

Khrushchev's Challenge

The theme of today's meeting, "Dimensions of the International Peril Facing Us," is ~~a most important one.~~ ^{an appropriate} ~~It deserves the full~~ ^{for} ~~attention of~~ the Chamber of Commerce of the United States. With its membership of two and a half million American businessmen, your organization occupies a key position in our nation's approach to international as well as to domestic affairs.

~~[My subject today is the Soviet threat to the United States. We all know that the Communist drive for world domination met with considerable success in the early postwar years. It swept over a substantial part of the Eurasian land mass. Over one billion people are now living under Communist rule.]~~

The weapons employed by the Soviet leaders during this period were the traditional ones -- military action and political subversion. Their techniques had been forged and tested in the take-over of ^{power in Russia} ~~the USSR itself~~. These methods were sufficient to bring the European Satellite nations and China behind the iron curtain.

More recently, a new weapon, massive economic penetration, was forged. Under the banner of trade and aid Soviet influence has been aggressively pushed outward since 1953, particularly in the Middle East and in Southeast Asia. We must admit that it has helped to achieve Soviets aims. As Khrushchev said in his Kalinin speech last month, "The Soviet Union can be pleased with

the development of the international situation during the past four years."

Most recently, Khrushchev has challenged the United States to peaceful competition. Our own grandsons, he recently predicted to an American correspondent, "would live under Socialism in America, too." In a February Moscow speech he said, "Let us compete to see who builds the most housing, the most schools and hospitals, who produces the most (food), and other consumer goods. To the slogan that says 'let us arm,' we reply with the slogan 'let us trade'." Finally, in his visit to Hungary earlier this month, Khrushchev saw a vision of the United States as a second rate power.

The challenge, then, is total. It is not only in the scientific and technical fields on which advanced weapons systems depend. It extends to the underdeveloped nations where the ideological battle for the minds of men has been joined. Trade competition, whether in Djakarta for jeeps or in London for aluminum, has become deadly serious.

In broadest perspective, it is the American way of life, of doing business, that is on trial. We are confronted by a formidable adversary, who means business.

I do not mean to discount the seriousness of the Soviet military threat. As I see it, the USSR does not now intend to use its military power in such a way as to risk general war.

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They have a healthy respect for our retaliatory capability.

Further, their sputniks have alerted us to the military danger poised by the ICBM in Soviet hands. The President has moved quickly; our own missile programs are now under maximum development speeds. ~~It is always possible, of course, that~~ Soviet emphasis on the military applications of science and technology ~~will~~ ^{would otherwise} result in a break-through which will upset the balance of military power. Barring such a possibility, it is most probable that the fateful battles of the cold war will be fought in the economic and subversive arenas.

In this connection, the Soviet leaders are constantly repeating in their press interviews, in radio broadcasts, and in their speeches, a desire to reduce international tensions. They repeat ad nauseum, that they seek peace, not war. Yet they throw a heavy veil of secrecy over all military activities. If their objectives are truly peaceful, why is all the secrecy necessary?

Virtually everything about the military capabilities and production programs of the United States is open information. The details of our defense expenditures are available to anyone interested enough to read the newspapers. In contrast, the Soviets release only a total figure, which we know can cover little more than half of what their military is actually receiving.

Our bomber production rates can be found in aviation magazines. Our plans for nuclear submarine production are fully available. The Soviets know this. In fact, the last issue of their magazine, Shipbuilding, carried a complete story of our nuclear submarines. This was not the result of Soviet cloak and dagger espionage, but merely of reading the press.

Yet the Soviets, with trivial exceptions, tell us nothing openly about their military. The Free World is concerned, as it must be, to protect itself against surprise attack. Vast areas of the USSR are closed to foreign visitors at all times. In August 1957, 120,000 sq. miles were added to the closed territory, making a total of 2½ million square miles that are off limits to foreigners. From time to time foreign travel to additional areas are forbidden. On March 31st, for example, the Ukraine, the Caucasus and Central Asia were temporarily sealed off. Why do the Soviets want to keep such areas secret? What are they hiding from the West? Certainly not "peaceful intentions!"

The military field is not the only one where there is a complete divergence between Soviet words and deeds. While maintaining the largest colonial empire in the world, they are the champions of nationalism in the underdeveloped areas. By proclaiming themselves to be anti-colonial, the Soviet emissaries have gained the admission of their trade and aid programs in many underdeveloped areas.

In this penetration, the Soviets are now greatly helped by the years of effort devoted to subversion. This is particularly

true where they have succeeded in spreading Marxist doctrine among students and intellectuals in underdeveloped countries. It makes most difficult our job of convincing the new leadership in emerging nations that accommodating to communism is accommodating to disaster.

Consider for example, the speech of President Sukarno of Indonesia given a few weeks ago. He said, "In the political field I am a follower of Karl Marx. But on the other hand, I am a religious man. I can understand the entire scope between Marxism and religion. Possibly because of my Gemini star I have made myself the meeting place for all trends and all ideologies."

Sukarno's youthful association with socialist and communist political leaders has influenced him deeply. We face the harsh fact that Soviet arms, under Sukarno's leadership, are now being poured into Indonesia to shoot down anti-communists. It is not a comforting picture.

But Soviet credits and grants are not limited to those countries where there is a prospect of short-term acceptance of communist philosophy. Of the \$2 billions of development and military aid extended by the Sino-Soviet Bloc over the past three years, substantial sums have gone to countries which clearly are not in the Soviet camp. Let's get down to cases:

In Egypt the communist party was outlawed at the time of the Bloc's original military aid offers in 1955. Despite repeated crackdowns on communist elements within the country since that

time the USSR concluded a major \$175,000,000 economic aid program with Egypt in 1957.

Communist influence in Syria has been reduced following its membership in the UAR in February of this year -- even to the point where Khalid Bakdash, the leading Arab communist ~~was forced to flee~~ the country. Communist-oriented General Afif Bizri, former Chief of Staff of the Syrian army, has been placed under house arrest in Cairo. But the USSR is going ahead with its \$170,000,000 economic aid program and continues to supply arms under agreements worth \$100,000,000.

The list of examples can be extended. Afghanistan is a constitutional monarchy. The Imam of Yemen is an absolute ruler. *Both are recipients of large amounts of aid.* ~~The Turkish government is strongly anti-communist.~~

Bloc credits go not only where the Communist leaders believe assistance will advance communism, but also where such aid helps to divide the west or curtail western influence.

The Communists have no money market problems. They have no legislative restrictions. The USSR has developed an attractive package credit deal -- long term loans, generally for 12 years; $2\frac{1}{2}$ per cent interest rates; repayment in surplus commodities, and room for bargaining on prices. They have devoted much effort to the native language training of the technicians they send to the newly developing nations.

They have valuable assets in the Free World which are used to push the trade offensive.

One of the most important of these is the Bank of China. It is the primary source of funds to the 12,000,000 Chinese in Southeast Asia. These loans, controlled from Peiping, often require appropriate gestures of support to the Communist regime in China.

Branches of the Bank are in Calcutta, Rangoon, Karachi, Bombay, Penang, Djakarta, Medan, Surabaya and other important cities in Southeast Asia. The Bank promotes the export and sale of Chinese Communist goods over this area. It also collects a vast array of facts of economic and political information, both openly and by clandestine means.

In Latin America we see a different type of asset. There are a number of communist front or Bloc associated organizations actively campaigning for closer commercial ties with the Bloc.

For example, in Brazil, the firm of TORGBRAS has been prominent. It offered to import and sell Russian automobiles at ridiculously low prices. When this fell through, TORGBRAS offered to import a complete auto factory from the USSR. While neither offer may have been serious, they had considerable propaganda value. The Soviet Union is pictured as a respectable member of the world community, eager to do business.

We must not leave the field open to this type of penetration. We cannot afford to be second to the Soviets in responding to the legitimate economic development needs of the newly created nations.

Our own interests dictate such a policy. Forestalling communist subversion is an obvious necessity to maintain a world political balance of power. But our own economic needs for industrial raw materials are growing every year. We are becoming more and more a "have-not" nation as our high grade domestic reserves of such essentials as iron ore and petroleum are used up. We are turning increasingly to imports of such materials, largely from the underdeveloped nations. Ordinary prudence dictates that we bend every effort to keep these reserves, so essential for our future growth, from falling into communist hands.

Can the Soviets afford to keep up their present level of assistance to free world nations? Is their increased[?] trade with the West the result of a completely artificial phenomenon, which must soon disappear under the pressure of harsh domestic realities? Are Khrushchev's promises to improve sharply the living standards in the Soviet Union hollow? Is the boast to outproduce the United States made up of whole cloth?

To answer these questions we must examine the Soviet economy in the perspective of history.

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Since 1928 the Soviet Union has developed rapidly from a predominantly agricultural, industrially underdeveloped country to the second largest economy in the world. Forced draft industrialization, emphasizing heavy industry, was carried out by Stalin to prevent (in his words) another beating of backward Russia by the more economically advanced capitalist countries. Forced

draft industrialization continues, and now the emphasis is more positive: to meet Khrushchev's goal of catching up and surpassing the United States in per capita production within the shortest possible historical period of time. This theme has been used not only as internal propaganda but also to propagate the Soviet faith abroad.

Comparison of the two economies of the US and the USSR in terms of total production of goods and services (or gross national product) will indicate the USSR's progress. # Whereas Soviet GNP was about 33 percent the size of the US in 1950, by 1956 it had increased to about 40 percent, and by 1962 it should be about 47 percent the size of the US. This means that the Soviet economy has been growing, and is expected to continue to grow through 1962, at a rate roughly twice that of the economy of the United States. Annual growth overall has been running between six and seven percent, annual growth of industry between 10 and 12 percent. These rates of growth are exceedingly high. They have rarely been matched in capitalistic states except during limited periods of postwar rebuilding.

A dollar comparison of USSR and US GNP in 1956 reveals that consumption -- or what the Soviet consumer receives -- was less than half of total production, while it was over two-thirds of the total in the US. Investment, on the other hand, as a proportion of GNP in the USSR was significantly higher than in the US. Further, investment funds in the USSR were plowed

back primarily into expansion of electric power, the metallurgical base, and into the producer goods industries. In these fields, it was between 80-90 percent of actual US investment in 1956. Defense expenditures, as a proportion of GNP in the USSR was significantly higher than in the US, in fact about double.

Soviet industrial production in 1956 was about 40 percent as large as that of the US. However, Soviet heavy industry was proportionately larger than this overall average, and in some instances the output of specific industries already approached that of the US. Output of coal in the USSR was about 70 percent of that of the US, output of machine tools about double our own and steel output about half.

Since 1956, Soviet output has continued its rapid expansion, while in the United States ours has not.

In the first quarter of 1958, Soviet industrial production was 11 percent higher than a year ago. In comparison, the Federal Reserve Board index shows a decline of 11 percent in the United States.

For the first time in history, ^{in the first quarter of 1958,} the Sino-Soviet Bloc has surpassed the United States in steel production. The three months figures show that the USSR alone turned out over 75 percent of the steel tonnage of the US.

A recession is an expensive luxury. Its effects are not confined to our own shores. To be sure, none of us likes

^{Decline}
the ~~loss~~[^] of production, of employment, and of dividends. But the international impact is even more serious. Soviet propagandists have had a field day ~~for the past six~~^{in recent} months, pounding away at American free enterprise.

Every Soviet speech, magazine article, or radio broadcast beamed to the underdeveloped nations plays up our economic difficulties. The uncommitted millions are being told -- "see, we told you so. Crises and unemployment are inevitable under capitalism. Communism is the only true road to social progress." Our recession has given the Communists a propaganda weapon ~~damaging to US prestige, as their own Sputniks.~~

Continued Soviet industrial growth has had a counterpart in increased trade with the free world. Over the past two years, their trade with the west has been moving ahead more rapidly than it has within the Bloc itself. About 70 percent of the USSR's increase in non-Bloc trade in 1957 was with the industrial nations of Western Europe.

Recent speeches by Soviet leaders -- Khrushchev, Mikoyan, and Zahkarov -- contained many statements indicating that the USSR desires to expand trade with the Free World. Mikoyan, for example, said that the USSR is "confident that with the establishment of normal trade relations a significant forward step will be taken along the road leading to the establishment of cooperative relations between the Soviet Union and the United States, and will help establish confidence between the two countries."

This month, Zahkarov told the United Nations Economic Commission that their trade ministers should devote their energies to

bringing about a long-run increase in East-West trade.

An essential bar to normal commercial relations is the aura of secrecy surrounding the economic activities of the USSR and its Satellites. I do not mean only their activities in the nuclear, missile, and military weapons field. I mean their day-to-day activities involving the production of such basic necessities as tin cans, aluminum pots, and copper kettles. The USSR withholds from the world harmless facts of its production of such goods. It withholds information even on the production of the basic raw materials -- tin, aluminum, and copper -- out of which these goods are made. The Soviets have not given out a production figure on a non-ferrous metal for 20 years.

Secretive behavior does not create a favorable atmosphere in which the spirit of friendly exchange of goods and materials can grow. This lack of information about reserves, production capacity, processes used, and prices breeds suspicion, doubts, and tensions. The past year saw the Soviet place on the world market quantities of gold, aluminum, tin, and platinum that were without precedent. These sales were not only unexpected, but some of them were made at lower than market prices. Such behavior cannot help the Free World to become more receptive to Soviet goods and materials. In fact, some Free World producers immediately charged that the Soviets were deliberately trying to disrupt the Free World market.

The evidence does not support the interpretation that the Soviets have deliberately embarked on a campaign to disorganize

Western metal markets. Rather, the proceeds have been used to pay for increased imports of machinery. A few years ago, in fact, limited metal exports from the USSR were able to command a premium price in Western markets, due to the tight supply situation. However, the unnatural secrecy surrounding Soviet metals industries breeds suspicion. It makes more difficult the accomplishment of the Soviets own trade objectives.

As we forecast the future, we expect Soviet metal exports to increase. This trend should be reinforced by the continued growth in metal production within the USSR. It is already the second largest producer in the world of pig iron and steel, and the third largest producer of aluminum. Increased competition from Communist producers in these traditional western markets is an economic fact of life.

Let's return to the main stream of Soviet economic development. The new look on the face of the Soviet economy is, of course, the serious attention being paid to the consumer. Khrushchev has become identified in the minds of the Soviet people as the great proponent of raising living standards, of sharp improvements, in diet, in housing, and in clothing.

It is one of the ironies of Soviet politics that Malenkov first proposed this course, and because of this, was deposed by Khrushchev and other party leaders. Addressing the Supreme Soviet on August 9, 1953, Malenkov said, "The urgent task lies in raising sharply the population's supply of foodstuffs and manufactured

goods, meat, butter textiles and footwear." In the same speech, he said, "Comrades, in the cause of the improved well-being of the nation an important part is played by the further improvement of housing."

The historic parallel is in the 1925-27 struggle between Trotsky and Stalin. Stalin vigorously opposed Trotsky's insistence on collectivizing agriculture and on forced draft industrialization. But having disposed of Trotsky, Stalin immediately adopted the same policies. In bloody operations, he liquidated private farming. The first five year plan, with all other objectives subordinated to the development of rapid heavy industry, began in 1928.

Khrushchev inaugurated his campaign to Americanize the Soviet diet by the early 1960's with a prediction. He said, "We have dared to challenge America to peaceful competition in a most important economic field ... If we catch up to the United States level of per capita output of meat, milk and butter, we shall have shot a highly powerful torpedo at the underpinnings of capitalism."

Agriculture is no longer a Soviet stepchild. Investment has increased sharply. Prices paid to farmers have been raised and peasant incomes increased. These efforts have lead to considerable improvement -- agricultural output has been raised nearly one-third over the past four years. It is still far below Khrushchev's goals, particularly in meat.

Growth considerations, in addition to consideration for the Soviet consumer, help to explain the current ambitious housing program as well as that for agriculture. Allocations of some key goods and services, such as housing, through the employing enterprise will promote the desired allocation of labor resources and increase labor productivity.

The housing program is aimed at wiping out the housing shortage in the USSR in the next 10-12 years. The decree was issued in mid-1957 and reaffirmed the Sixth Five Year Plan housing targets at a time when the plan as a whole was being abandoned as too ambitious. The housing program is not one where the Soviets expect to "catch up to the United States" by 1970.

These ambitious consumer welfare programs will require the diversion of some resources at the expense of heavy industry. We anticipate a moderate reduction of growth, from the 7 percent a year achieved in 1950-55 to about 6 percent.

In assessing the future, the striking flexibility of the present Soviet leaders must be considered. Khrushchev, especially, has demonstrated a willingness to abandon dogma and drastically modify established institutions as he continues the reexamination of the Soviet economy in a search for economic efficiency. His reorganization of industrial management last year and ^{his} decision this year to transform agricultural institutions are the major examples of this flexibility.

A continuing high rate of growth for the Soviet Union can be anticipated because rapid growth remains a major national

objective. Khrushchev's goals for 1972 shows a plan for Soviet steel output to double -- to between 100 and 120 million tons. The energy base would about triple with electric power output up to between 800 and 900 kilowatt hours and petroleum to between 350 and 400 million tons. These levels of output would be about equal to US production in 1957.

For certain other commodities, such as coal and cement, the Soviets plan to reach by 1972 a level of output some 50 to 100 percent higher than our own in 1957. Viewed in the light of past Soviet performance, the annual rates of growth required seem relatively modest.

But what these goals imply is that somewhere in the 1960's, the absolute gap between total United States production and total Soviet production will begin to narrow. Once the gap does start to narrow, and if Soviet expansion continues at roughly double the long-term US rate, the gap could close rapidly. A few decades more would do the trick.

Some such timetable, I think, is what Khrushchev had in mind when he said on April 7th, that the Soviet Union in a short time will take the lead away from the United States. After all, a generation is, in his words, "a short historical period of time."

Also, with no reapportionment of priorities among industrial objectives, living standards for the estimated 260 million Soviet citizens in 1972 would have increased, on a per capita basis, by more than 60 percent. The diet would be greatly improved and

the housing for the average family of four would be raised to at least a two room apartment with kitchen and bath.

Finally, the by then no-so-backward nations of Asia and Africa could be receiving a billion dollars worth of Soviet aid annually.

In summary, the Soviet challenges are serious ones. Forty years of Soviet development have lifted the USSR to an economic position far ahead of England, France, and Germany. To me, it is entirely possible, and perhaps probable, that in 30 years more the USSR could move into first place.

As Director of Central Intelligence it is not my task to recommend policies. It is rather to analyze as accurately as possible and present the facts as a basis for determining policy. The countermeasures, gentlemen, are up to you.