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Gardner Ackley

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ECONOMIC CONSIDERATIONS IN NATIONAL STRATEGY

Remarks by
The Honorable Gardner Ackley
Chairman, Council of Economic Advisers
at the
Global Strategy Discussions
Naval War College
on 8 June 1965

My assignment today—to discuss economic considerations in national strategy—fortunately does not seem to require that I formulate any very specific or detailed conception of our objectives in the world. In any case, I have no intention of trying to do so. I rather shall talk about some economic problems that seem to me relevant to our national strategy, and let you decide what their precise implications may be.

My remarks fall into four general parts:

The situation and prospects of the U.S. economy;

The economic situation and problems of the underdeveloped world;

Our commercial and financial relations with the free world in general—mainly involving the developed, industrialized countries;

Our economic relations with the communist world.

I. I am sure that this audience will not ask for any homilies on the healthy economy as the indispensable requisite for any kind of national policy or strategy.

A healthy economy should produce the hardware and supply the man power for the military force-in-being the nation requires, and enable the mobilization of additional resources when they are needed. It should do this without imposing intolerahle burdens upon our citizens—burdens which might foster social divisions that could impair the national will to achieve our strategic objectives.

The present burden of our defense and related strategic effort —less than 10% of our total production—imposes no significant strain on a nation as affluent as ours. Indeed, it could be doubled with only transitory and manageable problems of adjustment.

Second, a healthy economy should develop economic relationships with the rest of the world which generate the claims on other countries' resources that are required for operations beyond national borders.

Our economy has not failed in this respect. However, special measures have been necessary to restore balance to our international payments.

Third, and perhaps equally important, a good economic performance contributes to the world image of the nation—an image that attracts the adherence or at least the tolerance of others for our goals. For this reason, as well as because it is vital to the well-being of our citizens, a healthy economy must make full use of available productive resources. Increasingly we are doing so.

Fourth, a healthy economy also provides for the futnre. It generates the investment, the experimentation, the innovation that support a rapid growth in our ability to achieve these goals in the future.

The stability of economic growth is almost as important as the rate of growth itself. Frequent recessions weaken our international stature and divert domestic attention from longer-run and external problems. A third of a century ago misunderstanding and mismanagement permitted us to fall into a depression whose depth was matched in only one other conntry. We intend that this disaster should not recur.

Our record since World War II alone gives much basis for confidence. The pattern since early 1961, in particnlar, is unexcelled in our national history. We are in the 52nd month of continuous economic expansion, the longest peacetime expansion in our history. With the exception of the World War II period, it is the longest continuous expausion during peace *or* war.

Our gross national product has risen by nearly $150 billion, or nearly 30%, in the past fonr years. The expansion of output has been at an average annual rate in excess of 5%, even after correction for change of prices. And per capita income–after taxes–has grown by $265, or nearly one seventh, measured in dollars of current purchasing power.

We still have areas of concern. For example, although the unemployment rate has dropped from 7.1% in May 1961 to 4.6% in May 1965, it is still too high–especially among younger workers just entering the labor force. Here and there in the economy, prices are edging upward aud warrant our attention and concern. Yet our record of price stability continues to excel that of any other important nation.

Our achievements in the postwar period as a whole–and particularly during the past 4 years–owe much to a new conrse in public economic policy, which in turn reflects a new understanding of the forces that shape national economic performance. The Employment Act of 1946, for the first time, made high employment and full production a central objective of national policy. Increasingly we have begun to harness the tremendous fiscal influence of the Federal Government in a conscious and constructive effort to assure a large and steadily growing market for the output our economy is capable of producing.

The single most significant use of this power was in the Revenne Act of 1964, which cut taxes by $14 billion (at this year's level of incomes). The reduction was made because it had become clear that demand in the whole economy was not growing sufficiently fast, at then-existing tax rates, to catch up with, and to keep up with, the potential growth of our output.

Events to date are consistent with our best hopes for the effects of the tax cut. On the basis of all past history, the expansion some time ago should have slipped into recession. It did not. Instead, expansion continued and accelerated. The prospective excise tax reductions, and the timing of social security revisions, represent further uses of fiscal policy to sustain expansion in the year ahead.

The efficiency of our economy is one thing. Its humaneness is another, and in the long run no less important. Not only by its citadels of power, but also by its concern for quality of life generally, and for the welfare of the least successful and fortunate, is our economy and society in the long run to be measured in judgment.

Both in terms of our economy's long-run health, and in terms of its role as a model to other countries, it is vital that we deal—with energy, imagination, and confidence—with the basic problems as poverty, health, education, and urbanization; in short, that we concern ourselves with building a "Great Society."

Our economy has often been misrepresented abroad as doctrinaire laissez-faire. It is in fact eclectic and pragmatic. It relies primarily on private enterprise, but in addition on social and governmental influences, controls, initiatives, and production—and on a vast reservoir of voluntary cooperation.

It is a mixed economy, in which one can find every variety of private and public productive organizations. It is an economy more inclined to equality of opportunity than equality of realized income. Its watchword is "judicious intervention" rather than orthodox over all solutions to problems. It works well. But it can work even better; and it will.

II. Now let us turn to the problems of our economic relations with the world beyond our borders. Consider first the half of the world's peoples who live in the noncommunist less-developed countries—the LDC's. Those of us who have lived only in North America or Europe find it hard to visualize the intensity of poverty in which more than half our world lives—deprivation in every aspect of living: food, shelter, clothing, roads, schools, health, and length of life.

The most basic contrast among the world's economies is probably *not* that some areas have much government ownership and control, and others less—each with its appropriate ideology. (The invidious intensity of these ideologies will wane in time. Common sense has its long-run successes.) The most basic fact is that for over three centuries a widening gap has appeared in standards of living between a small part of the world that has been getting ahead, and the most of the world that has not.

Gross rates of production increase are now fairly similar–in the neighborhood recently of a surprising high 4.3% to 4.7% a year average for both the LDC's and for the industrialized countries. For the less developed, this growth is the result of a lopsided averaging together of the small part of production which is manufacturing, growing rapidly, and the large part of production which is agriculture, growing slowly or not at all.

But population is rising very much faster in the LDC's–an average of about 2.5% a year, about twice the average rate of the high income areas. When we allow for this faster population rise, per capita growth is lower in the undeveloped world. And because their average income levels are so much lower, the *gap* between their incomes and those in the prosperous countries still increases rapidly. To apply internationally an old and sourish adage: the Lord is still sending to the rich more riches, and to the poor more children.

Here are some round figures: LDC's–average incomes recently about $400 per person per year, amount of rise of income $7 a year; prosperous countries–average income $1700 per person per year, amount of rise of income $60 a year.

Is there an issue for national strategy in this world contrast? Poverty is certainly no novelty in the world: nearly all our own ancestors a handful of generations ago were desperately poor–like the peasants of the Peruvian highlands, and almost like the farmers of Madras State. By itself poverty is not a necessary source of social unrest or explosion. People starve quietly: they are too weak to do anything else.

Discontent is a relative matter. Not poverty but improvement, with the knowledge that further improvement is possible and that blocks are in the way, is what seems to have been associated with the onset of historical revolutions, as Crane Brinton suggests in his classical *Anatomy of Revolution* (which studied the British revolution of 1688, the U.S. of 1776, the French of 1789, and the Russian of 1917).

We have today, and have had in recent years, rapidly expanding information about how the rest of the world is living. Radio, movies, television in some places, newspapers and magazines, the widespread movements of soldiers and of refugees, and simply increased travel, have been spreading the knowledge widely, to an unprecedented extent. The peasant in central Java, in Madras State, and in Guatemala, knows there are places in the world where the standard of living is ten or twenty times as high as his own.

Not poverty, then, but poverty plus increasing consciousness of high incomes elsewhere, plus increasing realization, too, that the ending of poverty is technically and administratively possible —these conditions are ideally suited to the nourishment of discontent and disorder. We are likely to have ahead of us, in the next decades, a very turbulent world.

Nor will ecouomic progress itself necessarily assuage the discontent. The chain of aspirations has no limit. In East Africa the generalization of one student was that the watershed between the traditional economy and the endless ladder of increasing wants—which for their fulfillment need specialization and commercialization—is at the point where the man in the bush decides he ought to buy toilet paper at the nearest store, and that this is a feasible ambition. In another low income part of the world, the President of one country has phrased the national goal as "a wife for every man, rice in his pot, cloth for his sarong, a radio in every village." In still another regiou aud country, the minimum goal was once "forty acres and a mule"; in that same country the miuimum goal is now the ending of poverty, and the geueral aim perhaps two cars in every garage plus a boat—?

Economic progress is, in itself, no guarantee either of friendly ecouomic and political policies, or of the social and political stability that the United States desires in its self interest to encourage in other countries. But the net judgment is that successful economic advance makes the friendly stability that we desire more likely. This is why the United States has repeatedly in recent years reaffirmed its major strategy of aiding the economic growth of LDC's. It is true that a part of the support for our foreigu aid programs originates in the demand they create for our agricultural and industrial products. And we should do ourselves injustice if we overlooked the major influence of the long U.S. humanitarian tradition of relieving distress in the world, and the sense of obligation that our own unique economic success carried with it.

The United States has regularly been providing well over half the world's official financial aid to LDC's—last year $3.6 billion out of $6.0 billion—as well as much of the flow of private capital. As a percentage of GNP, however, our total aid (6/10 of 1% of our GNP) is less outstanding.

What issues of national strategy are involved in our Aid programs? Let me present a few of them as questions.

1. In what form is aid to LDC's most effective, and in what form should it be given as a matter of U.S. policy? The traditional concept of aid has focused on physical investment—in direct productive facilities, or in the social infrastructure of roads, ports, airfields, or dams. Yet statistical and econometric studies for the United States suggest that physical investment by itself explains only one-eighth to one-quarter of our own growth of output. It is certain that skills, incentives, health and energy of the work force, and complex social aud political factors, lie close to the experience of growth or of its absence. Should perhaps still more of our aid effort be directed to education, to health, to improving public and private management, to technical and vocational training, to promoting institutional change?

2. Should more of U.S. aid than the present one twelfth be channeled through international organizations? Like most donor countries, the U.S. provides most of its assistance *bi*laterally. Such a policy enables us to check on performance, to tie our aid to purchases of U.S. products, and to adjust our aid efforts to political considerations. But international organizations also have advantages: they can recruit personnel from all member countries, and can operate with lower costs for salary and travel. Pride, nationalism, and intense desire for independence, often make aid more welcome from an international organization than from a single country, that aid being less suspect of ulterior motives. Should we perhaps increase the now-small proportion of our aid flowing through international organizations?

3. How can we ease the burden of interest and repayment on the recipients of aid? Interest and amortization charges on past loans to the underdeveloped countries have been growing recently about 17% a year—much faster than their export earnings, or than the flow of financial assistance to them. In 1956 these charges were less than one seventh of the total financial inflow to them; now they are over one third. The charges will continue to grow if anything like the present pattern of grants-plus-lending (with the current terms of lending) continues. Four countries since the war have carried out debt renegotiations as an alternative to default: Argentina, Brazil, Turkey, and Colombia. Other countries will face such crises.

U.S. lending terms to low-income countries have been easier (in years to maturity, period of grace, and interest rate charged) than the average of other countries; but Congress tightened them in 1964, and reduced the share of our aid given as grants. Should we again soften onr terms of aid, to postpone and avert default crises—if necessary, offering less aid but on easier terms?

4. We have already mentioned the generally poor showing of agriculture in the LDC's. A recent stndy of the Department of Agriculture lists 32 such countries where production per capita of the basic cereals (rice, wheat, and corn) has been falling in the past qnarter century. The canses of ill-sncccss are deep-rooted: incentives, literacy, available capital, and market-orientation, are all relevant to the possibilities of sustained food increase.

The U.S. faces here a policy issue. To what extent should we emphasize gifts of "snrplus" (PL-480) farm products to less-developed countries—with its advantage to our domestic farm program, and disadvantage to incentives for local prodnction as a result of lower prices and increased uncertainty? To what extent should we put relatively more weight on direct stimulus to local agriculture from extension and training work, support of imports or local production of fertilizers and pesticides, better genetic varieties, and better transportation and storage facilities—perhaps even requiring an intensive local effort to improve agriculture as a condition for on-going PL-480 support?

5. Food supply questions bring us to the fundamental population issue, which has in recent months come very much into public discussion. Even in some advanced countries, agriculture would be hard pressed to keep production ahead of a 2.5 percent population rise. Not all low income countries are "over-populated," but many are; and all of them are faced with the economic burden of providing food, clothing, shelter, and training, for the large numbers of children who are for the time being unproductive; and social facilities, tools, and equipment, for the growing numbers of the total population. And aside from economics, there is the simple disutility of congestion, beyond a certain density of population.

Dr. Enke estimates that in its effect on the standard of living of these countries, $1 spent toward diminishing the flood of births has the same effect as $100 spent toward increasing production. He could be considerably wrong in his assumptions, and still there would be no doubt about the relative advantage of the two kinds of expenditures. How actively, and in what ways, should the United States support family planning in less-developed countries?

6. The final question I shall raise concerning U.S. relations with the underdeveloped world concerns our trade policy. This has been, and continues to be, to keep international trade on a nondiscriminatory basis: whatever trade barriers nations impose should be applied equally to all countries.

Trade barriers are still high enough to restrict trade materially: a 10% tariff can readily mean a 100% gain or loss to the earnings of a final producer—that is, it may readily make his production possible or impossible.

The single most urgent demand of LDC's today is for trade "preferences"—that is, that high-income countries should lower their trade barriers preferentially to imports from LDC's—and particularly to their manufactured imports.

The central argument for preferences is that costs of manufacturers in LDC's are *temporarily* high. Because they are small scale now, and because we learn-to-do-by-doing, their costs will be lower later on. Therefore, their industries should be given special advantage in foreign markets, and protected in their own, until they grow up and their costs go down. The arguments against preferences are mixed; that present trade barriers are lower than they used to be; that the potential volume of trade that could result is relatively small; that some markets in high income countries might nevertheless be disrupted (which is true); that it is hard, at the margin, to define "underdeveloped" and that as a matter of principle, one should not violate the nondiscriminatory "most-favored-nation" principle.

Some high-income countries rather favor preferences; some favor granting them for limited groups of LDC's, typically their former colonies. The United States has been on the whole strongly opposed.

A sharp general reduction of tariffs on a nondiscriminatory basis will help, and this we are actively seeking in the "Kennedy round." And so would a restructuring of tariffs on the successive stages of processing. The present structure particularly handicaps manufactured exports of the LDC's.

But preferences will remain a major demand of the LDC's, and a continuing source of controversy in the months and years ahead.

III. We turn now to three questions that relate to our general economic relations with the outside world. They are primarily but not exclusively relevant to our relations with the one sixth of the world which is both high-income and noncommunist.

The first is the U.S. balance of payments problem.

The deficit in our international balance of payments has, as you know, persisted for many years, and in 1964 still amounted to over $3 billion (in terms of our current definition).

Our balance of payments deficit does not mean that we are "living beyond our means" internationally, nor that our foreign liabilities exceed or are growing faster than our assets abroad. On the contrary, we are exporting far more than the total of our imports and our spending abroad for defense and aid. Moreover, our net wealth position abroad has been growing rather than diminishing. Our property abroad and claims against foreigners have been rising considerably faster than their property here and their claims against us. What has deteriorated is our international liquidity position, as foreigners have added to the volume of outstanding short-term dollar claims that can create drains on our gold stock and other international reserves.

Despite a record-breaking surplus in trade, we have experienced balance of payments deficits because of (a) Government expenditures for defense and aid, and (b) private capital flows by Americans who have made loans, deposits, and direct investments abroad.

The Government's expenditures reflect our commitment to support the economic development and security of the free world. These commitments impose a certain burden on our resources—we have to use part of our GNP for these purposes and have less of our output to devote to our own standard of living and our investments in future economic growth. But since many of these expenditures have to be conducted abroad, we also need command over foreign currencies. When our overall payments are in deficit, acquiring additional foreign currencies involves creating increased short-term liquid claims against our international reserves. Surprisingly, we find it easier to spare domestic production for these programs than to stand the drain on our international reserve position.

In order to break the liquidity bottleneck on these programs and to allow them to reflect what we can spare in resources, we have made efforts to tie our aid to exports from the United States and to reduce the foreign exchange costs of our military programs. Despite considerable progress in both directions, our foreign programs continue to impose a \$2-1/2 billion a year drain on our balance of payments. Any significant further reduction in this cost would have to entail a real change in our national security objectives.

Private capital outflows exceeded \$6 billion in 1964. The basic reason that capital flows out from the United States is that we are a highly developed country with much more abundant capital and abundant savings than the rest of the world. Because of the scarcity of plant and equipment abroad, it often earns a higher return than in the United States. Similarly, the loan funds needed to finance capital investments also are more expensive and harder to get in other countries. There has been a particularly high return for American capital goods operated by American management and embodying American technology, which has strongly encouraged direct investment abroad. And there have been strong demands by foreigners for the services of our highly organized financial markets for issuing securities and making bank loans. Last year, bank lending to foreigners was perhaps the outstanding growth industry in the United States. It was the only growth industry that we were unhappy about.

There are urgent reasons why we must take action to bring our payments into equilibrium. We want to act decisively before a crisis appears in order to avoid the necessity for actions that could threaten our domestic economic growth, our vital national security programs, and our liberal policies on the movements of goods and people. The prolonged duration of the U.S. payments deficit has already enabled some European governments to use their role as "creditors" as an element in bargaining on political and military as well as economic issues.

In this setting, it is clear why the task of devising an appropriate corrective program has been exceptionally difficult. We have had to reject temptations to apply cures that were worse than the disease. The measures actually taken have been carefully designed to aid our balance of payments without damaging other important U.S. objectives. Thus, to curtail capital outflows, we have relied on a program of voluntary credit restraint and of interest equalization taxes as *an alternative* to the severe credit tightening that could trigger a domestic recession. In the aid field, we have sought to increase the percentage of aid that is tied rather than to cut total outlays. And to improve our current account balance, we are stressing such devices as export promotion and encouragement of tourism at home—not protectionist measures directed against imports or involving interference with Americans' freedom to travel abroad.

I can touch only briefly on a second foreign economic problem for the United States—and for the rest of the world, developed and underdeveloped. This is to find a jointly acceptable basis for the reform of the *international monetary system.* There is general agreement that the present system is not fully satisfactory, but as yet no apparent basis for agreement on its reform.

We in the U.S. have no fixed position concerning the details of the international monetary system toward which we ought to strive. But we can rule out some proposed solutions that would clearly not do the job. We must push forward to the development of a mechanism which will make possible the prudent multilateral management of international money. We cannot center the international monetary system on gold, leaving the growth of reserves to the vagaries of South African production and Russian sales. We cannot accept a system that would destroy, rather than create, reserves and that would be inadequate in supplying growing a world needs for liquidity. We cannot allow the development of an international monetary system in which new reserve asset creation would be the exclusive prerogative of a "rich countries' club," rather than one in which all countries with given qualifications share. And we also know that our general preference is for solutions that would build on the machinery already existing in the International Monetary Fund.

Keeping these qualifications in mind, there would still appear to be a rather broad range of alternative possibilities for improvements in the international monetary system on which we can negotiate. This will be a major task for our international economic policy in the months ahead.

A third important foreign economic problem has a major bearing on our balance of payments, but involves other significant issues as well. It is the role of private U.S. capital flows, particularly in the form of direct investment. Such investments have risen very sharply in the past few years. The increase from 1962 to 1964 was 45% or $3/4 billion, and there are as yet no clear indications that the recent rate of growth will diminish. In 1964, over 70% of our direct investments were made in the developed countries.

The United States reaps important advantages from its direct investments abroad. Earnings from such investments have been very high and are rising steadily. Yet capital transfers to the developed countries in the present magnitude pose problems. From a balance of payments viewpoint, these transfers are obviously an immediate drain even though earnings on these investments may—in a relatively short time—result in a net gain to our payments position.

The benefits of U.S. direct investment to the recipient country are unmistakable—and particularly to an underdeveloped recipient. Along with the new or expanded American enterprise overseas go U.S. technical and administrative skills, and sometimes whole new techniques.

Nevertheless there is political sensitiveness to such direct investment—even in such mature and sophisticated areas as Canada and Western Europe, let alone in the fiercely nationalistic, newly independent parts of the nnderdeveloped world. Socialist and communist interpretations of foreign investment as inevitably exploitative and colonizing have their uneasy influence even on nonbelievers in the faith. They remember cases where the theory seems not implausible.

Can we devise some new standard arrangement that will offer adequate incentive to American businessmen to undertake the travail and inevitable risks of foreign direct investment, that will increase adequately the capital and skills resources of the foreign countries, and that will also be obviously fair in the eyes of people abroad, involving no threat to their sovereignty or status? Perhaps procedures could be developed and announced in advance under which nationals of the countries in which American firms are created would have opportunities to acquire an increasing share of the ownership of such enterprises.

We come finally to U.S. economic relationships with the third of the world in the Sino-Soviet bloc.

Although it is still common to speak of the Sino-Soviet bloc as if it were a monolithic entity, we have, in fact, witnessed over the past several years the emergence of separate Soviet and Sino blocs. To speak of current trends or goals in our economic relations with the communists is, at the present time, to refer almost exclusively to the Soviet and East European states. The U.S.—alone among the major powers—has a total embargo on all trade with China, North Korea, and North Vietnam; I see little prospect for any immediate change in U.S. policy toward that area.

Recently, two distinguished groups—a Special Presidential Committee on U.S. Trade Relations with Eastern European Countries and the U.S.S.R., and the Committee for Economic Development (in association with similar private organizations in Western Europe and Japan)—have issued reports calling for a controlled expansion of East-West trade and a general easing of U.S. restrictions on commercial intercourse with countries behind the iron cnrtain. Since 1953, trade of the free world with the Soviet bloc has risen more than fourfold, and last year exports and imports were each between $4 and $5 billion. The U.S. share of this trade, virtually nil 12 years ago, still remains extremely limited. In 1964 U.S. exports to the Soviet bloc, including substantially more than $100 million in extraordinary wheat shipments, amonnted to $340 million. Total imports were less than $100 million.

A policy decision to increase East-West trade involves a number of considerations which generally do not arise in connection with "nornal" international trade.

First, there is the fact that in the communist countries virtually all trade is conducted by government agencies. Contrary to mnch popular opinion, this need not mean that the communists engage in international trade only for political purposes or that they are bound to come out the better in any deal with a private firm in the West. The law of comparative advantage is no respecter of political ideology; many of the same economic incentives to trade apply equally on both sides of the iron curtain and it is fully as logical for socialist plauners as for capitalist profit makers to buy cheap and sell dear.

I have never understood why it is so frequently assumed that some bureaucratic foreign trade entity with limited experience in western markets, with limited economic incentive, and with limited knowledge of the noncommunist world should necessarily always come out the "winner" in any trade deal struck with foreign businessmen—especially those in the developed countries. Certainly one cannot have the argument both ways: that the communists only trade when they are in desperate need for some western commodity, and that whenever they trade they command the upper hand at the bargaining table.

Another consideration—and inhibition—in trading with the Soviet bloc is the matter of so-called strategic advantage, or the danger of contributing to communist military capabilities. If there is to be any trade with the Soviets, they are almost bound to reap some economic advantage or gain—just as are the western countries (or traders) that permit or conduct such trade. The West can prevent the export of particular items to communist countries, but it can scarcely affect decisions regarding allocation of productive resources within these countries. The U.S. force structure is essentially independent of our exports and imports, and I venture that the same is true of the Soviets. Past restrictions on "strategic" exports have probably had a greater effect on the composition of a Russian's diet than on the composition of the Soviet missile force.

Our trade controls are properly directed toward preventing the export of military or quasi-military end items and weapons-making equipment to the Soviets and their allies. We should be highly critical of any control criteria couched in terms of the Soviet's long-run military capabilities, for such criteria logically lead to the termination of all trade.

A third issue in relation to East-West trade is our ability to use such commerce as an instrument of foreign policy. Unless U.S. trade with the bloc expands very substantially, or until the major western nations are able to agree on and implement a far more coordinated commercial policy towards the communists than they have thus far attempted, it seems to me unrealistic to expect trade (or the threat of embargo) to yield significant political mileage. However, even at its present low level, trade can be an effective signaling device. The more channels of communications we have with the bloc—and with individual nations within the bloc—the better. At one extreme there is the Hot Line; at the other, export licensing policy may be a useful device for flashing clear offers and responses to communist authorities.

The most important long-range function of our trade, however, is something else, in my view. By increasing our economic contacts with the bloc, we and our friends can contribute to those centrifugal tendencies now evident within the bloc. Western interests, it seems to me, lie not so much in demonstrating to the Poles, or the Hungarians, or even the Russians that we in the West can cut off trade or that we, too, can engage in some form of state trading, as in demonstrating to the bloc countries—individually and collectively—that our intentions really are pacific and that both they and we can benefit from mutual contacts and closer, competitive relations.

I do not suggest that trade alone will promote peace or that trade policy can replace political negotiations. I think, however, that when we find an area of mutual interest or agreement, we should exploit it; when we can compromise in one field without jeopardizing our position in another, we should do so; and that when we have an opportunity to capitalize upon the growing tendencies toward independence within eastern Europe, we should seize it.

* * *

I have touched on only a handful of problems, and many of them only superficially. But I have already gone on too long and must conclude.

There *are* important economic considerations in national strategy. Increasingly, economists are learning how to use economic policy to advance the goals of our society. Bold and imaginative policies have been making our domestic policies better serve our domestic goals. In the years ahead, I am sure that economic policy can also increasingly serve our strategic goals in the world beyond our borders.

BIOGRAPHIC SKETCH

The Honorable Gardner Ackley

Present Position: Chairman, Council of Economic Advisers

Education:

Kalamazoo, Michigan public schools
Western State Teachers College, A.B., 1936
University of Michigan, M.A., 1937
University of Michigan, Ph.D., 1940
Western Michigan University, LL.D., (honorary), 1964

Government Service:

Economist, Office of Price Administration, 1941-43, 1944-46
Economist, Office of Strategic Services, 1943-44
Economic Adviser and Assistant Director, Office of Price Stabilization, 1951-52
Member, Council of Economic Advisers, 1962
Chairman, Council of Economic Advisers, 1964

Academic Service:

Instructor, Ohio State University, 1939-40
Instructor, University of Michigan, 1940-41
Assistant Professor, University of Michigan, 1946-47
Associate Professor, 1947-52, Professor since 1952, (on leave 1961-)
Department Chairman, 1954-61, University of Michigan
Visiting staff member, University of California, Los Angeles, summer 1949

Other Professional Activities:

Consultant, National Resources Planning Board, 1940-41
Member, Board of Editors, American Economic, 1953-56
Fulbright Research Scholar (Italy), 1956-57
Director, Social Science Research Council, 1959-62
Chairman, Committee on Social Science Personnel and Member, Executive Committee, 1960-61

Other Professional Activities: (cont.)

Vice President, American Economic Association, 1963
Member, Committee on Honors and Awards, 1959
Chairman, Committee on Research and Publications, 1959-61
Consultant, Department of the Army, 1961
Ford Foundation Faculty Research Fellow, 1961-62
Consultant at various times to Ford Foundation, Brookings Institution, National Bureau of Economic Research, Michigan Department of Finance, and other groups

Professional and Honorary Affiliations:

American Economic Association; Econometric Society
Michigan Academy of Science, Arts and Letters
American Association of University Professors
Kappa Delta Phi; Tau Kappa Alpha; Phi Kappa Phi

Publications:

Macroeconomic Theory, 1961; *Un modello econometrico dello sviluppo italiano nel dopoquerra,* 1963; numerous articles and reviews in various professional journals, and contributor to various books, Congressional compendia, etc.