to bring to your attention our feelings concerning the specon units ultimately destined for the Soviet Union. The units we refer to are nine No. 6 specon differential transmissions being built at plant 2 in West Babylon. These are intended to be shipped to Beloit Iron Works and ultimately on to Russia. Our small plant employs a number of veterans who are confined to wheelchairs, and who are greatly disturbed by this action. Their predicament is a direct result of contact with Russian imperialism in Korea.

We cannot conscientiously contribute to any effort that will aid the Russians in fulfilling their threat to "bury us." The units we are referring to are Stratos B-51A775—Beloit T-7-5935. They are scheduled to include a number of spare parts, and we hope, no engineers.

We realize the fact that the company is pressed for work, and the union is certainly wholeheartedly in support of any endeavor towards this end. We cannot, however, accept that employment is so paramount an issue that we would rather work for the Russians than face the risk of unemployment. On this

particular issue we strongly desire that the company's feelings will be the same.

We earnestly hope no further action will be necessary to convince you of the serious way we view this matter.

Respectfully,

JOSEPH DRAGO, *President.*

Mr SCOTT. Then you received a reply concerning this letter from Mr. Ralph R. Huston?

Mr. DRAGO. That is correct.

Mr. SCOTT. Dated December 27, 1961?

Mr. DRAGO. That is correct.

Mr. SCOTT. I would like to submit a copy of that for the record.

Senator KEATING. That will be received.

(The letter referred to was marked "Exhibit No. 34" and reads as follows:)

(EXHIBIT No. 34)

INTEROFFICE MEMORANDUM

STRATOS DIVISION,
FAIRCHILD ENGINE & AIRPLANE CORP.,
December 27, 1961.

To: All Personnel—Industrial Products Branch.

From: Ralph R. Huston.

Subject: Sales Order 45-596.

Mr. Charles Collis has asked me as manager of the industrial products branch to reply to your letter of December 19, 1961, that was signed by several of you, which outlined your thoughts on the production of nine No. 6 specon differential gearboxes. In a sense, this letter will simply confirm and formalize my verbal statements to you of December 20.

As stated in your letter, the units are being built on a purchase order from the Beloit Iron Works of Beloit, Wis. These units were specifically designed several years ago for application to Beloit designed papermaking machinery and cannot be used conceivably for any other purpose. We have had the privilege of supplying these units to Beloit since 1955. As Beloit was the first large customer to standardize on a specon differential transmission, they remain a greatly valued customer, and when regulator production is also considered, Beloit becomes our No. 1 customer.

Naturally, our relationship with Beloit personnel is very close. The circumstances surrounding their present order, therefore, has been an open book. These nine units, ultimately destined for a newsprint papermaking machine for Techmashimport in the U.S.S.R., are being exported by Beloit Iron Works to Mitsubishi Heavy-Industries of Japan. Such exports can be made only with the express approval of the U.S. Department of Commerce and proper export licenses are being obtained by Beloit for this equipment. The granting of a license to export this material means that our Government, after consideration of all factors relating to world trade and world peace, approves of such trading on the part of the Beloit Iron Works. You can be assured, therefore, that our processing of this order does not violate in any way public laws or governmental policies.

In order to meet our promised delivery date of January 15, final assembly, which is the only work remaining on this order, must begin the week of January 8.

RALPH R. HUSTON.

Mr. SCOTT. Then you sent out from Local Lodge 893 a circular and petition to all of the lodges there?

Mr. DRAGO. That is correct.

Mr. SCOTT. To the members of the local and district lodges.

I would like to submit a copy of that letter and petition.

Senator KEATING. That will be received.

(The letter and petition referred to were marked "Exhibit No. 35 and 35A" and read as follows:)

(EXHIBIT No. 35)

LOCAL LODGE No. 893,
INTERNATIONAL ASSOCIATION OF MACHINISTS, AFL-CIO,
Brightwaters, N.Y.

To All Local and District Lodges:

DEAR SIRS AND BROTHERS: It has come to the attention of the members of Local Lodge 893, International Association of Machinists, that certain technically advanced machinery which we are producing is destined for shipment to the Soviet Union. Local lodge 893 is the bargaining agent for the Stratos Division of Fairchild Stratos Corp. The machinery in question is a component of a papermaking factory that is being assembled by the Beloit Iron Works of Wisconsin for export to Russia.

The problem is essentially this: Can we continue the present export control policy which permits the export to the Soviet Communist bloc of items such as iron and steel mill products; electrical machinery and apparatus; metalworking machinery and parts; paper, pulp, and papermaking machinery; industrial machinery; aircraft, parts, and accessories; scientific and professional instruments, apparatus, and supplies?

We, the members of local lodge 893, are protesting the shipment of this highly developed heavy equipment, of which ours is a part, to the Red bloc. We cannot and we will not serve two masters. We have met with members of the State and Commerce Departments, Senators and Congressmen seeking their aid and support in solving our problem. To our shock and dismay we discovered that there is no set policy governing the export of this equipment.

Can we permit a policy with such a tremendous "grey" area that licenses are being granted for export to the Communist bloc without consistency or logic? A policy so flexible that vast amounts of heavy machinery are leaving the United States marked "destination U.S.S.R." The rationalities, platitudes, and cliches offered as reasons do not, in our opinion, justify the strengthening of the economic position of our Red enemies. This policy must be changed.

There are many Senators and Congressmen who firmly agree with our position. Senator Kenneth B. Keating, of New York, on January 29, 1962, blasted the present export control policy on the Senate floor by saying:

"I cannot fathom the apparent willingness of some members of the free world community to contribute valuable equipment and know-how to the Reds which may be used against all of us. * * * In a shocking display of a double standard nations seemingly ready to ask the ultimate sacrifice from their young men are unwilling to interfere with profitable trade opportunities with the adversary."

We wholeheartedly agree with the Senator on this matter. Let us clean our own house. In a letter to the Stratos Division dated December 19, 1961, the members of local lodge 893 emphatically wrote:

"We cannot conscientiously contribute to any effort that will aid the Russians in fulfilling their threat to bury us. * * * We cannot accept that employment is so paramount an issue that we would rather work for the Russians than face the risk of unemployment."

It is our objective to stop the shipment of this vital equipment to Russia, and we can only achieve this by changing the inconsistent and unjustifiable policies that permit us to supply our enemies with the economic weapons of war.

We are asking you, as fellow brothers in the labor movement and as American citizens; if you agree with this concept write to your Senators, Congressmen and make a motion at your next membership meeting and give us your support and encouragement by sending us a letter of endorsement.

For any other information concerning this matter write to Local Lodge 893, Box 6, Brightwaters, Long Island, N.Y. Thank you for your consideration in this matter.

Respectfully and fraternally yours,

JOSEPH DRAGO,
President, Local Lodge, 893.

(EXHIBIT No. 35-A)

PETITION TO TIGHTEN EXPORT CONTROLS TO RUSSIA

In your mailbox you will find the union's reasons for wanting our export policy tightened. You will notice that the last page is a petition form.

We hope you will get all of your friends and neighbors to sign. After you have obtained all the signatures you can get, give your petitions to your AREA STEWARD.

For any of you who are not yet aware of our reasoning; here, in brief, are the facts:

1. Our small West Babylon plant, putting its best efforts forward, was awarded a contract for nine variable speed transmissions at a time when the workload was getting pretty low. ONLY AFTER most machine work was done was the company informed that this was a component of an entire paper plant to be shipped to Russia.

2. Our quarrel *is not at all* with the company. Management is just as proud of our products as we are, and no doubt as much ashamed as we are that an American defense plant is doing Russia's work. The company does feel obligated to complete this work, for which they tried so hard to win the contract. To them it is a contractual obligation, and the work is being pushed to completion on this count.

3. Our quarrel is over the vague area of what does, or does not get an export license for shipment behind the Iron Curtain. We, and undoubtedly the company, are aware that sample shipments such as the present order are a never-ending contrivance of the Russians to use our own technology both to spare their engineers, etc., from doing nonpolitical tasks, and later to dump back on free world markets those same products that *our* technology perfected at *our* expense. Of course, this makes it so much easier to beat our prices.

4. The many contacts with the people who decide what is or is not to be licensed seems to bear out that the final decision depends upon either the weight of pressure groups, or the fuzzy logic stated in the State Department Manual that seems to feel that giving the Russians highly technological materials will show the Russian people that we too are an advanced nation.

The problem has hit home. WE ARE WORKING FOR THE RUSSIANS. Membership has decided it *must* do its best to change the Government's policy that allows this to happen IN TECHNOLOGICAL FIELDS.

WILL YOU HELP BY DOING YOUR SHARE?

We, the undersigned, American citizens of voting age, after having read the Export-Import list from the present Export-Control Policy, agree that this policy is detrimental to the best interests of our country and we strongly urge that this policy be changed. Stop the export of highly technical machinery and economically strategic material to Russia.

Name	Address	Town
------	---------	------

Mr. SCOTT. Will you tell the committee, Mr. Drago, the response that you had.

Do you have copies?

Mr. DRAGO. Yes, sir, I have copies of petitions which we received through our members signing people up on the street and also through the efforts of many people throughout the United States.

Mr. SCOTT. This was throughout the United States, representing a broad response?

Mr. DRAGO. Yes. I am sure that we could get many more today than we could have at that time, and actually it is lack of time and finances which prevented us from pushing this campaign as hard as we wish we could have.

Mr. SCOTT. Would you submit those to the committee for our study and examination?

Mr. DRAGO. Yes, sir.

Mr. SCOTT. In addition, you received numerous letters from individuals who were certainly interested in this matter. Would you care to read one or two of the brief ones and then submit them to the committee?

Mr. DRAGO. Yes. We received many letters, unsolicited. These were letters from individuals who had read in the paper or heard

on the radio of our problem and our fight, and I would just like to read a few of them. They also came from all over the country.

Mr. SCOTT. Would you indicate origin of each one?

Mr. DRAGO. This is from Washington State.

Our sincerest congratulations on your stand regarding opposition to contracts which would use American workmanship on products eventually shipped to Communist countries. When my husband was more or less told to join the union or lose his job, I was very bitter toward the union. Since reading of your courageous stand I am proud that he is associated with 100-percent Americans.

Mrs. R. C. STEVENS.

I have one here from New York.

DEAR SIR: I read in today's—
that is Saturday's—

New York Times where the 500 membership of your local would rather risk unemployment than produce precious machinery for Russia. All I can think of is to say here to all of you union people of local lodge 893 is "God bless you for all your convictions in this matter." You people are 100-percent true-blue Americans, and if we had more dedicated ones like you, our task would be so simple and easy. Can you advise me where and whom I might write to down in Washington to try and add my small voice in protest against the inconsistent policies of the Department of Commerce in such a matter. I sincerely hope none of you fellows had to go out to work in order to back up your stand but hope that the specific people down in Washington can get on the ball and deny exports of these products involved. We are in a war with an enemy but, to watch some of our so-called experts in Washington react to it, one would think that all is peace and loveliness throughout the world. Again God bless you people and be with you all the way. It made me feel so good to read the article in the Times today and how you were starting a door-to-door campaign in protest against the export control policy.

Mr. SCOTT. Mr. Chairman, I think at this time we will not ask Mr. Drago to read additional letters; there is a multiplicity of them, but he can submit them for the record.

Senator KEATING. If he would like to have any of them made a part of the record we would be glad to do so.

Mr. DRAGO. You can have them all and make any one of them a part of the record.

Mr. SCOTT. One thing that I would like to ask is that you just briefly describe the precision gearbox in question. As I understand it, it is the No. 6 differential gear box.

Do you have any brochure or descriptive literature that you could submit?

Mr. DRAGO. I have some brochures here which the company uses in the sales of their products, and the company's answer to us was: They say these things cannot be used except for their original intention. I am not an engineer or a technician but I can quote from their own brochures.

Specon units are in use in papermaking machines, paper converting equipment, printing presses, rotating radio telescopes, mine hoist controls, film cutoff machines, continuous tube mills, glassmaking machinery, rubber processing equipment and many other diverse applications.

Mr. SCOTT. Mr. Drago, is it your belief that these precision gear boxes were produced by you and then sent out to Beloit Iron Works, Beloit, Wis., attached to this papermaking machinery and then sent over to Russia, as I suppose they have been sent?

Mr. DRAGO. They have been sent.

Mr. SCOTT. They, in turn, can be duplicated and attached to other machinery where there is a necessity of having speed-control equipment?

Mr. DRAGO. I think this is part of a much larger problem. I don't think that the Russians are buying any of these things in great quantity. I think what they are doing is buying sample quantities, taking them to Russia and, therefore freeing their engineering talent and their technical talent so that they can go and try to maintain or get ahead of us in the defense business, and the arms business, because any machine, which has already been produced can be duplicated by merely using a mechanic or machinist, because the engineering time and developmental time is really where the expense lies and where real talent is needed.

Mr. SCOTT. This is of such a serious nature that you did take the time to write a letter to Mr. Collis. In addition you sent out, or your local adopted, this resolution that you mentioned in your statement?

Mr. DRAGO. Yes, sir.

Mr. SCOTT. A copy of that resolution is furnished for the record as well as a letter to all of the members asking them to sign the petition, which they did.

In addition to that, what else, what further action, did you take, Mr. Drago?

Mr. DRAGO. Well, we had the endorsements from various locals which you can have. One of our endorsements which I am very proud of was the endorsement from the New York State Council of Machinists, which we believe has pretty close to 100,000 members, and the copy of the resolution that was adopted at that convention can be submitted for evidence. It was unanimously approved.

Mr. SCOTT. Would you submit that?

Mr. DRAGO. I believe the Senator quoted from it.

Senator KEATING. I did. And I have been very proud of you and the position of your union and I commend you without reservation for the attitude you have taken.

Mr. SCOTT. Can we accept those?

Senator KEATING. Yes. They will be accepted.

(The resolution referred to was marked "Exhibit No. 36" and reads as follows:)

(EXHIBIT No. 36)

RESOLUTION

TO 34TH SEMI-ANNUAL CONVENTION OF NEW YORK STATE COUNCIL OF MACHINISTS

Whereas the Soviet Union and its satellites are working toward the destruction of the free world's capitalistic system; and

Whereas Khrushchev's policy is to use the free world's industrial capacity against itself; and,

Whereas the machine tool industry in the United States is on the verge of collapse as a direct result of the Communist's plans to copy, build, and undersell the United States; and,

Whereas the present U.S. export-control policy allows such heavy industrial machinery items such as, iron and steel mill products (needed for the construction of tanks, planes, and submarines), electrical machinery and apparatus (needed for guidance systems in intercontinental missiles), construction, excavating and related machinery (needed for higher Berlin walls, and carving out airstrips in Laos and North Vietnam), paper pulp and paper-processing machinery (certainly not used to print Bibles or ballots), aircraft parts and accessories (no explanations needed), and enriched uranium (needed for building 50 megaton bombs); and,

Whereas U.S. Senator Kenneth Keating of New York after a thorough investigation, including a European trip, states: "In recent years the United States

and our free world allies have made a substantial contribution to Communist growth and power by being major suppliers of advanced technology and machinery to the Sino-Soviet bloc," and,

Whereas Congressman Thomas M. Pelly of the State of Washington has remarked in the House of Representatives on the export of U.S. goods to Iron Curtain countries, "To my mind, this is a sorry loss and a sad commentary on the patriotism of some exporters, who put personal gain above love of country and, in cooperation with fuzzy thinking bureaucrats in the Department of Commerce are trading with the enemy and furnishing vitally needed material for building up the Communist military potential," and,

Whereas U.S. Senator Warren G. Magnuson, chairman of the Senate Committee on Commerce has stated, that at one time he was very much in favor of trade with the Sino-Russian bloc because he felt it would reduce tensions and foster better cooperation between the United States and the Communists, has now changed his views and is introducing a bill to the Senate to cut out this trade; and,

Whereas the Senate Internal Security Committee is planning to resume its hearing on this vital issue in the near future: Therefore, be it

Resolved, That the delegates to this 34th Semiannual Convention of the New York State Council of Machinists instruct the secretary to notify the New York Senators of the United States, and Congressmen, to introduce, or support legislation which will change the present export-control policy that permits the export of highly technical machinery, and economically strategic materials to the Sino-Soviet bloc.

Respectfully and fraternally submitted.

LOCAL LODGE No. 893,

HENRY MCCOMBS,

Recording Secretary.

Mr. SCOTT. In addition, I believe you mentioned you went to see some people in Washington?

Mr. DRAGO. Yes, sir; we saw people in the State Department.

Mr. SCOTT. Whom did you see there?

Mr. DRAGO. It would be very difficult for me to recall his name.

Mr. SCOTT. Do you recall the particular office, division?

Mr. DRAGO. No, I would hesitate to say because I wouldn't be positive.

Mr. SCOTT. Would you just tell us briefly the gist of your presentation there, and their comments?

Mr. DRAGO. Well, the comments at the State Department were more or less an oration on Secretary of State Rusk's policies and they tried to justify in many ways why it would be beneficial for us to continue this trade with the Soviet bloc.

As an example, they would say to us that we only do \$38 million worth of business with these people. On the other hand, they would tell us that this business is good for us, because we get needed gold, much needed gold from the Soviet Union, well this just doesn't make sense. They also tried to tell us it would be good for the Russian people to see our highly technical equipment, to show them just how far advanced the United States is. I don't believe we have to send them this machinery to prove this. I think they already know it. I think this is why they point to us as an example of what they would like to achieve under a different system.

Mr. SCOTT. Did you see anyone else?

Mr. DRAGO. Yes. When the discussions became a little heated we were told then this is really not the problem of the State Department, but this comes under the auspices of the Commerce Department, and we went to the Commerce Department.

Mr. SCOTT. Whom did you see there?

Mr. DRAGO. I don't recall their names, sir.

Mr. SCOTT. Do you recall the division?

Mr. DRAGO. No. I could probably get those names, but I don't have them.

Senator KEATING. Do you have a record in your office, or somewhere, of the people to whom you spoke in both departments?

Mr. DRAGO. We were given a little card and it said see Mr. So-and-so in room number so-and-so next Tuesday.

Senator KEATING. Do you still have that?

Mr. DRAGO. I believe I do.

Senator KEATING. I think if you would supply that for the record it would be helpful.

Mr. DRAGO. I will try to find it.¹

Mr. SCOTT. Would you give us a quick résumé of what transpired in the Commerce Department?

Mr. DRAGO. The same thing happened to us, I guess, in the Commerce Department that happened in the State Department, except possibly they knew a little bit more about the gray area. This is where we came into this gray area. Although I know there is a law which controls this—I believe it is the Battle Act—the essence, I think, of the law has been lost by adaptation at particular times in the cold war.

If things would heat up a little bit in Berlin then we would clamp down a little bit. Then they would cool off a little bit and the flow of material would begin again. They told us this gray area was strictly within the control of the Commerce Department. They felt they were doing a good job. They felt a lot of the blame for this fell on the Allies more than on the United States. I agreed with them that our allies are very much to blame. But I don't think that because they are doing more wrong than we are, we could justify our position.

They also gave us several copies of the Export Control Policy, and the booklets telling us of the material that had been shipped, and we made a copy of this and sent it to the various locals with our literature.

Mr. SCOTT. Did you talk to anyone else?

Mr. DRAGO. Well, I have spoken with several people in the International Association of Machinists after we started on this campaign.

As I said in the beginning we had very little results. Everybody had more of a "Don't muddy the water" attitude, and "I know, I think you are right, but I don't know what to do because I don't know what the guy upstairs thinks," I have met with the international vice president in the Northeastern States. He told me to go ahead. "I think what you are doing is right."

Not that he could stop me anyway, but he believed that we were 100 percent right in our venture and we should continue to do whatever we could, even though we weren't getting any particular help from the international.

I also received the same advice from the area vice president in the Middle West.

Senator KEATING. But in New York State the IAM unanimously approved of the action which you had taken.

Mr. DRAGO. Yes, sir. I believe, if I could have been present at all of these State conventions with the letters and the petitions and the story, that there would be no question that we could get endorsements from all of the States.

¹ The material was not available when this document was sent to the printer.

Mr. SCOTT. Mr. Drago, I have here a sales order, a copy of a sales order with the Stratos division of the Fairchild Engine & Airplane Corp., that is dated October 16, 1961, and it is, Stratos order No. 45-596-1. It reflects the sale to Beloit Iron Works, Beloit, Wis., and gives the No. 2 Specon differential transmission, the description of it, and then on the first page under the description it says, "All nameplates to be in both English and Russian."

That is the first time you knew—

Mr. DRAGO. We didn't see the sales order but actually we had seen the plates.

Mr. SCOTT. This is what I am talking about. I would like to submit just this portion of it to be set forth in the record, Mr. Chairman, to reflect that as a basis—

Senator KEATING. Just a moment, that will be made a part of the record.

(The portion of the sales order referred to was marked "Exhibit No. 37" and reads as follows:)

(EXHIBIT No. 37)

SALES ORDER

STRATOS

A DIVISION OF FAIRCHILD ENGINE & AIRPLANE CORP.

INDUSTRIAL PRODUCTS BRANCH

CONTROLS SECTION, WEST BABYLON, LONG ISLAND, NEW YORK

Customer's Order No. 44192.

Date entered : 10-16-61.

Our Order No. 45-596-1.

Contract No. 45-596-1.

Acct. No. 501-000.

Comm. : No.

F.O.B. West Babylon, N.Y.

Terms : Net 30 days.

Ship to : Will advise.

Sold to : Beloit Iron Works, Beloit, Wis.

Requested routing and instructions : See below.

Item : 1.

Quantity ordered : 9.

Description :

#6 Specon Differential Transmission per Stratos print B51A775, Beloit T7-5935.

Input Speed : 750 RPM.

Output Speed : 500-1006 RPM.

Connecting Shafts for H-6 P.I.V. Variable Speed Transmission : 500-1000 RPM.

Output Torque : 184 lb./ft. throughout range.

Bearings and transmission components designed for excess of 100,000 hour life per letter of 4-29-55.

All nameplates to be in both English and Russian.

Mr. SCOTT. I have no further questions, Mr. Chairman.

Senator KEATING. We are very grateful to you, Mr. Drago, and to the patriotic spirit which you have manifested.

Are there no other witnesses?

Mr. SCOTT. There are no other witnesses.

Senator KEATING. The committee will stand adjourned.

(Whereupon, at 1:35 p.m., the committee stood adjourned.)

APPENDIX

APPENDIX I

(The statement of Secretary Rusk above referred to was marked "Exhibit No. 28" and reads as follows:)

(EXHIBIT No. 28)

STATEMENT OF THE SECRETARY OF STATE BEFORE THE HOUSE SELECT COMMITTEE ON EXPORT CONTROL, OCTOBER 25, 1961

There is one question which is central to the subject of United States East-West trade control policy. That question is: why do we permit any trade at all with the Soviet bloc at the present time? My answer is that we believe that the national interest is better served by permitting the continuation of some trade than by cutting it off entirely.

Selecting the U.S. policy with respect to trade between the United States and the Soviet bloc which best serves U.S. interests is a difficult and complicated task. It involves broad political and economic considerations as well as study of a mass of technical details. It is necessary to balance and reconcile long-term and short-term factors.

I suggest we can best get to the central issues by analyzing qualitatively and quantitatively what is now going on. For the present I should like to concentrate on the main issue—our trade with the Soviet Union. Later I shall comment on special considerations which have influenced our trade policies toward some other members of the bloc.

From a qualitative standpoint, to start with, no licenses are granted for weapons or specialized military equipment or for materials of military value in the field of nuclear energy applications. Nor are any licenses approved for materials or equipment specially adapted for the production of military equipment.

On the other hand, at the opposite extreme, individual licenses are not required at all for items whose normal use is so strictly limited to the most harmless form of civilian consumer convenience as to be freely exportable under general license.

This leaves, subject to case-by-case discretion in approving or denying individual licenses, two types of items. First is equipment and supplies which can have important military as well as civilian uses—such as heavy trucks or machine tools specially designed for use in the production of heavy trucks. Secondly, overlapping in some cases with the first category, is equipment not necessarily limited to military use which embodies technology more advanced than that believed to be currently available to the Soviet Union.

Assessment of the qualitative significance of our trade must also take account of its total volume. In 1960 U.S. exports to the Soviet Union amounted to \$38 million. To put this figure into perspective, it was in fact considerably less than two-tenths of 1 percent (0.14 percent) of our total exports. While it is not easy to estimate Soviet gross national product figures accurately, our best guess is that in 1960, their gross national product was about \$231 billion, or about 6,079 times the value of the goods they got from us. During 1960 the Soviet Union to our knowledge shipped as economic aid to other countries, to be paid for over a term of years, \$140 million worth of goods. Thus they were able to export without current payment, resources $3\frac{1}{2}$ times as great as the goods they got from us, all of which they had to pay for.

This last is a significant point. The U.S. economy, with underutilized plant and labor, could afford without any loss to export these goods; in fact, this trade added its small bit to the strength of our domestic economy and our tax revenues. And since we required immediate repayment in goods or cash, these exports took out of the much harder pressed and poorer Soviet economy goods, foreign ex-

change or gold they could not as easily spare. By the same token, we improved our balance-of-payments situation, whose weakness has been a cause of national concern. I do not suggest that these factors should cause us to abandon all control over our trade with the Soviet Union, but I do wish to make clear that the balance of advantages and disadvantages of such trade is composed of a number of factors which must all be weighed in determining where our national interest truly lies.

From the data I have described, it would seem clear that the Soviet Union derives only the most marginal help in its economic development for the amount of U.S. goods it receives. Why, then, do the Soviets buy from us?

The answer of course lies in qualitative factors, some general and ill-definable and some perhaps quite specific. It is in this area that difficult judgments, often having to be based on somewhat inadequate facts, must be made. In assessing the qualitative value of these exports to the Soviet Union, I think it is worthwhile to make a general comment about the nature of much international trade, which, I am sure, plays its role in Soviet purchasing policy.

The United States, United Kingdom, and Germany all have very large and varied machine tool industries, each capable of making machine tools for performing any kind of metalworking operation. Yet the trade between them in machine tools is very large. In 1960 the United States exported \$36 million worth to the United Kingdom and \$35 million to Germany. Yet we imported in that year almost \$8 million of tools from the United Kingdom and close to \$14 million from Germany. This same two-way flow characterized the trade in machine tools between the United Kingdom and Germany. This pattern results from minor variations in quality and performance, delivery dates, financing terms, prices, traditional business connections, brand reputations, and aggressive salesmanship. Each party to these transactions believes that he has gotten the better of the exchange; and it is in the nature of trade that in most cases each is undoubtedly right.

To some extent these same factors can explain some portion of U.S. exports to the Soviet Union. It is not that our goods cannot be produced in the Soviet Union or are indispensable. Rather, it is convenient or desirable for one reason or another for the Soviets to try to buy them here. By the same token, our refusal to sell any one item is unlikely to have any major effect on Soviet economic strength or the rate of Soviet economic growth.

In fact, failure to export may only accelerate the rate of expansion of Soviet capacity in a particular area and thus make her that much sooner independent of outside sources and hence less vulnerable to pressure in time of acute conflict.

There can be, of course, cases of items in this middle ground between clearly civilian and clearly military uses in which the sheer volume of an item sought from outside suggests a large and important deficiency. Filling such a gap may make a contribution to Soviet strength of greater value than our gain from making the sale and lead us to refuse the license, especially where this will effectively cut off supply, a difficult point to which I wish to return later.

There are, however, other types of cases where a Soviet purchase seems clearly designed to secure knowledge of an advanced design or new technology by importing a few prototype models. This is giving the Soviet Union something it might take the Soviets a long time and much effort to develop in the absence of information from abroad. In these cases the impact of the export could be substantial on Soviet economic power and indirectly Soviet military strength.

In these situations, as in the case of large volume sales of key items, the disposition should be to refuse the license on grounds of the relative advantage conferred if the export were made.

It is in these two types of cases that, in my judgment, controversy can legitimately arise about individual decisions. The facts are technically complicated and often not readily available. One must take what one is able to learn and make an overall judgment. Three kinds of facts must be weighed.

1. First, to what extent can the item contribute to military strength? A process for making socks more efficiently is less significant than one to produce a high quality steel or a new electronic device. Is a large copper wire order likely to help expand civilian communications or an air warning system?

2. Second, to what extent does the item represent a really short supply bottleneck in the Soviet Union or a technological breakthrough they have not yet achieved? As Soviet technology is advancing at a very rapid rate,

it becomes increasingly difficult to be sure we are ahead of them in particular fields.

3. Third, to what extent, if we reject the license, can the Soviets avoid the effect of our refusal simply by getting it elsewhere? This involves a fairly simple determination if the item is unavailable because it is on the CoCom control list but often a very difficult problem of comparing qualities when it is not so controlled by other potential supplying countries.

The bulk of the effort of our interdepartmental system is spent on answering these questions. It is in answering them that mistakes can be and perhaps are occasionally made, mistakes due to inadequate or faulty data. You may wonder why we do not avoid the chance of error and resolve all difficult cases in the negative. What do we have to lose?

This is a fair question but I firmly believe the course of action it suggests would not be in the U.S. national interest. There are several reasons.

1. As I have mentioned before, a significant factor to be taken into account when the contribution of an export to Soviet strategic strength is slight or questionable, is its contribution to U.S. strength by providing employment to our resources and by earning us foreign exchange. I am convinced that so long as the United States remains economically and politically and militarily strong and determined, we have no need to fear the Soviet Union. The maintenance of our strength must always be our first objective.

2. In nearly all these borderline cases, moreover, it will be true that our denial would not achieve its objective of depriving the Soviet Union of the items and hence that the loss of business to the United States has even less justification. For the items we might or might not license will be those which are not on the internationally agreed CoCom list, and which, therefore, will not be subject to licensing control, if ordered in Europe or Japan. The technological progress of our associates in CoCom since the war has been so great that there are few items that they cannot also produce. We have of course tried to secure an international control list as close as possible to that which we would like to see controlled but due to the greater importance of trade to the other participating countries, and to differences in intelligence and technical evaluations, we have not completely succeeded. Our past efforts have so fully covered the ground that we nearly always will know that special additional efforts to secure agreement to join us in embargoing an item that is before the U.S. Department of Commerce for consideration will not succeed in all those countries which are possible sources. And since this is true, there is no compelling basis for our abandoning the benefits of the business by denying the license.

3. Furthermore, as a general consideration, I find it of value in dealing with the Soviet bloc to make much of one of our major points of difference with it—namely, to limit Government interference with the activities of American citizens, whether in trade or tourism or intellectual or cultural exchange, to the minimum consistent with national security. On this ground we should permit as much trading freedom as is possible without impairing our strategic needs.

4. There is a further important reason for not resolving all difficult cases through denial. The current Berlin crisis is but one in a series which have occurred between the West and the Soviet Union in the past 15 years. Even if it is resolved, we can have no possible basis for believing that it will be the last. The existence of a reasonable amount of trade of value to the Soviets between us and the Soviet bloc, and even more extensively between our NATO allies and the bloc, leaves us the possibility of trade limitations as a credible demonstration of our solidarity and determination which would undoubtedly be embarrassing and disrupting to Soviet economic planning.

5. Finally, from a much longer range standpoint, I believe our policies must reflect the vital necessity to United States peace, safety, and well-being of doing what we can to influence the peoples of the Soviet Union toward a national attitude which will make their country a responsible and peaceful member of the community of nations. I have no illusions that this is apt to come about soon or that our trade policy can make a decisive contribution to it. But the means for reaching the Soviet people and affecting their attitudes are scarce and we must make the most of these few we have in promoting this most vital goal. Keeping open the channels of peaceful trade will, I believe, contribute to this goal in several ways. It may erode gradually the concept that conflict between us is inevitable and replace it with some recognition of the mutual advantages of closer economic relations. Seeing U.S. goods, tech-

nologically advanced and performing well, may do something to build respect for us and encourage an interest in knowing more about what the United States and its people are really like. For undoubtedly one of our greatest obstacles to a reduction in East-West tensions is the vast ignorance at all levels in the Soviet Union of the outside world, an ignorance that here as elsewhere breeds distrust, suspicion, and fear, and more immediately of concern, miscalculation. And finally, trade can gradually get people in touch with each other to operate directly in removing the tangle of misunderstandings which threaten the great future of the American people and our way of life.

Although the basic principles which I have described have continuing validity, it is important to note that the implementation of our trade control policy has taken account of significant developments in East-West relations. There are thus elements of flexibility in the policy which we consider to be of great importance.

It is U.S. policy to encourage and assist bloc states to achieve and maintain national self-determination and independence. The objective of assisting "the people of the nations under domination of foreign aggressors to reestablish their freedom" is set forth in section 101 of the Battle Act. Controls under the economic defense program are so applied as to support the foregoing objective, as exemplified in the cases of Yugoslavia and Poland.

Yugoslavia, while subject to Communist rule, is wholly independent of the Sino-Soviet bloc. In 1948 the Yugoslav Government, under Tito's leadership, broke away from Soviet control and the international Communist movement. Since that time Yugoslavia has shown a determination to preserve its national identity and freedom from outside domination. To a considerable extent, Yugoslavia has resumed its earlier ties with Western peoples and institutions. It has also evolved an economic and political system which differs substantially from that of the Soviet Union. Yugoslavia's economy has undergone a process of decentralization with definite elements of competition and individual incentive. In this connection, it is interesting to note that Yugoslavia has achieved a rate of economic growth greater than is found anywhere in the Soviet bloc. Yugoslavia's independence of Soviet control has been emphasized by Yugoslavia's participation as member or observer in certain international organizations in which the Soviet bloc does not participate and which, in some respects, are obstacles to Soviet ambitions. These include the GATT, the OEEC, and the new OECD.

Within the context of the cold war, Yugoslavia is a neutralist country and usually behaves as such. It frequently takes positions on international issues that are opposed to U.S. attitudes and interests, but this is equally true of other neutralist nations. In the U.N. for example, Yugoslavia's voting record corresponds closely with that of India.

The United States has a definite interest in maintaining Yugoslav freedom from Soviet control. In addition to our general interest in preventing the expansion of Soviet power and influence, the independence of Yugoslavia gives us certain special advantages. It has profoundly disturbed the political and ideological unity of the international Communist movement. It has definitely encouraged nationalist anti-Soviet tendencies among the populations of the Soviet-dominated states of Eastern Europe. The fierce Soviet and Chinese attacks on Yugoslav "revisionism" and "deviationism" have vividly reminded Marxist sympathizers in all parts of the world that the Sino-Soviet bloc is not satisfied with a mere triumph of ideological principles, but demands direct subservience to the policies of the bloc, as conceived in Moscow.

On the basis of the foregoing considerations, the United States has maintained a relationship with Yugoslavia generally similar to that maintained with other neutralist nations. We have pursued friendly and frank diplomatic contacts, have conducted extensive information activities in Yugoslavia and have carried on a broad exchange program. Yugoslav requests for economic and technical assistance have been considered on their merits, and trade with Yugoslavia has been conducted as with any friendly European or neutralist country.

Whatever differences may exist between the United States and Yugoslavia, it is important that the United States never lose sight of its own basic interests. It is important to the United States that Yugoslavia remain independent.

Poland, unlike Yugoslavia, is clearly a member of the Soviet bloc. It is bound to the U.S.S.R. not only through such formal instrumentalities as the Warsaw Pact, but also because of its exposed geographic position and its heavy economic dependence upon the Soviet Union. Even more important is the fact

that Soviet troops are still present in Poland. The Polish position on international issues is rarely distinguishable from that of the Soviet bloc itself. In brief, Poland is a part of the Soviet bloc and U.S. policies must fully take account of this fact.

On the other hand, it is equally important to recognize that Poland reflects nationalist sentiments within the Soviet system. It differs from the other bloc members in a number of significant respects. First, since the establishment of the Gomulka regime in 1956, the Polish Government has enjoyed a measure of autonomy which, while limited, is nevertheless, unique within the bloc.

The people of Poland have a long-standing antagonism toward Russian domination and a basic orientation toward Western civilization. Only a small part of Polish agricultural land has been collectivized. Essential freedom of worship exists in Poland, including the teaching of religion to children by the clergy and the operation of a university and seminaries by the Catholic Church. The Polish Government permits a diversity and expression in the arts which is unmatched elsewhere in the Soviet bloc and intellectual activity is more vigorous than in Yugoslavia.

The Polish Government has also been more restrained in the exercise of police power, as evidenced by the relative absence of political arrests and greater freedom of movement within the country.

Finally, the Polish regime permits more extensive and active contacts with the West than is permitted by other satellite states. This is true in terms of scientific and cultural contacts, tourist travel and the immigration of large numbers of Poles to various Western countries.

Under the Gomulka regime, there has also developed a considerable expansion of relations with the United States. United States officials in Poland are able to maintain and develop broader contacts, both with officials and with private citizens. United States volunteer agencies are able to administer food distribution programs which include full identification of the source of the distributed goods. VOA broadcasts are not jammed in Poland. Finally, the United States has been able to develop a far more extensive exchange program with Poland than with any other bloc country.

In developing U.S. policies toward Poland, it would be erroneous and dangerous to base such policies on the illusion that Poland is not tied to the Soviet within the bloc, or is likely to be detached from the bloc in the immediate future. On the other hand, it is apparent that Poland enjoys a significant measure of autonomy and thus affords an opportunity for U.S. initiatives that is not now available in any such degree in the rest of the bloc.

This necessarily implies the application of special policies to Poland in such fields as trade, economic and technical assistance, and exchanges of persons. The application of these special policies inevitably involves uncertainty whether our efforts will lead to an ultimate result that can be achieved, at best, only over a long period of years.

For the reasons indicated, the United States has accorded Poland a considerable measure of special treatment since 1956, including preferential treatment in the export control field. This policy was never expected to produce any sudden or dramatic results. On the other hand, this policy has unquestionably brought some visible gains. It has helped to preserve the changes distinguishing Poland from the other bloc states, to keep the door open to wider American access to the Polish people and to maintain the intrinsic Western orientation of the great mass of the Poles. This policy continues to provide a lever by which the United States can hope to influence the future destiny of Poland and to moderate the policies of other bloc states.

While U.S. trade controls toward Yugoslavia and Poland show a relaxation in the application of the basic economic defense policy, not every move is in that direction. The serious threat to U.S. security interests which resulted from the spread of hostile Communist powers on the continent of Asia led to imposition against Communist China and other Far East Communist countries of more severe controls than are applied against the remainder of the Soviet bloc. There are two reasons for the continuation of such stricter controls. First, the complete embargo on trade and financial transactions with Communist China and North Korea is such a key symbolic element of the U.S. treatment of these two countries as outcasts, that a relaxation of that embargo would inevitably have adverse political repercussions in the Far East. Pressures could be expected to increase in many Asian countries, and especially in Japan, for greater commercial and political contacts with the Peiping regime. Second, if the United

States were to relax its trade and financial controls against Communist China and North Korea to the level now applied against the Soviet bloc generally, it would significantly increase the capacity of Communist China to overcome its present domestic economic difficulties and to extend its aid and influence to the so-called uncommitted nations of Asia, Africa, and Latin America. Communist China's trade pattern to date suggests that the new U.S. export opportunities which would materialize would be less in value than would be the new Chinese Communist exports to the U.S. market as exchange earners, thus providing the Peiping regime with additional net resources for activities abroad hostile to us and augmentation of their military potential.

For all practical purposes, North Vietnam has been treated on the same basis as Communist China and North Korea. A complete embargo exists on trade, but not on financial transactions; in practice, this has not been a significant omission in the U.S. system of controls against that country, because there have occurred few transactions in U.S. dollars that have involved North Vietnam. In view of North Vietnam's aggressive acts in Laos and South Vietnam, however, there may now be good cause for extending the foreign assets control regulations, with their financial embargo provisions, to North Vietnam as well.

There is one specific reservation which I must attach to the foregoing explanation of our control policies. That is the possible impact of immediate world conditions upon our control policy. Present increased international tension connected with Berlin might require modification of established policies on economic relations with the Soviet Union and other members of the Soviet bloc. If the Soviet Government continues its threatening attitude toward vital interests of the United States and its allies, we may be obliged to reconsider all aspects of our relations, including economic, with the Soviet bloc. Export license applications for shipments to these areas are already being reviewed with special care to be certain that none are permitted which have even marginal strategic significance to the bloc under current conditions.

While U.S. trade restrictions apply mainly to countries of the Sino-Soviet bloc, they are not confined solely to those countries. In furtherance of foreign policy objectives in certain other areas of the world, the United States on occasion restricts exports to specific destinations. For example, such controls presently exist, to a very limited extent, on exports to the Congo and the Dominican Republic. Since October 1960, only shipments of food and medicines have been permitted to Cuba.

I should like to conclude my testimony by emphasizing the importance which I attach to the present multilateral security trade control system. While our policy of control is a selective one and while we cannot expect to cripple Soviet bloc economic or military power through an export control system, we can accomplish something useful if we recognize that our objective must be a limited one. That objective is to delay the development of Soviet military capability in selected areas where a coordinated denial policy by Western suppliers may have an impact. We cannot hope to erect an absolute barrier to Soviet advancements in military production; we can make it more difficult or more time consuming for the Soviets to make certain kinds of progress. From this standpoint, the trade control operation is closely akin to the basic objective of our national defense policies—namely, the preservation and if possible the widening of the margin of advantage in time wherever we enjoy it in military capability. It is this margin in ultimate military power which is the hope of the West in the near term, and whatever contribution the trade control system has made to its maintenance is valuable.

In addition and as a specific matter, we attach great importance to the existence of a multilateral organization in being—the Consultative Group-Coordinating Committee operation. It represents a forum where necessary measures in the control field can be agreed upon quickly and definitively. The value of this sort of standby organization was proven at the time of the Korean war when it made possible the adoption of special trade and shipping controls toward Communist China and North Korea. We want to be certain that it remains as a part of our total mutual defense system.

INDEX

NOTE.—The Senate Internal Security Subcommittee attaches no significance to the mere fact of the appearance of an individual or an organization in this index.

A	Page
Afghanistan.....	418
AFL-CIO.....	449
Africa.....	466
Asia.....	466

B	Page
Battle Act.....	459, 464
Beloit Iron Works.....	452-454, 457, 460
Berlin.....	411, 458
Block, Herbert.....	424
Bornstein, Morris.....	425
Brazil.....	417
British Board of Trade.....	419
Burma.....	418

C	Page
Campbell, Robert W.....	424
"Can the Soviet Union 'Catch Up' With the United States?" (study)....	424-431
Castro.....	412
"The Centralized Planning of Supply in Soviet Industry" (publication)....	427
Ceylon.....	418
China.....	415, 419, 430
China, Communist.....	411, 465, 466
CoCom.....	412, 463
Collis, Charles.....	451-453, 457
Commerce Department.....	411, 420, 446, 452, 453, 456, 459
Commerce Committee.....	439
Commerce, New York State Department of.....	445
Common Market.....	448
"Communist Economic Strategy: The Role of East Central Europe" (publication).....	416
"A Comparison of Soviet and United States National Product" (publication).....	425
"Comparisons of the United States and Soviet Economics" (publication).....	425, 427
Consultative Group- Coordinating Committee.....	466
Control Act.....	439
Cuba.....	411, 412, 417, 418

D	Page
David, Donald K.....	437
"The Decline and Rise of Soviet Economic Science" (publication).....	426
Disabled American Vets.....	450
Drago, Joseph P.....	412
Statement of.....	449-466
Subpena.....	449, 450
Dulles, Allen W.....	424, 425

	Page
E	
Eastland, Sen. James O.....	413, 435, 450
"Economic Bulletin for Europe".....	425
Egypt.....	417, 418, 442
England.....	442
Erhard, Ludwig.....	442
European Common Market.....	415, 428, 429
Europe, Western.....	415
Europe, Eastern.....	415
"Events Incident to the Summit Conference" (U.S. Senate hearings).....	425
Export Control Act.....	412
Export Control Policy.....	459
Export Trade Commission.....	449
F	
Fairchild Engine & Airplane Corp.....	453, 460
Fairchild Stratots Corp.....	449
Faupl, Mr. R.....	451
Finland.....	417, 418
Ford Foundation.....	437
Foreign Affairs (publication).....	423, 426
Foreign Policy Research Institute.....	412, 424
Foreign Relations, U.S. Senate.....	413
Forgash, Morris.....	430
"A Forward Strategy for America" (book).....	429
G	
GATT.....	423, 464
Germany.....	462
Germany, West.....	417, 442, 444
Ghana.....	417, 443
Great Britain.....	415, 419
Greece.....	442
Guinea.....	417, 418
H	
Hoeber, Francis P.....	424
Hoeffding, Oleg.....	425
Hong Kong.....	443
Huston, Ralph R.....	451, 453
I	
IAM-AFL-CIO.....	452
Iceland.....	418
India.....	417, 418
Indonesia.....	418
Iran.....	418, 443
Italy.....	417, 442
"Intelligence Information Brief" (publication).....	425
International Association of Machinists.....	449, 452, 454, 459
International Development, Agency for.....	441
Ivan, John Q.....	452
J	
Japan.....	442, 443, 463, 465
K	
Kaser, Michael.....	424
Keating, Senator Kenneth B.....	454, 458
Kennan, George F.....	423
Kennedy, President.....	428, 442, 447
Khrushchev.....	421, 424, 426, 428-430, 437, 457
Kintner, William R.....	429
Korea.....	416, 444
Korea, North.....	465, 466
Krokodil (magazine).....	420

INDEX

III

	L	Page
Laos.....	411, 443,	458
Latin America.....		466
Lebanon.....		417
Leontief, W. W.....		426
Levine, Herbert S.....		427
Library of Congress.....		446
Lust, Leo.....		450
M		
McCombs, Henry.....		458
Magnuson, Senator Warren G.....		458
Malaya.....		443
Maritime Administration.....		439
Mitsubishi Heavy-Industries (of Japan).....		453
Mutual Economic Assistance Council (Comecon).....		416
N		
NATO (North Atlantic Treaty Alliance).....	412, 423, 429, 430, 434, 442,	463
NATO Council.....		432
New Delhi.....		443
"A New Look at Trade Policy Toward the Communist Bloc".....		430
New York Council of Machinists.....	452,	457
New York Times.....		456
Nimitz, Nancy.....		425
Nordhoff, Heinz.....		444
O		
OECD.....		464
OEEC.....		415, 464
P		
Peace Corps.....		441
"Peaceful Coexistence: A Western View" (publication).....		423
Pelly, Congressman Thomas M.....		458
Pennsylvania, University of.....	412, 413, 424,	433
Pettit, Ron.....		451
Poland.....	430, 464,	465
Possony, Stefan T.....		429
R		
Rusk, Secretary Dean.....	451, 458,	461
Statement of.....		461-466
S		
Scandinavia.....		415
Scott, Samuel J.....	413, 433, 435,	450
"Soviet Economic Potential, 1960-70" (article).....		424
"Soviet Manpower, 1960-70" (article).....		425
"Soviet National Income and Product, 1949-55" (publication).....		425
Snyder, Philip H.....		412
Statement of.....	434-449	
Subpena.....		435
Biographic sketch.....	435,	436
Spaak, Paul Henri.....		442
Strausz-Hupé, Dr. Robert.....		412
Statement of.....	413-434	
Subpena.....		413
Biographical sketch.....		414
Stanford Research Institute.....		424
State Department.....	458,	459
Stevens, Mrs. R. C.....		456
Sweden.....		417
Switzerland.....		443
Syria.....	418,	443

	Page
T	
Trade Expansion Act.....	448
Trading With the Enemy Act.....	412
"Trends in Economic Growth, a Comparison of the Western Powers and the Soviet Bloc," (article).....	424
Tunisia.....	417
U	
United Kingdom.....	462
United Nations.....	464
U.S. News & World Report.....	413
"The United States-Soviet Economic Race" (report).....	425
"United States Versus Soviet Spending for Major G-P Categories" (pub- lication).....	425
Uruguay.....	417
V	
Vietnam.....	411
Vietnam, North.....	458, 466
W	
Warsaw Pact.....	464
Webb-Pomerene law.....	437
"Western Economic Strategy Toward the Communist Bloc" (statement) --	424
Y	
Yugoslavia.....	464, 465

○