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COMING EFFECTS OF CURRENT EVENTS

American Foreign and Domestic Policy in the Short Run

The struggle against the counterrevolutionary element within Western Civilization cannot be won in the short run; winning that conflict is a long-run problem.¹ Nevertheless, the struggle against communism can be lost in the short run if the Nation's foreign and domestic policy and its preparations for defense fail to cope with Mr. Stalin's ambitions to dominate more territory.

In an earlier article we suggested the general nature of the long-term offensive action against the counterrevolution. However, such a long-term offensive of ideas to combat the socialist ideology, of example by reorienting our own policies so that the United States will not continue to sponsor the counterrevolution at home, and of leadership in persuading the nations of the world to seek the goals of the great revolution, such an offensive will require several years to implement and many more years to reach its objectives. Thus the only offensive against the counterrevolution that can succeed will require time, and to gain that time should be a primary purpose of the Nation's short-term policies.

Readers may recall the warning we have already given that "our foreign policy during and immediately after World War II was a series of blunders precisely because we dealt with successive short-term situations as though there were no long-run fundamental conflict of aims or as though we were blind to other than immediate pressing developments. Such was our major error, and the lesson should not be forgotten."²

Even before those words were published, Secretary of the Navy Matthews was advocating a preventive war; and, a few days later, General Anderson was suspended from the Air War College for expressing similar views. Such statements reveal virtually complete ignorance of the long-term problem involved. Even if we could de-

¹In the article "The Counterrevolution and American Foreign and Domestic Policy," *Research Reports* special bulletin, August 28, 1950, we pointed out that socialism, including both its militant branch, communism, and its other offshoots, is the ideology of the counterrevolutionary elements within Western Civilization. This counterrevolution is essentially a retreat from the farthest advance of the great revolution, a turning back from the goal of individual freedom to seek shelter and security in the arms of an all-powerful state.

²*Ibid.*

stroy Russia's military power overnight, the long-term problem would remain unsolved.

Those who advocate a preventive war seem to reveal once again the truth of the maxim that power corrupts and absolute power corrupts absolutely. If American possession of the great power provided by the atomic bomb can have such an influence on the views of supposedly responsible men, we can only hope that the hydrogen bomb will not be successfully made before the citizens of the United States have an opportunity to think the long-term problem through and reorient American foreign and domestic policies.

Condemnation of a preventive war does not imply that the statements of Matthews and Anderson serve no useful purpose. Sentiment in favor of a preventive war apparently reflects a desire to substitute definite action for the hesitant, uncertain, and floundering foreign policy that this country has followed in recent years. We shall profit from these preventive war statements if we understand their psychological appeal and devise a foreign policy that does take the offensive, not the offensive of declared war but an offensive of ideas, example, and leadership; a foreign policy based on a definite program aimed at coping with the counterrevolution.

Gaining Time

In order to gain the needed time, the Nation's short-run foreign policy must cope successfully with the immediate threat resulting from Mr. Stalin's ambitions for more territory and power. This phase of our short-term policy, therefore, is concerned primarily with adequate military preparation.

From a military point of view, containing Russia is largely a "defensive" action, "defensive" in that we must secure those land areas needed in order to prevent Russia from launching an effective attack on the United States and those land areas that will permit the United States to launch effective counterattacks. (Land areas such as Korea, which are of little significance from a military standpoint, can serve this purpose only to a limited extent, if at all. Such areas apparently are important primarily as proving grounds for our means of coping with the long-run problem of the counterrevolution. That the United States apparently is not yet prepared to test in Korea any means of coping with the counterrevolution is one more unfortunate aspect of the Nation's present foreign and domestic policies.)³

In order to prevent a succession of "Koreas" in areas

³"Korean Objectives," *Research Reports*, September 4, 1950.

vital to the national defense, a declaration of policy backed by American armed forces or aided by American weapons and funds is essential. This declaration of policy should make clear to the world that we intend to keep Russia and her satellites out of specific areas by armed force and that, of course, we intend to continue our support of the United Nations and the Atlantic Pact.

The specific areas might be enough to encircle Russia, as would a line through Greenland, Iceland, Norway, Sweden, Germany, Italy, Greece, Turkey, Syria, Iraq, India, Burma, French Indo-China, the Philippines, Formosa, and Japan; or they might simply constitute a protective shield in the east including Greenland, Iceland, England, France, Spain, and Africa, and in the west another shield including the Philippines, Okinawa, and Japan. The final choice of the areas deemed essential to the national defense in the short run presumably would be made by the Joint Chiefs of Staff or a selected group of the Nation's military advisers.

Such a short-term program of "containing" Russia should not be confused with the problem of meeting an attack by the Soviet Union itself. The United States forces used to protect the areas selected should be in sufficient strength to overcome local Russian-inspired uprisings, but should not be expected to wage a successful campaign against Russia itself. The specific areas chosen should be those essential to the *short-term military security* of the United States.

The Truman doctrine, to the extent that it goes beyond the policy just indicated, appears to be economically unsound. The drain on our natural resources, labor, and capital involved in an attempt to police the world would be so great that America's industrial potential might be weakened in the course of years to such an extent that a major Russian offensive against the United States could succeed.

The adoption of a short-run policy such as that described, although defensive in its military aspects, would give the American people a definite program comparable in its psychological appeal to a "preventive war" or the declaration of war in Korea. The uncertainty regarding American action in the event of another Russian-inspired attack would be ended. Of course, we do not imply that such a policy should be forever unchanged; it would have to be changed as circumstances changed, but the public should be kept informed. By adopting a definite policy subject to public debate and acceptance, the Nation can eliminate the wavering and the spur-of-the-moment decisions that have characterized American foreign policy in recent years.

Initiating the Offensive Against the Counterrevolution

A second major objective of the Nation's short-term policies should be to make the public aware of the long-term problem and to encourage education of the public and debate of the issues involved. These are necessary steps preliminary to the long-term offensive of ideas, examples, and leadership intended to cope with the counterrevolution.

The significance of our short-term foreign and domestic policies in relation to the future of Western Civilization should become a matter of public knowledge and debate. A clear statement of the Nation's policies, free of the usual diplomatic generalities, should be formulated. The public should be informed that the only means of coping with the counterrevolution will take time and that our short-term policies should enable us

to gain that time. A beginning might well be made as follows:

First, our foreign policy should be formulated after public debate and discussion. In this connection, comments published nearly a year ago will bear repeating: "The alleged necessity for a 'bipartisan' foreign policy also may be seriously misleading because it lends an aura of profound and exaggerated significance to the problem of national defense. The point of view seems to be a carry-over from wartime. We believe not only that a bipartisan policy is no longer necessary in order to save face or in order to present an appearance of unanimity, but that it may do much harm. The need for 'blind' cooperation has disappeared. What is needed now is intelligent, searching, and clarifying debate of the issues incident to the national defense."⁴

Second, the widely prevailing confusion regarding American policy should be ended. General statements such as those President Truman made in his "Report to the Nation" on the Korean War should be supplanted by unequivocal statements of our intentions. What, for example, is our foreign policy in Japan? Do we intend to end our military occupation? Do we intend to use Japan as a military base? Is Japan essential to our national defense? The answers to such questions must be given if the public is to understand American foreign policy, yet Mr. Truman's remarks included only the following vague statements: "We believe in freedom for all the nations in the Far East. * * * we not only want freedom for the peoples of Asia, but we also want to help them secure for themselves better health, more food, better clothes and homes, and the chance to live their own lives in peace."

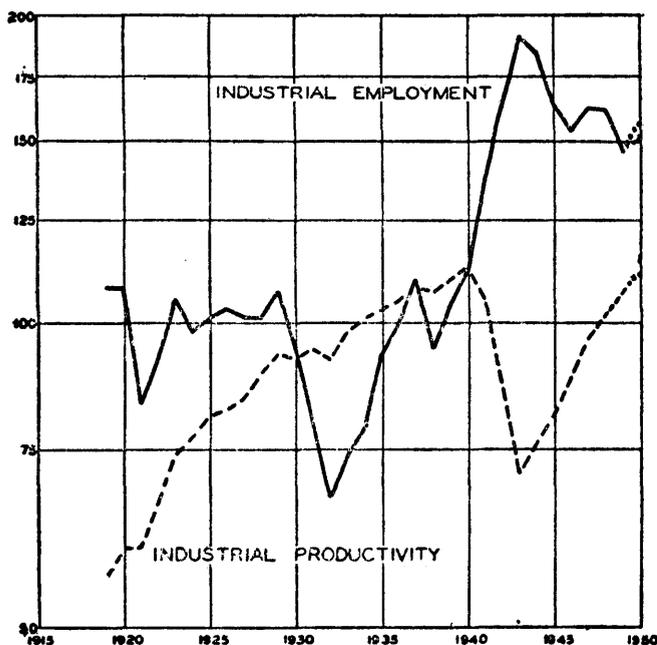
Third, the apparent inconsistencies in American foreign policy in recent years should be explained if not eliminated. We have aided Greece and Turkey, we have refused aid to China, we are fighting a war in Korea, and we may or may not fight for Formosa. American citizens have a right and duty to understand what the objectives are.

Fourth, and perhaps most important, the public should be informed of actual commitments that have been made. There have been frequent references in recent months to the possibility that present difficulties are attributable in part to mistakes made at Yalta and after. The Yalta agreements apparently were only a few of the secret agreements made by either the President or high officials of the State Department. We believe that the time has come when all such secret agreements should be made public.

If the President believes that any such agreements should remain in effect, they should be drafted in the form of a treaty and submitted to the Senate for ratification as specifically provided in the Constitution. Then the public can pass judgment on them. Only after such procedure can the agreements become binding on the Nation for an extended period.⁵

⁴"Economic Aspects of National Defense," *Research Reports*, August 22, 1949.

⁵Although not provided for by the Constitution, executive agreements may be necessary and have been accepted as legal as a temporary expedient, but there is some question as to how long such agreements may be valid. For example, many authorities on constitutional law concur in the view that executive agreements made by one President are not binding on his successor.



We realize that many individuals, apparently including high officials of the State Department, believe that secrecy is required in order to make the most advantageous "horse trades" with other nations. However, we do not believe that vital matters of policy can be best decided in that manner. The Monroe Doctrine was no secret, yet it was successfully applied. Just how it would be interpreted in detail was not always known in advance, but its general tenor was known to all the world and was both understood and supported by the American people. We believe that foreign policy must be understood by the people in order to have their support and that success in the long run is impossible without their support. Highly placed officials who have spent most of their lives in diplomatic negotiations may be prone to exaggerate their own capacity to formulate sound policies and may forget that the policies they adopt will be repudiated if the average American citizen and his sons are not willing to fight and, if necessary, die for the policies adopted.

Conclusion

If American foreign and domestic policies are to succeed in the short run, they must cope with the Soviet's ambitions for more territory and simultaneously encourage formulation of the policies that can cope with the long-term problems of the counterrevolution. By gaining the time needed to reorient our foreign and domestic policies, we shall have an opportunity to prepare for a successful offensive against communism.

SUPPLY

Industrial Production

Steel-ingot production at 99.6 percent of capacity for the week ended September 16, 1950, was 2 percent more than that in the preceding week and was 13 percent more than that in the corresponding week last year.

	1929	1932	1937	1938	1949	1950
Percent of Capacity†	86	16	80	47	87	100
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	1.84	1.93
Production (Million Tons)	1.19	.24	1.21	.72	1.60	1.93

Automobile and truck production in the United States and Canada during the week ended September 9, 1950, was estimated at 150,342 vehicles, compared with a

revised total of 188,072 vehicles for the previous week. The decrease was attributable to the Labor Day holiday.

	1929	1932	1937	1938	1949	1950
Vehicles (000 omitted)†	104	23*	59*	17*	124*	130*p

Electric-power production in the week ended September 9, 1950, decreased to 6,028,527,000 kilowatt-hours from 6,459,386,000 kilowatt-hours in the previous week.

	1929	1932	1937	1938	1949	1950
Billion Kilowatt-Hours†	1.81	1.44*	2.51*	2.05*	5.26*	6.03*

Lumber production in the week ended September 2, 1950, decreased. *The New York Times* seasonally adjusted index was 4.4 points below that for the preceding week but was 19 points above that for the corresponding week last year.

	1929	1932	1937	1938	1949	1950
<i>The New York Times</i> Index†	130	35	82	97	92	111

†Latest weekly data; corresponding weeks of earlier years
p=preliminary; *holiday

DEMAND

Department-Store Sales

Department-store sales for the week ended September 9, 1950, were unchanged from sales for the previous week but were 8 percent more than sales in the corresponding week last year.

PRICES

Commodities at Wholesale

	1949	1950	
(August 1939=100)	Sept. 14	Sept. 7	Sept. 14
Spot-Market Prices (28 basic raw materials)	253	326	332
Commodity Futures Prices (Dow-Jones Daily Index)	286	396	401

BUSINESS

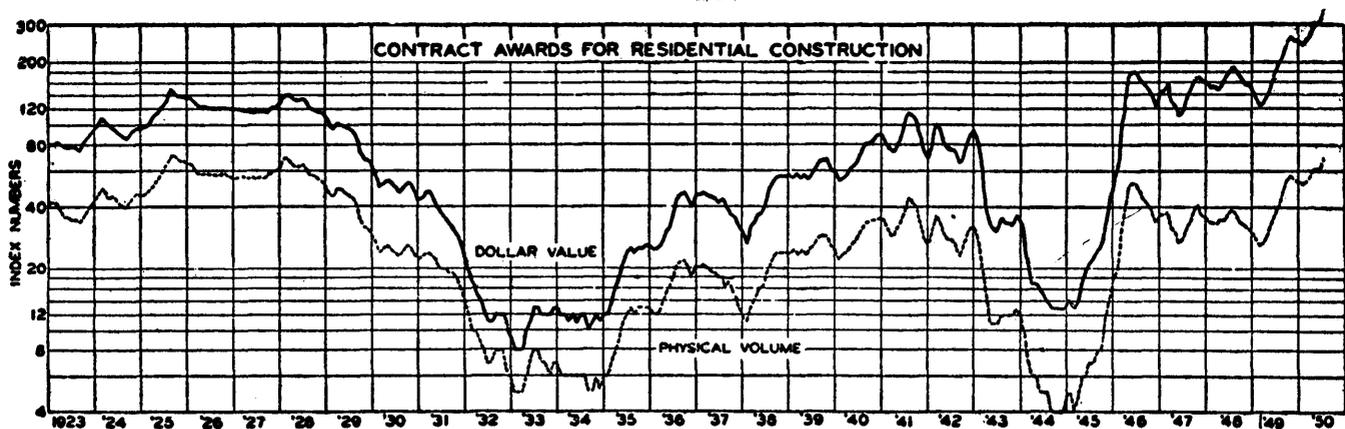
Industrial Employment and Productivity

The Federal Reserve Board's seasonally adjusted index of factory employment for July was slightly higher than that for the previous month and was 8 percent above that of a year ago. The index was 5 percent below the postwar highs reached in 1947 and 1948. Since the first of this year factory employment has increased approximately 7 percent. (The lows reached in the first quarter were nearly the same as the average for the year 1949 shown on the accompanying chart.)

We have estimated the seasonally adjusted index of factory employment for August on the basis of data for nonagricultural employment published by the Bureau of the Census. Our estimate is that the Federal Reserve Board's index for August probably was not greatly changed from that reported for July.

For several months prior to the outbreak of the Korean War, industrial employment had been increasing more than was seasonally expected; and unemployment decreased rapidly following the high reached last February. Industry has hired many more in the past several weeks, primarily in anticipation of military production. Presumably the seasonal gains in factory employment during the next few months will be supplemented by further expansion of the working force because of war production.

The series, nonagricultural employment and unemployment, are 2 of the 18 statistical indicators of cyclical changes discussed in these bulletins from time to time. Both are included in the group of the indicators



that usually coincide with the general business-cycle changes.

Industrial Productivity

Industrial productivity per man-hour decreased approximately 5 percent during July to a level slightly below the all-time high reached in 1940. However, a preliminary estimate of August industrial employment and production indicates that the July decrease was nearly offset by a subsequent increase in August. In fact, the average of our productivity ratio for the first 8 months of this year is slightly above the average for all of 1940.

Our ratio of industrial productivity per man-hour has decreased approximately 5 percent in July in each of the last 4 years; and, in each instance, the decrease was followed by an increase in August that nearly counterbalanced the July decrease. A brief analysis reveals that a decrease in our index of industrial production has been the factor largely responsible for the successive July declines in the productivity ratio. (The ratio is derived by dividing our seasonally adjusted index of industrial production by the Federal Reserve Board's seasonally adjusted index of industrial employment.) The seasonal adjustment factors applied to our industrial-production components are, for the most part, those used by the Federal Reserve Board in calculating its industrial production series; but the regularity of the changes just mentioned suggests that the seasonal factors no longer reflect developments that now occur in July each year. In recent years several industries have inaugurated industry-wide vacations during the first part of July, and in other industries a prolonged Fourth of July holiday has been adopted.

Our estimates of industrial productivity reflect changes in total factory employment and the number of hours worked per week. The average number of hours worked each week in June was 40.4, an increase of 0.4 hours compared with the average for May. Preliminary data indicate that the average workweek was at least as long in July and probably has increased since then. Thus this "leading" statistical indicator of business-cycle changes apparently is still rising.

Thus far the withdrawal of men for the armed forces has not seriously affected the over-all efficiency of industry. However, if another 4 to 5 percent of the industry's regular labor force is withdrawn to meet the added military requirements indicated recently by the President, somewhat lower efficiency may result. This development and the addition of women, children, and older men to the labor force together with the return to use of more or less obsolete equipment that is now idle

presumably will prevent gains in productivity in the near future comparable to those of recent years.

Residential Construction

The Federal Reserve Board's seasonally adjusted index of residential construction for July was at an all-time high, 12 percent above the previous peak reached in June and 85 percent above the figure reported for July last year.

The Board's index of residential construction represents a 3-month moving average (centered) of the dollar value of contract awards. Thus the July figure includes an estimate of August construction, which apparently was 9 percent above that for July.

Our index of the physical volume of residential construction for July was at a new postwar high and was nearly at the level of the peaks reached in 1925 and 1928. (This index is the dollar value of residential construction adjusted for changes in the cost of construction.) The July index was 11 percent above that for June and was 71 percent above that for July last year. Construction costs increased nearly 2 percent in July.

On July 18, the President recommended that the various Federal agencies concerned with residential construction and financing take steps to limit the availability of mortgage credit and to reduce the volume of residential construction. In response to the President's directive certain agencies raised the down payment required on federally insured real-estate loans, the maximum amount of insurable loans was reduced, and the amount of direct loans that could be made by the Government was reduced. Other policy changes also were adopted that were intended to curtail real-estate credit expansion. The Defense Production Act of 1950 authorizes further restrictions of real-estate credit.

Raw-material shortages and lack of adequate transportation facilities have hampered construction activity in recent months and perhaps will be of greater influence on the trend of residential construction in the immediate future than Federal legislation. The Department of Commerce states that later this winter it expects the consumption of construction materials (particularly bricks, lumber, and cement) to be less than production, thereby easing the situation somewhat.

In view of the various factors tending or intended to curtail residential construction (including raw-material shortages, allocations and priorities and real-estate credit restrictions), a more than seasonal decrease is probable in the next several months.