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October 7, 1954

EXECUTIVE COMMITTEE OF THE
ECONOMIC DEFENSE ADVISORY COMMITTEE

MEMORANDUM

To: Executive Committee
From: Kenneth R. Hansen
Chairman
Subject: Proposed Economic Defense Research and Analysis Program

Appended hereto is the report on "Soviet Economic Trends and Their Implications for East-West Trade" submitted by Thomas C. Schelling, Associate Professor, Yale University, and consultant to MDAC. As noted in Mr. Schelling's memorandum of transmittal, this report is intended to help orient systematic research in the field of East-West trade and to provide an analytical preamble to an organized and systematic research program to develop a comprehensive and accurate appraisal of Soviet economic trends and policies.

On the basis of informal discussions and comment, it is evident that this report has provided a most useful and provocative approach to this problem and that the thesis developed has serious implications in terms of future economic relationships between the free world and the Soviet bloc. The report, in my view, represents a major contribution to the forward thinking in not only the economic defense field, but the entire foreign economic policy of our Government.

In the evolution of our economic defense policy since the adoption of NSC 152 by the National Security Council and throughout the period of implementation of that policy, it has been evident that there has been a change of circumstances with regard to the strategic importance of specific commodities to the Soviet bloc, changed attitudes and approaches by our Allies and major economic developments greatly affecting the scope and role of East-West trade in the total world trade picture. During this period, however, it has

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become increasingly apparent that the nature, extent and potential of free world economic relationships with the Soviet bloc would emerge as a major area of concern from the economic defense point of view.

Accordingly, as a necessary counterpart to the development of the "long-haul" approach from the military and strategic point of view, there must be developed a "long-haul" approach from the economic point of view. Moreover, this "long-haul" approach must take increased cognizance of the economic plans, industrial and agricultural development and demographic changes within the Soviet bloc economy itself. Certain premises with regard to Soviet capabilities and intentions, weaknesses and strength must be re-examined in a new light and within a much more systematic framework tailored to economic defense requirements. This image of Soviet economic capabilities and probabilities must be analyzed in relation to (a) current and long-term Soviet objectives, (b) the probable effects of these developments on Soviet relationships with the free world, (c) the impact upon the free world and the obstacles presented to attainment of U. S. political, economic and strategic objectives. A program for continued scrutiny of all observable manifestations of Soviet economic and trade policy and tactics is required in order that not only may current situations be met with courses of action based upon sound research and analysis, but also in order that our own objectives may be framed in the light of an appreciation of Soviet capabilities and limitations, and so that the United States and the free world countries may take the necessary initiative to accomplish our long-term objectives.

Accordingly, a second paper has been prepared by the MDAC staff which outlines the research and analytical framework within which are identified the requirements for research and analysis necessary to the current and future development of economic policy and programs vis-a-vis the Soviet bloc. This paper is a draft and intended only to serve as a basis for discussion and as a possible springboard to the development of a program to which EDAC resources might be devoted. This outline attempts to provide, in part, a framework within which Mr. Schelling's thesis may be "confirmed, modified or refuted," but also to broaden the scope of that inquiry. It would be intended that once there was agreement as to the essential nature and scope of a research and analysis program --- consistent with that program --- projects and individual requests for the collection, collation, and analysis of given aspects of Soviet economic and trade trends and tactics, free world economic developments, attitudes and actions would be developed. The program would serve largely as a means of focusing and orienting current or contemplated research efforts towards economic defense needs, and maximum adaptation and use of existing materials and studies would be made.

The following procedure for developing this program is recommended for consideration by the Executive Committee:

- a) Review and revision of the attached "research framework" under Executive Committee direction.

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- b) Assignment of given aspects of this program to the various working groups as appropriate, and to individual agencies and to the field in the form of continuing requirements, projects, and individual requests for analysis and estimates. (This would encompass an evaluation of available resources, relation to other related activities in the field of foreign economic policy and research and the determination of the end-use of the products.)
- c) Assessment by agreement in the Executive Committee of the priority requirements for given features of the research program in terms of policy review requirements, CG/COCOM/CHINCOM agenda and related problems.
- d) Administrative, organizational, and budgetary realignments to carry out the research projects.

Attachment A: Report by Thomas C. Schelling on "Soviet Economic Trends and Their Implications for East-West Trade."

Attachment B: A Draft Framework of Research and Analysis on Soviet Bloc and Free World Economic Developments and Their Implications for Economic Defense

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