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CHALLENGING THE SOVIET ECONOMIC OFFENSIVE

Statement

by

Senator Hubert H. Humphrey

In the Senate of the United States

on

Mutual Security Appropriation Bill

Back in 1924 an Austrian house painter named Schickelgruber, but called Adolph Hitler, wrote a book while he had some idle time in jail. It was called Mein Kampf. It outlined his plans for Nazi conquest of Europe and beyond. It was published and translated in several languages. Yet hardly anyone, except the Nazis, took it seriously. We all know the price that was paid for our failure to listen attentively.

Less than a year ago, on November 22, 1957, a former Ukrainian coal miner named Nikita Khrushchev made a statement that may some day rank with the great warnings of history. Referring to the United States, Premier Khrushchev said this:

"We declare war. We will win over the United States. The threat to the United States is not the ICBM but in the field of peaceful production. We are relentless in this and it will prove the superiority of our system."

It is my considered view that the consequences of a failure to pay attention to this warning of Khrushchev could be even more disastrous than was our deafness to the announced plans of Hitler.

Today as we consider the mutual security appropriation bill, I think it is especially important that we keep in mind this declaration of economic war made by the head of the Soviet Union. It is particularly important in relationship to the appropriation for the Development Loan Fund, and it is this portion of the bill dealing with financial assistance to the underdeveloped countries of the world for purposes of aiding in their economic growth and development which I wish to discuss today.

The statement of Premier Khrushchev to which I have referred indicates that the Soviet Union has at last tacitly acknowledged the superiority of the methods of operation which we ourselves devised and championed. Capital investments abroad, reciprocal trade, and economic development through grants and technical assistance have all been attributes of American foreign policy from the Good Neighbor Policy through the Marshall Plan to Point IV.

Ironically now that the Kremlin has adopted all of these Americanisms and challenged us to compete in making them work, there is a real threat that we will be outdone at our own game.

Conditions for embarking on an economic offensive are ideal from the standpoint of the Soviet Union. It has achieved superiority in certain highly important aspects of both nuclear and conventional armament. World opinion has turned against displays of armed might, especially in the testing of nuclear weapons. The urge toward national independence and economic growth has become a dominant factor in world affairs.

Arnold Toynbee has called the ever-increasing desire of the people of underdeveloped nations for an improved standard of living the "Revolution of Rising Expectations." Hungry, deprived people are interested in only one thing -- who will feed us? It is not at all surprising that bread offered with a veiled possibility of eventual tie-ups with the Communist bloc looks better to these people than no bread at all -- especially when the Soviets are demonstrating efficiency and skill in meeting their promised obligations.

Our own Secretary of State has admitted that "the cruel Communist system does have a certain fascination for people who feel their economies are standing still". Moreover, the Soviets can point to a spectacular economic development in their own economy in the past forty years. They speak to the peoples of the backward nations as one who understands. For example, the Soviet Union delegate to the Asian-African conference in Cairo said there, "We are ready to help you as brother helps brother. Tell us what you need and we will help you and send, to the best of our capabilities, money in the form of loans or aid."

And what are the best of the Soviet capabilities? Not long ago, the State Department was telling us that we need not take seriously anything the Kremlin said to the underdeveloped nations. The Kremlin was not supposed to produce on its promises. In a short time all the unfulfilled commitments would bommerang and the nations involved would come back to Uncle Sam, who alone had the wherewithal and the knowledge to help them solve their problems.

This hopeful trial balloon should have been shrinking as we witnessed the buildup of Soviet influences in one country after another in Asia and Africa. It finally burst when the Sputniks demonstrated that the Soviet Union was a major industrial power.

Khrushchev has gone Stalin one better in economic programming. Stalin believed that all he had to do was to withdraw the markets under his control from world economics and the Western capitalistic countries would devour each other in gingham-calico fashion, fighting over the remaining colonial areas.

Khrushchev's is a new, more dynamic approach -- be aggressive! Take your economic power into battle. Drive a wedge between producing and consuming nations with your resources and your propaganda. Then the West will fall apart in troubles of its own while the Soviet Union successfully co-exists and competes.

Let's take a brief look at what we are up against in economic competition with the U.S.S.R.

The total output of the Soviet bloc may well equal that of the Western world in 15 years -- about the time that our kindergartners are going to college. The Soviet Union's gross national production is expanding at the rate of 7% annually, double the current U.S. rate. The Soviet GNP is already substantially larger than those of Britain and West Germany combined.

A general comparison of Soviet productive strength with that of the United States forty years ago and today shows the following:

Steel then, 13 percent of the U.S. level; now, 50 percent.

Electric power then, 9 percent; now, 30 percent.

Cement then, 9 percent; now, 50 percent.

Machine tools then 10 percent; now, 80 percent.

Rail freight traffic then, 15 percent of the United States; now, 10 percent larger than ours.

Coal then, 6 percent; now 70 percent.

Soviet industrial output in the first quarter of 1958 was 11% above the corresponding quarter of 1957. Ours, due to the current recession, was down 11%. In the first quarter of the year, the Sino-Soviet bloc surpassed U. S. steel production for the first time.

The Ukrainian Republic alone, which is about the size of Texas, claims to produce more coal than France and Belgium combined, and almost as much steel as Britain.

Compared with the United States, the Soviet Union has a directed, controlled economy. The overall statistics indicate that the U.S. spent two-thirds of its gross national production for consumer goods, while the Soviet Union spent less than one-third of its GNP. The moral is clear: the less spent on consumption, the more is available for national aims.

In assigning resources in pursuit of these national aims, the Soviet Union has the additional advantage of central direction. Economics can be wholly subservient to politics. Foreign trade, under these conditions, does not necessarily represent a surplus over domestic needs. Instead, such quantities of goods as are needed for trade or political purposes are merely diverted from domestic uses. This has always been true, but the new industrial base in the Soviet Union makes it easier for Kremlin planners to use resources abroad and makes such activity possible on a far grander scale. The Soviets now can have some butter along with their guns, and use a lot of both to support their foreign policy.

We kid ourselves into thinking that everything will be all right because the Russians are not getting many consumer goods. But the Soviet people purchased three times as many meat and dairy products last year as in 1940. Nor are the staples the only increase the Russians enjoy; so-called luxury items are also more readily available. Russians now own two and one-half million TV sets, as many as the whole of Western Europe.

Moreover, there is stepped-up activity elsewhere. Soviet foreign trade increased six times between 1938 and 1957. In the ranks of trading nations, the U.S.S.R. rose in the same period from sixteenth to sixth place. The proportion of this trade with Soviet-bloc nations has been dropping -- from 80% in 1955 to 68% in 1957. This decline is more than absorbed by trade with the new Asian and African nations, which increased more than five times between 1953 and 1957.

The Soviets have signed a total of 151 individual trade agreements with underdeveloped nations. In addition, they have distributed some \$2 billion in foreign aid since 1954, only one-fourth of this being military aid. Deliveries, we are at last forced to admit, are good. All arms aid has been delivered. Half of the economic assistance has been assigned to specific projects, with about 15% of the commitments already paid out.

Among these commitments are the following: Egypt got \$175 million in economic aid in 1957, with \$170 million more promised, plus \$100 million in arms. Yemen received \$80 million with \$20 million more offered by the Soviet Union and \$15 million more by China, plus \$30 million in arms. Indonesia received \$100 million for expansion of construction, plus experts for atomic development. India got a \$90 million credit for a steel mill, plus \$126 million for other plants and machinery. Iran has agreements on transportation, construction of silos, joint utilization of rivers, oil drilling machinery and sugar-rice exchange. Other countries who have received Soviet aid include Syria, Afghanistan, Burma, Pakistan, and Ceylon.

But it is not the increase in size alone of the Soviet trade and aid program which is the great challenge. Rather it is the admitted offensive which the Soviets are launching to cut off the nations with whom they trade from the Western world. Khrushchev has stated the situation in a nutshell: "We value trade least for economic and most for political purposes."

Soviets have concentrated their aid in countries where grinding poverty, memories of Western colonialism, and political immaturity literally invite Communist activity. These underdeveloped countries are most susceptible to offers of help toward accomplishing rapid economic development.

Superficially the Soviets offer their aid without strings attached, and they trade on the fact that United States aid is concentrated in countries which are part of our defense program. As Bulganin put it:

"What the U.S. offers is assistance, while we offer collaboration -- on mutually beneficial conditions, free of political intent, above all any military involvement. . . this collaboration is based on the idea of finding the best way to observe equality of rights without changing the sovereignty of either of the parties."

Obviously this possibility is highly unlikely, particularly when we review Russia's gravitational effect on her satellites, and reflect that the tradition of many of the underdeveloped lands, particularly in Asia, is paternalistic.

The U.S.S.R. also utilizes trade and aid as an investment in disorder. For example, in Yemen, which is important because it is fighting to grab neighboring Aden, key link in Britain's Commonwealth life line to the Far East, the Soviets recently built a new airstrip. They also dropped off twenty Communist Chinese engineers, vanguard of a larger force arriving to build roads.

The use of cut-rate loans is another formidable Soviet instrument designed, as Mikoyan boasted in his speech at Yerevan last March, to compel the West to change the terms of its commercial relations throughout the world. Cut-rate loans are a highly promising weapon, since they are simple, bespeak generosity, and serve as a basis for labelling opponents as capitalist usurers.

Actually, not all of these are cash loans, so that the interest rates are not decisive. This enables padding of the prices of goods and services obtained by the underdeveloped areas in order to glean ultimately the same profit as would be received from a high interest rate loan. But this fact is not recognized by the countries which are being propagandized. They see only the fast help and showy projects which the Soviets are offering them, such as fifteen buses in Afghanistan, and a sports stadium in Burma.

Moreover, the Soviets are sending trained technicians into the underdeveloped lands. These men are able to speak the language of the peoples they are helping, and so they can work with as well as for them. The United States is unprepared to cope with this aspect of the Russian offensive either in volume or linguistic training of engineers. A comparison of engineering graduates for the next five years at the current rate shows that the U.S.S.R. can expect 400,000; the U.S. 153,000; and China and the other bloc countries, 150,000. And few of the men which United States engineering schools will graduate would be prepared to go into an Eastern country feeling at home in the language.

We like to think that the Free World capitalist assistance for free countries such as India will prove more effective in the long run than Communist aid, and that it will show the world that ours is in the long run a superior economic system. It is true that much of the world will be influenced by the outcome of competition for rate of economic growth between, for example, India and Communist China.

But what will they see? China expects to produce 10 million tons of steel by 1961, an output greater than Japan's. India is not expected to reach even one-half of Communist China's steel production by 1961, and this with the Bhilai steel mill, being built with Soviet aid.

All of this poses for us a serious but simply stated challenge: Either we pitch in to meet the needs of the uncommitted nations, or we must reconcile ourselves to the continued growth of Soviet influence in these countries. It is foolish to hope that the Soviets will form close economic ties with these countries without striving for general positions of influence, advantage, and ultimate control.

There is no need to panic or even to exaggerate the effectiveness of the Soviet aid and trade program so far. There are certain disadvantages in the Soviet program and certainly there are advantages on our side if we will only make the most of them. But the Soviet program which I have just reviewed justifies these conclusions:

First, that after only a few years of operation it has reached significant proportions in carefully selected strategic areas.

Second, that the Soviet offers of aid -- without visible strings and without an offensive degree of Russian control -- are acceptable to the receiving countries as long as alternative sources of aid are not available to them.

Third, that it is perfectly obvious that the Soviet economy can easily support a substantial expansion of the present program and there is every indication that it will be expanded.

These conclusions, it seems to me, clearly validate the seriousness of Comrade Khrushchev's declaration of war in the peaceful field of trade and development. These conclusions demonstrate that he meant what he said. And I think they also validate my contention that we would ignore Khrushchev's clear warning at our peril.

The important thing is to understand the nature and degree of the Soviet economic thrust. When we have that clearly in mind we should then frame our own program not as a defensive, anti-communist cold war weapon, but as a positive program truly reflecting our real interest and our determined desire to help the free nations of the world in a mass attack on hunger, disease, illiteracy and low productivity throughout the free world. It is my belief that our instincts, our interests and our responsibilities would require us to do that with or without the Sino-Soviet aid and trade offensive. But I submit that the Communist entry into the international development field requires us to mount that attack with a sense of great urgency and mission.

What is the magnitude of the effort required? There have been a number of serious efforts by competent experts to estimate the amount of outside capital required by the less developed nations to support a feasible rate of economic growth -- a rate that is economically practicable and which would offer reasonable prospects of showing sufficient progress to assure the peoples of these nations that satisfactory improvements are possible under democratic methods and institutions. There are formidable statistical difficulties in reaching precise estimates of the need for development capital. But we need not bother ourselves about the differences in the detailed conclusions reached by the experts. The fact is that they all agree that a satisfactory rate of growth in the underdeveloped world demands a substantial increase in the flow of funds currently available from all outside sources, public and private. A conservative consensus of expert opinion puts the gap between what the underdeveloped countries are now getting and what they need in the way of capital investment at about an annual figure of \$3.5 billion above the present rate.

There are several ways in which this gap might be closed -- indeed it is essential that it be closed by increased rates of investment from a number of sources.

I voted for the recent increase in the lending authority of the Export-Import Bank and I hope that this will help a bit. I would approve a larger capitalization for the World Bank. I agree that intensive efforts should be made to increase the flow of private capital investment from the United States and from the other economically advanced nations that can afford it. I welcomed Senator Monroney's proposal for an International Development Association, and I hope that various suggestions for the creation of regional development funds will be pursued seriously. As you no doubt know, I have done my best to support the SUNFED proposal.

But even if there were a substantial increase in the availability of investment funds from all these sources, the gap between requirements and the present flow could not possibly be closed without a substantial increase in investment money from U. S. public funds. On the most optimistic assumptions of increasing flows from all sources, it is estimated that at least 20 to 25 percent of current gap must be filled from U. S. public funds.

This brings me to the Development Loan Fund appropriation for the current fiscal year. In its report entitled, "Foreign Economic Policy for the Twentieth Century" the Rockefeller Brothers Fund said: "The Development Loan Fund should become the focal point in the United States Government for United States efforts in the international development field." This, in my understanding, is exactly what the Congress of the United States intended it to be when we authorized the establishment of the Development Loan Fund in the first place.

Let me review very quickly the story of appropriations for DLF. The Administration originally requested an appropriation of \$2 billion for the first three years of operation for the Fund. This I thought was a justifiable request -- one which would have made it possible to develop a lending program on a significant scale and with sufficient assurance of funds to begin to plan a long-range program. The Congress did not go along. It authorized \$500 million for the first year and \$625 million for the second year and appropriated only \$300 million for the first year.

This year we were asked to appropriate the \$625 million authorized last year. My own view at the time was that this was a half-hearted proposal -- a feeble and almost begrudging response to the challenge and opportunity before us.

Nevertheless-- despite the fact that both Houses authorized an appropriation of \$625 million for this year -- the House bill appropriates only \$300 million in additional funds for the Development Loan Fund.

Now I am aware that opponents for the Development Loan Fund have gloried in the fact that the Administration was slow to organize this new activity, that it even now has not perfected all its procedures, and that it has not actually got rid of all the money that was appropriated for the purpose last year.

But when all the quibbling is over, the essential facts are these:

The Development Loan Fund has concluded formal agreements or processed loan applications to the point at which its entire capital must be considered as obligated for specific projects. It is, for all practical purposes, out of business today as far as the consideration of new applications is concerned.

The Development Loan Fund was operationally in business for only six months. It therefore has obligated money during that time at the rate of \$600 million annually. An appropriation of a meager \$300 million would require the DLF to cut down its rate of operation by one-half.

The Development Loan Fund has on hand applications for loans totaling some \$2 billion for projects which, on the face of them, appear to qualify under the terms prescribed by Congress and the Loan Board. It is expected that applications totaling another \$1 billion will be received during the current fiscal year.

Under these circumstances it is incredible to me that we can seriously debate the wisdom of appropriating at least the full amount for the Development Loan Fund.

Careful study over the years has convinced almost all of us that it is far better for us and far better for the receiving nations for us to extend loans wherever possible instead of grants. That's why the Loan Fund was established.

Careful study also has shown that there is a great gap between the needs of the less developed nations of the free world and the current flow of public and private investment money from all free world sources. It furthermore is clear that this gap cannot be filled without a substantial increase in the availability of U. S. public funds.

The experience of the Development Loan Fund demonstrates dramatically that there is a demand for funds for sound development projects far exceeding the amounts we are discussing here today.

And it is overwhelmingly evident that the Sino-Soviet bloc is prepared to step in and help finance an increasing share of free world development if we sit on our hands.

Let me repeat that the vast revolutions that are sweeping the world would require us to participate intensively in world economic development or voluntarily abdicate any pretensions to free world leadership even if the Sino-Soviet bloc had not moved into this field. But since the Communists are so aggressively pursuing their own program of trade and aid, our action on the Development Loan Fund will not only measure the strength of our moral purpose but the vigor of our response to the Soviet challenge.



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