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Background discussion with Mr. Frank Stanton, CBS, and [redacted] with Director, CIA, on,

"THE RUBLE WAR: The Crisis and Beyond"

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CBS News Correspondents Participating in the Broadcast

Winston Burdett, CBS News Rome Correspondent, a reporter of the Mediterranean and Middle East countries, visited Kuwait, Egypt, Syria and Lebanon collecting material for "The Muble War" and recently concluded a month's tour of Saudi Arabia.

Richard C. Hottelet, CBS News Correspondent, for many years a reporter in Germany and Russia, recently toured Brazil, Argentina, Chile, Peru and Uruguay for the program.

Peter Kalischer, CBS News Tokyo Correspondent, a reporter for twelve years in the Far East, recently visited Indonesia, Cambodia, Siam, Burma and India for the program.

Ernest Leiser, CBS News Bonn Correspondent, who within the past year has spent much time in Hungary, Romania, Poland, Yugoslavia and France, and recently revisited Yugoslavia for this report.

Daniel Schorr, CBS News Moscow Correspondent for three years (1955-1957), currently assigned to Washington D.C.

Howard K. Smith, CBS News Chief European Correspondent for ten years, currently assigned to Washington, D.C.

SPEAKER: "We declare war upon you in the peaceful field of trade. 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." (SOUND)

SMITH: Good evening. My name is Howard K. Smith. The words you just heard were uttered by the man who is now the Prime Minister of the Soviet Union, the head of the world's leading Communist party, and America's public adversary number one, Nikita Khrushchev.

The date was October the Nineteenth of last year. The occasion, an interview with an American editor. At the time, those words had a propagandist ring to them. But a few months ago, the American in special charge of knowing what the Russians are doing and planning, told the United States that those words were in deadly earnest. In a speech, Mr. Allen Dulles, the head of America's Central Intelligence, said that the United States has faced no greater threat in its peacetime history than the war of trade and aid that Khrushchev so frankly declared upon us last Fall.

In the past week, the mounting crisis in the Middle East has absorbed the world's attention. By most of the evidence that we have, the timing of that crisis was almost inadvertent: Russia had not thought it would happen when it did. Nasser is believed to have been taken by surprise by the timing as we were. The best informed opinions we have been able to gather are: It will not cause big war.

SMITH: (CONT'D) For it is believed that Russia's main effort for now is political penetration; and her main instrument - Ruble War. The Russian's aim is to out-produce free economy. They aim to use their swelling production as a political weapon on a scale without precedent in history. On that enduring Soviet plan to subvert our friends and to defeat us, we report to you now.

First, how does the Ruble War look in the areas of each of the correspondents now about to report to us? First Winston Burdett.

BURDETT: In the Middle East - ever since the last big crisis, the Suez crisis, the door has been wide open to Soviet penetration and the Russians have been streaming through that door. Today, they have a list of more than eighty development projects, in three key countries, Syria, Egypt and Yemen. In those same countries we are doing nothing.

SMITH: Peter Kalischer.

KALISCHER: In the Far East, Howard, we are spending more on economic aid than the Communist bloc, and basically, we're doing a better job. But the fact is, the Russians are getting a bigger run for the ruble than we are getting a bang for the buck.

SMITH: Richard C. Hottelet.

HOTTELET: In South America - the Russians are only beginning to penetrate. A very shrew observer in Chile told me, "The Soviet Union stands in Latin America today where it stood in the Middle East five years ago." The fact is it's coming in like a harpoon.

SMITH: Ernest Leiser.

LEISER: Free Europe is the one area where there's been comparatively little Soviet economic penetration so far. And it's one continent on which Russia has shown its hand; shown that when a nation does take Soviet economic aid it may find itself paying Moscow's political price.

SMITH: Daniel Schorr.

SCHORR: In Russia - it looks as though economic penetration is a definite policy, not to be altered by the shifting winds in the cold war. And Russia's economic capacity to make trouble for us is increasing fast.

SMITH: Well, let's detail some of those statements. First, from the area where the Suez crisis gave Russia her opening and where the din of rebellion now, momentarily, distracts from the abiding strategy of trade war, the Middle East. Winston Burdett.

BURDETT: The story of these twenty months since Suez is briefly this: The United, has in effect, boycotted Egypt and Syria; the French and the British have been excluded from the area; and the Russians have moved in. Here are some of the projects which the Russians, with their satellites, have already gotten off the ground in Arab countries: In Syria, Russian technicians in four Ilyushin planes are busy surveying and mapping the entire country. Bulgarian engineers are building everything from silos to airports. In Egypt, ultramodern Soviet oil rigs are drilling in the desert; and Russian experts are drawing plans for the expansion of Egypt's oil refineries - their first move in the field of Middle Eastern oil. The Czechs have

 been building munitions plants and now they're putting up a huge ceramics factory. A thousand miles to the south, in Yemen, Soviet engineers are building a modern port on the Red Sea. And the first big public works project that this Hamite kingdom has ever had, an asphalt highway, from the coast to the capital, is being built by Chinese Communists. The first point about the Soviet offensive is that these Russian development projects, in Egypt for example, are not just selected showpieces to make a propaganda splash. They cover the whole range of Egypt's modern economy. They were selected by the Egyptians as part of their own industrial Five-Year Plan. The Soviet aid is not a grant; it's not charity. The Russians are offering long-term credit, so the Egyptians can get two things: technical help and machinery. The total credit, a hundred and seventy-eight million dollars, covers more than a quarter of the cost of the Five-Year Plan. Repayment is over twelve years. Interest, two and a half per cent. The standard rates on Western loans are from four and a half to five and a half per cent.

There's a second way in which the Russians have tightened their economic grip on Egypt. They have given Egypt a market for her chief cash crop, and most important export, cotton, at a time when Egypt could find no cotton outlets in the West. And, they have gone to Egypt's rescue with wheat and oil, at a time when the United States - for political reasons - made it impossible for Egypt to get these things from the West.

The result is Egypt has been this: Six years ago, the Egyptians were sending only 21% of their cotton exports to the

BURDETT (CONT'D) Eastern bloc. In 1956, it went up to 34%. Last year, 57%. And this year it's running about the same. The meaning of these figures is that Nasser has found an outlet for his cotton. But he has lost his sources of foreign exchange. His dream of independence of the West has been converted into deepening dependence on the East. Egypt is cornered. Several things have impelled Nasser to turn East: His desire for arms, his need for industrial assistance, and Arab politics. But, he has also had immediate economic reasons. And, United States cotton policy which controls world cotton prices, has made him all the more vulnerable to the Soviet trade strangle hold. In the long run, however, aid may be the more significant of Moscow's two economic weapons. A major segment of Egypt's industrial economy will become Soviet-based under her present Five-Year Plan. Russian wheat is eaten and Russian kerosene is burned up, but Soviet spinning mills and iron smelters, steel plants, and refineries and shipyards, these are permanent installations that establish a permanent relationship, with Egyptian factories dependent on the Soviet bloc for spares. They give the Russians a permanent base. If the present program works well, they will seek to expand that base, and they will gain a new economic and political leverage, in a country that is becoming more and more the gateway to Africa.

KALISCHER: What is happening in the Middle East today, could happen in the Far East tomorrow. If the Middle East is the immediate Soviet target, certainly the biggest terms of area, people and

KALISCHER (CONTD) opportunity is neutral Asia. This is the barn door target, more than fourteen million square miles stretching from Indonesia to Afghanistan; people, about one-quarter of the world's population. This is the heart-land of neutralism. The largest grouping of newly-independent former colonies; long on nationalism and poverty, short on administration and economics. The United States has pumped more than a billion dollars in economic aid into this area since World War Two. Until 1955, we - the West - were virtually the only aid dispensers in the business. Then, Khrushchev and Bulganin toured Asia like a Santa Claus act, offering hospitals and steel mills, barter trade and credit at lower interest rate than ours. The main Soviet target in the area - the jackpot - is India. Three years ago, Soviet aid to India amounted to $116 million. Since then, it has piled up to $295 million, almost three-fourths the total of our aid to India over the same period. Roughly this is the proportion of United States and Soviet bloc aid to seven neutral nations .. seven neutral Asian nations. Not every Communist bloc deal turned out to be as alluring as it sounded. But by and large what the Soviets promised they delivered - usually faster than we did. And while our aid is appreciated by sober economists, the Russians are playing to the gallery and stealing the bows. Let me show you how: Cambodia. Here is Buddhist Cambodia. So neutral it doesn't recognize North or South Korea, East or West Germany, Communist or Nationalist China, but accepts aid from both sides. We helped build this hospital for Buddhist monks. Red China supplied the surgical equipment inside. Our main aid effort is an important new road, 132 miles through the

KALISCHER (CONT'D) jungle from Phompenh the capital to a new seaport the French are building. But this $5 million hospital - a Russian gift, still in themodel stage - is getting just as much publicity. The Cambodians are rightly not concerned about keeping aid in separate compartments, so American aid cement is going into building the Russian hospital. If that was a split, here's a bigger one - aid goods, tile, porcelains, sewing machines, chinaware, rotting in their cases a few blocks from the Imperial Palace. Cause for an investigation perhaps, except that this happens to be Communist aid and Communist aid programs never have to worry about critics on the home front. Burma. These foundation stones were the beginning and the end of an American hospital in Rangoon. The Burmese stopped all American aid in 1953 - asked it back in 1956, a bit disillusioned with Russian barter trade. Now, our aid program matches the Russians. But, we have no display to match this one in plain view of Government offices in Rangoon. The Russians come bearing gifts and as in all Southeast Asia, their commercial personnel outnumber our five to one. Our soil reclamation project cannot match the glamor of a gift technological school being built with Russian tools and the help of Russian technicians, to be staffed, naturally - by Russian teachers. All to be paid for some day by a return gift of Burmese rugs. The pith helmet by the way is now standard Russian equipment.

In Afghanistan, the Arab pathway from Russia to India, Soviet aid tops ours. Our main effort is an irrigation project in this remote Helmand Valley. Few Afghans know about it. Most Afghans can't read. But what they can see are these Russian busses

KALISCHER (CONT'D) on the Russian-paved streets of Kabul, the capital. But, some Afghans find Russian equipment inferior to ours and Soviet projects have boomeranged. This Russian gift bakery has cornered most of the wheat and put hundreds of local bakers out of business. And the Afghans really don't like the bread - it's soggy inside.

In India the Russians don't make many mistakes. Their total aid is still less than half of our total aid but it's skillfully dramatized. The showcase project is this Bhilai Steel Mill, part of India's second Five-Year Plan, towards which Russia is lending India $132 million. Fifty thousand Indians are employed on the project. When finished it will produce one million tons of steel annually - small by American standards, but one-fifth of India's present steel production. What identifies Bhilai with Russia is not so much Russian money, but 350 Russian technicians helping to build it. Indians are only too happy to tell you the Russians get half of what Americans are paid on similiar assignments. They also point out that the Russians live modestly in two-family houses, three rooms to a family under conditions most overseas Americans would scorn. Theoretically the Russians are only supposed to advise the Indians how to go about the job through English - speaking Russians. But most of them are do-it-yourself types like the fellow perched on the outside of this blast furnace. The furnace incidentally will fire up in December on schedule.

And everywhere, incredible as it seems, the bureaucratic

 ...ms in

KALISCHER CONT'D the field of reaching decisions and delivering the goods. For instance, it took us one year to negotiate a surplus farm goods program with Indonesia. And another year before the goods got there. It took the Indonesians one week to reach a rice agreement with Communist China and three weeks later the rice ships were in Jakarta. On that score, Indonesia's Foreign Minister Soebandrio has this to say.

SOEBANDRIO: I think there is a big gap between commitment and delivery. And it is for this reason perhaps that you do not reap all the benefits of good will you could of course. With the Chinese and the Soviet Union we got the impression that their goods arrived in Jakarta before the ink of the contract dried up.

KALISCHER: Dr. Soebandrio, we call Communist aid economic penetration. And they call our aid economic aggression. What do you think our motives are?

SOEBANDRIO: Well, you agree with me that this is not easy to answer that question. But if I venture to say, I would expect that the Soviet Union are out to prove to the world that economic relations between countries would also be based upon Socialist principles. On the other hand, I expect that the United States are well aware that they can only sustain their economy if the other parts of the world are also on a high level of economic development. I think for the United States it is a matter of enlightened self-interest. Prosperity after all is the best tool to preserve democracy.

KALISCHER: And, competition is the life of aid. Dr. Soebandrio, Foreign Minister of Indonesia, a neutral Asian, friendly to the West.

LEISER: In Europe - the situation is very different from Asia. We penetrated Free Europe with our 12½ billion Marshall Plan, the most imaginative and successful foreign aid program in history. And we put the Continent on its feet. As a result, West Europe is not up for economic grabs by the Russians. Trade, yes, to a degree. West Germany, for example, this Spring signed a three-year agreement that doubles its trade with Moscow. But doubles it only from one to two per cent of all West German foreign trade. Aid? There's been little opportunity for Moscow, so far, in Europe. That is, with two notable exceptions. One is Iceland, a reluctant partner in our Atlantic alliance. A tiny country, not very important on the economic ledgers, but very important on the map. It lies midway along a direct line of air attack from Russia to the United States. With the air base that we now have there we can cut off attack. In Soviet hands, as an air or a submarine base, it could threaten us seriously. And, economically, Iceland is slipping into Soviet hands. It lives by fishing. But for the last six years, Iceland has had great trouble selling the catch of its fisheries, except to Russia. In 1952 Iceland sold nothing to the Russians. Today, one-third of its trade is with the Soviets. If Moscow stopped buying now, Iceland's economy would almost collapse. To fortify the economy and to increase Iceland's dependence on

LAISER (CONT'D) Russia, Moscow has also offered a $25 million long-term credit to Iceland - that's a big chunk of money for a country of only one hundred and sixty thousand people.

The other target of the Soviet bloc in Europe, the chief one, has been the maverick Communist country, Yugoslavia. And there the political strings attached to Soviet economic aid have come into plain sight. After Khrushchev literally kissed and made up with Tito in 1955, nothing, it seemed, was too good for the Yugoslavs. Moscow offered to take the goods that the Yugoslavs couldn't sell elsewhere, even including Slivovotz, the local firewater. And in exchange, Russia offered to supply Tito with critical raw materials that he couldn't afford to buy elsewhere. Moscow also promised credits to help Tito build new projects all over the Yugoslav map: A $70 million nitrate fertilizer plant near Belgrade, impressive machine factories, equipment for lead and zinc mines, dredging equipment for canals, and, biggest of all, a huge aluminum and electric power complex. Nearly one half billion dollars worth of aid was promised, all told. The largest amount offered any country outside the Soviet bloc. That was the promise. But then Tito refused to accept the political conditions attached to the promise, refused to accept doctrinal damnation by his ex-friend, Khrushchev. And now the economic bait has been yanked back. The credits not already paid to the Yugoslavs have been suspended for five years - for all practical purposes cancelled. I visited a couple of weeks ago one of the projects that Russian money was supposed to pay for, a huge $70 million fer-tilizer plant. Construction workers were rather hopelessly going

LEISER (CONT'D) ahead with the building, but what the Yugoslavs are desperately trying to figure out now is where they're going to get the money for the machinery to put inside the building. To Tito, at least, it's become pretty clear that Russia is not giving something economically for nothing politically.

HOTTELET: In South America - in terms of volume, Soviet trade is not very important, and there is no aid at all as far as technicians, projects and development credits are concerned. The important fact is that business is done where it counts - and the one-commodity countries of South America, with their national pride and their grievances against the United States, are pretty vulnerable. In Chile, for instance, the national treasury and the economy stand or fall with the price of copper. Well, last Spring, the United States announced renewal of a tariff on copper, which the Chileans took as a hostile gesture. The Soviets came in at the same time with a solid order for copper wire. Little Uruguay has wool bulging at its warehouses and the United States has a special tariff on wool. So the Russians appeared, and in the first half of this year suddenly became Uruguay's best customer. Brazil has coffee to burn, literally, and too little oil, and the Soviet bloc offers to take coffee and such in return for oil and precious things like cargo ships.

It's hard to separate the weapons of economic and political warfare. One of the best in either case is rumor. A Brazilian businessman offers to import Soviet automobiles for a tenth of what a Ford or Chevy would cost. Communist and fellow-travellers,

HOTTELET (CONT'D) returning from free trips to the Soviet bloc, offer tin smelters to Bolivia and match factories to Ecuador. And in drought-ridden south Peru, the rumor circulates that the commissar will come from Russia bringing tractors and graders. Meanwhile, the Communists work with every nationalist and extremist force that tries to drive a wedge between the United States and Latin America, as Vice President Nixon's trip showed so clearly. They flatter these proud countries with attention and blame backwardness on Yankee imperialism.

This preparatory stage of the Ruble War is backed up with movies, and with floods of magazines and periodicals filled with smiling Soviet peasants and happy workers and pictures of big machines that are most impressive in underveloped countries. And Soviet chess players, dancers, scientists, composers, athletes and journalists have been swarming over South America in recent months. The reason is this: South American governments and businessmen do not want to trade with the Soviet Union. But economic necessity keeps pushing them in that direction and Moscow wants to convince them that you can do business with the Kremlin.

At present, only three countries in Latin America have diplomatic relations with Russia. Chile will soon join them, and others may follow.

Communism and Karl Marx take a back seat in all this. Russia can't hope to communize Catholic South America any more than it can the Moslems of the Middle East. But that's not

HOTTELET (CONT'D) necessary. All Moscow wants now is good will. And as it builds, Soviet influence picks up and the Ruble War grows more intense.

SMITH: That is what Russians are doing in other countries, but what about the source country itself? Daniel Schorr, where did Russia's peasant economy, that we used to make jokes about a few years ago, find the resources to challenge the world's most industrial economy?

SCHORR: Well, Howard, Russia built her economy up to this point in forty years by squeezing productive capacity out of the hides of the people, especially the farmers. Crash programs built up basic industries while the products were denied to the consumers, to be plowed back into more expansion. The results have been phenomenal. In 1950, Russia's gross national product - the total of all goods and services - had grown to a hundred billion dollars, a third as much as America's. Six years later, both had grown, but Russia had continued gaining on us, now up to 40% of our total. Three years from now, it's reckoned, the Soviet GNP will be 230 billion, fully half as much as ours. It was in February, 1956 that the Kremlin rulers formally decided to strike the posture of a "have" nation. Khrushchev convinced his followers that a minimum investment, with flashy, symbolic projects, could provide maximum mileage in projecting an image of Soviet strength abroad, building good will, encouraging neutralism, increasing tension in the Free World, undermining Western influence. It was really more a gimmick than a program, typified by this sort of incident: On a tour of

SCHORR (CONT'D) Finland, I saw Khrushchev stop at a farm, suggest the farmer try growing corn and he offered to fly in a Soviet expert to show him how. The expert was there 48 hours later. An aid program for one man that paid off a hundred times over in publicity.

Russia, despite her pretensions, is not really a "have" nation, not yet. She still imports ten times as much machinery from the Free World as she exports to it. But she's catching up. Automation is being grafted onto an industry already tremendously expanded. At a Moscow factory, I saw ball bearings roll off the assembly line untouched by human hands. I've seen booming mills in Novosibirsk, the Chicago of Siberia, where only a village stood a few decades ago. And in Sverdlovsk, in the Urals, Russia's Pittsburgh, a giant steel industry. So, Russia faces outward to the world, not with a real trade program - for the Kremlin rulers fear to let go of self-sufficiency and to develop the specialization that is really the life of trade - no, but with a cautious entry into the world's market place and a politically-directed foreign aid program. It's a modest program, immodestly publicised. Total bloc commitments are about $1.5 billion. But spread out over so long a period that the annual cost is only 200 million. At that rate, Russia could double her aid program with ease. And it doesn't all come from Russia. In fact, most of the machinery comes from Czechoslovakia and from East Germany, Russia's chief lieutenants in the foreign aid campaign. Red China - for political reasons - is allowed to handle some of the sub-contracting for Asia. Foreign

SCHORR (CONT'D) enough themselves, so they can't understand handouts to the other underprivileged.

When an Egyptian aid agreement was signed, the details were published in Cairo but not in Moscow. On trade, the Soviet drive is only beginning. Her total foreign commerce is still only a quarter of America's, but there are ominous signs. Russia's aluminum production is rising while ours is falling. This year her share of the world's output will be 22% to our 38%. And the gap is narrowing. Now Russia has started exporting aluminum to Western Europe, cutting prices, disturbing world markets. But unlike America, which pours more than 90% of her aluminum into consumer goods, Russia still keeps aluminum from the consumer. Her people cook with cast-iron pots and they don't know about aluminum foil. First, aluminum exports; next perhaps steel; then what? Russia's capability for economic warfare is less than advertised, but it is growing. Running against it are the pressures of the Soviet consumer, the needs of Red China, the post-Hungary requirements of the satellites. But Russia is an economic force to be reckoned with.

SMITH: Well, in our own nation's capital, to which I am assigned, those in charge of our plans to meet the Russian challenge, are divided in their concern. They are about 50% concerned by what the Russians will do, but they're at least 50% concerned with what we may fail or neglect to do ourselves. Our huge advantage in this

SMITH CONT'D competition is our amazingly productive economy, which produces surpluses for use in such a competition. Our chief instruments, by which we make that surplus operative, are the foreign aid program and the reciprocal trade program. The foreign aid program is to help other nations raise their standards to a level where Russia's philosophy for poverty would lose its appeal. The reciprocal trade program is the plan that is now twenty-fours years of age - whereby the President is empowered to lower tariffs gradually to let others sell to us to earn dollars to buy from us with. And, generally, to stimulate a healthy trade between us and other nations.

Recently, none of these instruments has been developing well. In recession, our world record economy has been producing at a rate 11% below last year, while Russia's economy has been producing at a rate 11% ahead last year.

Recently, the House of Representatives slashed foreign aid drastically, calling the usefulness of the whole program into question. And recently, a key Senate committee ripped the insides out of the reciprocal trade bill. What caused this Congressional rebellion is not clear but some have suggested to me it was largely carried out by Democrats and largely as a protest against many things the Administration has been doing, not least the President's stand on the Adams-Goldfine affair. Now, in the next few days, these issues come up for infal settlement in our Congress. The next few days or week, therefore, will tell whether for a year to

SMITH (CONT'D) come, while Russia marches forward in her Ruble War, America will languish because recession and Congress have withheld us ammunition.

The six correspondents, who have reported to you, have raised some questions about the Russians' economic offensive which call for some answers and frankly for some well-informed opinions too. Now, one of the most striking paradoxes that I have heard was one stated by Peter Kalischer from the Far East. He said the Russians get a bigger run for their ruble than we get a bang for our buck. I would like to ask, is that really so, and if it is so, why is it so? Peter, could you start?

KALISCHER: Well, I think some of the reasons are built into the situation. In one Southeast Asian country, I telephoned an official I'll call him Mr. Rashid. He wasn't in and I asked that he call me back. It was terribly important, I said. The voice on the other end of the phone said politely, "Excuse me, sir, important for you or important for Mr. Rashid?" Well, the point is I think we've heard and we have to realize that what's important to us fighting Communism just isn't to Asians. When they conjure up the specter of economic domination, it's in the Western white man's image, the old colonial master. With its socialist economies the Communist bloc is more or less absolved of the suspicion of economic exploitation of that kind. With Red China a major partner, they can turn around and say there's nobody here but us Asians. Their technicians work for less; they have a standard of living closer to the Asians. And politically, the bloc endorses the neutral policy of these Asian nations. They say, "Don't take sides; we'll help you anyway."

KALISCHER (CONT'D): Here we must always justify the foreign aid program as Cold War ammunition publicly in Congress, right in this studio, and the verdict among the Asians is, "You're not just helping us. You're just trying to fight the Russians."

SMITH: Dick Hottelet.

HOTTELET: In Latin America - it's because the Russians are quicker on their feet than we are. Here's a continent so fantastically rich in resources that just the water running off the Andes Mountains could light up the Western Hemisphere from end-to-end. In this potential wealth most of the people live in poverty. But they're becoming keenly aware of how much they're missing. And the Russians, sympathetically, offer them a short cut into the Twentieth Century, a quick leap from a farm economy to industrial power and plenty.

Soviet reality, of course, is far away - the Soviet price which is taken out of the hides of the people, as Dan Schorr said. This is far away, so the Soviet snake oil comes to seem most attractive. We, on the other hand, come in too often with wagging fingers, telling the Latinos to put their houses in order and pay their debts and stamp out corruption which, of course, they take as rich man's advice. It may be very good advice, it rubs the wrong way. On the other hand our double-standard keeps showing. Our price supports and farm subsidies and protective tariffs are tried up here. But when the other man puts his government into business and insists on doing things in his own strange way, we too often look at it as wicked.

SMITH: Ernest Leiser:

LEISER: Well, Howard, I was given one reason that the Russians

get more mileage from their money by an official of the West German Foreign Ministry, a couple of weeks ago. "The trouble with you Americans," he said, "is that when you have say a hundred million dollars, to give a country you make one big announcement, and then that's that. Now, the Russians," he said, "announce that they're going to give a hundred million dollar credit when they first get the idea. They make a second announcement when the country comes to them to begin negotiations. They announce it a third time when the negotiations are completed. And they announce it a fourth time when the money is finally handed over. By the time the country gets the money, its people think that the Russians have given them four hundred million dollars instead of a hundred million."

Another, somewhat more serious explanation, is one I got from a Yugoslav, who pointed out that the Soviet money is goven in the form of things you can single out and say, "That was built by the Russians." Our aid to Yugoslavia, on the contrary, is in the form of wheat and cotton. Things that the Yugoslavs can't identify as ours.

SMITH: Emmiel Schorr.

SCHORR: Well, I don't know, maybe we are being a little too rough on us. It seems to me sometimes that the Russians must get more mileage out of their kind of foreign aid because fro them it is a relatively new phenomenon. The people are constantly being surprised in the first place if they are able to do it and, perhaps, as an Indian told me in Moscow, that they should want to do it. So a certain amount of that extra mileage, I think, in a

new kind of foreign aid program is to be expected. As when it comes down to the techniques of foreign aid, however, I think there they do get more mileage because they stress the flashy and symbolic kind of phenomenon, the thing which you can go into both quickly and easily without taking any responsibility for an overall foreign aid program.

SMITH: Kinston Burdett.

BURDETT: Well, Howard, in the Arab world the Russians are very much like circus barkers; they get maximum publicity out of every act in their show, and every act, of course, is colossal. But I don't think that that's really the reason for their success. Their propaganda is successful because it's based on a policy and approach to foreign aid that's acceptable to the Arab governments. The Russians don't come along and say "Here's ten million dollars; build a dam with it." They accept the ideas of the Egyptians on what Egypt needs and what she wants. Furthermore, in these development schemes, the Russians aren't giving anything away. They've learned I think, that charity can be offensive. Their long-term credit deal with the Egyptians is very popular with Egypt simply because ostensibly it's a business arrangement, and presumably anyway these credits are eventually going to be repaid. And so for Egypt it does not have the odor of power politics.

And then the Russians do not have the Point Four director sitting on top of the show, the visible representative of a big foreign power advising, directing, interfering and generally

making himself a perfect political target for hypersensitive nationalists. I think the Russians are succeeding simply because they make it seem at least that their economic aid has no political strings attached to it.

SMITH: Well, some of the things you've said suggest a very basic question, that the Russians are simply making their projects seem so important. Is is possible that Soviet penetration is not really a threat? Could we have some answers on that? Daniel Schorr.

SCHORR: Well, I would put it this way; I think that Soviet penetration is not a quantitative threat but I do think it is a qualitative threat. When I say it is not quantitative I mean that they haven't yet reached a point where they have the kind of exportable surplus that can threaten us in any way. It's been exaggerated and it will be so for some time to come in spite of all her great gloat. However, when it comes to the qualitative side by stressing the symbols of foreign aid and concentrating on key sensitive areas and especially on Egypt, which Winston has talked so well about, they can get certain spectacular effects. That is, of course, if you want to consider foreign aid a threat at all. I don't want to raise an irrelevant question at this time but George Kennan, has asked a questionas to whether foreign aid is a threat. Whether perhaps it might not be best to let Russia get her feet all enmired in foreign aid and, to mix a metaphor, to get some of the headaches that we've developed and to get quite enmeshed in the same thing. Perhaps it might be a good thing, he suggests.

SMITH: I might add, what do you think about that Kennan thesis that Russian penetration into foreign aid is not really a threat?

BARNETT: Well, I think, Howard, that Kennan is right in thinking that the Russians are going to run into a lot of troubles of their own, and that eventually there will be disillusionment among the recipient countries with Russian help. But I do not think that we can take any particular comfort from that fact and I don't think that we can assume that Russia's troubles are going to be a positive help to us. And certainly I do not believe we can afford to let the Russians go it alone in the Middle East. There is a threat in that area and it's going unchallenged by us. I think that we've got to accept the fact that the Russians are in the Middle East as traders, engineers, advisers, technicians. Their presence there is inescapable. I don't think, incidentally, that the mere presence of Soviet technicians is much of a threat. The technicians in Egypt, for example, keep very much to themselves. They are not allowed to circulate or to fraternise. Much more disturbing, I think, is the scale on which the Russians are now building training schools for industrial workers, exchanging professors with Arab universities, handing out scholarships to Arab students. This year, for example, for the first time, there are more Syrian students going to Soviet-bloc schools on scholarships than to the schools of the entire Free World and if this goes on, we may find one day that Syria's Western-educated middle-class has simply disappeared by attrition and been replaced by a Soviet-educated middle-class.

Economically, of course, the threat is simply that if we give over the field of aid to the Russians then some day we may find that they control a large and critical sector of the modern economies of the Arab countries.

SMITH: Peter Kalischer, have you any comments on this question of whether Russia is really a threat?

KALISCHER: Yes, I think Winston is right and Kennan is wrong. I asked President Sukarno of Indonesia if he thought there were any strings attached to Soviet or American Aid. This was his reply and I quote: "Let's be realistic, shall we? In a certain sense, all aid and all trade have strings. Suppose one country supplies our irrigation service with two dredges. That means our irrigation service is tied to that country for spare parts and so on. But if you mean does American or Communist aid come with the conditions of political or military support, the answer is a flat no." Well, I think it is implicit in that answer that there don't have to be such conditions. If aid goes from dredges to arms, to heavy industry, all supplied by one side, the recipient nation is, willy-nilly, on that side. President Sukarno's personal foreign aid philosophy is summed up by something else he said to somebody else. He said he was sure the Russians would build Indonesia a sports stadium for the 1962 Asian games, and then the Americans would jump at the chance to build them a hotel to put the visitors in. And you know he's right.

SMITH: Well, Dick Hottelet.

HOTTELET: Howard, you ask the question in terms of the Soviet threat. I would like to answer in terms of what's at stake. The stake in Latin America is our future. It's well known that we have skimmed the cream of our natural resources and our reserves are obviously diminishing from day-to-day. The Latin American continent is our best, our nearest and ultimately our vital source of supply right now. Latin America is the second biggest market for our goods. And its twenty Republics are our firm friends and supporters in the United Nations, which is terribly important right at this instant. We can help these Republics be a shining example; we can help them be an opportunity for us; an example to the underveloped nations of Africa and Asia that freedom too offers a road to prosperity and a better one than the Soviets have to offer. On the other hand, if we lose Latin America, we lose a great deal. Let's not forget that if the Soviets were ever to assert their influence on Latin America, American security would be at an end. That's what's at stake.

SMITH: Ernest Leiser.

LEISER: Well, Howard, Soviet economic penetration is not a considerable threat in non-Soviet Europe, except as I have indicated in Iceland. And actually the Europeans feel a good deal the way George Kennan feels that it's less of a threat thoughout the world than we make it appear to be. They say that the amount of credit that the Soviets can actually extend is meager compared to what we can do. And that because of the needs of Russia's own growing economy, that this is going to continue to be the case for a long time.

European economists concede that the Russians have been skillfully selective in picking out their economic targets and that they've made the most of them in propaganda point of view. But by and large, the attitude in Europe is that expressed a couple of weeks ago in The London Economist, which is a pretty sober and sensible publication. It ended a piece on Russian economic penetration with this comment; "The Soviet economic challenge need cause deep concern, in the long run, only if the Western industrial economies fail to keep on growing themselves."

SMITH: Well, you gentlemen have been out of this country for a while, let me tell you that in the gathering struggle over foreign aid, the very basic and simple question is being asked all over this country and I want to put that question to you now and see what your answers are. Is there not too much waste and corruption in foreign aid? Does it really yield us any benefits? Should we not abandon the whole idea if it does not win friends for us and Russia can really get more mileage with less aid to others than we give? What do you think of that? Winston Burdett.

BURDETT: Well, Howard, as I said, in the three countries I've been talking about there is no American aid program and therefore there's no corruption. I think there should be an aid program there because otherwise, we may find that these countries have no alternative, no place to turn except to Moscow.

SMITH: Kalischer.

KALISCHER: Well in Asia, of course there's waste and some corruption in foreign aid. There's waste and corruption in the

United States too, I'm told. But the point is that every time there's a quartermaster scandal I don't think we should stop giving bullets to the United States Army. In Cambodia where a few minutes ago you saw that large pile of rotting aid equipment the Chinese Communists are selling Chinese aid goods and giving the proceeds to the Cambodians. With these proceeds in local currency they are turning them over to fourteen provincial governors in Cambodia for their own local aid projects, the money to be spent where they see fit and no accounting to be demanded. Now, this foreign aid pork barrelling is on a scale I don't suggest we imitate. But the point is that the Chinese are not going to cut off aid to Cambodia if some of that money should happen to turn up in the Cambodian equivalent of deep freezers or vicuna overcoats.

SMITH: Dick Hottelet.

HOTTELET: Well, I think even after what Peter has said, I can say that corruption in Latin America reaches proportions you could well call epic. There's a story that the only train that really runs well in Latin America is the gravy train. It affects private enterprise, I might say, just as much as it does government, and it does not affect our small aid program. But in any case in Latin America great grants of American aid are not the answer.

SMITH: Ernest Leiser.

LEISER: Well acutally Howard, as you know, one of the remarkable aspects of our huge aid programs in Europe has been that there's been virtually no corruption. Take Yugoslavia as just one example. We could pick many. We've turned over $782 million in economic aid to the Yugoslavs in the past eight years, and there hasn't been a single case of graft reported. Some of our money, like that spent recently

for a luxury hotel in Belgrade, which they don't really need, could have been better used. But the fact remains that during a period when Russia was trying to break Tito, economically, we kept Tito's country going and, after all, that was what we set out to do.

SCHORR: If I could add one word here, Howard. Although this doesn't really concern Soviet foreign aid, I would say one thing - that corruption and waste, I don't think, is any monopoly of American foreign aid. We have found out just from seeing what's happened in Burma where cement has piled up on the docks, only to get wet and be useless. We've seen agricultural machinery on farms in India that couldn't be used because there was no farm big enough to use it, just some of the outward symbols of waste in Soviet foreign aid. There has never been any kind of investigation by their parliament, by their SupremeSoviet. I don't think that we have to get too alarmed about a little waste.

HOTTELET: It's good news to hear about vice elsewhere.

SMITH: Well, in the few moments remaining to us I'm going to suggest to you that you write an economic policy for the United States that will win this so-called Ruble War. Now, keeping in mind the criticism you have made, what would you suggest that we do that we're not now doing? Daniel Schorr would you start?

SCHORR: Well sir, I'll write you a program - perhaps because I bring an extra sense of urgency after having lived a couple of years in Russia and having experienced their climate. We call this a ruble war, and if it's a ruble war, let's use some of the mechanisms of war. I would suggest that we form a kind, not we, but the United States form some kind of a coordinating body, perhaps called the Foreign Economic Coordinating Board built along the lines of the War Production Board of World War Two. And that this body be given the job of coordinating

all foreign aid projects, all those of the government and also enlisting private industry, bringing it in to do the job that cannot be done by government. I would suggest that if necessary that we give these industries something like cost-plus contracts to go into the underdeveloped areas and do the kind of work that couldn't be done by industry because there would be no incentive. I speak of incentive because in our society -- because it is a democratic society, it requires incentive. And I say this because the most profound problem we face is to find the mechanism by which we can get the impact and the concentration on target areas by democratic means that the Russians today get by regimentation.

I think it can be done, and I think it fundamentally important - for that kind of thing must be done.

SMITH: Winston Burdett, what do you think about this?

BURDETT: Well, Howard, I'm not sure whether I'm very happy with what seems to be Daniel Schorr's main suggestion. It doesn't seem to be what our foreign aid program lacks is coordination or that what it needs is another great big coordinating government agency. I think that we ought to throw away many of our old ideas about how to administer foreign aid and try to begin all over again. And I'm going on the assumption that our aim has to be to find a way of extending help that is so flexible and so presentable to foreign countries, that we can help Egypt, for example, even when we don't like Nasser and can go on helping despite the ups and downs of politics. I assume that we either have to do this or that we have to abandon the game to the Russians. How many of our ideas spring from Marshall Plan experiences which were all right. Those ideas were all right for Europe, but for the parts of the world that we've been discussing, they certainly don't fill the bill. The chief thing, I think, is that economic aid must be detached from politics as far as possible. The administering of aid ought to be taken out of the hands of policy-making bodies and as far as possible, out of the field of administration. Grants and charity should go. There should be new and flexible loan and credit arrangements at low interest. We should give private enterprise a way to combat the Soviet drive, and government should make it worthwhile for private enterprise to do so.

That may seem like a rather extravagant idea, but the West Germans have done exactly that by quite a brilliant device. The Germans are the only ones in the Middle East who are now providing a check to the Soviet offensive there. The German operations in Egypt, which have

a planned total investment of more than $125 million, are entirely private with German firms making separate business deals with the Egyptians. The German Government, of course, has guaranteed those private investments. It's really the government subsidising private enterprise overseas. And, I think that this might well point the way for us.

SMITH: Dan, I think you deserve a ten-second rebuttal to that answer.

SCHORR: In ten seconds, I would only say, Winston, that I don't think we are in any basic disagreement. I would only say that I don't think that coordination is the opposite of flexibility. And, I think that what has been done in West Germany can be done in our way too, providing incentives to private industry.

SMITH: Peter Kalischer. Can you help us write a policy now?

KALISCHER: Well, I think we've got to attract young American engineers, technicians, in-the-feild men, into foreign aid service, perhaps through subsidized scholarships with the first two years after graduation going to Uncle Sam overseas. All through Southeast Asia, I heard one universal criticism: American technicians were too high priced, lived too high, while the Russians would go anywhere, they didn't mind the mosquitoes. Well, in Indonesia, one private American technician I know, was getting two thousand dollars a month -- I'm sure he's worth it -- but his contract calls for the Indonesian Government to give him commensurate housing. And one official said, "I'm sorry, but I ... I'm afraid President Sukarno is going to have to move out of Merdeka Palace. We don't have commensurate housing at two thousand dollars a month." A Burmese asked me what had happened to the American missionary spirit. He said that Dr. Gordon Seagrave, old Burma surgeon Seagrave, who is still up in the Shan Hills with his hospital, is worth in good will to the United States about thirty million dollars, at current aid prices. I don't think that all the high level planning will beat the Communists in the Ruble War unless we can find Americans who will go into the field, at the level of the people they're trying to help, and slug it out with their gloves and their air conditioners off.

SMITH: Dick Hottelet.

HOTTELET: The first thing to do is clean out a lot of cobwebs. Stop looking at South America in terms of Carmen Miranda, rhumba rhythm and banana revolutions. Forty years from now, Latin America will have twice the population of the United States and at least twice the natural resources. Its growing pains are terrible but we've got to share them in our mutual interest.

(More)

HOTTELET (CONT'D): We're dealing with a people, we've got to remember, that's at least as proud and sensitive as we are. We can't bribe them and we can't bully them -- but we still enjoy enormous respect and good will in Latin America, and the Latin Americans are willing to follow our partnership, our lead, if we make the new world a really working partnership. We've never been timid. We've always made the rules to fit the ... to fit the case and the problem. Look at the Monroe Doctrine, as far back as that, the Marshall Plan, the Truman Doctrine, Korea and Lebanon. Now, it's high time to write the rules for the mutual development of the Western Hemisphere. When nine or ten American agencies mull over loans for months at a time in Washington, they're being penny-wise and pound-foolish. Washington is the place then where time is lost and where the blame rests when the loan is turned down. Let one Pan-American agency -- and it needn't be a new one at all -- stimulate basic economic development, roads, transport, power, fuel, put its headquarters in Latin America, put responsibility in Latin American hands, support it with our loans, not grants, in every serious project no matter how unorthodox it may be, whether it be national, private or a combination of both. Of course, there'd be a risk. But it would get away from the old Pan-American bromides and for the first time rally Latin America in a program of common action. Everyone would benefit. It's ridiculous for us that we have five million unemployed here at home when the Latin Americans need every single machine we can build. Let there also be a vast increase in exchanges among students, professors, artists, businessmen, engineers sponsored by government and the big foundations and by private industry because the Latin Americans are as ignorant of us as we are of them.

SMITH: Well, I'm going to give Ernest Leiser now about one minute to sum up from his side.

LEISER: Well, one fundamental thing we can do, Howard, obviously, is to enlist our more prosperous European allies in a joint program of counter-penetration in the uncommitted countries. Winston has talked about what the West Germans are doing, but actually, they've just begun in their government subsidised industrial credits for Egypt. They can do a lot more, and I've been told by their officials that they can be persuaded to do a lot more in concert with us. We don't need a new Marshall Plan of American gifts. We do need and could get a new Atlantic alliance plan of generous but intelligently directed long-term credits.

SMITH: Well, gentlemen, I would like to try to summarize some of the things you've said. You've painted a strange picture. We've been challenged by Russia to a contest of economics in which all the main basic advantages are on our side. We have the hugest production for use in this contest of any nation on earth and of any nation in history. And despite Sputnik our general know-how to convey to others is still undoubtedly the world's best. But our advantages, you say, are being cancelled out by many things. Burdett and Hottelet suggest that in the Middle East and Latin America, it is simple default by us. We're barely working while the Russians are busily ingratiating themselves with many projects. The Russians are dealing in loans, for the main part, which do not offend sensitive national pride of new nations while we deal mainly in aid which bears the stigma of charity. Our technicians must live and work on a high managerial level in those countries, while Russia's tend to work on a much more modest scale where the people happen to be. And finally, the Russians simply dramatize their effort

(More)

SMITH (CONT'D):

more than we do.

Ernest Leiser made a suggestion which sounds contradictory but I don't think is. He said, we should not try to discourage our European partners from increasing their trade with Russia in non-military goods they needed.

Now, to your suggestions as to what we should do about this situation, I have two to add from this country: The American people have to be aroused to the urgent necessity of this effort, which the American people are not aroused to at the present time. Congress, it seems to me, must be made to realize that the effort is a necessary and regular part of our national life. We should not have to debate foreign aid and reciprocal trade as strange, new, controversial proposals each year. They must become commonplaces, regular, natural things to do. Debate on them should not be as to whether they should be done; it should be limited to what is the most effective way to do them. America has risen to many unexpected world responsibilities in the past decade and we have become accustomed to winning even when we start licked. But to this challenge we will certainly have to rise much faster than we've been doing at present or we may lose the Ruble War.

Good evening.