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*In W. W. Rostow*

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## FOREIGN AID: NEXT PHASE

*By M. F. Millikan and W. W. Rostow*

**I**N the past year American economic foreign policy has moved perceptibly, if indecisively, back towards the path marked out by the Point Four Program launched in 1949, the Gordon Gray Report of 1950 and the Nelson Rockefeller Report of 1951—a path from which the United States was diverted by the Korean War and the subsequent concentration on the build-up of military pacts (backed by military aid) around the periphery of the Communist bloc.

The acceleration of economic growth in non-Communist Asia, the Middle East, Africa and Latin America is beginning to be recognized, in fact as well as in word, as a major national objective, quite apart from military aid and the use of money to help salvage crisis situations. The Development Loan Fund exists; some \$290 million has been scraped up to postpone too drastic a cut-back in the Indian Second Five-Year Plan; surplus food and fibers available under Public Law 480 are beginning to be understood, both abroad and in Washington, as potentially a major constructive instrument for economic development; and before or during the NATO meeting of last December significant gestures, at least, were made by the German, Italian, and American Governments looking toward coordinating the Free World's development effort.

Whether there will now emerge into maturity an American and Free World economic development policy capable of protecting the common interest in a world dominated by expensive military stalemate on the ~~other~~ hand, and by the accelerating nationalist revolutions of Asia, the Middle East and Africa on the other, hinges in part at least on a clarification of three major issues. These are: the nature of the American interest in the revolutionary areas; the relations between private and public capital in the early stages of economic growth; the special position and problems of India.

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### II

The American interest in economic development (as well as current Communist policy) flows from the historical status of most of the nations and regions of Asia, the Middle East, Africa

and Latin America.

Economically, these stand somewhere along the path between a relatively static agricultural society and a society capable of applying promptly and productively the fruits of modern science to its natural and human resources. These transitional societies have absorbed varying degrees of modern economic activity; but they have not yet woven them together in such a way as to make economic growth a regular, automatic condition: productive investment is not yet high enough regularly to yield increases in output substantially greater than increases in population. Politically, they are somewhere in the transition from regionally based hierarchical societies, rooted in traditional land relations, to centralized states capable of providing a unified national framework for modern economic, social and political activity.

Both historically and at present the building of modern economies and centralized modern governments has been driven along less by the profit motive than by the aspirations for increased national and human dignity. Merchants and the profit motive played their part in the modernization efforts of Bismarck's Germany, Meiji Japan, Witte's Russia and Ataturk's Turkey; but soldiers, civil servants and nationalism were the more powerful agents. And so it is today in Asia, the Middle East and Africa.

In these transitional stages, nationalism may be turned in varying proportions to these three objectives: towards the consolidation of the central power of the new state over the old regional interests (as with Diem and his sects in post-1954 Southern Vietnam); towards external adventure, to redress real or believed old humiliations (as with Nasser in the Middle East since 1955); or towards the economic and social modernization of the domestic society (as with the Indian Five-Year Plans). No successful politician in a transitional society can afford wholly to neglect any one of these tasks; that is, he must build up the power of the central government, assert a position of increased authority and sovereignty on the world scene, and launch some kind of program for economic and social modernization. And these three elements of policy cannot be cleanly separated.

How do these objectives relate to each other? If the local political leader concentrates merely on consolidating his central power or on rallying his people around an external objective, he may well achieve short-run success; but he will not meet the de-

mand for economic and social progress pressing up steadily from the grass roots. He runs the longer-run risks of creating a centralized state without a viable political basis; or of exhausting his popular mandate in efforts to assert the sovereignty and power of the new nation against the external world, efforts which fail to satisfy his people's rising expectations for material advance. To be successful, a politician in a transitional society must, in the end, link nationalist fervor and the new centralized state to programs of economic and social substance.

The length of time and the vicissitudes of transition to modern economic and political status thus depend substantially on the degree to which local talent, energy and resources are channelled into the constructive tasks of modernization. The powers of the central government must, of course, be reasonably well established as a prior condition, and the government must present to its people a record of enhanced international standing; but the long-run influence of the central government depends, in the end, on its becoming a major source of energy, initiative and resource for modernizing the economy—a lesson Sukarno is being taught, painfully and late.

Communist policy is based squarely on an understanding of this precarious transitional process. Increasingly since the summer of 1951, Moscow and Peking have sought to associate Communism (as well as the Soviet Union and Communist China as governments) with the aspirations of the political leaders and peoples of the transitional areas for national independence, economic development and peace. On the other hand, Soviet diplomacy and propaganda have systematically sought to divert their attention from the tasks of modernization towards "bloody shirt" policies; that is, an obsessive concern to redress real or believed past humiliations—colonialism, Israel, Kashmir, West Irian, etc. In this connection, the resolutions generated out of the recent Cairo Conference of the Afro-Asian Bloc are worth careful study.

This strategy does double work for Moscow. In the short run, it creates costly disruption within the free world; it threatens the supply of essential raw materials to Western Europe; it threatens to disrupt the American air base structure; and, on the colonialism issue, it further splits the United States from Western Europe. In the long run, it creates the conditions which will help the Communists take over power. It creates these future

conditions by diverting the energies of the new nations away from the tasks of economic and social modernization; and thus the people's hopes for improved welfare are frustrated. It is the Communist intent that, when these hopes for progress are sufficiently frustrated, men and women in these areas will turn to Communism. The local Communist parties are already steadily at work seeking to heighten and to exploit these frustrations.

The Communist policy being pursued in Asia, the Middle East and Africa is modelled closely—and, we believe, quite consciously—after the Communist success in China. Sun Yat-sen turned to Moscow for guidance and support after he failed to get economic and political support from the United States. In the 1920s and 1930s Moscow did, to a degree, support the Kuomintang while seeking to give it an anti-Western cast; but the Chinese Communists at the same time, with Moscow's help and encouragement, pursued a policy first of infiltration of the Kuomintang and then of military and political obstruction designed to make it impossible for Chiang Kai-shek to achieve the social and economic progress which Chinese men and women ardently sought. And this double pattern persisted virtually down to the end: while the Soviet Union remained solemnly committed to support Nationalist China diplomatically, it turned captured Japanese arms over in 1946 to the Chinese Communists. Chiang Kai-shek's view of reform as a second priority played, of course, into the hands of Communist policy throughout this sequence.

There is little doubt that Moscow and Peking regard Nasser, Nehru, Sukarno and the other non-Communist leaders of the new nations as the Chiang Kai-sheks of the future.

It is in this perspective—of short-run and long-run Communist strategic objectives—that the Soviet economic offensive should be viewed. In Yugoslavia, Egypt, Syria and Afghanistan, Moscow has urgent short-term strategic objectives; and those four countries get about three-fourths of Soviet aid outside the Communist Bloc. In India, Indonesia, Burma, Ceylon and elsewhere, the amounts of aid doled out are sufficient to build up a measure of good will and a favorable image of Communist intentions; but they are grossly insufficient to supply the foreign exchange requirements for a serious economic development effort.

Nevertheless Moscow is laying out considerable capital in this effort at a time when there are ample alternative claims on Sov-

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iet resources for civil and military purposes within the Communist bloc. The problem of getting agreement within the Soviet Presidium for this rather expensive program is undoubtedly eased, however, by the increasing dependence of the Communist Bloc on imported foodstuffs and raw materials. Mikoyan is probably able to claim that he can make the effort virtually pay for itself: the old Soviet principle of balancing the foreign policy books every night can be roughly maintained.

In facing Communist policy, then, we are not engaged in a popularity contest or in a numbers racket centered on total figures for aid and trade. We are confronted with a systematic effort—diplomatic, psychological, economic and political—to exploit the weaknesses, confusions and temptations of new nations in the transitional period so as to clamp Communism down firmly on them before steady economic growth and the political resilience of a modern state emerge.

Indeed, in the sweep of history, Communism as we have known it thus far in the twentieth century is likely to be viewed as a diseased form of modern state organization, capable of being imposed by a determined minority on a confused, frustrated transitional society. Conversely, a society which has passed through its economic take-off and restructured its political and social institutions around the requirements of modern statehood is likely to have a high immunity to the Communist appeal. Russia almost made it, but the First World War came at a bad time in the Russian evolution.

If this view is correct, the central objective of American policy in the transitional areas is to use whatever influence we can bring to bear to focus the local energies, talents and resources on the constructive tasks of modernization. American military strength must be used to give these nations relative security, with a minimum diversion of their own efforts; and when it is mutually judged necessary to generate local military forces, these in turn should be made to contribute wherever possible to the constructive tasks of modernization. The nineteenth century rôle of the American Corps of Engineers is a suggestive guide. Diplomatically, our stance should put a greater premium on the posture of governments towards the modernization of their own societies than on their day-to-day position in the politics of the cold war. Finally, our economic foreign policy must make it both possible and attractive for local politicians to set

the aspirations of their peoples on long-term programs of modernization rather than on tempting but diversionary "bloody shirt" nationalism.

This incentive cannot be created unless American resources available for economic development are sufficiently big and offered with a continuity and on terms such that a serious operating politician can plot a long-period course with reasonable confidence.<sup>1</sup>

Thus the American interest in Asia, the Middle East and Africa is fundamentally political. The American interest lies in assisting the new nations to advance toward modern economic and political status while maintaining their independence and assuring the possibility of a domestic evolution which employs the political techniques of consent and safeguards the liberty of the individual. If we are prepared to recognize—as we should—that democracy is a matter of degree and of the direction of change, then our objective can be described as the creation of a world of independent, democratically oriented states which have built economic growth into their societies as a regular condition. This is an objective we should be prepared to state frankly, without embarrassment. It requires an American economic development effort larger and with more continuity, one with criteria for lending vastly less ambiguous (and economically more hard-headed) than our present programs. We are unlikely to get such an effort under way until its purposes in relation to Communist strategy are widely understood.

### III

There is a second prerequisite for a mature and effective American economic development effort. This is increased clarity and consensus on the relation between private and public enterprise both within the areas receiving American government loans and as between the public and private sources of capital and technical assistance in the United States.

In the course of the last year's reexamination of American economic foreign policy, there were interesting and forceful assertions of three propositions: first, that private enterprise is superior in efficiency to public enterprise, even in the underdeveloped areas; second, that substantial untapped potentialities

<sup>1</sup> Such was the purpose of the policy outlined last year by the present authors in "A Proposal: Key to an Effective Foreign Policy."

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exist in public policy both for expanding American private capital exports and for increased collaboration between public and private sources of American capital; and third, that the American Government could do more than it is now doing to create a more favorable climate for private investment in the underdeveloped areas. These views were presented against the background of what appeared to be a relatively substantial increase in American private investment abroad, opening up a somewhat more optimistic vista of the future rôle of private capital exports than that generally accepted in the recent past.

So far as the ideological debate on public versus private enterprise is concerned, several things have been happening. In Western Europe and in other industrial societies, the old banner of nationalization has faded markedly within the Social Democratic parties. Men have come to learn that Marx was wrong when he regarded the public ownership of property as the only effective form of ensuring that the public interest in the economy is respected. Ways have been found for protecting the legitimate public interest in economic activities without burdening the state with heavy operating bureaucracies which, on the whole, tend to impede rather than to encourage good public as well as good economic policy. The slogans of youth are not easily surrendered, and political banners fade slowly. There is little doubt, however, that in the postwar decade the Social Democratic movements have moved as rapidly as they safely could away from the commitment to nationalization which had grown up in the first four decades of the century.

This transition may, in time, be expected to have its impact on the politics of the underdeveloped areas, since so many of the leading figures there were strongly marked by Western Social Democratic views, and many important connections remain. More relevant, however, than the vicarious experience of Europe is the evidence accumulating in those underdeveloped areas which have gathered economic momentum: that the expansion of the local private sector, including the development of vigorous efficient modern businessmen, can constitute a valuable support to the government's larger economic and social objectives; and that, within reasonable limits, it can be made politically quite safe and economically quite wholesome to permit private foreign enterprise to operate within their countries. These trends are mainly to be observed in Latin America, but they color



hopefully some American visions of the future in Asia, the Middle East and Africa; for it now appears possible that vigorous private sectors can emerge more rapidly than our somewhat static sociological analyses of entrepreneurship would suggest. Once the expectation becomes general that next year's output is likely to be larger than this year's, businessmen begin to think about plowing back profits, expanding capacity and introducing new machinery, rather than merely clinging to the older pattern of fixed output with big profit margins syphoned off to keep the family comfortable. These transitions in the outlook and operations of businessmen obviously take time; but they seem to come more quickly than many had thought, once the economy as a whole begins to gather momentum.

In this mood, a good many measures have been put forward designed to expand the rôle of American private direct investment in the underdeveloped areas. These include: improved administration of the government guarantee programs; more substantial tax incentives for private investment overseas; the merging of government and private funds in particular projects; the expanded use of management contracts; the more firm negotiation of treaty and other conditions designed to protect American private investment; and the spreading of information on the virtues and efficiency of private over public enterprise.

Even the most ardent of the recent advocates of private over public investment have been clear, however, about two things. One is that certain kinds of government investment are not only required in the underdeveloped areas but are essential to create a setting within which efficient and profitable private operations can grow: notably, investment in education, health, agricultural extension work, irrigation, transport, fuel and power. The second is that American influence to encourage the strengthening of private sectors in underdeveloped areas and to enlarge the flow abroad of American private capital is a matter in which great tact must be observed. What is basically involved is that other peoples come to accept, sometimes in the face of long-held views, rooted in difficult past experience, that foreign private investment and a vigorous private sector and foreign private investment can be made to reinforce rather than disrupt public purposes to which they are committed.

In short, it should now be possible to crystallize a clear and well-balanced American attitude toward the issues of public

and private enterprise in economic development and to mount an American policy that harnesses them in more vigorous collaboration than we have had in the past.

What such a generally hopeful perspective and policy must take into account, however, is that what we call underdeveloped areas are at very different stages on the path from traditional to modern status. The currently successful cases of private international investment tend to cluster about two extreme points along this path—that is to say, in areas which have barely moved beyond the traditional stage and where oil and other extractive foreign enterprises operate in relative (but rapidly decreasing) comfort, as in the Middle East and parts of Central Africa; and again in such new nations as Mexico which have, in fact, passed through the take-off into sustained growth and are rapidly becoming thoroughly modernized societies. Vigorous competent modern businessmen have emerged in large numbers only in these latter advanced societies, and only there has there been a widespread hospitable attitude towards foreign private enterprise.

In between lies the difficult transitional period in which a good deal of Asia, the Middle East and Africa finds itself. In economic terms, an extremely high percentage of investment in this transitional period must go into social overhead capital. At the local end this means a high proportion of government investment. At the American end, this means a high proportion of inter-government loans, unless the pre-1914 private market for foreign government bonds suddenly recreates itself. Moreover, in these transitional periods, while the new corps of modern industrial businessmen are emerging it is likely to be a simple fact of life that civil servants and politicians (and, sometimes, soldiers) will perform more of the functions of entrepreneurship than American experience would find normal. Economically, this stage can give way to a more familiar and congenial balance between public and private sectors only when the whole modernization process has gathered momentum. American advice and negotiation can help in this evolution; but economic progress itself is the decisive variable.

The nature of this intermediate stage explains why governments—and inter-governmental loans—may have to play temporarily a disproportionately large rôle even outside the area of social overhead capital. The risk of investment—and the time

before pay-off becomes possible—does not lie in the nature of the individual project or its intrinsic soundness by conventional banking standards. The question is: When will the economy as a whole enter the stage of self-sustained growth? Private investors understandably draw back from gambling on the timing of such profound historical changes. Governments—theirs and ours—must live with and operate on precisely such risks; because, without adequate governmental investment, the take-off may not occur rapidly enough to meet the political pressures for it.

The nature of this intermediate stage explains also why such devices as dollar loans repayable in local currencies make sense. Many nations moving forward—whose take-offs are in the American interest, but which have not yet occurred—can use capital productively but they cannot generate sufficient foreign exchange and international credit-worthiness until they achieve the stage of self-sustained growth. Soft loans are one way of covering this interval whose length can not be predicted with confidence. The temporary accumulation of local currencies is, thus, a minor embarrassment in an essentially rational course of action.

Politically, in between the two relatively comfortable stages for foreign private enterprise, occurs the passage of local history in which a modern centralized government is created and effectively takes hold. It is to be expected on the basis of history that at some stage in the political transition the nationalist emotions which drive local politics create a somewhat critical, if not hostile, atmosphere towards foreign investment, notably if the foreign positions in the economy became entrenched during a colonial or semi-colonial past. Knock-down-drag-out crises in the status of foreign enterprise are, of course, not inevitable; but changes in relationship and attitude are inevitable as the new nations take shape and become increasingly conscious of their sovereignty. A wiser and more forehanded free world policy towards, for example, Indonesia and Egypt in recent years might well have prevented or softened the current crises in the status of foreign enterprise there; and Western oil companies (and their governments) would do well to avoid clinging rigidly to old formulæ in the Middle East. But it is in the nature of the historical process taking place that a certain amount of awkwardness and readjustment will be required.

Thus it will take an understanding of what it is like to move from a traditional to a modern society—a sense of history and

patience as well as a vigorous collaboration between American public and private authorities—to see us through into the stage when most men and governments in the world come to perceive that private capitalism, domestic and foreign, have an expanding rôle to play in the new nations capable of reinforcing their larger political and social objectives.

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India provides a critical focus for our economic development policies for the next decade, and a test of their meaning. There are a number of reasons for this. In the first place, the population of India includes about 40 percent of all the people in the underdeveloped countries of the free world. Politically and strategically India is even more important than the numbers of her people would suggest. The success or failure of Indian development efforts will affect the course of events from the Celebes to Morocco. We have not yet devoted the attention and resources to Indian development problems that the American interest requires.

There are compelling technical economic reasons why, at the moment, we should be concentrating a much larger share of our capital assistance on India than even her size would dictate. To allocate development assistance to countries in proportion to their population or their relative claim on our sympathies is to misconstrue the relation between capital and the development process. The requirements for outside capital of countries seeking development vary widely depending on the stage of development they have reached. In the early precondition stages in which many of the underdeveloped countries find themselves, the amounts of capital they can productively absorb are sharply limited by shortages of skills, education, administrative capability, essential social overhead such as roads, ports, communications and the like, and by the absence of the attitudes, motivations and political leadership that make growth possible. Technical assistance and limited amounts of capital may have to be supplied for some years before the country is technically and politically ready for the take-off—the concentrated effort to launch a growth process that will be self-sustaining.

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But there does come a time when the stage is set for the big push. The country finds itself in a position to launch simultaneously a wide variety of interdependent activities which rein-

force each other, and whose combined effect is to produce for the first time a substantial forward movement in all major sectors of the economy at once. India is, in our judgment, at this critical turning point. For a decade or so, during this take-off, requirements for foreign capital are at a maximum. Then, if the process is successful, the country's own rising income increasingly provides the new resources which can be plowed back into investment to stabilize growth as a regular feature of the economy; and the fact of regular growth itself permits the country, once the take-off has occurred, to acquire external capital from private or other orthodox sources.

The evidences that India is ready for the take-off—indeed has already started it—are many. Over the past eight years her output of goods and services has grown by about 25 percent. This growth has occurred in agriculture, in large-scale industry, in small-scale industry, in transport and services. In all these fields there are investment projects on the drawing boards, Indian designed and engineered, to continue the expansion. There is a growing class of competent administrators both public and private to undertake the work. There are clear signs of growing domestic markets to buy the new output when it is ready. There are many more things which Indian leaders must do vigorously if they are to accomplish the take-off, but they now have it in their power to take most of the necessary steps themselves.

There is, however, one major economic threat to the maintenance of momentum which can be met only by action outside India: there is a shortage of foreign exchange with which to acquire the resources needed from abroad for the investment program. The drain which India has recently suffered on her foreign exchange reserves has been caused not, as in the case of some countries, by a decline in her export earnings nor, as in others, by an expansion of domestic consumption. Rather it has come about mainly by an import of capital goods, primarily for the private sector, much larger than anticipated by Indian government planners. This drain has been accentuated by two relatively poor harvests; but the essential reason that India's foreign balance is in trouble is not that her development efforts have not been succeeding but that investment has gathered more momentum than anyone anticipated. The problem facing India today is how this momentum can be preserved.

The availability of help and resources from outside is important

at all stages of the growth process. But there is a peculiarly critical moment in that process, which India has now reached, when external capital in adequate amounts and over a long enough period becomes the key determinant of what happens. After the take-off, as in Mexico, the external environment is important, but non-governmental sources of capital can carry most of the load. Before the take-off technical assistance and some outside capital for social overhead are necessary; but the critical bottlenecks are the needed transformations in the social, political and economic structure of the nation for which its own leadership must take prime responsibility. A time comes, however, when the domestic prerequisites for success have been largely met and when the availability of substantial external resources on an investment basis is the single most important condition of success. India is the prime case in the year 1958 of a country in this position. No one can, of course, guarantee that if the foreign exchange bottleneck is removed, success is assured. Development is always a gamble. But the risk in the Indian case appears eminently worth taking from the American point of view.

We have taken a first step toward meeting India's immediate needs by arranging for a series of credits with the Export-Import Bank, the Development Loan Fund and our agricultural surplus disposal program. They aggregate \$290 million for the current year. In our judgment this requires extension of three sorts. First, the annual volume of American loans needs to be increased to at least \$500 million; second, a serious effort needs to be made to find substantially more capital from sources other than the United States, such as Western Europe; finally, India requires some assurance that she can count on this general level of new credit for a period of some years.

In terms of the preceding analysis of the American interest in economic development, the Indian scene has two characteristics that lend special urgency to an adequate program of American loans to that country. The first is that the present Indian leadership has quite clearly centered its bid for national unity on a common effort to achieve constructive economic goals, in a framework of democratic consent. Economic development goals are a live political issue in India, as they are not (to anything like the same extent) in any other underdeveloped country. Indian foreign policy, anticolonialism, and the Kashmir issue frequently reach the headlines of the Western press; and, of course, they

play a significant rôle in domestic Indian politics. But the Congress Party will not stand or fall at home, as Nasser and Sukarno may, on its external successes. Indians will judge the Congress Party on how far and how fast it achieves the modernization of India by the voluntary and essentially democratic methods it has chosen to employ.

In India we have the opportunity of confronting the Communists with a serious dilemma. They would, of course, like to exploit Indian-Western tensions. But these are not as much at the center of the thinking of Indian intellectuals as is the case, for example, in the Middle Etsa. The Russians would like to appear as the friends of Indian economic development, which has come to have genuine importance to a great many Indians. But ultimate Communist success in India depends on the failure of the economic development efforts sponsored by what Communists would describe as the present bourgeois régime. As long as the West fails to insure adequate resources for a successful Indian take-off the Communists can successfully pursue the tactic of providing enough help to be symbolically persuasive of their good intentions, but not enough to make a significant difference to the outcome of the Indian Second Five-Year Plan. Thus the success of current Communist tactics in India depend on an American and Western European failure to cover the foreign exchange gap.

The present leaders of the Indian state of Kerala, which went Communist at the last elections, are likewise giving evidence that they are faced with a dilemma. If within the state for which they have responsibility they pursue aggressive and coercive Communist policies, which the Indian electorate finds uncongenial, they may lose their slim parliamentary majority. On the other hand, if they are constructive and reasonable, suppressing their distinctively Communist policies and coöperating with private interests and with the national government, they weaken their case that only Communism can satisfy Indian aspirations for economic advance. Their great hope, of course, is that the national effort will fail and that they can contrast national failure under Congress leadership with at least partial success in Kerala. We have it in our power to help frustrate this Communist hope; but it will take substantially more than we are now doing.

Let us be clear about the nature of the danger confronting us. There is no immediate threat of an extension of Communist con-

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trol from Kerala to the national government in India. The commitment of most elements of Indian leadership to the methods of consent and non-violence is so deep that even if economic development lags, an early Communist take-over is exceedingly unlikely. What is likely over the years, if development loses its momentum, is increasing conflict and confusion within the Congress Party, a resurgence of sectional and linguistic interests perhaps breaking into violence, a heightening of the political and social tensions created by mass unemployment—in short, a reversion to the kind of political instability which tempts otherwise moderate persons to support anyone who can maintain order. While there is no Communist-inspired crisis at present, the prospects are poor for stable and effective democratic government if the present development program fails.

It is precisely in the fact that no great political crisis is on the immediate horizon in India that our great opportunity lies, for we have learned in many other places around the globe that the salvage of situations which have been permitted to degenerate into crisis is an exceedingly expensive, precarious and time-consuming business. In India there is still time in hand for us to use. We can demonstrate that we have a national interest in the development of the underdeveloped countries that lies deeper than our concern to chalk up day-to-day points in the game of cold-war diplomacy. Indian-American relations are important for their own sake. But they are even more important as an earnest of America's determination to play a constructive as well as a fire-fighting rôle in world affairs. In India, where a serious and promising attempt is being made to forge a new nation around the ideals of domestic progress by democratic procedures, it would be most shortsighted of us not to do what we can to make the effort a success.

The second characteristic of the Indian scene that gives it special urgency is the interesting relation between private and public economic activity that has begun to reveal itself in the last two years. The fact that public and private investment are not alternatives but can support each other in the early take-off stage of development has been nicely demonstrated by the Indian experience. In spite of an explicitly socialist governmental ideology, private investment in India has recently been booming. The private sector has, in the first 18 months of the Second Five-Year Plan, undertaken as much investment as the planners initially



expected it to undertake over the entire five years. An analysis carried out at the Center for International Studies, M.I.T., of the composition of the unusually heavy volume of imports into India over the past two years reveals that the big increase has been in capital goods imported on private account. The purchasing power created by public investment and the improved transport, communications, power and other services resulting from the activities of the public sector have created an environment in which private investment opportunities have multiplied. As mentioned earlier, it is this buoyancy of private economic activity which has been principally responsible for the foreign exchange difficulties with which India now finds herself confronted.

These difficulties—essentially growing pains—pose a serious dilemma for Indian policy. If additional foreign resources are not forthcoming, India must cut down her imports by strict controls to much lower levels. Her leaders are now politically committed to a variety of public projects. But even if they were not so committed, technical economic considerations would suggest that a sharp cut in investment in social overhead might ultimately throttle private as well as public activity. Further expansion of the private sector is conditioned upon a steady rise in purchasing power and a continuing expansion of transport, power and other services. Even steel might become a bottleneck if present plans were sharply cut back. On the other hand, if the core of the public program is to be maintained, imports can be sharply reduced only by restricting severely the licensing of capital imports for private Indian business.

In short, the volume of public and private investment required over the next decade to make full use of visible Indian resources for growth calls for a supply of foreign capital substantially above current levels. If this supply is forthcoming, there is an excellent prospect that Indian productivity and output will expand sufficiently over the next decade or so to permit India to carry without difficulty the higher level of foreign indebtedness which would result. If the supply is not forthcoming, not only will Indian development be threatened, but also a chance will have been missed for a practical demonstration of the complementarity of public and private activities which would be enormously persuasive in other underdeveloped countries with socialist preconceptions.

The conclusion might be drawn from this line of argument that

what we need is not a more vigorous program of economic assistance in general but rather a special program specifically focussed on and tailored to Indian requirements. This, in our view, misses the essence of our case. A successful Indian program is important at least as much for the model it can set for political leadership in other underdeveloped countries as for its own sake. If our economic assistance program sets up the kinds of criteria for foreign loans that we believe desirable, emphasizing the productivity of such loans for domestic development, India will, over the next two or three years, qualify for a larger share than her population would suggest. But the program as a whole should be so designed as to provide maximum incentives for the leaders of countries less far along to concentrate their energies on preparing their countries to make similar take-off efforts at a later stage. Our attitude should be that we are ready to help any country that has demonstrated its determination to focus its energies seriously on the problem of meeting the economic and social aspirations of its people. This requires a Development Loan Fund with larger resources and a longer Congressional lease than exists under present legislation.

We should not be drawn by the exigencies of cold-war diplomacy into making investments which are unproductive and economically foolish from the standpoint of the development of the recipient. We will gain little long-run advantage from competitive blackmail. But we stand to gain a great deal as time goes on from a clear demonstration that we believe our interests and those of countries prepared to make a real development effort based on political consent are sufficiently common to justify sustained American investment.

India, under its present political leadership, has made the commitment to harness its nationalist aspirations to the tasks of modernization. The American stake in India is that this commitment shall not fail of its purpose. The more difficult task for American policy is to use our limited but real margin of influence to make it as easy and attractive for other transitional nations to do likewise. Among the many aspects of American policy which can contribute to this outcome, not the least important are the actions we take at this promising but difficult period in Indian history.

issue, clarify our national purposes in the program as a whole, establish the possibilities and limits of the rôle of private capital within it, and grasp the significance of the special case of India, it should be possible over the next year to build a stable and effective economic development policy for the longer pull. Essentially, three elements are involved: continuity, scale, and coördination.

It is evident that the Development Loan Fund will not be able to fulfill its mission until its Congressional lease on life, is, by one device or another, extended. The Congress may wish to postpone such action until 1959, since the Fund is only now beginning to disburse loans; and it is reasonable for definitive action to await evidence of vigorous and effective administration in terms of criteria of productivity. Similarly, it is evident that the present *ad hoc* emergency aid to India will not do the job and that the flow of American lending must be put on a longer-term basis if Indian leaders are to proceed with confidence and the Second Five-Year Plan is not to falter dangerously.

With respect to scale, it seems likely that the Loan Fund and the level of assistance to India will both have to be somewhat expanded. It is difficult to be dogmatic until further examination is undertaken; but it seems altogether possible that the Development Loan Fund will be able to justify an annual disbursement rate of about \$1 billion in loans when it has worked itself properly into business. So far as India is concerned, it seems likely that American loans on something like the order of \$500 million per year will be necessary for the duration of the next Five-Year Plan and, perhaps, for some time thereafter.

The maturing of the development program requires, finally, that methods of coördination improve both in Washington and on the international scene. As the Loan Fund has emerged it is simply one of a number of American instruments for accelerating economic growth in the underdeveloped areas. Grants and technical assistance flow from the I.C.A.; the Export-Import Bank dispenses dollar loans, and is likely to do so on a rising scale; food and fiber surpluses are being increasingly used for development purposes—as working capital—rather than merely to salvage famine situations; and the government, in its guarantee program and other arrangements can influence to a degree the flow of private capital abroad. Finally, the United States has some influence in the allocation of the hard currency loans available from the International Bank for Reconstruction and Develop-

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ment. There is evidently a need in Washington for strong central leadership in orchestrating these instruments around a coherent policy towards each of the nations applying for development assistance. The individual institutions and programs involved have grown up, each with its own history, criteria and *mystique*. Purposeful direction, backed by strong staff work, will be required in the Department of State to make them serve the nation's interests. In this connection, the *ad hoc* organization of \$290 million for India was, on the whole, a hopeful exercise.

In addition, there remains the challenging and extremely important task of finding a method and an instrument for coördinating the economic development programs, now mainly bilateral, within the free world. There are powerful political undercurrents in Western Europe, Japan, Canada and elsewhere, which look to such a coördinated effort as a means of giving increased unity, meaning and vitality to the free world alliance. On the other hand, as the NATO Conference of December 1957 revealed, the countries of Western Europe are reluctant to commit themselves to an expanded and coördinated development effort until the American Government—in both its branches—exhibits the determination to build a serious and sustained program around economic (as opposed to military) aid. The passage of the current proposals before the Congress should open the way, over the next year, to the exploration of the enormous constructive potentialities of a common free world economic development program in Asia, the Middle East, Africa and Latin America.

### Foreign Aid: Next Phase

M. F. Millikan and W. W. Rostow

In the past year American economic foreign policy has moved perceptibly, but indecisively, back towards the path marked out by the Point Four Program launched in 1949, the Gordon Gray Report of 1950, and the Nelson Rockefeller Report of 1951--a path from which the nation was diverted by the Korean War and the subsequent concentration on the build-up of military pacts (backed by military aid) around the periphery of the Communist Bloc.

The acceleration of economic growth in non-Communist Asia, the Middle East, Africa, and Latin America is beginning to be recognized, in fact as well as in word, as a major national objective, quite apart from military aid and the use of money to help salvage crisis situations. The Development Loan Fund exists; some \$290 million has been scraped up to postpone too drastic a cut-back in the Indian Second Five-Year Plan; surplus food and fibers under Public Law 480 are beginning to be understood, both abroad and in Washington, as, potentially, a major constructive instrument for economic development; significant gestures, at least, were made before or during the NATO meeting of December 1957 by the German, Italian, and American governments looking towards the coordination of the Free World's development effort.

The emergence into maturity of an American and Free World economic development policy capable of protecting the common interest in a world dominated by expensive military stalemate on the one hand, <sup>and by</sup> the accelerating nationalist revolutions of Asia, the Middle East, and Africa on the other, hinges in part at least on a clarification of three major issues: the nature of the American interest in the revolutionary areas; the relations between private and public capital in the early stages of economic growth; the special position and problems of India.

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The American interest in economic development (as well as current Communist policy) flows from the historical status of most of the nations and regions of Asia, the Middle East, Africa, and Latin America.

Economically, they stand somewhere along the path between a relatively static agricultural society and a society capable of applying promptly and productively the fruits of modern science to its natural and human resources. These transitional societies have absorbed varying degrees of modern economic activity; but they have not yet woven them together in such a way as to make economic growth a regular, automatic condition: productive investment is not yet high enough regularly to yield increases in output substantially greater than increases in population. Politically, they are some-

where in the transition from regionally based hierarchical societies, rooted in traditional land relations, to centralized states capable of providing a unified national framework for modern economic, social, and political activity.

Both historically and at present the building of modern economies and centralized modern governments has been driven along less by the profit motive than by the aspirations for increased national and human dignity. Merchants and the profit motive played their part in the modernization efforts of Bismark's Germany, Meiji Japan, Witte's Russia, and Ataturk's Turkey; but soldiers, civil servants, and nationalism were the more powerful agents. <sup>+</sup> And so it is today in Asia, the Middle East, and Africa.

In these transitional stages, nationalism may be turned in varying proportions to these three objectives: towards the consolidation of the central power of the new state over the old regional interests (as with Diem and his sects in post-1954 Southern Vietnam); towards external adventure, to redress real or believed old humiliations (as with Nasser in the Middle East since 1955); or towards the economic and social modernization of the domestic society (as with the Indian Five-Year Plans). No successful politician in a transitional society can afford wholly to neglect any one of these tasks; that is, he must build up the power of the central government, assert a position of increased authority and sovereignty on the world scene, and launch some kind of program for economic and social modernization. And these three elements of policy cannot be clearly separated.

How do these objectives relate to each other? If the local political leader concentrates merely on consolidating his central power or on rallying his people around an external objective, he may well achieve short-run success; but he will not meet the demand for economic and social progress pressing up steadily from the grass roots. He runs the longer-run risks of creating a centralized state without a viable political basis; or of exhausting his popular mandate in efforts to assert the sovereignty and power of the new nation against the external world, efforts which fail to satisfy the rising expectations for material advance of his people. The successful politician in the transitional societies must, in the end, link nationalist fervor and the new centralized state to programs of economic and social substance.

The length of time and the vicissitudes of transition to modern economic and political status thus depend substantially on the degree to which local talent, energy, and resources are channelled on to the domestic constructive tasks of modernization. The powers of the central government must, of course, be reasonably well established as a prior condition, and the government must present to its people a record of enhanced international standing; but the long-run influence of the central government ———→



in turn, depends, <sup>in the end,</sup> on its becoming a major source of energy, initiative, and resource for modernizing the economy--a lesson Sukarno is being taught, painfully and late.

Communist policy is based squarely on an understanding of this precarious transitional process. Increasingly since the summer of 1951, Moscow and Peking have sought to associate Communism, (as well as the Soviet Union and Communist China as governments) with the aspirations of the political leaders and peoples of the transitional areas for national independence, economic development, and peace. On the other hand, Soviet diplomacy and propaganda have systematically sought to divert their attention from the tasks of modernization towards "bloody shirt" policies; that is, an obsessive concern to redress real or believed past humiliations--colonialism, Israel, Kashmir, West Irian, etc. In this connection, the resolutions generated out of the recent Cairo Conference of the Afro-Asian Bloc are worth careful study.

This strategy does double work for Moscow. In the short run, it creates costly disruption within the Free World; it threatens the supply of essential raw materials to Western Europe; it threatens to disrupt the American air base structure; and, on the colonialism issue, it further splits the United States from Western Europe. In the long run, it creates the conditions which will facilitate the Communist take-over of power. It creates these future conditions by diverting the energies of the new nations away from the tasks of economic and social modernization; and thus the people's hopes for improved welfare

are frustrated. It is the Communist intent that, when these hopes for progress are sufficiently frustrated, men and women in these areas will turn to Communism. The local Communist parties are already steadily at work seeking to heighten and to exploit these frustrations.

The Communist policy being pursued in Asia, the Middle East, and Africa is modelled closely--and, ~~I~~<sup>I</sup> believe, quite consciously--after the Communist success in China. Sun Yat-sen turned to Moscow for guidance and support after he failed to get economic and political support from the United States. In the 1920's and 1930's Moscow did, to a degree, support the Kuomintang while seeking to give it an anti-Western cast; but at the same time, with Moscow's help and encouragement, the Chinese Communists pursued a policy first of infiltration of the Kuomintang and then of military and political obstruction designed to make it impossible for Chiang Kai-shek to achieve the social and economic progress which Chinese men and women ardently sought. And this double pattern persisted virtually down to the end: while the Soviet Union remained solemnly committed to support Nationalist China on the diplomatic level, captured Japanese arms were turned over in 1946 to the Chinese Communists. Chiang Kai-shek's view of reform as a second priority played, of course, into the hands of Communist policy throughout this sequence.

There is little doubt that Moscow and Peking regard Nasser, Nehru, Sukarno, and the other non-Communist leaders of the new nations as the Chiang Kai-sheks<sup>1</sup> of the future.

It is in this perspective--of short and long run Communist strategic objectives--that the Soviet economic offensive should be

viewed. In Yugoslavia, Egypt, Syria, and Afghanistan, Moscow has urgent short-term strategic objectives; and those four countries get about three-fourths of Soviet aid outside the Communist Bloc. In India, Indonesia, Burma, Ceylon, and elsewhere, the amounts of aid doled out are sufficient to build up a measure of good-will and a favorable image of Communist intentions; but they are grossly insufficient to supply the foreign exchange requirements for a serious economic development effort.

Nevertheless Moscow is laying out considerable capital in this effort at a time when there are ample alternative claims on Soviet resources for civil and military purposes within the Communist Bloc. The problem of getting agreement within the Soviet Presidium for this rather expensive program is undoubtedly eased by the increasing dependence of the Communist Bloc on imported foodstuffs and raw materials. Mikoyan is probably able to claim that he can make the effort virtually pay for itself: the old Soviet principle of balancing the foreign policy books every night can be roughly maintained.

Thus, in facing Communist policy, we are not engaged in a popularity contest or in a numbers racket centered on total figures for aid and trade. We are confronted with a systematic effort--diplomatic, psychological, economic, and political--to exploit the weaknesses, confusions, and temptations of the transitional period so as to clamp communism down firmly before steady economic growth and the political resilience of a modern state emerge.

Indeed, in the sweep of history, communism as we have known it thus far in the twentieth century is likely to be viewed as a diseased form of modern state organization, capable of being imposed by a determined minority on a confused, frustrated transitional society;

and, conversely, a society which has passed through its economic take-off and restructured its political and social institutions around the requirements of modern statehood is likely to have a high immunity to the Communist appeal. Russia almost made it, but the First World War came at a bad time in its evolution.

If this view is correct, the central objective of American policy in the transitional areas is to use whatever influence we can bring to bear to focus the local energies, talents, and resources on the constructive tasks of modernization. American military strength must be used to give these nations relative security, with a minimum diversion of their own efforts; and when it is mutually judged necessary to generate local military forces, these in turn should be made to contribute wherever possible to the constructive tasks of modernization. The nineteenth century role of the American Corps of Engineers is a suggestive guide. Diplomatically, our stance should put a greater premium on the posture of governments towards the modernization of their own societies than on their day-to-day position in the politics of the Cold War. Finally, our economic foreign policy must make it both possible and attractive for local politicians to harness the aspirations of their peoples around long period programs of modernization rather than around the tempting but diversionary moods of "bloody shirt" nationalism.

This incentive can not be created unless American resources available for economic development are sufficiently big and offered with a continuity and on terms such that a serious operating politician

can plot with reasonable confidence a long period course. Such was the purpose of the policy we outlined last year in A Proposal: Key to an Effective Foreign Policy.

Thus the American interest in Asia, the Middle East, and Africa is fundamentally political. The American interest lies in assisting the new nations to advance toward modern economic and political status while maintaining their independence and assuring the possibility of a domestic evolution which employs the political techniques of consent and safeguards the liberty of the individual. If we are prepared to recognize--as we should--that democracy is a matter of degree and of the direction of change, then our objective can be described as a world of independent, democratically oriented states which have built economic growth into their societies as a regular condition. This is an objective we should be prepared to state frankly, without embarrassment. It requires an American economic development effort larger in scale, greater in continuity, with criteria for lending vastly less ambiguous (and economically more hard-headed) than our present programs. We are unlikely to get such an effort under way until its purposes in relation to Communist strategy are widely understood.

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There is a second prerequisite for a mature and effective American economic development effort; namely, increased clarity and consensus on the relation between private and public enterprise both within the areas receiving American government loans and as between the public and private sources of capital and technical assistance in the United States.

In the course of the last year's American re-examination of economic foreign policy, there was a series of interesting and forceful assertions of three propositions: first, that private enterprise is superior in

efficiency to public enterprise, even in the underdeveloped areas; second, that substantial untapped potentialities exist in public policy both for expanding American private capital exports and for increased collaboration between public and private sources of American capital; and third, that the American government could do more than it is now doing to create a more favorable climate for private investment in the underdeveloped areas. These views were presented against the background of <sup>what appeared to be</sup> a relatively substantial increase in American private investment abroad, opening up a somewhat more optimistic vista of the future role of private capital exports than that generally accepted in the recent past.

So far as the ideological debate on public versus private enterprise is concerned, several things have been happening. In Western Europe and in other industrial societies, the old banner of nationalization has faded markedly within the Social Democratic parties. Men have come to learn that Marx was wrong when he regarded the public ownership of property as the only effective form of ensuring that the public interest in the economy is respected. Ways have been found for protecting the legitimate public interest in economic activities without burdening the state with heavy operating bureaucracies which, on the whole, tend to impede rather than to encourage good public as well as good economic policy. But the slogans of youth are not easily surrendered, and political banners fade slowly. There is little doubt, however, that the Social Democratic movements in the postwar decade

have moved as rapidly as they safely could away from the commitment to nationalization which had grown up in the first four decades of the century.

This transition may, in time, be expected to have its impact on the politics of the underdeveloped areas, since so many of the leading figures there were strongly marked by Western Social Democratic views, and many important connections remain. More relevant, however, than the vicarious experience of Europe is the evidence accumulating in those underdeveloped areas which have gathered momentum: that the expansion of the local private sector, including the development of vigorous efficient modern businessmen, can constitute a valuable support to the government's larger economic and social objectives; and that, within reasonable limits, it can be made politically quite safe and economically quite wholesome to permit private foreign enterprise to operate within their countries. These trends are mainly to be observed in Latin America, but they color hopefully some American visions of the future in Asia, the Middle East, and Africa; for it now appears possible that vigorous private sectors can emerge more rapidly than our somewhat static sociological analyses of entrepreneurship would suggest. Once the expectation becomes general that next year's output is likely to be larger than this year's, businessmen begin to think about plowing back profits, expanding capacity, and introducing new machinery, rather than merely clinging to the older pattern of fixed output with big profit margins syphoned off to keep the family comfortable. These transitions in the outlook and operations of businessmen obviously take

time; but they seem to come quicker than many had thought, once the economy as a whole begins to gather momentum.

In this mood, a good many measures have been put forward designed to expand the role of American private/<sup>direct</sup> investment in the underdeveloped areas. These include: improved administration of the government guarantee programs; more substantial tax incentives for private investment overseas; the merging of government and private funds in particular projects; the expanded use of management contracts; the more firm negotiation of treaty and other conditions designed to protect American private investment; and the spreading of information on the virtues and efficiency of private over public enterprise.

Even the most ardent of the recent advocates of private over public investment have been clear, however, about two things: that certain kinds of government investment are not only required in the underdeveloped areas but are essential to create a setting within which efficient and profitable private operations can grow: notably, investment in education, health, agricultural extension work, irrigation, transport, fuel and power; second, that American influence to encourage the strengthening of private sectors in underdeveloped areas and to enlarge the flow abroad of American private capital is a matter in which great tact must be observed. What is basically involved is that other peoples come to accept, sometimes in the face of long-held views, rooted in difficult past experience, that foreign private investment and a vigorous private sector and foreign private investment can be made to reinforce rather than disrupt the larger public purposes to which they are committed.



In short, it should now be possible to crystallize out a clear and well-balanced American stance on the issues of public and private enterprise in economic development and to mount an American policy that harnesses them in a collaboration more vigorous than any we have had in the past.

What such a generally hopeful perspective and policy must take into account, however, is that what we call underdeveloped areas are at very different stages on the path from traditional to modern status. The currently successful cases of private international investment tend to cluster about two extreme points along this path: that is, in areas which have barely moved beyond the traditional stage and where oil and other extractive foreign enterprises operate in relative (but rapidly decreasing) comfort, as in the Middle East and parts of Central Africa; and then again, in such new nations as Mexico which have, in fact, passed through the take-off into sustained growth and are rapidly becoming thoroughly modernized societies. Vigorous competent modern businessmen have only emerged in large numbers in the latter, advanced cases; and only in such cases has a hospitable attitude towards foreign private enterprise been widespread.

In between, lies the difficult transitional period in which a good deal of Asia, the Middle East, and Africa finds itself. In economic terms, an extremely high percentage of investment in this transitional period must go into social overhead capital. At the local end this means a high proportion of government investment. At the American end, this means a high proportion of inter-government loans, unless the pre-1914 private market for foreign government bonds suddenly re-creates itself.

Moreover, in these transitional periods, while the new corps of modern industrial businessmen are emerging it is likely to be a simple fact of life that civil servants and politicians (and, sometimes, soldiers) will perform more of the functions of entrepreneurship than American experience would find normal. Economically, this stage can give way to a more familiar and congenial balance between public and private sectors only when the whole modernization process has gathered momentum. American advice and negotiation can help in this evolution, but economic progress itself is the decisive variable.

The nature of this intermediate stage explains why governments--and inter-governmental loans--may have to play temporarily a disproportionately large role even outside the area of social overhead capital. The risk of investment--and the time before pay-off becomes possible--does not lie in the nature of the individual project or its intrinsic soundness by conventional banking standards. The question is: when will the economy as a whole enter the stage of self-sustained growth. Private investors understandably draw back from gambling on the timing of such profound historical changes. Governments--theirs and ours--must live with and operate on precisely such risks; because, without adequate governmental investment, the take-off may not occur rapidly enough to meet the political pressures for it.

The nature of this intermediate stage explains also why such devices as <sup>dollar</sup>loans repayable in local currencies make sense. Many nations moving forward--whose take-off ~~is~~ in the American interest, but which have not yet occurred--can use capital productively but <sup>they</sup> cannot generate sufficient

foreign exchange and international credit worthiness until the stage of self-sustained growth is achieved. Soft loans are one way of covering this interval whose length can not be predicted with confidence. The temporary accumulation of local currencies is, thus, a minor embarrassment in an essentially rational course of action.

Politically, in between the two relatively comfortable stages for foreign private enterprise, occurs the passage of local history in which a modern centralized government is created and effectively takes hold. It is to be expected on the basis of history that at some stage in the political transition the nationalist emotions which drive local politics create a somewhat critical, if not hostile, atmosphere towards foreign investment, notably if the foreign positions in the economy became entrenched during a colonial or semi-colonial past. Knock-down-drag-out crises in the status of foreign enterprise are, of course, not inevitable; but changes in relationship and attitude are inevitable as the new nations take shape and become increasingly conscious of their sovereignty. A wiser, more forehanded Free World policy towards, for example, Indonesia and Egypt in recent years might well have prevented or softened the current crises in the status of foreign enterprise there; and Western oil companies (and their governments) would do well to avoid a rigid clinging to old formulae in the Middle East. But it is of the nature of the historical process taking place that a certain amount of awkwardness and readjustment will be required.

It will take, then, an understanding of what it is like to move from a traditional to a modern society--a sense of history and patience as well as a vigorous collaboration between American public and private authorities--to see us through into the stage when most men and governments in the world come to perceive that private capitalism--domestic and foreign--have an expanding role to play in the new nations capable of reinforcing their larger political and social objectives.

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India provides a critical focus for our economic development policies for the next decade, and a test of their meaning. There are a number of reasons for this. In the first place, the population of India includes about 40 per cent of all the people in the underdeveloped countries of the Free World. Politically and strategically India is even more important than the numbers of her people would suggest. The success or failure of Indian development effort will affect the course of events from the Celebes to Morocco. We have not yet devoted the attention and resources to Indian development problems that the American interest requires.

There are compelling technical economic reasons why, at the moment, we should be concentrating a much larger share of our capital assistance on India than even her size would dictate. To allocate development assistance to countries in proportion to their population or their relative claim on our sympathies is to misconstrue the relation between capital and the development process. The

requirements for outside capital of countries seeking development vary widely depending on the stage of development they have reached. In the early precondition stages in which many of the underdeveloped countries find themselves the amounts of capital they can productively absorb are sharply limited by shortages of skills, education, administrative capability, essential social overhead such as roads, ports, communications, and the like, and by the absence of the attitudes, motivations, and political leadership that make growth possible. Technical assistance and limited amounts of capital may have to be supplied for some years before the country is technically and politically ready for the take-off--the concentrated effort to launch a growth process that will be self-sustaining.

But there does come a time when the stage is set for the big push. The country finds itself in a position to launch simultaneously a wide variety of interdependent activities which reinforce each other, and whose combined effect is to produce for the first time a substantial forward movement in all major sectors of the economy at once. India is, in our judgment, at this critical turning point. For a decade or so, during this take-off, requirements for foreign capital are at a maximum. Then, if the process is successful, the country's own rising income increasingly provides the new resources which can be plowed back into investment to stabilize growth as a regular feature of the economy; and the fact of regular growth itself permits the post-take-off country to acquire external capital from private or other orthodox sources.

The evidences that India is ready for and indeed has already started the take-off are many. Over the past eight years her output of goods and services has grown by about 25 per cent. This growth has occurred in agriculture, in large-scale industry, in small-scale industry, in transport and services. In all these fields there are investment projects, Indian designed and engineered, on the drawing boards to continue the expansion. There is a growing class of competent administrators both public and private to undertake the work. There are clear signs of growing domestic markets to buy the new output when it is ready. There are many more things Indian leadership must do vigorously if they are to accomplish take-off, but they now have it in their power to take most of the necessary steps themselves.

There is, however, one major economic threat to the maintenance of momentum which can be met only by action outside India: a shortage of foreign exchange with which to acquire the resources needed from abroad for the investment program. The drain which India has recently suffered on her foreign exchange reserves has been caused not, as in the case of some countries, by a decline in her export earnings nor, as in others, by an expansion of domestic consumption but rather mainly by an import of capital goods, primarily for the private sector, much larger than anticipated by Indian government planners. This drain has been accentuated by two relatively poor harvests; but the essential reason that India's foreign balance is in trouble is not that her development efforts have not been succeeding but that investment has gathered more momentum than anyone anticipated. The problem facing India today is how this momentum can be preserved.

The availability of help and resources from outside is important at all stages of the growth process. But there is a peculiarly critical moment in that process, which India has now reached, when external capital in adequate amounts and over a long enough period becomes the key determinant of what happens. After take-off, as in Mexico, the external environment is important but nongovernmental sources of capital can carry most of the load. Before take-off technical assistance and some outside capital for social overhead are necessary; but the critical bottlenecks are the needed transformations in the social, political, and economic structure of the nation for which its own leadership must take prime responsibility. A time comes, however, when the domestic prerequisites for successful take-off have been largely met and when the availability of substantial external resources on an investment basis is the single most important condition of success. India is the prime case in the year 1958 of a country in this position. No one can, of course, guarantee that if the foreign exchange bottleneck is removed, success is assured. Development is always a gamble. But the risk in the Indian case appears eminently worth taking from the American point of view.

We have taken a first step toward meeting India's immediate needs by arranging for a series of credits with the Export-Import Bank, the Development Loan Fund, and our agricultural surplus disposal program. They aggregate \$290 million for the current year. In our judgment this requires extension of three sorts. First, the annual volume of American loans needs to be increased to at least

\$500 million; second, a serious effort needs to be made to find substantially more capital from sources other than the United States, such as Western Europe; finally, India requires some assurance that she can count on this general level of new credit for a period of some years.

In terms of the preceding analysis of the American interest in economic development there are two characteristics of the Indian scene that lend special urgency to an adequate program of American loans to that country. The first is that the present Indian leadership has quite clearly centered its bid for national unity on a common effort to achieve constructive economic goals, in a framework of democratic consent. Economic development goals are a live political issue in India, as they are not--to anything like the same extent--in any other underdeveloped country. Indian foreign policy, anti-colonialism, and the Kashmir issue frequently reach the headlines of the western press; and, of course, they play a significant role in domestic Indian politics. But the Congress Party will not stand or fall at home, as Nasser and Sukarno may, on its external successes. Indians will judge the Congress Party on how far and how fast it achieves the modernization of India by the voluntary and essentially democratic methods it has chosen to employ.

We have the opportunity of confronting the Communists with a serious dilemma in India. They would, of course, like to exploit Indian-western tensions. But these are not as much at the center of the thinking of Indian intellectuals as is the case, for example, in the Middle East. The Russians would like to appear as the friends



of Indian economic development which has come to have genuine importance to a great many Indians. But ultimate Communist success in India depends on the failure of the economic development efforts sponsored by what Communists would describe as the present bourgeois regime. As long as the West fails to insure adequate resources for successful Indian take-off the Communists can successfully pursue the tactic of providing enough help to be symbolically persuasive of their good intentions, but not enough to make a significant difference to the outcome of the Indian Second Five-Year Plan. Thus the success of current Communist tactics in India depend on American and Western European failure to cover the foreign exchange gap.

The present leaders of the Indian state of Kerala, which went Communist at the last elections, are likewise giving evidence that they are faced with a dilemma. If they pursue within the state for which they have responsibility aggressive and coercive Communist policies, which the Indian electorate finds uncongenial, they may lose their slim parliamentary majority. On the other hand, if they are constructive and reasonable, suppressing their distinctively Communist policies and cooperating with private interests and with the national government, they weaken their case that only communism can satisfy Indian aspirations for economic advance. Their great hope, of course, is that the national effort will fail and that they can contrast national failure under Congress leadership with at least partial success in Kerala. We have it in our power to help frustrate this Communist hope; but it will take substantially more than we are now doing.

Let us be clear about the nature of the danger confronting us. There is no immediate threat of an extension of Communist control from Kerala to the national government in India. The commitment of most elements of Indian leadership to the methods of consent and nonviolence is so deep that even if economic development lags, an early Communist takeover is exceedingly unlikely. What is likely over the years, if development loses its momentum, is increasing conflict and confusion within the Congress Party, a resurgence of sectional and linguistic interests perhaps breaking into violence, a heightening of the political and social tensions created by mass unemployment,--in short a reversion to the kind of political instability which tempts otherwise moderate persons to support anyone who can maintain order. While there is no present Communist inspired crisis, the prospects are poor for stable and effective democratic government if the present development program fails.

It is precisely in the fact that no great political crisis is on the immediate horizon in India that our great opportunity lies, for we have learned in many other places around the globe that the salvage of situations which have been permitted to degenerate into crisis is an exceedingly expensive and precarious and time-consuming business. In India there is still time in hand if we use it. We can demonstrate that we have a national interest in the development of the underdeveloped countries that lies deeper than our concern to chalk up day-to-day points in the game of cold war diplomacy. Indian-American relations are important for their own sake. But

they are even more important as an earnest of America's determination to play a constructive as well as a fire-fighting role in world affairs. In India, where a serious and promising attempt is being made to forge a new nation around the goals of domestic progress by democratic procedures, it would be most shortsighted of us not to do what we can to make the effort a success.

The second characteristic of the Indian scene that gives it special urgency is the interesting relation between private and public economic activity that has begun to reveal itself in the last two years. The fact that public and private investment are not alternatives but can support each other in the early take-off stage of development has been nicely demonstrated by the Indian experience. In spite of an explicitly socialist governmental ideology, private investment in India has recently been booming. The private sector has, in the first eighteen months of the Second Five-Year Plan, undertaken as much investment as the planners initially expected it to undertake over the entire five-year period. An analysis carried out at the Center for International Studies, M.I.T., of the composition of the unusually heavy volume of imports into India over the past two years reveals that the big increase has been in capital goods imported on private account. The purchasing power created by public investment and the improved transport, communications, power, and other services resulting from the activities of the public sector have created an environment in which private investment opportunities have multiplied. As mentioned earlier, it is this buoyancy of private economic activity which has been principally responsible

for the foreign exchange difficulties with which India now finds herself confronted.

These difficulties--essentially growing pains--pose a serious dilemma for Indian policy. If additional foreign resources are not forthcoming, India must cut down her imports by strict controls to much lower levels. Her leaders are now politically committed to a variety of public projects. But even if they were not so committed, technical economic considerations would suggest that a sharp cut in investment in social overhead might ultimately throttle private as well as public activity. Further expansion of the private sector is conditioned upon a steady rise in purchasing power and a continuing expansion of transport, power, and other services. Even steel might become a bottleneck if present plans were sharply cut back. On the other hand, if the core of the public program is to be maintained imports can be sharply reduced only by restricting severely the licensing of capital imports for private Indian business.

In short, the volume of investment, public and private, required over the next decade to make full use of visible Indian resources for growth calls for a supply of foreign capital substantially above current levels. If this supply is forthcoming there is an excellent prospect that Indian productivity and output will expand sufficiently over the next decade or so to permit India to carry without difficulty the higher level of foreign indebtedness which would result. If the supply is not forthcoming not only will Indian development be threatened, but also a chance will have been missed for a practical demonstration of the complementarity of public and private activities

which would be enormously persuasive in other underdeveloped countries with socialist preconceptions.

The conclusion might be drawn from this line of argument that what we need is not a more vigorous program of economic assistance in general but rather a special program specifically focussed on and tailored to Indian requirements. This, in our view, misses the essence of our case. A successful Indian program is important at least as much for the model it can set for political leadership in other underdeveloped countries as for its own sake. If our economic assistance program sets up the kinds of criteria for foreign loans that we believe desirable, emphasizing the productivity of such loans for domestic development, India will, over the next two or three years, qualify for a larger share than her population would suggest. But the program as a whole should be so designed as to provide maximum incentives for the leaders of countries less far along to concentrate their energies on preparing their countries to make similar take-off efforts at a later stage. Our posture should be one of being ready to help any country that has demonstrated its determination to focus its energies seriously on the problem of meeting the economic and social aspirations of its people. This requires a Development Loan Fund with larger resources and a longer congressional lease than exists under present legislation.

We should not be drawn by the exigencies of cold-war diplomacy into making investments which are unproductive and economically foolish from the standpoint of the development of the recipient. We will gain little long-run advantage from competitive blackmail. But

we stand to gain a great deal over time from a clear demonstration that we believe our interests and those of countries prepared to make a real development effort based on political consent are sufficiently common to justify sustained American investment.

India, under its present political leadership, has made the commitment to harness its nationalist aspirations to the tasks of modernization. The American stake in India is that this commitment not fail of its purpose. The more difficult task for American policy is to use our limited but real margin of influence to make it as easy and attractive for other transitional nations to do likewise. Among the many aspects of American policy which can contribute to this outcome, not the least important are the actions we take at this promising but difficult period in Indian history.

\* \* \*

If we can, during the current examination of the foreign aid issue, clarify our national purposes in the program as a whole, establish the possibilities and limits of the role of private capital within it, and grasp the significance of the special case of India, it should be possible over the next year to build a stable and effective economic development policy for the longer pull. Essentially, three elements are involved: continuity, scale, and coordination.

It is evident that the Development Loan Fund will not be able to fulfill its mission until its congressional lease on life, is, by one device or another, extended. The Congress may wish to postpone

such action until 1959, since the Fund is only now beginning to disburse loans; and it is reasonable for definitive action to await evidence of vigorous and effective administration in terms of criteria of productivity. Similarly, it is evident that the present ad hoc emergency aid to India will not do the job and that the flow of American lending must be put on a longer-term basis if Indian leaders are to proceed with confidence and the Second Five-Year Plan is not to falter dangerously.

With respect to scale, it seems likely that the Loan Fund and the level of assistance to India will both have to be somewhat expanded. It is difficult to be dogmatic until further examination is undertaken; but it seems altogether possible that the Development Loan Fund will be able to justify an annual disbursement rate of about \$1 billion in loans when it has worked itself properly into business. So far as India is concerned, it seems likely that something like American loans on the order of \$500 million per year will be necessary for the duration of the next Five-Year Plan and, perhaps, for some time thereafter.

The maturing of the development program requires, finally, that methods of coordination improve both in Washington and on the international scene. As the Loan Fund has emerged it is simply one of a number of American instruments for accelerating economic growth in the underdeveloped areas. Grants and technical assistance flow from the ICA; the Export-Import Bank dispenses dollar loans and is likely to do so on a rising scale; food and fiber surpluses are being increasingly used for development purposes--as working

capital--rather than merely to salvage famine situations; and the government, in its guarantee program and other arrangements can influence to a degree the flow of private capital abroad. Finally, the United States has some influence in the allocation of the hard currency loans available from the International Bank for Reconstruction and Development. There is evidently a need in Washington for strong central leadership in orchestrating these instruments around a coherent policy towards each of the nations applying for development assistance. The individual institutions and programs involved have grown up, each with its own history, criteria, and mystique. Purposeful direction, backed by strong staff work, will be required in the Department of State to make them serve the nation's interests. In this connection, the ad hoc organization of \$290 million for India was, on the whole, a hopeful exercise.

In addition, there remains the challenging and extremely important task of finding a method and an instrument for coordinating the economic development programs, now mainly bilateral, within the Free World. There are powerful political undercurrents in Western Europe, Japan, Canada, and elsewhere, which look to such a coordinate effort as a means of giving increased unity, meaning, and vitality to the Free World Alliance. On the other hand, as the NATO Conference of December 1957 revealed, the countries of Western Europe are reluctant to commit themselves to an expanded and coordinate development effort until the American government--in both its branches--exhibits the determination to build a serious and



sustained program around economic (as opposed to military) aid. The passage of the current proposals before the Congress should open the way, over the next year, to the exploration of the enormous constructive potentialities of a common Free World economic development program in Asia, the Middle East, Africa, and Latin America.

4/1/58

COUNCIL ON FOREIGN RELATIONS, INC.  
THE HAROLD PRATT HOUSE                      58 EAST 68TH STREET  
NEW YORK 21, N. Y.  
CABLE ADDRESS: FORAFFAIRS, NEW YORK

April 1st, 1958

Dear Max and Walt:

I didn't get a chance to read your Foreign Affairs article until this weekend and I can't refrain from writing to say I think it is one of the finest, most useful analyses that the magazine has printed in a very long time.

I felt that many of the talks at the conference organized by Eric Johnston on February 25th were excellent, but I wish very much that we could have had there the kind of analysis which you presented so ably in Foreign Affairs. It seems to me by far the best statement for an important foreign aid program that I have yet seen. And, of course, you have also given some guidelines on when very substantial injections of foreign aid are likely to be most effective.

Very sincerely,

*George Franklin*

George S. Franklin, Jr.  
Executive Director

Professors Max Millikan and Walt W. Rostow  
Massachusetts Institute of Technology  
50 Memorial Drive  
Cambridge 39, Massachusetts

FOREIGN  AFFAIRS

AN AMERICAN QUARTERLY REVIEW

HAMILTON FISH ARMSTRONG  
EDITOR

*Handwritten initials*

MARY H. STEVENS  
EDITORIAL ASSISTANT

58 EAST SIXTY-EIGHTH STREET  
NEW YORK 21, N. Y.  
CABLE ADDRESS: FORAFFAIRS, NEW YORK

March 18, 1958

Dr. Max F. Millikan  
Center for International Studies  
50 Memorial Drive  
Cambridge 39, Massachusetts

MAR 20 1958

Dear Dr. Millikan:

I send you herewith our check in payment for the article by you and Professor Rostow appearing in the April issue of FOREIGN AFFAIRS, to be published tomorrow. A check for a similar amount is being sent to Professor Rostow. Two copies of the April issue are being sent to you separately.

Yours sincerely,

*Mary H. Stevens*

FOREIGN  AFFAIRS

AN AMERICAN QUARTERLY REVIEW

HAMILTON FISH ARMSTRONG  
EDITOR

*Handwritten initials*  
*Handwritten signature*  
FEB 21 1958

58 EAST SIXTY-EIGHTH STREET  
NEW YORK 21, N. Y.

CABLE ADDRESS: FORAFFAIRS, NEW YORK

February 18, 1958

Dr. Max F. Millikan  
Center for International Studies  
Massachusetts Institute of Technology  
50 Memorial Drive  
Cambridge 39, Massachusetts

Dear Max:

Yours and Mr. Rostow's manuscript has safely arrived, has been read with high appreciation, and is already on its way to the press. It is obviously a very competent and thorough reëxamination of the question whether our foreign aid program can come of age, and, if so, how; and I think and hope it will have a wide influence.

We shall have proofs for you next week.

With thanks to you both for a first-rate contribution,

Yours very sincerely,

*Hamilton Fish Armstrong*

P.S. I note that the article is mimeographed. I trust this does mean you are circulating it before its appearance in FOREIGN AFFAIRS.

February 19, 1958

Mr. Richard M. Bissell, Jr.  
2430 E Street, N. W.  
Washington, D. C.

Dear Richard:

I enclose a copy of an article Walt and I have prepared for Foreign Affairs. Its main purpose is to clarify three points we feel were inadequately treated in our book, namely, (1) the political purposes of economic aid programs, especially in the light of the so-called Soviet economic campaign, (2) the relation between public and private investment in the aid process, and (3) the special case of India and the relation of aid to India to the aid program as a whole.

We will, of course, be interested in any reactions you may have to this. A copy has been sent to your boss for any use he might want to make of it in preparing his remarks for the Eric Johnston conference on the 25th.

We seem through a variety of accidents to have gotten rather badly out of touch lately. I very much hope we can remedy this soon either in Cambridge or Washington.

Best regards.

Yours,

Max F. Millikan

MFM:pec  
Enclosure

February 19, 1958

Mr. Henry Owen  
Policy Planning Staff  
Department of State  
Washington 25, D. C.

Dear Henry:

Attached is a copy of the article Walt and I have done for Foreign Affairs. The Senate Foreign Relations Committee has asked Walt to testify on February 27 on the purposes and significance for American policy of the Soviet economic offensive. He plans to follow the same line of argument as appears in the first section of our paper.

I have sent a copy to Mr. Dillon and enclose a copy of my letter to him.

Best regards.

Yours,

Max F. Millikan  
Director

MFM:pec  
Enclosures

February 17, 1958

Mr. Allen Dulles, Director  
Central Intelligence Agency  
2430 E Street, N. W.  
Washington 25, D. C.

Dear Allen:

I enclose a copy of a piece Walt and I have prepared for Foreign Affairs which gives our present views as to the rationale for the foreign aid program. We try to hit three topics in this piece: a restatement of our purposes and an appraisal of the character of the Soviet threat; a re-examination of the relation between public and private investment; and an emphasis on the problems and importance of India.

You may wish to glance at the first of these three sections (pp. 3-8) which are relevant to the subject I understand you will be discussing before the group that Eric Johnston has called together on February 25.

Walt and I both feel that recent Administration statements have failed rather badly to explain the nature of the Soviet threat. We think much more clarity on this score will be necessary if Congress is to be persuaded to act effectively.

Sincerely yours,

Max F. Millikan  
Director

MFm:cp

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

.....19.....

Memo to

*Professor Rostov*

Room.....

*for your information*

*Please return.*

*Pat*

*Thank you  
Cindy*

from.....

Room.....



February 19, 1958

Mr. Richard M. Bissell, Jr.  
2430 E Street, N. W.  
Washington, D. C.

Dear Richard:

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Best regards.

Yours,

Max F. Millikan

MFM:pec  
Enclosure

February 19, 1958

Mr. C. Douglas Dillon  
Department of State  
Washington 25, D. C.

Dear Mr. Dillon:

I enclose for whatever interest it may have for you a copy of the article that Walt Rostow and I have written for a forthcoming issue of Foreign Affairs. It concerns itself primarily three issues: (1) a restatement of the rationale for our aid program in the light of our analysis of Soviet purposes, (2) a discussion of the relative rules of public and private investment in development, and (3) a discussion of the special case of India and the relation of aid to India to our aid program as a whole.

Walt has been asked by the Foreign Relations Committee of the Senate to testify before that body on Thursday, February 27, on the purposes and significance for American policy of the Soviet economic offensive. He plans to follow the general argument of the first part of our article. If there is any way in which he could make his testimony useful to the Department, I know he would be happy to do so.

We are today dispatching to Henry Owen ten copies of a paper we have prepared on the local currency loan as an instrument of economic aid in response to your request during our last visit. As I am writing Henry, we will be happy to have you make any use of this document, attributed or unattributed, that seems to you desirable including no use at all if that is your preference. Please let us know if you have any further things you would like us to do with it.

Sincerely yours,

Max F. Millikan  
Director

MFM:pec

February 19, 1958

Mr. Henry Owen  
Policy Planning Staff  
Department of State  
Washington 25, D. C.

Dear Henry:

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Best regards.

Yours,

Max F. Millikan  
Director

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Enclosures



## UNITED NATIONS

OFFICE OF THE RESIDENT REPRESENTATIVE IN THE PHILIPPINES  
PADRE FAURA STREET  
MANILA

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5-37-26  
5-37-27  
3-350

CABLE ADDRESS: TECABOARD MANILA

IN REPLY PLEASE REFER TO:

FILE NO.

5 May 1958

Dear Mr. Millikan and Mr. Rostow,

I have greatly enjoyed your piece on "Foreign Aid: Next Phase" in Foreign Affairs for April 1958, which reached me a few days ago. Nine years in the technical assistance business (5 years in Bangkok as Deputy Executive Secretary of ECAFE; 3 in Israel as Resident Representative of United Nations Technical Assistance Board; and 6 months here) convince me that you are 1000% right when you say that Governments in this part of the world are driven far less by the profit motive than by aspirations for increased national dignity. But I am, by the same token, also 1000% convinced that this means that international assistance, just because it is international, is infinitely more effective than bilateral assistance. I would have been happier if those two excellent minds of your had devoted a great deal more attention to this phase of the problem than the very brief hint in your concluding paragraph.

Cordially,

C. Hart Schaaf  
Resident Representative

GHS-av

Mr. M.F. Millikan  
✓ Mr. W.W. Rostow  
c/o Foreign Affairs (Please forward)  
58 East 68 Street  
New York 21, N.Y.  
U.S.A.

# FOREIGN AID: NEXT PHASE

BY DR. M. F. MILLIKAN AND W. W. ROSTOW

*Reprinted from*

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AN AMERICAN QUARTERLY REVIEW



*April 1958*

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## FOREIGN AID: NEXT PHASE

*By M. F. Millikan and W. W. Rostow*

IN the past year American economic foreign policy has moved perceptibly, if indecisively, back towards the path marked out by the Point Four Program launched in 1949, the Gordon Gray Report of 1950 and the Nelson Rockefeller Report of 1951—a path from which the United States was diverted by the Korean War and the subsequent concentration on the build-up of military pacts (backed by military aid) around the periphery of the Communist bloc.

The acceleration of economic growth in non-Communist Asia, the Middle East, Africa and Latin America is beginning to be recognized, in fact as well as in word, as a major national objective, quite apart from military aid and the use of money to help salvage crisis situations. The Development Loan Fund exists; some \$290 million has been scraped up to postpone too drastic a cutback in the Indian Second Five-Year Plan; surplus food and fibers available under Public Law 480 are beginning to be understood, both abroad and in Washington, as potentially a major constructive instrument for economic development; and before or during the NATO meeting of last December significant gestures, at least, were made by the German, Italian and American Governments looking toward coördination of the free world's development effort.

Whether there will now emerge into maturity an American and free-world economic development policy capable of protecting the common interest in a world dominated by expensive military stalemate on the one hand, and by the accelerating nationalist revolutions of Asia, the Middle East and Africa on the other, hinges in part at least on a clarification of three major issues. These are: the nature of the American interest in the revolutionary areas; the relations between private and public capital in the early stages of economic growth; the special position and problems of India.

### II

The American interest in economic development flows from the historical status of most of the nations and regions of Asia, the Middle East, Africa and Latin America.

Economically, these stand somewhere along the path between a relatively static agricultural society and a society capable of applying promptly and productively the fruits of modern science to its natural and human resources. These transitional societies have absorbed varying degrees of modern economic activity; but they have not yet woven them together in such a way as to make economic growth a regular, automatic condition: productive investment is not yet high enough regularly to yield increases in output substantially greater than increases in population. Politically, they are somewhere in the transition from regionally based hierarchical societies, rooted in traditional land relations, to centralized states capable of providing a unified national framework for modern economic, social and political activity.

Both historically and at present the building of modern economies and centralized modern governments has been driven along less by the profit motive than by the aspirations for increased national and human dignity. Merchants and the profit motive played their part in the modernization efforts of Bismarck's Germany, Meiji Japan, Witte's Russia and Ataturk's Turkey; but soldiers, civil servants and nationalism were the more powerful agents. And so it is today in Asia, the Middle East and Africa.

In these transitional stages, nationalism may be turned in varying proportions to these three objectives: towards the consolidation of the central power of the new state over the old regional interests (as with Diem and his sects in post-1954 South Viet Nam); towards external adventure, to redress real or believed old humiliations (as with Nasser in the Middle East since 1955); or towards the economic and social modernization of the domestic society (as with the Indian Five-Year Plans). No successful politician in a transitional society can afford wholly to neglect any one of these tasks; that is, he must build up the power of the central government, assert a position of increased authority and sovereignty on the world scene, and launch some kind of program for economic and social modernization. And these three elements of policy cannot be cleanly separated.

How do these objectives relate to each other? If the local political leader concentrates merely on consolidating his central power or on rallying his people around an external objective, he may well achieve short-run success; but he will not meet the demand for economic and social progress pressing up steadily from

the grass roots. He runs the longer-run risks of creating a centralized state without a viable political basis; or of exhausting his popular mandate in efforts to assert the sovereignty and power of the new nation against the external world, efforts which fail to satisfy his people's rising expectations for material advance. To be successful, a politician in a transitional society must, in the end, link nationalist fervor and the new centralized state to programs of economic and social substance.

The length of time and the vicissitudes of transition to modern economic and political status thus depend substantially on the degree to which local talent, energy and resources are channelled into the constructive tasks of modernization. The powers of the central government must, of course, be reasonably well established as a prior condition, and the government must present to its people a record of enhanced international standing; but the long-run influence of the central government depends, in the end, on its becoming a major source of energy, initiative and resource for modernizing the economy—a lesson Soekarno is being taught, painfully and late.

Communist policy is based squarely on an understanding of this precarious transitional process. Increasingly since the summer of 1951, Moscow and Peking have sought to associate Communism (as well as the Soviet Union and Communist China as governments) with the aspirations of the political leaders and peoples of the transitional areas for national independence, economic development and peace. On the other hand, Soviet diplomacy and propaganda have systematically sought to divert their attention from the tasks of modernization towards "bloody shirt" policies; that is, an obsessive concern to redress real or believed past humiliations—colonialism, Israel, Kashmir, West Irian, etc. In this connection, the resolutions generated out of the recent Cairo conference of the Afro-Asian bloc are worth careful study.

This strategy does double work for Moscow. In the short run, it creates costly disruption within the free world; it threatens the supply of essential raw materials to Western Europe; it threatens to disrupt the American air base structure; and, on the colonialism issue, it further splits the United States from Western Europe. In the long run, it creates the conditions which will help the Communists take over power. It creates these future conditions by diverting the energies of the new nations away

from the tasks of economic and social modernization; and thus the people's hopes for improved welfare are frustrated. It is the Communist intent that, when these hopes for progress are sufficiently frustrated, men and women in these areas will turn to Communism. The local Communist parties are already steadily at work seeking to heighten and to exploit these frustrations.

The Communist policy being pursued in Asia, the Middle East and Africa is modelled closely—and, we believe, quite consciously—after the Communist success in China. Sun Yat-sen turned to Moscow for guidance and support after he failed to get economic and political support from the United States. In the 1920s and 1930s Moscow did, to a degree, support the Kuomintang while seeking to give it an anti-Western cast; but the Chinese Communists at the same time, with Moscow's help and encouragement, pursued a policy first of infiltration of the Kuomintang and then of military and political obstruction designed to make it impossible for Chiang Kai-shek to achieve the social and economic progress which Chinese men and women ardently sought. And this double pattern persisted virtually down to the end: while the Soviet Union remained solemnly committed to support Nationalist China diplomatically, it turned captured Japanese arms over to the Chinese Communists in 1946. Chiang Kai-shek's view of reform as a second priority played, of course, into the hands of Communist policy throughout this sequence.

There is little doubt that Moscow and Peking regard Nasser, Nehru, Soekarno and the other non-Communist leaders of the new nations as the Chiang Kai-sheks of the future.

It is in this perspective—of short-run and long-run Communist strategic objectives—that the Soviet economic offensive should be viewed. In Yugoslavia, Egypt, Syria and Afghanistan, Moscow has urgent short-term strategic objectives; and those four countries get about three-fourths of Soviet aid outside the Communist bloc. In India, Indonesia, Burma, Ceylon and elsewhere, the amounts of aid doled out are sufficient to build up a measure of good will and a favorable image of Communist intentions; but they are grossly insufficient to supply the foreign exchange requirements for a serious economic development effort.

Nevertheless Moscow is laying out considerable capital in this effort at a time when there are ample alternative claims on Soviet resources for civil and military purposes within the Commu-

nist bloc. The problem of getting agreement within the Soviet Presidium for this rather expensive program is undoubtedly eased, however, by the increasing dependence of the Communist bloc on imported foodstuffs and raw materials. Mikoyan is probably able to claim that he can make the effort virtually pay for itself: the old Soviet principle of balancing the foreign policy books every night can be roughly maintained.

In facing Communist policy, then, we are not engaged in a popularity contest or in a numbers racket centered on total figures for aid and trade. We are confronted with a systematic effort—diplomatic, psychological, economic and political—to exploit the weaknesses, confusions and temptations of new nations in the transitional period so as to clamp Communism down firmly on them before steady economic growth and the political resilience of a modern state emerge.

Indeed, in the sweep of history, Communism as we have known it thus far in the twentieth century is likely to be viewed as a diseased form of modern state organization, capable of being imposed by a determined minority on a confused, frustrated transitional society. Conversely, a society which has passed through its economic take-off and restructured its political and social institutions around the requirements of modern statehood is likely to have a high immunity to the Communist appeal. Russia almost made it, but the First World War came at a bad time in the Russian evolution.

If this view is correct, the central objective of American policy in the transitional areas is to use whatever influence we can bring to bear to focus the local energies, talents and resources on the constructive tasks of modernization. American military strength must be used to give these nations relative security, with a minimum diversion of their own efforts; and when it is mutually judged necessary to generate local military forces, these in turn should be made to contribute wherever possible to the constructive tasks of modernization. The nineteenth century rôle of the American Corps of Engineers is a suggestive guide. Diplomatically, our stance should put a greater premium on the posture of governments towards the modernization of their own societies than on their day-to-day position in the politics of the cold war. Finally, our economic foreign policy must make it both possible and attractive for local politicians to set the aspirations of their peoples on long-term programs of mod-



ernization rather than on tempting but diversionary "bloody shirt" nationalism.

This incentive cannot be created unless American resources available for economic development are sufficiently big and offered with a continuity and on terms such that a serious operating politician can plot a long-period course with reasonable confidence.<sup>1</sup>

Thus the American interest in Asia, the Middle East and Africa is fundamentally political. The American interest lies in assisting the new nations to advance toward modern economic and political status while maintaining their independence and assuring the possibility of a domestic evolution which employs the political techniques of consent and safeguards the liberty of the individual. If we are prepared to recognize—as we should—that democracy is a matter of degree and of the direction of change, then our objective can be described as the creation of a world of independent, democratically oriented states which have built economic growth into their societies as a regular condition. This is an objective we should be prepared to state frankly, without embarrassment. It requires an American economic development effort larger and with more continuity, one with criteria for lending vastly less ambiguous (and economically more hard-headed) than our present programs. We are unlikely to get such an effort under way until its purposes in relation to Communist strategy are widely understood.

### III

There is a second prerequisite for a mature and effective American economic development effort. This is increased clarity and consensus on the relation between private and public enterprise both within the areas receiving American government loans and as between the public and private sources of capital and technical assistance in the United States.

In the course of the last year's reexamination of American economic foreign policy, there were interesting and forceful assertions of three propositions: first, that private enterprise is superior in efficiency to public enterprise, even in the underdeveloped areas; second, that substantial untapped potentialities exist in public policy both for expanding American private capi-

<sup>1</sup> Such was the purpose of the policy outlined last year by the present authors in "A Proposal: Key to an Effective Foreign Policy" (New York: Harper, 1957).

tal exports and for increased collaboration between public and private sources of American capital; and third, that the American Government could do more than it is now doing to create a more favorable climate for private investment in the underdeveloped areas. These views were presented against the background of what appeared to be a relatively substantial increase in American private investment abroad, opening up a somewhat more optimistic vista of the future rôle of private capital exports than that generally accepted in the recent past.

So far as the ideological debate on public versus private enterprise is concerned, several things have been happening. In Western Europe and in other industrial societies, the old banner of nationalization has faded markedly within the Social Democratic parties. Men have come to learn that Marx was wrong when he regarded the public ownership of property as the only effective form of ensuring that the public interest in the economy is respected. Ways have been found for protecting the legitimate public interest in economic activities without burdening the state with heavy operating bureaucracies which, on the whole, tend to impede rather than to encourage good public as well as good economic policy. The slogans of youth are not easily surrendered, and political banners fade slowly. There is little doubt, however, that in the postwar decade the Social Democratic movements have shifted as rapidly as they safely could away from the commitment to nationalization which had grown up in the first four decades of the century.

This transition may, in time, be expected to have its impact on the politics of the underdeveloped areas, since so many of the leading figures there were strongly marked by Western Social Democratic views, and many important connections remain. More relevant, however, than the vicarious experience of Europe is the evidence accumulating in those underdeveloped areas which have gathered economic momentum: that the expansion of the local private sector, including the development of vigorous efficient modern businessmen, can constitute a valuable support to the government's larger economic and social objectives; and that, within reasonable limits, it can be made politically quite safe and economically quite wholesome to permit private foreign enterprise to operate within their countries. These trends are mainly to be observed in Latin America, but they color hopefully some American visions of the future in Asia, the Mid-

dle East and Africa; for it now appears possible that vigorous private sectors can emerge more rapidly than our somewhat static sociological analyses of entrepreneurship would suggest. Once the expectation becomes general that next year's output is likely to be larger than this year's, businessmen begin to think about plowing back profits, expanding capacity and introducing new machinery, rather than merely clinging to the older pattern of fixed output with big profit margins syphoned off to keep the family comfortable. These transitions in the outlook and operations of businessmen obviously take time; but they seem to come more quickly than many had thought, once the economy as a whole begins to gather momentum.

In this mood, a good many measures have been put forward designed to expand the rôle of American private direct investment in the underdeveloped areas. These include: improved administration of the government guarantee programs; more substantial tax incentives for private investment overseas; the merging of government and private funds in particular projects; the expanded use of management contracts; the more firm negotiation of treaty and other conditions designed to protect American private investment; and the spreading of information on the virtues and efficiency of private over public enterprise.

Even the most ardent of the recent advocates of private over public investment have been clear, however, about two things. One is that certain kinds of government investment are not only required in the underdeveloped areas but are essential to create a setting within which efficient and profitable private operations can grow: notably, investment in education, health, agricultural extension work, irrigation, transport, fuel and power. The second is that American influence to encourage the strengthening of private sectors in underdeveloped areas and to enlarge the flow abroad of American private capital is a matter in which great tact must be observed. What is basically involved is that other peoples come to accept, sometimes in the face of long-held views rooted in difficult past experience, that a vigorous private sector and foreign private investment can be made to reinforce rather than to disrupt public purposes to which they are committed.

In short, it should now be possible to crystallize a clear and well-balanced American attitude toward the issues of public and private enterprise in economic development and to mount

an American policy that harnesses them in more vigorous collaboration than we have had in the past.

What such a generally hopeful perspective and policy must take into account, however, is that what we call underdeveloped areas are at very different stages on the path from traditional to modern status. The currently successful cases of private international investment tend to cluster about two extreme points along this path—that is to say, in areas which have barely moved beyond the traditional stage and where oil and other extractive foreign enterprises operate in relative (but rapidly decreasing) comfort, as in the Middle East and parts of Central Africa; and again in such new nations as Mexico which have, in fact, passed through the take-off into sustained growth and are rapidly becoming thoroughly modernized societies. Vigorous, competent businessmen have emerged in large numbers only in these latter advanced societies, and only there has the attitude towards foreign private enterprise been generally hospitable.

In between lies the difficult transitional period in which a good deal of Asia, the Middle East and Africa finds itself. In economic terms, an extremely high percentage of investment in this transitional period must go into social overhead capital. At the local end this means a high proportion of government investment. At the American end, this means a high proportion of inter-governmental loans, unless the pre-1914 private market for foreign government bonds suddenly recreates itself. Moreover, in these transitional periods, while the new corps of modern industrial businessmen are emerging it is likely to be a simple fact of life that civil servants and politicians (and, sometimes, soldiers) will perform more of the functions of entrepreneurship than American experience would find normal. Economically, this stage can give way to a more familiar and congenial balance between public and private sectors only when the whole modernization process has gathered momentum. American advice and negotiation can help in this evolution; but economic progress itself is the decisive variable.

The nature of this intermediate stage explains why governments—and inter-governmental loans—may have to play temporarily a disproportionately large rôle even outside the area of social overhead capital. The risk of investment—and the time before payoff becomes possible—does not lie in the nature of the individual project or its intrinsic soundness by conventional

banking standards. The question is: When will the economy as a whole enter the stage of self-sustained growth? Private investors understandably draw back from gambling on the timing of such profound historical changes. Governments—theirs and ours—must live with and operate on precisely such risks; because, without adequate governmental investment, the take-off may not occur rapidly enough to meet the political pressures for it.

The nature of this intermediate stage explains also why such devices as dollar loans repayable in local currencies make sense. Many nations moving forward—whose take-offs are in the American interest, but which have not yet occurred—can use capital productively but they cannot generate sufficient foreign exchange and international credit-worthiness until they achieve the stage of self-sustained growth. Soft loans are one way of covering this interval whose length cannot be predicted with confidence. The temporary accumulation of local currencies is, thus, a minor embarrassment in an essentially rational course of action.

Politically, in between the two relatively comfortable stages for foreign private enterprise, occurs the passage of local history in which a modern centralized government is created and effectively takes hold. It is to be expected on the basis of history that at some stage in the political transition the nationalist emotions which drive local politics create a somewhat critical, if not hostile, atmosphere towards foreign investment, notably if the foreign positions in the economy became entrenched during a colonial or semi-colonial past. Knock-down, drag-out crises in the status of foreign enterprise are, of course, not inevitable; but changes in relationship and attitude are inevitable as the new nations take shape and become increasingly conscious of their sovereignty. A wiser and more forehanded free-world policy towards, for example, Indonesia and Egypt in recent years might well have prevented or softened the current crises in the status of foreign enterprise there; and Western oil companies (and their governments) would do well to avoid clinging rigidly to old formulas in the Middle East. But it is in the nature of the historical process taking place that a certain amount of awkwardness and readjustment will be required.

Thus it will take an understanding of what it is like to move from a traditional to a modern society—a sense of history and patience as well as a vigorous collaboration between American public and private authorities—to see us through into the stage

when most men and governments in the world come to perceive that private capitalism, domestic and foreign, has an expanding rôle to play in the new nations capable of reinforcing their larger political and social objectives.

## IV

India provides a critical focus for our economic development policies for the next decade, and a test of their meaning. There are a number of reasons for this. In the first place, the population of India includes about 40 percent of all the people in the underdeveloped countries of the free world. Politically and strategically India is even more important than the numbers of her people would suggest. The success or failure of Indian development efforts will affect the course of events from the Celebes to Morocco. We have not yet devoted the attention and resources to Indian development problems that the American interest requires.

There are compelling technical economic reasons why, at the moment, we should be concentrating a much larger share of our capital assistance on India than even her size would dictate. To allocate development assistance to countries in proportion to their population or their relative claim on our sympathies is to misconstrue the relation between capital and the development process. The requirements for outside capital of countries seeking development vary widely depending on the stage of development they have reached. In the early precondition stages in which many of the underdeveloped countries find themselves, the amounts of capital they can productively absorb are sharply limited by shortages of skills, education, administrative capability, essential social overhead such as roads, ports, communications and the like, and by the absence of the attitudes, motivations and political leadership that make growth possible. Technical assistance and limited amounts of capital may have to be supplied for some years before the country is technically and politically ready for the take-off—the concentrated effort to launch a growth process that will be self-sustaining.

But there does come a time when the stage is set for the big push. The country finds itself in a position to launch simultaneously a wide variety of interdependent activities which reinforce each other, and whose combined effect is to produce for the first time a substantial forward movement in all major sec-

tors of the economy at once. India is, in our judgment, at this critical turning point. For a decade or so, during this take-off, requirements for foreign capital are at a maximum. Then, if the process is successful, the country's own rising income increasingly provides the new resources which can be plowed back into investment to stabilize growth as a regular feature of the economy; and the fact of regular growth itself permits the country, once the take-off has occurred, to acquire external capital from private or other orthodox sources.

The evidences that India is ready for the take-off—indeed has already started it—are many. Over the past eight years her output of goods and services has grown by about 25 percent. This growth has occurred in agriculture, in large-scale industry, in small-scale industry, in transport and services. In all these fields there are investment projects on the drawing boards, Indian designed and engineered, to continue the expansion. There is a growing class of competent administrators, both public and private, to undertake the work. There are clear signs of growing domestic markets to buy the new output when it is ready. There are many more things which Indian leaders must do vigorously if they are to accomplish the take-off, but they now have it in their power to take most of the necessary steps themselves.

There is, however, one major economic threat to the maintenance of momentum which can be met only by action outside India: there is a shortage of foreign exchange with which to acquire the resources needed from abroad for the investment program. The drain which India has recently suffered on her foreign exchange reserves has been caused not, as in the case of some countries, by a decline in her export earnings nor, as in others, by an expansion of domestic consumption. Rather it has come about mainly by an import of capital goods, primarily for the private sector, much larger than anticipated by Indian government planners. This drain has been accentuated by two relatively poor harvests; but the essential reason that India's foreign balance is in trouble is not that her development efforts have not been succeeding but that investment has gathered more momentum than anyone anticipated. The problem facing India today is how this momentum can be preserved.

The availability of help and resources from outside is important at all stages of the growth process. But there is a peculiarly critical moment in that process, which India has now reached, when

external capital in adequate amounts and over a long enough period becomes the key determinant of what happens. After the take-off, as in Mexico, the external environment is important, but non-governmental sources of capital can carry most of the load. Before the take-off technical assistance and some outside capital for social overhead are necessary; but the critical bottlenecks are the needed transformations in the social, political and economic structure of the nation for which its own leadership must take prime responsibility. A time comes, however, when the domestic prerequisites for success have been largely met and when the availability of substantial external resources on an investment basis is the single most important condition of success. India is the prime case in the year 1958 of a country in this position. No one can, of course, guarantee that if the foreign exchange bottleneck is removed, success is assured. Development is always a gamble. But the risk in the Indian case appears eminently worth taking from the American point of view.

We have taken a first step toward meeting India's immediate needs by arranging for a series of credits with the Export-Import Bank, the Development Loan Fund and our agricultural surplus disposal program. They aggregate \$290 million for the current year. In our judgment this requires extension of three sorts. First, the annual volume of American loans needs to be increased to at least \$500 million; second, a serious effort needs to be made to find substantially more capital from sources other than the United States, such as Western Europe; finally, India requires some assurance that she can count on this general level of new credit for a period of some years.

In terms of the preceding analysis of the American interest in economic development, the Indian scene has two characteristics that lend special urgency to an adequate program of American loans to that country. The first is that the present Indian leadership has quite clearly centered its bid for national unity on a common effort to achieve constructive economic goals, in a framework of democratic consent. Economic development goals are a live political issue in India, as they are not (to anything like the same extent) in any other underdeveloped country. Indian foreign policy, anti-colonialism and the Kashmir issue frequently reach the headlines of the Western press; and, of course, they play a significant rôle in domestic Indian politics. But the Congress Party will not stand or fall at home, as Nasser and Soekarno

may, on its external successes. Indians will judge the Congress Party on how far and how fast it achieves the modernization of India by the voluntary and essentially democratic methods it has chosen to employ.

In India we have the opportunity of confronting the Communists with a serious dilemma. They would, of course, like to exploit Indian-Western tensions. But these are not as much at the center of the thinking of Indian intellectuals as is the case, for example, in the Middle East. The Russians would like to appear as the friends of Indian economic development, which has come to have genuine importance to a great many Indians. But ultimate Communist success in India depends on the failure of the economic development efforts sponsored by what Communists would describe as the present bourgeois régime. As long as the West fails to insure adequate resources for a successful Indian take-off the Communists can successfully pursue the tactic of providing enough help to be symbolically persuasive of their good intentions, but not enough to make a significant difference to the outcome of the Indian Second Five-Year Plan. Thus the success of current Communist tactics in India depends on an American and Western European failure to cover the foreign exchange gap.

The present leaders of the Indian state of Kerala, which went Communist at the last elections, are likewise giving evidence that they are faced with a dilemma. If within the state for which they have responsibility they pursue aggressive and coercive Communist policies, which the Indian electorate finds uncongenial, they may lose their slim parliamentary majority. On the other hand, if they are constructive and reasonable, suppressing their distinctively Communist policies and coöperating with private interests and with the national government, they weaken their case that only Communism can satisfy Indian aspirations for economic advance. Their great hope, of course, is that the national effort will fail and that they can contrast national failure under Congress leadership with at least partial success in Kerala. We have it in our power to help frustrate this Communist hope; but it will take substantially more than we are now doing.

Let us be clear about the nature of the danger confronting us. There is no immediate threat of an extension of Communist control from Kerala to the national government in India. The commitment of most elements of Indian leadership to the methods of

consent and non-violence is so deep that even if economic development lags, an early Communist take-over is exceedingly unlikely. What is likely over the years, if development loses its momentum, is increasing conflict and confusion within the Congress Party, a resurgence of sectional and linguistic interests perhaps breaking into violence, a heightening of the political and social tensions created by mass unemployment—in short, a reversion to the kind of political instability which tempts otherwise moderate persons to support anyone who can maintain order. While there is no Communist-inspired crisis at present, the prospects are poor for stable and effective democratic government if the present development program fails.

It is precisely in the fact that no serious political crisis is on the immediate horizon in India that our great opportunity lies, for we have learned in many other places around the globe that the salvage of situations which have been permitted to degenerate into crises is an exceedingly expensive, precarious and time-consuming business. In India there is still time in hand for us to use. We can demonstrate that we have a national interest in the development of the underdeveloped countries that lies deeper than our concern to chalk up day-to-day points in the game of cold-war diplomacy. Indian-American relations are important for their own sake. But they are even more important as an earnest of America's determination to play a constructive as well as a fire-fighting rôle in world affairs. In India, where a serious and promising attempt is being made to forge a new nation around the ideals of domestic progress by democratic procedures, it would be most shortsighted of us not to do what we can to make the effort a success.

The second characteristic of the Indian scene that gives it special urgency is the interesting relation between private and public economic activity that has begun to reveal itself in the last two years. The fact that public and private investment are not alternatives but can support each other in the early take-off stage of development has been nicely demonstrated by the Indian experience. In spite of an explicitly socialist governmental ideology, private investment in India has recently been booming. The private sector has, in the first 18 months of the Second Five-Year Plan, undertaken as much investment as the planners initially expected it to undertake over the entire five years. An analysis carried out at the Center for International Studies, M.I.T., of the

composition of the unusually heavy volume of imports into India over the past two years reveals that the big increase has been in capital goods imported on private account. The purchasing power created by public investment and the improved transport, communications, power and other services resulting from the activities of the public sector have created an environment in which private investment opportunities have multiplied. As mentioned earlier, it is this buoyancy of private economic activity which has been principally responsible for the foreign exchange difficulties with which India now finds herself confronted.

These difficulties—essentially growing pains—pose a serious dilemma for Indian policy. If additional foreign resources are not forthcoming, India must cut down her imports by strict controls to much lower levels. Her leaders are now politically committed to a variety of public projects. But even if they were not so committed, technical economic considerations would suggest that a sharp cut in investment in social overhead might ultimately throttle private as well as public activity. Further expansion of the private sector is conditioned upon a steady rise in purchasing power and a continuing expansion of transport, power and other services. Even steel might become a bottleneck if present plans were sharply cut back. On the other hand, if the core of the public program is to be maintained, imports can be sharply reduced only by restricting severely the licensing of capital imports for private Indian business.

In short, the volume of public and private investment required over the next decade to make full use of visible Indian resources for growth calls for a supply of foreign capital substantially above current levels. If this supply is forthcoming, there is an excellent prospect that Indian productivity and output will expand sufficiently over the next decade or so to permit India to carry without difficulty the higher level of foreign indebtedness which would result. If the supply is not forthcoming, not only will Indian development be threatened, but also a chance will have been missed for a practical demonstration of the complementarity of public and private activities which would be enormously persuasive in other underdeveloped countries with socialist preconceptions.

The conclusion might be drawn from this line of argument that what we need is not a more vigorous program of economic assistance in general but rather a special program specifically focussed

on and tailored to Indian requirements. This, in our view, misses the essence of our case. A successful Indian program is important at least as much for the model it can set for political leadership in other underdeveloped countries as for its own sake. If our economic assistance program sets up the kinds of criteria for foreign loans that we believe desirable, emphasizing the productivity of such loans for domestic development, India will, over the next two or three years, qualify for a larger share than her population would suggest. But the program as a whole should be so designed as to provide maximum incentives for the leaders of countries less far along to concentrate their energies on preparing their countries to make similar take-off efforts at a later stage. Our attitude should be that we are ready to help any country that has demonstrated its determination to focus its energies seriously on the problem of meeting the economic and social aspirations of its people. This requires a Development Loan Fund with larger resources and a longer Congressional lease than exists under present legislation.

We should not be drawn by the exigencies of cold-war diplomacy into making investments which are unproductive and economically foolish from the standpoint of the development of the recipient. We will gain little long-run advantage from competitive blackmail. But we stand to gain a great deal as time goes on from a clear demonstration that we believe our interests and those of countries prepared to make a real development effort based on political consent are sufficiently common to justify sustained American investment.

India, under its present political leadership, has made the commitment to harness its nationalist aspirations to the tasks of modernization. The American stake in India is that this commitment shall not fail of its purpose. The more difficult task for American policy is to use our limited but real margin of influence to make it as easy and attractive for other transitional nations to do likewise. Among the many aspects of American policy which can contribute to this outcome, not the least important are the actions we take at this promising but difficult period in Indian history.

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If we can, during the current examination of the foreign aid issue, clarify our national purposes in the program as a whole, establish the possibilities and limits of the rôle of private capital

within it, and grasp the significance of the special case of India, it should be possible over the next year to build a stable and effective economic development policy for the longer pull. Essentially, three elements are involved: continuity, scale and coördination.

It is evident that the Development Loan Fund will not be able to fulfill its mission until its Congressional lease on life, is, by one device or another, extended. The Congress may wish to postpone such action until 1959, since the Fund is only now beginning to disburse loans; and it is reasonable for definitive action to await evidence of vigorous and effective administration in terms of criteria of productivity. Similarly, it is evident that the present *ad hoc* emergency aid to India will not do the job and that the flow of American lending must be put on a longer-term basis if Indian leaders are to proceed with confidence and the Second Five-Year Plan is not to falter dangerously.

With respect to scale, it seems likely that the Loan Fund and the level of assistance to India will both have to be somewhat expanded. It is difficult to be dogmatic until further examination is undertaken; but it seems altogether possible that the Development Loan Fund will be able to justify an annual disbursement rate of about \$1 billion in loans when it has worked itself properly into business. So far as India is concerned, it seems likely that American loans on something like the order of \$500 million per year will be necessary for the duration of the next Five-Year Plan and, perhaps, for some time thereafter.

The maturing of the development program requires, finally, that methods of coördination improve both in Washington and on the international scene. As the Loan Fund has emerged it is simply one of a number of American instruments for accelerating economic growth in the underdeveloped areas. Grants and technical assistance flow from the I.C.A.; the Export-Import Bank dispenses dollar loans, and is likely to do so on a rising scale; food and fiber surpluses are being increasingly used for development purposes—as working capital—rather than merely to salvage famine situations; and the Government, in its guarantee program and other arrangements can influence to a degree the flow of private capital abroad. Finally, the United States has some influence in the allocation of the hard currency loans available from the International Bank for Reconstruction and Development. There is evidently a need in Washington for strong central leadership in orchestrating these instruments around a coherent

policy towards each of the nations applying for development assistance. The individual institutions and programs involved have grown up, each with its own history, criteria and *mystique*. Purposeful direction, backed by strong staff work, will be required in the Department of State to make them serve the nation's interests. In this connection, the *ad hoc* organization of \$290 million for India was, on the whole, a hopeful exercise.

In addition, there remains the challenging and extremely important task of finding a method and an instrument for coördinating the economic development programs, now mainly bilateral, within the free world. There are powerful political undercurrents in Western Europe, Japan, Canada and elsewhere, which look to such a coördinated effort as a means of giving increased unity, meaning and vitality to the free world alliance. On the other hand, as the NATO conference of December 1957 revealed the countries of Western Europe are reluctant to commit themselves to an expanded and coördinated development effort until the American Government—in both its branches—exhibits the determination to build a serious and sustained program around economic (as opposed to military) aid. The passage of the current proposals before the Congress should open the way, over the next year, to the exploration of the enormous constructive potentialities of a common free-world economic development program in Asia, the Middle East, Africa and Latin America.