

THE SOVIET ECONOMIC CHALLENGE

To Meet It, the West Must Broaden Its Policy and Change Its Heart

James Greene

The speed with which economics has sped to the front of the Cold War over the past four years has caught the West—used to diplomatic maneuvering and “little wars”—off guard. We have, as yet, no adequate answer to what may well prove to be Communism’s most devastating weapon—a Soviet economy producing at a greater per capita rate than the United States. No nation of free men ever rallied round a column of statistics, and yet, clearly, that is where the current battle between East and West has moved.

The change, it now seems, was inevitable. When they continue for any period of time, “total” wars, both hot and cold, slip more and more from the grasp of those charged with diplomacy and come to rest upon the impersonal powers of clashing armies, armies either on the battlefields or in the factories.

The point was once clearly made by Sir Edward Grey, British Foreign Minister during the first two years of World War I. In his memoirs, Grey states: “As far as Europe was concerned diplomacy in the war counted for little. When it appeared to fail most, it was when the Allies were having military reverses; when it seemed to succeed, it was because the Allies were having military successes or because the military achievements of Germany were falling short of expectations that had been formed of her invincibility.”

Thus it is with the Cold War today: advances in Russian rocketry, the headlong growth of the Soviet economy, the recession in America and anti-American riots in the Middle East and Latin America have all served to put new strains on the West’s confidence in American leadership. There was far more confidence in that leadership when the economic rejuvenation of Western Europe successfully checked the post-war territorial expansion of the Communist world.

But new developments in this and coming years are certain to produce newer and even greater

Mr. Greene is the European Editor of *Business International*.

strains. By choosing an economic race the Russians have thrown down a challenge that is certain to change profoundly the conditions under which man lives; should the West fail to answer that challenge, those future conditions will more closely conform to Soviet than to free world societies.

Hence the absolute requirement in any Western policy is flexibility. For the race and its consequences are not confined to the United States and the Soviet Union. The major part of the earth’s surface and the overwhelming majority of the world’s population are divided into small undeveloped states where life goes on at or near the subsistence level. In many of these newly independent states nationalism is reinforced by a strong anti-Western bias born of the earlier colonial era. No small part of nationalistic pride in these backward states is channeled into the desire for economic development. Under capitalism, or variants of it, these states have earned their bare subsistence by exporting agricultural crops and importing finished goods. When weather is unfavorable and crops are small life often falls below the subsistence level with disease, famine and social unrest as direct consequences. Obviously, there have been attempts by the West under American leadership to alter these conditions, but they have been woefully inadequate to the task.

By rushing from a backward nation to the second most powerful nation in the world, Russia finds its opportunity to convince the “uncommitted” nations that the quickest road out of penury is the Communist total state. Further, by setting out to exceed the United States in per capita production, the Soviet Union underlines the fatuousness of the too-often-cited, too-seldom-rejected Western argument that the great genius of the West is “know-how”—the achievement of a high standard of living.

Under the new Soviet threat, the true face of the West may re-emerge: its commitment to personal liberty, its emphasis upon the primacy of the individual conscience. But it remains regrettable that it takes

this threat to call to account the West's religious platitudes and urge us, lest we lose our own liberties and comforts, to become, in a true and meaningful sense, our brother's keeper. The American's annual income is over \$2,100; his brother in India receives and lives on \$60 a year; his brother in Pakistan lives on \$45 and his Indonesian brother receives \$50 a year. These, of course, are averages; many subsist on less. Nor is this state of affairs limited to Asia; our Peruvian brothers live on \$120 a year while our neighbors in Portugal live on \$190.

Not all the problems posed by the East-West economic race are problems for the West, however. Under its new Seven Year Plan, the Soviet Union seeks to increase its industrial output by eighty per cent, while annual growth in Western economies ranges between one and four per cent. The Seven Year Plan calls for massive outlays of capital for investment in heavy industry, for startling increases in the productivity of each worker. Perhaps most importantly it calls for time—at least seven years of it—when no major war will put huge military demands upon industry and manpower and no destruction is wrought upon existing industrial plants. This seems a deterrent, however frail, to pushing the world periodically to the brink of war. And because advanced Western techniques and machinery are necessary to the current goals, it means the Soviets desire some thaw in the Cold War, at least enough to expand the trickle of trade that has been allowed by the United States.

Clearly, this was one of the major purposes behind the American visit by Deputy Premier Anastas I. Mikoyan in January. The only ill-temper showed by the Soviet Union's good-humored salesman occurred after his bids for increased trade and possible credits were flatly rejected by the American officials. A look at the immediate problems faced by the Russians in their rush for economic supremacy may give a deeper understanding of Mr. Mikoyan's chagrin.

First among these is an acute labor shortage. After World War II and until 1956, Western experts, deprived of official Soviet statistics, estimated the population of the Soviet Union at slightly over two hundred and ten million. The first official figures were released in 1956; only then did the sacrifice made by the Russian people in World War II become known. The population was placed at a few thousand over two hundred million. A new census just completed and due to be released in December will, no doubt, reveal a slightly higher figure.

Declines in the death rate, from 18.3 per thousand in 1940 to 7.5 per thousand in 1958 and a decline in

the infant mortality rate from 184 per thousand to 45 per thousand in the same period have not really solved the problem: the annual rate of increase in the population is actually falling. In the recent past the rate of increase in the labor force (16-59 years of age) was between one and two million a year, but over the period of the Seven Year Plan the increase will be well under a million a year.

Thus there is a great need for better use of the available supply of labor; the reports of "volunteers" swarming across fields gathering in the wheat will soon be a phenomenon of the past.

This need for manpower has dictated an end to many features of Stalinist Russia and, for whatever reason, net gains for personal liberty in the country. Industry has been decentralized, giving the fifteen republics a greater voice in goals for coming years. The notorious machine tractor stations, a major element in police control of the peasantry, have been liquidated. Farms may now own machinery—again giving them greater autonomy in the interest of increasing production at a time when official Soviet policy is to induce workers off the farms and into the factory towns. Premier Khrushchev's widely heralded speech on reforming Soviet education provides for giving youngsters two years of work during their education. Women have been urged to take factory jobs. While this increases the immediate work force, it also reduces increased population gains.

Great as these changes have been within the Soviet system, they would be insufficient by themselves. There is the need to supplement them with automated machinery and techniques, obtainable from the West and preeminently from the United States if current controls can be done away with. Needless to say, an end to bomb testing, reduction in armaments, and mustering out of troops would further serve the ultimate aims of the Seven Year Plan.

In the satellites there has been an abandonment of Stalin's principle of "rule by force." Under this, each of the satellite states was to become a fully industrialized nation, with the Red Army guaranteeing fealty to Moscow. Replacing this scheme now is one that calls for division of labor among the satellites, with each producing special products for all the others. There are no longer funds available from Moscow for the grandiose schemes of the satellites' industrial planners. But the net result of the new policy will be to replace tight military control with a more indirect economic control.

All these innovations carry considerable political risk. Apart from relaxation of rigid controls, Soviet

technicians are being allowed greater freedom to read, and in some cases are being required to read, Western technical journals. Purchase of highly intricate Western machinery will result in thousands of Western technicians entering the country and remaining through long training periods in close proximity to Soviet industrial complexes.

Further, if the demands of heavy industry are to be met, a continued shortage of consumer goods can be predicted, a shortage that will become more apparent as more and more Western visitors stream in. These developments are sure to put Soviet indoctrination to the supreme test—a test it has already failed in Hungary, East Berlin and Poland.

But perhaps the greatest challenge to the current Soviet leadership will be the very thing it seeks most diligently—an increase in trade with the West. Trade is not simply an exchange of goods between two countries—the import of Russian furs and export of an American chemical factory. It involves a host of multi-lateral arrangements, for solving disputes, for dealing with several currencies at once, etc.

Mr. Mikoyan and others have complained, for instance, that the United States duty on manganese is four times the duty on imports from other countries. On the face of it this looks as though discrimination were built into our tariff. But the Russian duty is the standard duty, while the reduced duty results from the United States membership, with fifty other nations, in the General Agreement on Tariffs and Trade, which permits reciprocal lowering of duties for member states. To remove this discrimination the Soviet Union would have to join GATT, entering into multi-lateral arrangements that would curb the absolute freedom of its leaders to maneuver in the Cold War.

•

One clear way for the Soviet Union to increase trade is to make the ruble convertible with other currencies, exchangeable, for instance, with the pound sterling and the dollar. Since the Soviet Union is now a major gold producer, this does not present any financial problem, but it would require the nation to become a member of the International Monetary Fund, allowing some control of its currency to pass into foreign hands. Again, this solution appears impossible to a thoroughly managed Soviet state at ideological war with the trading world. Mr. Walter Lippmann's interview with Premier Khrushchev clearly indicated that the Soviet leader is earnestly convinced of the hostility of the West and is unlikely to surrender even that modicum of Russian sovereignty necessary to join international organizations

designed to increase world trade.

Yet, against the strongest dictates of this fear, he seeks greater trade with the West. In his letter to President Eisenhower last June, the full text of which the Department of State never released to the American press (quotes given here are from a Tass release), the Soviet leader expressed his belief that the purchases the Soviet Union wished to make in the United States "could be valued at several billion dollars in the next few years." For at least part of these purchases, it might be necessary for America to extend "long-term credits on normal terms." Further, Khrushchev expressed his willingness "to invite American specialists to work at Soviet undertakings as consultants on the production of some synthetic materials and to acquaint Soviet specialists with the manufacture of these materials and goods." He also called for "reciprocal participation by Soviet scientists in the work of U. S. research establishments."

In his reply, the President merely noted that "there is no need . . . to formalize relations between United States firms and Soviet trade organizations." Obviously, the Russian proposals could only be put into practice after detailed negotiations, but it is clear that the State Department is unwilling to discuss the matter even on an informal basis—a rigidity in the West that has dubious advantages. But the proposals reveal, I believe, how far the Soviet leadership is willing to go, and how much ideological purity it is willing to risk to achieve its economic goals.

•

The continuing strength of this ideological rigidity, however, is borne out in Soviet attacks on Yugoslavia for accepting Western credits. In early January, while the Soviet First Deputy Premier was in the United States attempting to further Soviet bids for credits, the following was broadcast over the Moscow radio:

"Yugoslav theoreticians do not understand, or to be more correct, they pretend not to understand why they should be taken to task for their attitude toward the United States and other imperialist countries—why, they say wonderingly [should they be criticized for conducting] normal, as they put it, relations with the United States? . . . All socialist countries aspire to normal relations with the states of other social systems. But they mean 'normal' relations; and not relations which are conducive or could lead to economic or political subjugation to an imperialist country, which attempt, on the basis of attempts by a great imperialist state, to set a given country against the countries of the socialist system."

The complaint, of course, centered on the \$1.6 bil-

lion in credits given by the West and most notably by the U. S. to Tito's regime, some of it granted after the Soviet Union had cancelled its own credits to Yugoslavia. The fact that Western credits to Yugoslavia keep that economy from collapse, while Western credits to Russia would be marginal benefits, is an important one, but does not alter the fact that a cardinal principle of Communist economics has been violated in the interest of the Seven Year Plan.

There is little reason to suppose that the effects of the "new look" in Soviet economic policy will not take place until the Soviet Union has gained complete economic supremacy. Its ability to disrupt Western markets with commodity shipments has been amply demonstrated with aluminum and tin. The Russians are now attempting to grow coffee; should they succeed their ability to disrupt the economies of such nations as Brazil, Colombia and Ethiopia is plain. Russian oil is appearing in increasing quantities in Western markets and could conceivably undercut the economies of the volatile Middle East. (Cheap Chinese textile exports have already cut deeply into the vital export earnings of India and seriously damaged traditional Japanese markets.)

But, while it cuffs these single-crop economies with one hand, the Soviet Union also extends the clasp of friendship with the other. Economic assistance from both the Soviet Union and mainland China has increased at a rapid pace over the past three years. From July 1955 to June 1958, Egypt received \$255 million, India \$336 million, Indonesia \$160 million in Communist credits: (U. S. aid for these countries in the same period amounted to \$16 million, \$684 million, and \$139 million respectively.) Soviet credits cover shipments of goods from Communist countries and are almost entirely used for heavy equipment that links the basic economy of these nations to Soviet production. By delaying or refusing to deliver spare parts, Soviet suppliers could seriously disrupt the development of these countries.

Nowhere is the danger more clear than in Africa where the twilight of colonialism still lingers and the stirrings of independence are shaking the whole construct of African societies. The Russians have offered aid to Ghana, and Russian linguists are preparing Russian dictionaries in all important African tongues. African students in Europe are cultivated by the Communist parties in these countries and, since they return to Africa as literate, educated men, their influence upon their African fellows is great.

Only within the past year has the United States had an Under Secretary of State for African Affairs;

he has been appointed but if he has any function or power it has yet to be announced. Nor does the United States seem to have any formulated policy toward Africa.

Under its "leader-grant" system the United States offers visits to the U. S. to potential leaders in foreign countries. In 1958 the man chosen to visit this country from Mozambique was General Gabriel M. Teixeira, Governor General of the Portuguese colony. It was undoubtedly useful for the General to visit this country, but one wonders whether visits could not be arranged for Africans in Mozambique.

Needless to say, the Western response to the entire challenge of the Soviet world has been inadequate. Yet any program, to be successful, should be launched within the next two or three years. Marginal economies must be brought swiftly to economic independence, prices of commodities—the life blood for most the nations of the earth—must be stabilized. Ways and means must be found to channel aid, technical assistance, and investments to these countries. Plans for vast regional development banks, suggested by Western statesmen, always include sums that do not begin to solve the problem, even though Great Britain and Germany have become granters of aid.

The most important beginning, in my view, must be in a change of heart. Our desire to bring the majority of mankind up from starvation and poverty ought not to spring from simple fear that our own standard of living is threatened. The task to date remains exclusively in the hands of statesmen: the problems and proposed solutions have been stated in their terms. Yet the sacrifices required, by any reasonable estimate, are greater than a democratic government is likely to ask of its citizens.

The response, then, must come from deeper within the resources of the West—from the human heart and the Western conscience. The problem of poverty in a world of plenty was not created by the Communist threat; but that threat should hasten us to its solution. The problem has been with us for decades, and we have had for centuries the half-believed, seldom-applied religious convictions that may answer it—the unity and brotherhood of man.

But we can no longer pretend to convictions without sacrifice. We have come to a point in history when the words of Saint Isidore should ring in our ears: "With whatever artifice of words a man swears, nevertheless God who is the witness of his conscience so takes the oath as he understands it, to whom it is sworn. And he becomes twice guilty, who both takes the name of God in vain, and deceives his neighbor."