



COMPARATIVE ECONOMIC SYSTEMS

Dr. Janus Poppe

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DR. POPPE: Admiral Rose, Gentlemen:

This is the last lecture on economics, and, if you consider this a slice of bread and you consider my first letter a slice of bread, then you will notice that there is a lot of ham in between.

The management also has prepared the dessert for you. After my presentation Colonel Ingmire will introduce next week's activities, so please remain for a few more minutes.

You are now all familiar with our economic system, at least somewhat, and I thought it profitable to delve somewhat into the basic economic philosophy of communism. It is, of course, not possible to define this in 45 minutes--all the variations of economic systems--nor is it possible to go through the whole spectrum of economic philosophy from extreme right to extreme left; but I will try to give you a picture of the two systems most prevalent in present-day society. I will limit myself, therefore, to comparing the economic system of the U.S.S.R. with the basic features of our free-enterprise economy as it has developed during our generation.

In 1849 the following verse circulated in England:

What is a Communist? One that has yearnings
For equal division of unequal yearnings.
Idler or bungler, or both, he is willing
To fork out his penny and pocket your shilling.

This describes somewhat the aim of communism, which is to transform the

existing systems of society into a system in which private-property ownership shall be abolished. All property, including the means of production and distribution, shall be owned by the community for the benefit of all members. Citizens are to be educated to work according to their capacity and will be rewarded according to their needs.

In the study of Marxian economics, one must realize that Karl Marx was by far the most powerful of all critics of capitalism. In his challenging and impassioned appeal to the masses for revolt against a system of exploitation, an economic bondage of the many by the few, Marx has found a response and a following equal in magnitude to the great religious movements.

Marxism offers Paradise on this side of the grave. It has been blindly accepted as the gospel truth, and millions have embraced it as a religion. This fact makes it imperative that you, as leaders of men and as executives of a government that upholds the free-enterprise system, with all that it entails, understand what Marxism stands for, just as you should know the concepts of free enterprise and democracy.

To Marx, the economic structure of society is the real foundation on which lie legal and political superstructures. Marxism insists that there must be a basic factor determining the path and course of history. Religion, which he referred to as the opiate of the people, and innumerable other social institutions are factors in the making of history. Marxism admits that there are ideal driving forces like religion that are motivating men. However, it challenges the contention that these forces are basic. Dissolution of Marxism is that it believes that it has discovered

of
the basic driving force/history in the definite material limitations and conditions surrounding human life. All men are dependent upon nature for their means of subsistence. Continuance of existence is the first law of man's nature. Everything else is subject to that condition. All of man's efforts are directed toward exacting from nature the necessities of life. Men must live before they think. The means whereby man produces these necessities of life must therefore be the basic driving force in history. Marxism insists that production of life's necessities and, next to production, the exchange of products are the fundamental driving force of history.

Philosophers have generally recognized that there is no determined causation in history. The will of each individual is free, and historical events are the product of a free, individual will or the interaction of many free, individual wills.

The Marxian interpretation of history tells us that changes in methods of production cause new ideologies, but it fails to tell us what causes the changes in production. It fails to realize that intellectual causes underlie every change in method of production. Invention is primarily a spiritual activity, and by its very nature it represents a triumph of mind over matter.

Social evolution, then, is seen by Marx to arise out of a conflict between the changing material forces of production and the existing property relations of production. When existing property rights become a restraint on production, they must be changed, according to the Marxists. Since this change will not come about in a voluntary way, means must be found, and are available, to destroy the property rights and the means of production. "All philosophers," said Marx, "have sought to

explain the world. Our business is to change it. Unless the material forces of production have undergone a basic change, the transformation of the entire social system must inevitably come."

To a Marxist the state is a weapon. It is a weapon of destruction and suppression. The state is an instrument of force, by means of which the classes in power protect themselves and are able to maintain the exploited masses in a position of defenseless economic servitude.

A fundamental error in Communist philosophy of the state is that it is based upon the assumption that private ownership of the means of production necessarily results in the exploitation of the many, and that the government is the strongest defender of this type of ownership. Marxists conclude that, by doing away with our concepts of government, men will be able to abolish private property and thereby rid society of economic exploitation.

It is true that private ownership of the means of production has furnished men with a weapon which they have used, and in numerous instances are still using, to exploit their fellow men. This unpleasant truth has been especially evident since the industrial revolution. But the Communist criticism of capitalism that private ownership of capital causes too great an inequality has become archaic in the light of developments that have taken place in capitalist society. A free-enterprise system in 1962 is a very different thing from the capitalist society of 100 years ago, when the socialist critique of it was first undertaken, or even from what it was 60 years ago, when most of the current socialist conceptions of it were first formulated.

The conclusions which Communists draw from the abuse of private means of production are wholly illogical. To abolish private property as a means of eliminating exploitation is to cure a headache by cutting off the head. The error of Communist thinking, then, is two-fold: (1) It fails to understand and appreciate the fact that private ownership is both natural to man and necessary to society; and, (2) it fails to recognize that the exploitation which has resulted from private ownership of the means of production is due to the abuse of the right of private property, not due to the existence of the right itself. In man's personal labor we have the undeniable foundation of the natural right of private ownership. The result of his labors belongs to him and to him alone. Society can transgress this principle only to its own destruction.

In the Western tradition we believe that society is not justified in absorbing the human personality itself. For an equally valid reason we believe that the fruits of production and the accomplishments of human endeavor are free from the domination of society. Herein we have the solid metaphysical basis upon which rests the right of private property.

True Marxists are hostile to the concept of private ownership and our concepts of free enterprise. To a Communist, only revolution, not evolution, can bring about this change, and such a belief is incompatible with peaceful reforms and with peaceful coexistence of free-enterprise and Communist systems.

Another Communist criticism of capitalism is that monopoly and oligopoly are prevalent and impossible to eradicate, with the result that consumers are exploited by the business property-owning classes. The essential message of Marx was that

competition is wasteful, that it tends to misdirect the resources, and that the profit motive emphasizes the making of money, not the making of goods. Marx pointed out that in a private-ownership society the process of social polarization will set in, by which more and more of the ever-growing surplus of society will be concentrated in fewer and fewer hands. By the same process the masses will be reduced to dependent wage-earners, earning no more than the food, shelter, and clothing needed to sustain the worker and his family.

In our economic thinking we hold that the level of earnings will be determined by the productivity resulting from the blending of the factors of production, land, labor, and capital, and that in this process the laborer is entitled to a fair share of the fruits of production. We may quibble on what is a fair share, but in most economically sophisticated nations, the people agree that labor is not the only contributor to wealth, and that we also have to take into account the contributions of the capital and the contributions of talent in the form of the entrepreneur and the manager.

Marxism holds that the worker produces much more than it takes to sustain him and his family. The commodity, labor, that the worker has to offer is produced by the capitalist and used for the transformation of matter into finished goods. These products then are sold in the market, where another type of value, exchange value, is in existence and operating. The capitalist realizes a surplus value, which is the source of all rent, interest, and profit, and it is the foundation stone of Marxian economics. Marx thought that this particular commodity, labor power, had a unique characteristic, that it was, as it were, a living commodity. It produced

more than it cost to produce. The wage-earner produced more value than he was paid. This, then, was where profit and capital accumulation came from. Profit, according to the Marxist, is unpaid labor. Capitalists accumulate the surplus value created by the sweat and toil of the worker. This is the fount and origin of all those magnificent works of the capitalist age and era.

I may note for instance that in the Soviet Union you have the private entrepreneur. You can own a house; you cannot own the land on which the house is located. And you cannot hire another person. This thus basically limits the entrepreneur to a one-man operation.

Marx maintained that the future of the laboring man in such a society as ours is bleak. There is no tendency for the competitive forces of the market to bid up the price of labor and thus give the workers a share in the ever-growing product of society. It would not happen because of two factors: First, the consistent increase of numbers of workers competing for jobs; and, second, as the result of applying more accumulated capital to the productive process in the form of increased mechanization and automation, capitalism has a tendency to outgrow the need for more labor and, in a sense, make the commodity, labor, outdated and obsolete.

Marx thus pointed out a severe weakness in the capitalist system, namely, growing unemployment, and, in spite of the gigantic progress made since Marx's day, its besetting characteristic has been unemployment, not of labor shortage. To Marx the laboring class is due to rot in the dungeon of inequity of capitalism, a situation which will become more and more acute as the result of ever-increasing unemployment.

"The remedy for this injustice," says the Communist, "is to overthrow capitalism." But then what? Marx carried his prophecies pretty far, but he never got around to making out a precise order of business for ^{the}proletariat once its dictatorship had come into being. Furthermore, the verdict of history is against the Communist experiment. The envious poor who crushed the rich never did anything for the poor with all their confiscated wealth. In nations under communism we see the concept of the polarization of society which Marx predicted and most feared take place. This is accompanied by the emerging of a new upper class without tradition, not being used to power, corrupt, and oppressive. There are numerous examples of that.

On the other hand, the capitalist system which Marx analyzed and condemned has modified itself. The experience of the last 100 years makes it possible to state definitely that the Marxian predictions turned out to be in crucial error. There exists a tendency under capitalism for men themselves taking a hand in the matter and using political institutions which they have established to develop along moderation toward greater welfare and economic equality for all.

I now would like to turn to the Soviet Union and focus on some sectors of the economic system as it has developed under communism of the Lenin-Stalin variety. The Russian revolution established a dictatorship of the proletariat.

(Chart)

The means of production, that is, plant and equipment, are now owned and operated by the state. Production is decided on through input-output planning. Plans are drawn up by the all-union Gosplan, or U. S. S. R. State Planning Committee, in

Moscow, in accordance with the broad decisions of the Presidium and the Council of Ministers, regarding economic policy. This State Planning Committee is the economic general staff of the Council of Ministers. The Gosplan numbers thousands of persons in the Moscow area alone. Of the 200 top executives there are about 100 with an engineering degree, and about 100 are economists, specialists in so-called aggregate economics of planning, discussing, mostly, or studying the labor, the wages, the capital investment that should take place. Then we have sector planning, responsible for agriculture and the defense industries, mostly. We have the so-called inter-republic sector, which is responsible for the planning and development of the so-called primary products. And we have area planning and coordination. Notice that this part of Gosplan is located in Moscow.

The other part is located in the different republic capitals. Under the Council of Ministers, U.S.S.R., we have the republic Council of Ministers, and Gosplan is an advisory agency or organization toward the republic.

Every seven years Gosplan prepares a 7-year plan which charts the planned growth of various Soviet industries, by setting production targets. On the basis of this long-range plan the Gosplan in Moscow works out each year a detailed plan for the coming year.

The planning authority must decide how much each industry is to produce. It must then allocate to each industry enough materials, equipment, and manpower so that the assigned quota can be produced.

Around June each year this master blueprint, showing for each industry the inputs it has been allotted and the output it is expected to produce, is sent down

the line to the republic Gosplans. The republic planning committee then begins its formal annual planning upon receipt of that preliminary plan. The plan thus gives you the estimates.

Representatives of the republic planning bureau and the director and deputy directors of the republic and regional economic councils, the so-called Sovnakozi, and representatives of other economic entities will now work together in order to transform the plan into the production stage. The planning operation, then, may be described as a cycle embracing three phases--design, counterdesign, and reconciliation. This is the counterdesign stage.

The deputy directors, then, of the regional economic councils go to the plants and discuss with the plant management the production output that should come out of the plant during the year. There is where the discussions will go on as to what the plant can do, or what the plant management thinks it can do and cannot do.

After the decision as to what can be done, there is thus a filtering back through the republic economic council and the republic Gosplan to the Gosplan in Moscow. Then in Moscow the budget for that particular year is approved by the Council of Ministers. The budget then is becoming law. Not to fulfill the requirement of the plan is a violation of the law, and the responsible individual is subject to severe punishment.

Once the manager has received back the instructions from Moscow, he is responsible for the output, and he will do whatever is possible within his capacity, of course, to have the output. The difficulty sometimes is as to the size of the

output--how it is expressed. They have the so-called success indicators. If, for instance, the plant is manufacturing nails and the quota that has to be produced is, let's say, in weight, they will produce large nails, or he will stress large nails. If the quota is specified in the number of nails, he will produce small nails. If the quota is to be produced in value, he will produce expensive nails.

As a question in textile manufacturing, for instance, one time the quota was expressed in meters. The managers then narrowed the strip and they got more meters, in order to fulfill the quota. Improvements on that are to the extent that nowadays the quotas are expressed in terms of square meters. So you can see the development. At one time, let's say, a strip of cloth was a certain width and then suddenly it became narrower. The question was: Why did that happen, and how? It was the desire of the manager to fulfill his quota.

Now, the regional economic council is the closest resemblance to our concept of the firm, in Soviet industry, although it is neither independent nor autonomous. The individual factory is limited in its powers largely to the technical side of production. The regional economic council has jurisdiction over the plan and has very broad powers over the technical matters of production. The council appoints or confirms the appointment of key personnel in the plant. It determines to a substantial extent the production programs for the factory. It takes an active hand in cooperation with the science and the technical committees and with the technical committee representatives in the introduction of new products and processes.

The council also advises on the setting of prices for new products and broadly has the power to reshuffle funds, equipment, materials, and to some extent also

personnel within the region it controls.

(Chart)

Since the early days of the revolution, Russian industry had been controlled and directed from Moscow. In 1957 the regional economic councils took over most of the responsibilities with respect to industry and construction in their districts. The Soviet Presidium decree of July 23, 1961, officially put back control over industry and agriculture in the hands of Moscow bureaucracy. A new commission, the Goscontrol, received extended powers to check up on production throughout the Soviet Union republics.

Goscontrol is specifically charged with guarding against localism. Goscontrol is empowered to check, on behalf of the U.S.S.R. Council of Ministers, to make sure that government decisions are being carried out. It has control over all the republic and regional economic councils and influences their budgets.

The present reorganization, then, is a sweeping reform in the direction of complete central control. This is a reversal of the trend since 1957.

Notice here the introduction of Goscontrol. Then it has filtered down to the regional economic council level and administration level. If you look at the production output you find that about 6 percent is under the jurisdiction of the U.S.S.R. Ministers. We find here the fields of atomic energy/ shipping included. Then under the republic councils and the regional economic councils we have 72 percent of the U.S.S.R. industrial output, which includes steel, fertilizers, chemicals, electric energy, et cetera. The republic ministers themselves have administrations under them in the form of trusts and plants, allegorical provincial governments

for the specific purpose of producing mostly so-called soft goods. That is the sector that produces for the consumer.

(Chart)

The next diagram--I won't bore you too much with them. This is the last one, I promise you--shows the scientific and economic council, in which we have a director and deputy directors for the different specialties, like electronics, steel, textiles, et cetera. Notice the foreign section in country research. It is a gathering agency which gets all its information from the U.S.S.R. Embassies abroad. It comes in there for translation. Then it is disseminated and goes back into the different specialties. Then, after study and consideration by the Economic Council and the Academy of Sciences, it will filter down to the so-called republic science and technical committees. Here again we have the different specialties--the fields of steel, chemicals, et cetera.

Through the back door the introductions will be made into the plants in the form of design application, engineering, efficiency control, quality control, and automation laboratories.

Here a great source of friction comes into existence between the plant management and the new introducers, we could say, because the plant management is trying to meet the quota, and the new introduction usually will decrease production for a certain time before it can go back to production, and there is where a tremendous amount of friction exists, and also as a result of the many instances of nonintroduction.

As I pointed out, Goscontrol was for the specific purpose of preventing localism,

and thus to see that they were working and producing for a national purpose rather than for the local citizenry and the advancement in local areas.

Now, the question may be raised: How well has the system been working? How successful has it been in delivering the goods? Does the Soviet Union give evidence of overall superiority in methods of production? The answer is, no. There is no evidence of exceptional economic efficiency. The fact that the Soviet Union ranks as a big power can be accounted for by the size of the land area, its available manpower and natural resources, and its concentration on power objectives.

Up to 1959 the Russian achievements in the military and space fields give no evidence of parallel achievements in the field of production. Notable economic progress has been made under communism. A consideration of the trends, however, shows that the dynamic forces of the industrial revolution would have ^{been} brought about by modernization of the Russian economy under any form of government. If the Russian rate of growth, for instance, from 1870 to 1930 under the Czars had continued at the same rate during the Soviet regime, the output today would have been 25 percent higher than it actually is.

The growth of industrial production between 1950 and 1957 was 8.9 percent. Production in Japan was 17.2 percent. In Taiwan it was 15.1 percent. In West Germany it was 10.6 percent. In Greece it was 9.3 percent. In other words, in those countries production did expand more rapidly during that time.

Agricultural production in the U.S.S.R. grew about 4 percent over the same period, but Greece, Brazil, Turkey, and Japan surpassed Russia in their

agricultural rates. The extraordinary increase in Japan's and in Taiwan's rice output over the last couple of years provides a conspicuous demonstration of the superiority of an agricultural system based on private ownership over the collectivized systems of Communist countries. Methods used in one country are not always suited to adoption in detail in another, but less-developed countries, in my opinion, would do well to look to Japan and successful Western farm practices rather than to the collectivized Communist system for which many still show an affinity.

In its overall economic expansion between 1950 and 1957, the Soviet Union had a gross national product growth rate of 6.2 percent, but it was surpassed, for instance, by Venezuela, where it was 9.8 percent, by Japan, where it was 8.4 percent, and by Germany, Greece, and Austria.

I believe that I should underline some of the fallacies involved in a direct comparison of the Soviet Union growth rate with our own. We are accustomed to think of gross national product figures as our best method of overall economic achievement, but gross national product figures do not tell the complete story, and the overall efficiency of a country's economic system is not fully reflected in aggregate statistics. An important omission is the leisure time which we view so highly. In the Soviet Union, for instance, 70 percent of all people over 14 years of age are at work in full-time jobs. In the United States the corresponding figure is 49 percent. In 1956 the Russian people put in 40 million more man years of work than we did to get a gross national product that was only 40 percent of ours. Mr. Khrushchev's boast that Soviet per capita production will be the highest in the world by

1970 is really sheer baloney. If we do no better than a growth rate of 3.6 percent, which is our 1950-1957 rate, the Soviet per capita production would not equal ours until the year 2060. In other words, there are innumerable indications that the propaganda claims of the Soviet Union about the superior overall efficiency of their economic system cannot be supported by the facts.

This brings us to the last part of my presentation, and it is a consideration of the nature of contemporary free enterprise. What is a free-enterprise system? It is one of those questions to which we all know the answer so long as we are not asked to give it. We accept free enterprise as a way of life. We tie it in with the concept of democracy. We all know what we mean by saying that, for example, America has a free-enterprise system. Such a system, when it functions properly, permits the maximum freedom to the individual consistent with the common good, and I underline consistent. It supports and reinforces political liberty and provides the greatest opportunity for the development of all men and the attainment of their individual as well as their common aspirations.

We know that free enterprise does not mean unlimited free enterprise. It has been stated that American free enterprise is neither free nor enterprise. When we consider the law of the land and the many rules and regulations limited and controlling business enterprise, we immediately see the complex nature of contemporary capitalism and the conditions limiting present-day free enterprise.

If we then put these institutional aspects of a free-enterprise system in their proper setting within the concepts of democracy and accept that in addition to economic influences we have to take into account our political, sociological, ideological,

moral, religious, and all other factors which may be causes in the development of our way of life then a person realizes the complexity in trying to define our system. It is a system that operates in unison with a diffusion of power in the political field throughout the community. This diffusion of power, pushed further and further, points towards the elimination of power. If everyone could have exactly equal power, no one would have any power over his fellow citizens.

There is no such diffusion in the economic field, and the underlying economic tendency here is strongly inequalitarian and centralizing, and therefore potentially antidemocratic. The main trends in the political and economic fields are running in opposite directions.

The strength of our system lies in the fact that political power controls economic power and is not subservient to it. It is this political power which is vested in the hands of the public which changed the capitalism system as Marx interpreted it to the system which we experience today.

Our present-day economy reflects a series of legislative acts which started about 50 years ago, the impact of which began gradually to gain momentum in the thirties. A major impact on the economic substructure of our society, for instance, was the creation of the Federal Reserve System. Prior to the depression of the thirties, economic theory had assigned a modest role to the commercial banks. Banks were mere check rooms at which people deposited money for which they had no immediate need. It was somewhat in the same way that a visitor to a museum would check his hat and coat. This check-room analogy is somewhat far-fetched, since the check girl does not proceed to lend your hat to somebody else. In

banking, it is the relending of the money deposited which is really the essence of the banker's function. With the coming into existence of the Federal Reserve System, a large majority of the commercial banks became associated with a central banking system. The Government, through the Board of Governors of the Federal Reserve System, gradually got firm control over the operations of the banks in America. As soon as this control became effective, that is, once banking became monopolistic in spirit and thought, the very nature of its operations began to change. The textbook variety of perfect competition among banks disappeared.

Under the old system, the amount of money that could be lent was governed by the amount of money that was deposited with the bank. The concentration of banking under a central banking system caused a different effect. Today the amount of money that is deposited with the bank depends to a large extent upon the amount of money which the banks are willing to lend--a radical departure from what was true.

The point of this analysis is that it is possible for the managers of our money to vary the supply of credit or short-term capital available at any given time. By influencing the supply of money the authorities can vary the price of credit. But the price of credit is the rate of interest, and it is through the interest rate that government exercises a major control over the volume of economic activity for the benefit of all concerned.

Modern government thus began to regulate and control credit as well as investment, the crucial factor in maintaining the economy on a satisfactory level of performance.

Another realization was that the Government could influence total demand and affect the volume of total employment. It became part of our economic policy that the Government should run budgetary deficits in order to prime additional money into the system as long as there is unemployment and as long as there are unemployed factors of production.

Another remedy that may be undertaken by the Government to influence economic activity is by direct action. The Government becomes a source from which emanate contracts for public works. If private enterprise cannot be induced to expand or invest, although plenty of money and low interest rates are available, then the Government will step in with public works, thus causing the desired volume of employment.

The Employment Act of 1946 made the Government responsible for maintaining a level of prosperity consistent with the well-being of the American people. In our society the Congress and the agencies of government are responsible for establishing fiscal, monetary, and other policies that help prevent the fever of inflation and the paralysis of deflation and depression.

At first sight these specifics all seem fairly limited modifications of capitalism. Lower interest rates, budgetary deficits during depressions, public works, and a progressive tax system are all features of the new economics. Such policies benefit private industry as well as the mass of wage-earners. At the price of moderation, the profound, dangerous, and painful upheavals of the instability of capitalism have been eliminated, or at least greatly tempered. To the belief that capitalism would be destroyed by its inability to raise the standard of living of the masses

and that recurring depressions would eventually be fatal to the free-enterprise system we found a solution and an answer which we can offer the world.

The general character of the influence and control of government over the economy is that it is manipulated for the good of society, not for the benefit of vested interests, individual groups, or a class. Modern government is not out to destroy the economic well-being of the laboring man. On the contrary, it has become the protector of the wage-earner.

As a nation, we have come to refute the existence of a natural law necessitating such inequalities as mass unemployment and a high degree of inequality in the distribution of income. It was the observation about the contemporary free-enterprise system that it was no longer self-regulating which forced the democratic society to act. It was the realization that free enterprise could be regulated for the good of society as a whole that gave us the economic answer to Communist ideology. Overall, generalized financial and economic control is all that is needed to make our economic system better than ever. The controls leave the essence of the system in existence. They leave the means of production in private possession. In our system the essential decisions of economic life, the decisions of management, such as when to invest and what to invest in, what to produce and how to produce--the whole series of managerial prerogatives--are left to private enterprise and private initiative.

We have a free market and a free price system operating within the limits of the law, jealously guarded and policed by an alert Government for fair play and equitable distribution. Such an economic system, based on private enterprise, I believe, can better serve the common good, because it develops a high, rapidly

rising level of living. It can provide the maximum economic opportunity for the largest number of individuals. It can foster the development of the native capacity, ambition, and resourcefulness of the individual and protect the personal freedom and well-being of our citizens from the dangers inherent in too great a concentration of either private or public power.

America, then, in my opinion, is well fortified in its economic philosophy to combat Communist ideology. Together with the other facets of democracy, our way of life is vastly superior, and I have great confidence in our system, a confidence that really cannot be shattered. It is this knowledge that gives me strength in facing the future, and it is this knowledge that should give you support in your actions and in your capacity as leaders of men.

Thank you.