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"Proposal for a New Foreign Economic Policy," by Max F. Milkikan and W.W. Rostow, 1954;
related material, 1956

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DRAFT PROPOSAL FOR U. S. FOREIGN ECONOMIC POLICY

Note to Readers: Attached are some building blocks for an essay proposing a new foreign economic policy for the United States. The blocks have not yet been put together in architecturally satisfying form, some mortar is missing, and assorted plaster and gargoyles remain to be added.

Some of you will already have seen some of the component pieces. To help you save time, they may be identified as follows:

Part I: The Purposes of the Program. Pages 1 to 8 of this is new. Pages 8 to 31 are in essence a paper done by M.F.M. about three months ago entitled Economic Policy as an Instrument of Political and Psychological Policy. This has been revised in detail but not radically altered.

Part II: General Features of the Program. This covers some of the same ground as Part I of a paper by Rostow and Millikan entitled Proposal for a New United States Foreign Economic Policy, dated June, 1954, but it has been largely rewritten.

Part III: The Program in Detail. This is a copy, without revision, of Part II of the Rostow-Millikan 1954 paper referred to above. Revision is in process which will refine and bolster the statistical estimates, elaborate a bit on possible administrative arrangements, discuss the role of agricultural surpluses in more detail, and describe some possible regional investment programs. The central ideas seem to me still to reflect my views pretty well.

Part I is a justification of the program, whose length is explained by my conviction that most of the argument springs from what such a program is supposed to be for rather than from what its characteristics are.

Part II is a brief statement of the essential features of the idea.

Part III gives in much more detail the estimates of magnitudes, the criteria of eligibility for assistance, a possible institutional structure, and a variety of desirable correlative American policies.

M. F. Millikan
22 January 1956

PROPOSAL FOR A NEW FOREIGN ECONOMIC POLICY

I. THE PURPOSES OF THE PROGRAM

1. The Thesis

It is the thesis of this paper that a much expanded program of American participation in the economic development of the so-called underdeveloped areas can and should be one of the most important means for furthering the purposes of American foreign policy. We believe such a program can be so designed as to be a principal and effective instrument in our efforts to produce political, social, and psychological results in our interest. Specifically we believe that such a program is one of the few concrete instrumentalities available to us for achieving the twofold result of (1) increasing the realization elsewhere in the world that the goals, aspirations, and values of the peoples of other countries are in large part the same as ours, and (2) developing viable, energetic, and confident democratic societies through the Free World.

To be effective such a program would require U. S. government expenditure somewhat larger than current spending for economic aid. On the other hand, it would permit the orderly disposal of at least some of our large agricultural surpluses, and the additional money needed would be small compared to what we will have to spend in

desperate efforts to put out additional brushfires if they get started, and insignificant compared to the costs of waging limited wars.

2. The Foreign Policy Context

The general philosophy of such a program as well as its detailed design must, of course, depend on what it is supposed to accomplish. Underlying much of the controversy over development assistance programs are differences, usually implicit rather than explicit, as to the purposes of such programs. Are they mainly to win friends for the United States, to strengthen the military capabilities of our allies, to induce other countries to follow foreign policies to our liking, to reduce the appeal of communism to the poverty stricken, to benefit the United States economically, to induce healthy internal political development abroad, to raise living standards for humanitarian reasons, or for any of a dozen other purposes?

Insofar as the U.S. national interest is taken as a point of departure, these differences of objective spring from even more fundamental differences as to what constitute the principal dangers and opportunities confronting us in our relations with the rest of the world. Before developing in detail, therefore, the case for a new foreign economic policy for the United States, it is important to try to state briefly the foreign policy context into which such a program is designed to fit.

As we see it there are two priority tasks for U. S. foreign policy. The first of these is to meet effectively the threat to our

security posed by the danger of overt military aggression. This danger arises, at the moment, from the apparent intentions and capabilities of the Communist bloc countries. It is to be met primarily first by maintaining or increasing U.S. military strength and second by solidifying alliances with other countries in a position to contribute significantly to American strength. One of the instruments to be used in this effort is military and economic assistance to countries with important industrial potential, mainly the NATO powers, designed to make that potential militarily more effective. This is part of our current policy and will not be discussed further in this paper.

The second priority task of our foreign policy is to use our influence to promote the evolution of a world in which threats to our security and more broadly to our way of life are less likely to arise. Success in this task would mean the freeing of a large volume of resources from military to more constructive uses. More important, it would mean freeing our society from the oppressive pressures inevitably associated with a garrison state, pressures which threaten our most cherished values.

What does success in this task require? It is here that the most serious differences on foreign policy among thoughtful men arise. Some would emphasize the importance of organizational arrangements for collective security, a better structure for the United Nations, a system of international agreements,--bilateral, multilateral, or world-wide,--institutions to reduce the importance of national sovereignty like European Union, World Federalism, and the like. Some would emphasize

ideological considerations, the necessity to counter and expose systems of thought like Marxism with a built-in commitment to violence as an instrument of change, the importance of restating systematically and promulgating widely the values and assumptions of Western democratic liberalism in a form which would be irresistably persuasive to peoples everywhere. Some would emphasize the importance of creating social, economic, and political conditions such that violence and protest would lose their appeal because alternative and more attractive methods were available for satisfying personal and collective aspirations.

Obviously all these approaches and others besides are needed. But underlying the proposals in this paper is the conviction that we have put relatively too much emphasis in recent years on pacts, treaties, negotiation, and international diplomacy and too little on measures to promote the evolution of stable, effective, and democratic societies abroad which can be relied upon not to generate conflict because their national interests parallel ours and because they are politically healthy and mature. This conviction, in turn, is based upon an estimate of the nature of the forces at work in the world making for change.

It has become a commonplace that we are in the midst of a great world revolution in the horizons and expectations of the world's peoples. For centuries the bulk of the world's population has been politically inert. Outside America and Western Europe, and even in parts of the latter, the pattern of society has remained until recently essentially feudal, the possibility of change has for most people seemed remote, and political activity has been confined to a tiny elite.

Within the past forty years two world wars and a phenomenal increase in the ease and effectiveness of communication have fundamentally altered the perspectives of hundreds of millions of people. The last fifteen years have witnessed a great acceleration in this process. The spread of literacy, motion pictures, radio, and travel, rapid as it has already been, has just begun and will produce much more unsettling results over the coming years. Countries with populations aggregating over half a billion have just won their independence and are trying to cope with their new status. There are probably very few people left anywhere in the world who have not at least seen an airplane.

This revolution is rapidly exposing previously apathetic peoples to the possibility of change, is creating new aspirations for education, social improvement, and economic development, and is at the same time breaking down traditional institutions and culture patterns which have in the past constituted the cement holding society together. In short, the world community is becoming both more interdependent and more fluid than it has probably been at any time in history.

This fluidity presents us both with a great danger and a great opportunity. The danger is that the forces of instability and disintegration will get out of hand, that increasing numbers of people will become convinced that their new aspirations can be met only through violent change and the abandonment of democratic institutions. The danger is greatly enhanced by the existence of a philosophy,--communism,-- which gives this course intellectual appeal, and a power apparatus,--

the Soviet conspiracy,--which can mobilize and direct it. It is our conviction that such successes as communism have achieved are due not so much to any inherent attractions in Communist ideology as to the fact that the Communists have recognized their opportunities to exploit this revolution of rising expectations. Where they have been most successful their appeals have not been narrowly doctrinaire but have been closely tied to the emerging desires of local groups. The party line has not been, as it is so often pictured, rigid and unyielding but has been tailored to the particular interests of Indonesian villagers or Italian workers or Vietnamese peasants. Communism has been pictured as the road to social opportunity or economic improvement or individual dignity and achievement or national self-respect.

The dangers of instability inherent in this mass upheaval would be present even in the absence of the Communist apparatus, as is demonstrated by the existence of trouble spots like Kenya and Morocco apparently relatively unconnected with Communist subversion. But the danger is, of course, greatly intensified by the focus which both Communist thought and Communist organization gives it.

We for our part have largely failed to provide an alternative focus. We are increasingly seen in the uncommitted areas of the world as a power at best neurotic and at worst aggressive, preoccupied with military preparations and with a game of international power diplomacy which has no meaning for the newly awakened ordinary citizen. We are no longer identified, as we once were, with the aspirations of people for social and economic improvement or with the Utopian image of a society designed to satisfy those aspirations.

Our great opportunity lies, of course, in the circumstance that in fact we have developed more successfully than any other nation the techniques, social, political, and economic, for giving effect to widespread popular desires for change without either compulsion or social disorganization. We have enormous potential for steering the world's newly aroused human energies in constructive rather than destructive directions. Our influence can, of course, be no more than marginal. The political, social, and economic development of foreign areas is a task for the peoples of these areas themselves, and we cannot insure that they will do it well or badly. But our own national interest in promoting a world environment in which we can live freely and securely is so great that it would be inexcusable not to exert to the utmost whatever marginal influence we have.

The foreign economic policy outlined in the balance of this paper is conceived as one of the instruments for carrying on the task just described. It stands or falls on the acceptance of this task as a top priority objective of U. S. foreign policy. It cannot be too strongly emphasized that it is only one of many instruments which must be used in a coordinated way if we are to maximize our influence on the development of stable, effective, and democratic societies elsewhere in the world. There are important roles for information policy, for military assistance policy, and for conventional diplomacy also which these instruments are not now playing. Economic policy by itself will not achieve the desired result. Nor will it have the desired effect unless it is consciously designed with this end in view. If a

new development assistance policy is adopted with a different rationale and different purposes, it may well even backfire and have effects detrimental rather than favorable to our interest.

3. Some Misconceptions as to the Purposes of Economic Programs--Aid Will Bring Us Friends

Since many of the challenging criticisms of foreign assistance proposals have been directed against what we believe to be misconceptions of the kinds of political and psychological effects that such programs can be expected to have, it is well to take a look at some of these misconceptions before proceeding to develop the positive case.

The simplest misconception is that gratitude for help and assistance extended by us will lead the recipients to act in ways we desire simply because we want them to. Crudely put the notion is that we can buy friendship and affection and that these in turn will insure behavior in our interest. Anyone who has had experience of the psychology of the grantor-grantee relationship in private charity or in international relations will not consciously fall into this error. This relationship is a complex and frequently corrosive one. The grantee's sense of dependence commonly produces aggressive feelings of resentment toward the grantor which may easily worsen rather than improve relations between the two. If on other grounds we determine that large-scale assistance is in our interest, we must expect that an incidental result will frequently be less rather than more spirit of cooperation and mutual respect, even and perhaps especially if the aid programs are successful in achieving their objectives.

This point is accepted intellectually by most perceptive observers. Even those who are clearest about it, however, are often psychologically unprepared for and emotionally hurt by evidences of what look like gross ingratitude. This emotional reaction produces a state of mind in which serious mistakes may be made in the design of economic programs. Many measures can be taken to reduce the severity of these hostile reactions to economic assistance, but they are often the precise opposite of the measures likely to be taken by an official smarting from the hurt of these reactions or spurred by a Congress so "hurt." Our public role as donor must be minimized, not maximized; exaggerated credit must be given the recipient for his own contributions; demands for demonstrations of alliance and agreement must be reduced rather than increased. Even under the wisest administration, however, the best that can probably be hoped for is a neutral impact on the superficial evidences of international friendship. If our central objective is to get people to say they like us and will join with us, those who argue that economic programs are useless or harmful are probably right. But winning "fair weather" friends is surely not a central and fundamental objective of U.S. policy. It is important to conduct aid programs in ways that minimize these hostile reactions mainly to prevent such reactions from leading to a rejection or interruption of the programs themselves, which have the quite different purposes outlined later in this paper.

4. The Error that Aid Is to Strengthen Foreign Military Capabilities

A second misconception is that the central purpose of economic aid programs is always to strengthen the economies of the recipient countries to enable them in short order to carry a much larger share of the burden of military build-up against Communist armed forces. There is as we have already recognized a good case for military assistance to allies who, as in Western Europe, have real industrial potential. This idea has been extended much too uncritically, however, to the less developed areas. The first trouble with it is that the resources of most of the underdeveloped areas are so limited that even with massive aid the contribution they can make to defense against open military aggression by the Communist nations is inevitably going to be very small. We must face squarely up to the fact that resistance to determined military aggression by the Soviet bloc powers is a job for the United States with help from the NATO powers of Western Europe. The hope that we can create and maintain such a defense cheaply by organizing the manpower masses of Asia, that we can prevent aggression by getting Asians to fight Asians, is largely illusory because Free Asia (perhaps excluding Japan) does not now have and cannot in the near future create, even with our assistance, the economic potential to support a major military effort.¹

In the second place, while these countries can help to resist minor aggression and should be able to maintain order internally,

¹China is a threat because she is backed by Soviet industrial strength and because she is able through totalitarian controls to subordinate all other goals to military ones.

weapons and military potential are ineffective without the will to use them. Some of the underdeveloped areas appear to have this will, others clearly do not. There is doubt as to how far even those leaders who now profess the will would be able to mobilize widespread popular energies behind the sacrifices entailed by a major military effort. As argued below, development programs can play a crucial role in developing the morale which is a precondition for military performance. But the will to build effective military resistance may actually be weakened by U. S. efforts to force military assistance on countries which do not want it. This convinces them that we are trying to involve them for our own purposes in disputes which they could otherwise stay out of and compounds the widespread conviction in Asia that U. S. objectives are exclusively military and moreover largely aggressive. Economic programs with an expressed or implied military objective are unlikely to achieve that objective in the underdeveloped areas and are in serious danger of backfiring badly.

There is a further consideration which suggests that, even in those underdeveloped areas whose governments are willing or eager to expand their military establishments beyond the requirements of internal order, we should proceed only with caution to meet their wishes. The difference which is most likely to be decisive between the Communist formula for economic growth and the Free World formula is that the Free World formula offers to the citizens of a country the hope that the fruits of development will be experienced early in the process and shared widely by the whole population, that emerging

aspirations for economic, social, and political betterment can be at least partly satisfied as the process of development proceeds. The Communists promise this but are unable in fact to perform precisely because their pattern of development emphasizes the heavy industrial growth important to military power at the expense of the agricultural and light industrial development relevant to citizen welfare.

It is this distortion of the economy from satisfying the values of its citizens to the creation of military power which, in turn, makes necessary many of the instruments of force and repression which characterize Communist states. The collection of grain to supply the food requirements of armies has been used in China, Indo-China, and elsewhere to justify the abandonment of freedoms and corrosion of the political process at the village level. Pressing for a heavy military bias in the economy of a poor country runs the risk of either preventing the economy from growing or persuading the country's leaders to adopt totalitarian measures to force growth in the face of lack of popular enthusiasm.

5. The Error that Communism Springs from Hunger

A much more serious misconception which exposes proposals for economic programs to effective attack is what may be called the Marxist fallacy underlying the thinking of many conservative people on the role of economic change in political development. Crudely stated, it is held that revolt and protest are the result of hunger and poverty and that relieving hunger and reducing poverty will therefore reduce revolutionary pressures. In other words, if we can supply

the wherewithal to feed people better they are much less likely to support Communist or other extremist movements. The implied picture of the forces affecting social and political change is so naive as to be vulnerable to attack from a number of directions.

In the first place the spirit of revolt does not breed easily among people who are chronically destitute. In the rigid feudal societies which still characterize some parts of the world those at the bottom of the scale have for generations accepted a fatalistic view that it is in the nature of things that they should be poor. People do not organize and conspire to promote change when they believe change to be inherently impossible. One of the first effects at the grass roots of an economic development program in a society which is still feudally stable is thus likely to be a revealing demonstration that change can occur. This combined with the energy-stimulating effects of better nutrition is likely to release psychological and political pressures for change which may go in almost any direction. This is well understood by the Communists, who concentrate their efforts not among those who are hopeless but among those in whom expectations have already been aroused. The Communist line is, of course, that these newly aroused expectations can never be satisfied within any social, political, and economic framework except one under revolutionary Communist leadership. This line is carefully tailored to whatever expectations and aspirations turn out to be most powerful in the particular region they are trying to influence. Of course, once expectations have been aroused, a failure to do anything effective

about them is grist to the Communist mill. In this sense, some economic advance is a necessary condition for the avoidance of protest movements. But an increase in consumption unaccompanied by many subtler changes in the society will not by itself guarantee orderly political development.

This helps to explain the phenomenon which has been so puzzling to observers in a number of countries that Communist gains appear in some instances to have been greatest in areas where the government was doing something about the economic problem rather than in those where nothing was being done. The first and most powerful effect of economic development efforts is likely to be to dislodge convictions and habit patterns which have in the past insured stability. A further factor contributing to unrest is the education which accompanies economic change. People who can't read can't be subverted by literature. Once they can read, the process of widening knowledge and changing images of what the world is like and what is possible in it proceeds with great rapidity. With a growing understanding of the huge discrepancies in rewards customary in backward societies comes a growing awareness that these discrepancies are not the inevitable result of God's will.

Added to these factors are the social and cultural effects of industrialization and urbanization. People who were brought up in the economic and psychological security of a traditional extended family system or a communal village structure are uprooted, moved physically to unfamiliar and threatening surroundings, plunged into a

competitive world of individual effort with no paternalistic small group units to fall back on, and find their core values and beliefs subjected to daily challenge. They have a desperate need for new common goals and an experience of common effort and loyalties with a new group which gives promise of re-establishing their confidence and their sense of private and social harmony. If these are not provided by the existing social and political structure, they will seek them in a dream of a wholly new structure.

If all we have to offset these disturbing effects of the breakdown of traditional cultures and the development of widely expanded expectations is the actual physical increment of new product created in two or three years by development, the picture is bleak indeed. Under the most favorable conditions the maximum rate of growth of physical output likely to be achievable by countries in the early stages of development is 3 or 4 per cent per year. Where populations are increasing by $1\frac{1}{4}$ to 2 per cent per year this means that the ceiling on the rate of improvement of individual welfare is $1\frac{1}{2}$ or 2 per cent per year. If growth is to become self-sustaining, some fraction of this increase must be plowed back into further investment. The maximum rate of increase in consumption per person averaged over the population as a whole is not likely to exceed 1 per cent per year.

It is easy to be derisive about the notion that one more grain of rice in a peasant's bowl for every hundred he now gets is likely to compensate him for the things that are shaking his soul and will make him again docile, placid, and content with his lot. It is true that 1 per cent compounded over ten or twenty years begins to amount

to something substantial, and over fifty years becomes miraculous especially since as the process goes on the percentage will probably grow. Even at a growth rate of only 1 per cent per year the standard of living will double in two generations. Nor should we ignore the importance one generation may attribute to prospects for improvement in the lot of its children. This is especially important in peasant societies. But in the modern world of rapid communication political and social processes are greatly accelerated and will not give us fifty or even twenty years. By and large economic programs based on the crude materialist thesis that progress consists exclusively in "the extra food in the stomach" deserve all the derision they get.

Such a conception of the way economic programs are supposed to work, in addition to being wrong, can be very dangerous. The conviction is already widespread in Asia that we value only physical consumption and have no understanding of things of the mind and spirit. If we promote economic programs with this crude conception in mind, we will not only be disappointed in their results but we will create additional hostility and contempt in the areas we are trying to influence and drive them to seek solutions more congenial to them than ours.

6. The Positive Case for Economic Programs

In the face of this powerful battery of arguments that whatever the economic effect of economic programs (and we have yet to examine whether even an economic effect can be expected) the political and psychological effects can be contrary to our interests, how can the thesis stated at the opening of this paper be defended? Would it not

be better to leave the peoples of the underdeveloped areas of the world in a state of placid stagnation rather than arouse expectations that neither we nor they can possibly satisfy and expose their societies to the risk of social and political disintegration?

We have already suggested, of course, an obvious negative answer. The question implies an option that is not in fact open to us. The process of change is already inevitably and irreversibly under way, the expectations are already aroused, and the economic, political, and social revolution of the underdeveloped areas is already inexorably on the march. Even if the Communists were not everywhere promoting and encouraging this process for their own conspiratorial ends, the unprecedented spread of communication throughout the world in the last twenty years has already fundamentally altered the images of the future of the bulk of the world's population. This alteration will be accelerated in the coming decades. Hence the alternative of supporting semi-feudal stability is a mirage.

More constructively, however, there exists a powerful, positive case for an active promotion of economic development. The substance of this case can be found in the political, social, and psychological effects that a well-conceived economic development program can be made to have. Some actual increase in the per capita availability of material goods, while not enough by itself, is certainly a necessary condition under modern circumstances for the development of stable and peaceful societies and for the viability of democratic institutions. Even more important, however, are the confidence generated by a sense

of progress, the social mobility, the outlet for leadership energies, the national cohesion, the consolidation of new individual and group values, the discovery of new sources of satisfaction and achievement which a concentration on social and economic development can bring. We postulated earlier that one of the highest priority tasks for U.S. foreign policy is to use our influence to promote the evolution of societies that are stable in the sense that they are capable of rapid change without violence, effective in the sense that they can make progress in meeting the aspirations of all their citizens, and democratic in the sense that ultimate power is widely shared through the society. This is important for us first because such societies are much less likely to constitute a military threat to us or to attach themselves to others who pose such a threat, and second because, in the programs of common action we can undertake to help them reach these goals, we can demonstrate more effectively than by any verbal propaganda the wide range of values we share with them.

7. Requirements for the Growth of Political Maturity

How can economic development programs serve these lofty ends? To see this we must first develop more fully some of the requirements that must be met if these areas are to achieve political maturity:

a. There must be posed for the leadership and the people of each country challenging and constructive internal tasks which will capture the imaginations and harness the energies of persons throughout the society. The peoples of the countries of Asia, the Middle East, and Africa have until recently been dominated either de jure or de facto

by the will of foreign powers of different races from their own. To the extent that their peoples have achieved a degree of common purpose it has been in opposition to this external influence. Wherever they have achieved their independence from colonial control, this symbol of their common purpose has lost some of its energizing force. Many of them are trying to retain their sense of dedication and direction either by retrospectively fighting over again in their minds and in their political speeches the glorious revolutions they have already accomplished, or by identifying themselves with the revolutionary aspirations of countries still not independent. A prime requirement for their political development is that they now turn their constructive energies on a broad scale to the real problems of their own internal future. Only when these problems of internal change have become the earnest concern of a large part of the population, and individuals throughout these societies see ways in which they can make useful contributions to the solution of these problems will irresponsible extremist movements whose focus is on the battle symbols of the past lose their attraction and the institutions and forms of democracy become meaningful.

b. The constructive issues around which unity and cohesion are to be forged must relate to the emerging aspirations of all classes and regions in the society. The fight against communism is neither sufficiently meaningful nor sufficiently related to the current hopes of the bulk of the peoples of the underdeveloped areas to be an effective standard around which to mobilize political activity.

First, it is a fight against and not a fight for something. Second, communism is not seen as a menace in many of these areas because they have had no personal contact with what it can mean. Those who are aware of the East-West struggle regard it as something that matters to us but not to them. Third, the Communists have very skillfully soft-pedalled the ideological elements in their position and have identified themselves with the things on each local scene that the local people want. Thus to attack communism in principle sometimes gives us the appearance of attacking the whole idea of trying to solve local problems. The best counter to Communist appeals is a demonstration that these same problems are capable of solution by other means than those the Communists propose. Unless there is a rapid spread of the conviction that purposive action with a non-Communist social order can make progress in meeting newly formulated goals, movements to alter the order by violence will become increasingly successful.

c. These countries must find ways of developing new, young, and vigorous leadership. Many of their leaders are either men who have spent their lives organizing opposition or men selected by the occupying colonial powers because they had a stake in the maintenance of the status quo or because they could be trusted to administer without having too many ideas of their own. There are remarkable exceptions like Mr. Nehru who have been able to convey to their peoples an image of what their country might be like if they mobilize their human and material resources. But an expansion of the pool from which leadership can be drawn is everywhere a crying need. The development of the right kind of young leadership will require stressing problems which are

challenges and opportunities rather than threats and which therefore appeal to constructive rather than conservative motives. There are reserves of leadership potential throughout the populations of the underdeveloped areas, but they must find a focus for their energies in problems they regard as real rather than symbolic.

d. Related to the recruitment of new leadership is the need for greatly increased social, economic, and political mobility. One reason for the widespread impression that leadership material is scarce in these countries is that the base from which such leadership could traditionally be drawn has been pathetically narrow. One of the things the Communist movement does is to provide outlets for the awakening energies of young men previously denied opportunity by the rigid feudal class structure of their societies. Young leadership is in fact appearing. If it is not provided a role in constructive programs, it will lead destructive ones. In particular, recruitment of non-Communist leadership has too frequently been confined to the urban centers where a small fraction of the population is concentrated. There are human resources which have been largely untapped in the rural areas where 70 to 90 per cent of the people in the underdeveloped areas live. Outsiders cannot force the recruitment of such leadership, but programs of rural development can uncover much leadership potential.

e. Related to this is the requirement, if these countries are to achieve mature, political development, of finding ways to bridge the almost unbelievable gulf between the urban classes, often Western educated, and the countryside. The educated classes in many cases often know less,--and more important care less,--about their own countrymen in the rural districts than do we or other foreigners.

This has a doubly unfortunate influence. The urban leaders do little in fact about some of the country's most urgent problems, and the mass of the people lack the conviction that their leaders are centrally concerned with their problems and aspirations. Those countries like India which are making the most progress toward maturity are those in which this gulf is being bridged, more through economic programs which yield a sense of common purpose derived from common effort than through any channel.

It is worth noting in this connection the special role played by the military in many of the underdeveloped areas. The army is frequently important to economic and political growth for two reasons. First, a military career is often the only channel to positions of leadership and responsibility open to members of the less privileged classes and especially to men with rural backgrounds. It is thus often a good place from which to recruit new elements of leadership for nonmilitary programs. Second, the army is often the only career in which a man has an opportunity to acquire both technical and administrative skills. Many of these skills are easily transferable to civilian tasks such as the building of roads and communication systems or the organization of a local community for improved sanitation. We should certainly not force military assistance on countries not wanting it, but where we already have such programs we should re-examine ways in which they can be used to further economic and social development more effectively.

When we speak of leadership here, we do not mean solely or even primarily leadership at the national political level. Local, regional,

and functional leadership are at least as crucial to orderly development. Indeed, when we talk of the development of democratic societies we tend to think too largely in terms of the mechanical process by which national leadership is chosen. Power and decision making cannot be decentralized, whatever the electoral process, unless there are competent and dedicated people available at lower levels to whom decisions can be delegated. A country which is formally a dictatorship but whose government encourages local and group initiatives and is responsive to them may be more democratic than one which goes through the motions of national elections but has no political vigor at the grass roots. Indeed, since the problems of maintaining national cohesion in the face of rapid social and economic change are so unsettling, something like a transitional dictatorship at the national level may be a necessary phase in the development of the new democracies. The role of Attaturk in Turkey is illustrative. The crucial test is whether local leadership and local participation in decisions of local interest are being nurtured.

f. Perhaps the most critical requirement is that the people of these countries develop a degree of confidence both as a nation and as individuals and small communities that they can through their own efforts make progress with their problems. The most important reason for believing that some growth in economic output, even at a slow rate, is critically important to political stability is that such growth has become an increasingly important symbol to them of their capabilities, their national worth, and their national dignity. If this growth is widespread through the country and based upon a good measure of local community initiative, it can become a vital symbol of individual and

community as well as national achievement. The Communists are saying, through the countryside, "Your leaders are bankrupt. You can do nothing under the present system to work toward the satisfaction of your hopes. Join us and we will give you a meaningful mission." There must be an alternative to this appeal if non-Communist evolution is to succeed.

g. This same sense of confidence is also the chief prerequisite for the development of satisfactory external relations with the rest of the world. At the moment many of these countries are fearful that other nations have objectives and values different from their own which threaten their national integrity and security. Once they see that they are wholly capable of standing on their own feet they can afford to be less quixotic and nervous in their foreign policies. They will be suspicious of direct appeals from us urging them to resist the Communist devil and accept the institutional forms and symbols of our system. If we demonstrate our basic principles in detailed programs of common action to deal with their pressing internal problems and if we refrain from pressing on them the precise forms of our economic and political institutions, many of which may not be suited to their cultures, they will come to a recognition of the interests we have in common and of what we both can gain from working together to advance those interests.

8. What Role Can Economic Programs Play?

It should be apparent that whether economic programs have desirable political and psychological effects in terms of these

requirements for the growth of political maturity will depend on how they are carried through. We have had experience with aid programs which justify all the scornful strictures of their opponents, and which have been not merely neutral in their effect and hence wasteful but positively harmful to our interests. Certain of our programs immediately following World War II such as our early efforts in the Philippines were of this variety. Benefits do not follow any more automatically from the voting of sums of money by the Congress in this field of policy than in any other. But properly designed and administered, economic programs are one of the few levers of influence available to us which have a serious chance of influencing in important ways political developments in the underdeveloped areas. It is worth exploring in more detail why this is so.

In the first place the possibility of economic growth is a problem that presents a real challenge to the constructive energies of the people of these countries. Some of them, like India, have already demonstrated that this challenge can have much greater appeal as a rallying point for national effort than the preservation of their societies from what we believe to be an external threat. Indeed, in India the problems of internal development have already replaced to a considerable degree the issues of colonialism, race discrimination, relations with foreign countries and the like as the burning issues of national and local politics. The present government has tied its fortunes to the success of its five-year plans and has generated a degree of interest in these even down to the remote villages which is quite remarkable. Performance under the five-year plans has become

important not merely as an index of the effectiveness of the present government but as a major symbol of Indian national aspirations, independence, and dignity. A realization of forward movement in this area, even if the visible economic results are not spectacular, has become a prime factor in the national consciousness. There is an ever more widespread awareness among Indians of India's competition for success in growth with China. It is not accidental that India's internal political situation is in better shape than that of most other Asian countries. India's effective absorption in a constructive economic effort is not the whole story, but it is an important part of the story. And a reversal of the trend of progress which has been started could lead to a rapid deterioration in the political scene. It is the thesis of this paper that supporting efforts like the Indian one and encouraging the development of such efforts in other countries can be one of the better ways we can influence political change.

It is entirely appropriate, for example, that development assistance be made conditional upon the submission of convincing evidence that a country's leaders have thought through the development needs of all sectors of their population. There is a tendency for the urban-educated elite to think first in terms of factories and other urban-centered activities. Requirements of balance can literally force them to get into the countryside where the bulk of their people live and find out about rural conditions and prospects. Indian intellectuals are learning, slowly but surely, to work with peasants, to soil their hands, to interest themselves in the issues peculiar to their own nation rather than in the intellectual fashions of the

Western world. There are still villages in India where people have never heard of Nehru, much less of community development, but the number of these is shrinking with amazing rapidity. A more energetic focus on development, accompanied by an insistence on balanced programs, could have similar effects in countries where the gap between city and country is still almost unbridged and where the Communists therefore have a clear field in the rural areas.

Programs of agricultural and village development probably provide the best opportunities for uncovering and encouraging new sources of young leadership. Again, the village worker training programs which several countries in Asia are undertaking, are recruiting from sectors of the population outside of the castes and classes to which opportunity has traditionally been limited. Even in the cities industrial development is beginning to be accompanied in a few places by a labor movement that is shifting its focus from political agitation to increasingly responsible concern with the economic welfare of the working classes within the framework of existing institutions. This process has a long way to go, but it is moving in the right direction. The failure of efforts at economic growth could rapidly reverse this trend and drive labor and peasant organizations back to a concentration on political protest instead of constructive effort. More vigorous promotion of growth with opportunities for these groups to realize some success in their efforts to improve their welfare could greatly accelerate the emergence of responsibility in such organizations.

Psychologically, as was pointed out above, confidence that they have it in their power to improve their own lot is one of the most

essential requirements for political responsibility. Economic evidences of success are among the most persuasive ones. Seeing new factories, better farming methods, improved public health and education, better transport, actually becoming realities in response to their own efforts can supply this confidence. The more widely spread these activities and the more universal the efforts of which they are the tangible evidence the more likely is the political effect to be salutary.

Finally many kinds of economic programs provide opportunities to demonstrate democracy in action which are much more convincing than abstract discussion or than the operation of electoral machinery divorced from real problems. If voting is to be made an activity which is more than an amusing new gadget, there must be something to vote about which directly concerns people and some test of candidates other than their polemic abilities or the width of their circle of acquaintances. Economic issues are, of course, not the only ones with real vitality, but in countries where a majority of the people live close to the margin of subsistence, most cultural, educational, and social issues raise difficult resource problems. Village education requires schools, equipment, and the support of teachers; public health requires medical services, better nutrition, and better housing; social justice frequently depends on land redistribution and community services; a wider communication of ideas depends on roads, communication media, and the like.

There are possibilities in international cooperation on economic issues to demonstrate not only the common goals shared by the peoples of one country with those of another but also helpful ways in which those goals are being pursued abroad which correct false images of

foreign societies. One of the most politically effective programs we have carried out to date has been the sponsoring of visits to American industry by European productivity teams. The ostensible purpose of these visits was to give the visitors new ideas about technical and organizational ways to increase productivity. Their most dramatic consequence, widely attested to, was to spread an understanding of what labor-management relations were really like in America. Visitor after visitor from both European management and labor expressed amazement at the degree of democracy and mutual human respect they found in American labor-management relations.

Ideology, values, and principles of political organization can be much more quickly grasped and promoted through programs of common action than through debate or "education." The United States, in advising and consulting on labor-management relations, on the organization of cooperatives, on agricultural extension, on educational methods, on land reform, on local government, on training and recruitment of specialists, managers, foremen, civil servants, administrators and the like, both nationally and especially locally, has endless opportunities to illustrate American values as to democratic action, social responsibility, free mobility of persons, etc., in persuasive ways divorced from the obscurity of unfamiliar ideological terminology.

It is perhaps necessary to repeat again that economic problems are, of course, not the only focus for constructive effort. But almost all the challenging things people can be stirred to want to do with themselves and their societies require some additional resources. Without economic growth neither the human energies nor the physical resources

will be available in the poorer countries of the world for the satisfaction of the aspirations of their peoples. Thus economic growth is both a prerequisite for political, cultural, and social improvement and can itself in many ways be an engine of such improvement.

The unique opportunity that this presents to us is that only we in all the world have the abundant resources to make such growth possible. Others can and should contribute for a variety of reasons. But the scale of effort required for real results is beyond the unaided capacities of many of the underdeveloped countries, and the volume of assistance that could fruitfully be used probably cannot and will not be supplied by the Soviet bloc. As long as we keep our efforts on a scale sufficiently meagre so that the Communist world can afford to match it, they will do so and with great effect. But this is one area where we have the wherewithal to leave them far, far behind.

To put the argument of this paper another way, our basic objectives are, of course, political in the sense that our most pressing interest is that the societies of the world should develop in ways that will not menace our security, either as a result of their own internal dynamics or because they are weak enough to be used as tools by others. But our capabilities to influence political development by direct argument or intervention are very slight. Indeed, direct political intervention is almost certain to set up resentments and resistances which will produce the exact reverse of the result we seek. Economic programs which are neutral with respect to the political issues which rouse men's passions nonetheless can be effective instruments of political

influence, not in the sense that they will recruit allies but in the much more fundamental sense that they can develop political responsibility. They are thus a way,--I would argue the best and perhaps the only way,--around the impasse with which we are confronted when we try to use our political influence directly.

An important illustration of this principle is to be found in our policies toward colonialism. We should be more vigorously on the side of freedom and independence for subject peoples. But apart from the difficulties of direct political intervention in the affairs of our European allies, it is not at all clear that we contribute to the peace and stability of the world by encouraging colonial peoples to rally their energies around the goal of violent revolution. There is some merit in the argument of the colonial powers that to turn loose their colonies before they have acquired the capacity to deal with their own affairs is to do the colonies as well as the world at large a disservice.

On the other hand, it would be hard for the colonial powers to deny that vigorous and world-wide program of assistance to economic development must logically include the colonial areas. We can and should apply the same conditions to these as to other recipients of assistance, notably that responsibility for economic programs must be accepted by the people of the area themselves at local as well as national levels. We can insist, through economic programs, on seeking out and developing local leadership. We can argue persuasively with the occupying powers that such programs will provide an outlet for the

energies of local communities which will reduce their preoccupation with subversion and violence against Europeans. We can with equal justice insist that our aim in supporting these programs is to speed the time at which the colonial peoples can secure that independence to which we as well as they are dedicated. We can show the peoples of the colonies that we are effectively securing independence for them by forcing, as a technically necessary condition for economic growth, the delegation to them of an increasingly important share of the decisions that affect their daily lives and welfare. Thus the formal status of political independence will become both less emotionally urgent and more attainable. To describe all the ways in which this can be done would take more space than we can devote to it here. But we are convinced that a skillful program of economic and technical assistance could both accelerate independence and take much of the dynamite out of the symbols of colonialism if it is pursued with vigor and imagination well before the dynamite has begun to explode.

The impact of such a program on the economies of the developed countries of the Free World will be discussed later. Equally important, however, are the possible political and psychological effects on the other developed nations of a program of development in which they participate as partners. Our common efforts with them to date, with the notable exception of the Marshall Plan, have been largely military and have had the negative if vital objective of confining the expansion of Communist military power. It is important for our relations with them, too, that now that the Marshall Plan is largely over we demonstrate that we are still interested in more constructive tasks. A joint

effort to which we make a major contribution which has as its objective the building of successful democratic societies could have important effects in holding the alliance together and substituting the cement of hope through common effort for the binding force of fear.

II. GENERAL FEATURES OF THE PROGRAM

1. The Central Proposal

The central proposal of this paper is that the United States should, for reasons explained in the preceding section, take the leadership in a new international partnership program for world economic growth. The purposes of the program would be first to remove the availability of capital as a limitation on economic development for those countries able to use it effectively, second to stimulate and assist the underdeveloped countries to overcome obstacles to their own development other than capital availability, and third to create a climate of international economic activity in which the economies of the industrialized countries of Europe and Japan, as well as the United States, could flourish and continue to grow.

2. Allocation According to Absorptive Capacity

There are a number of elements in such a program which distinguish it from what we are now doing. The first and most important is that assurance would be given that any Free World country which could demonstrate that it could use additional resources productively on fairly strict criteria of productivity would be able to secure such resources. We believe, as explained in section III below, that the amounts which would be taken up under such an offer over the next ten years or so, while higher than current levels of international

capital movement, would not at the most be more than three or four billion dollars a year higher. Only a portion of this amount would need to be in the form of funds provided by the U. S. government, a major fraction of that portion could be in the form of loans rather than grants, and a substantial part of it could be supplied in the form of U. S. agricultural surpluses.

If this program were adopted, the problem of how to allocate the available funds equitably among recipient countries would not arise. Every request for assistance which met criteria of productivity to be described later would be granted. In the early stages some countries like India which are at a stage of development where they can absorb additional capital readily would get the lion's share. As other countries were able to demonstrate that they were overcoming the difficulties of establishing new institutions to carry on economic activity, developing a labor force with the necessary skills, training administrators and managers capable of operating new ventures, drawing up detailed investment programs to insure balanced and consistent growth, they would become eligible for higher levels of assistance. Meanwhile as incomes rose in the faster moving areas, they would be finding themselves in a position to supply a larger and larger part of their own capital requirements out of their own savings.

The essential concept of this program is a banking concept rather than a subsidy concept. A banker does not list all his potential customers and then try to decide how to allocate his loanable funds in such a way as to be fair to each. He sets certain

criteria for the soundness of loans and then welcomes all customers who can satisfy him that they meet the criteria. As explained later, the criteria in this program would be somewhat broader than those normally applied by a bank. But the distribution of funds among countries would be determined by absorptive capacity rather than by considerations of equity or politics.

Such a conception raises two fundamental questions: (1) Is it possible to establish reasonably objective criteria such that experts would be able to agree as to whether a given application of resources was likely to be sufficiently productive to justify making them available? (2) Will the application of such criteria result in a total of eligible demands which it is beyond the capacity of the capital supplying countries to meet without damage to their own economies? We believe, as explained in more detail in section III, that criteria reasonably workable in practice can be set up, and that the amounts required under those criteria would be wholly manageable.

3. Incentive Effects of the Program

If this is correct, the leverage exerted by such a program on economic and political development would operate in two ways. In the first place, the additional resources would make possible programs that cannot now be implemented for lack of foreign exchange or local funds or both. In the second place, great pressure would be placed on local governments to take the steps required to make their countries eligible for assistance of this kind. It is a fundamental assumption of this program that the development of capacity to use capital effectively to promote growth is a job mainly for the underdeveloped

countries themselves. A wise world program of technical assistance can help enormously in supplying the know-how and in carrying out the needed programs of training and education. Present technical assistance programs should be somewhat expanded to this end, and the task of a new program should be not merely to make more capital available but to advise and assist countries in preparing themselves to use capital productively. But the bulk of the task must be done by the people of the developing country itself. They must develop the necessary institutions, generate the required energy and initiative, acquire the requisite wisdom and courage in planning and controlling resource use, learn the necessary skills and techniques.

The essence of the partnership plan here proposed is that it should remove the one bottleneck over which the underdeveloped countries cannot have much control,--lack of capital. If the plan were adopted, each Free World country would know that whenever and wherever it was able to demonstrate that it could use resources productively in the context of a sensible program, the resources would be made available without any sort of military or political strings. The impact of this knowledge, consistently at work over a period of years, would be a powerful force pushing countries to take the steps needed for their own growth.

The plan would squarely place the burden of responsibility for economic growth on the underdeveloped countries themselves. At present political leaders in these countries are able to excuse their own failures to themselves and to their constituents on the ground that their resources are simply not equal to the task, and that the

richer countries refuse to help on terms they can accept. But if over a period of years the internal prerequisites for effective and productive use of capital are continually reiterated by a respected and impartial international body, and if the knowledge spreads that wherever and whenever adequate steps are being taken to meet these prerequisites, loans or grants necessary to progress will be forthcoming, the pressure on governments for effective performance will become irresistible.

4. Characteristics Required to Insure Incentive Effects

This incentive effect of the plan will be strong only if a number of conditions are satisfied. First, the recipient countries must be convinced that the plan does not have narrowly political or military objectives. Our basic political objective,--the development of stable, effective, democratic societies,--is one with which no non-Communist country will quarrel. But if it is believed that this is designed as a way to force neutrals into our camp, to secure acceptance of particular American foreign policies, or to draw other countries into conflicts which they believe, however rightly or wrongly, do not concern them, none of the more fundamental results we seek will be secured. This does not mean that money should be given away "without strings." Quite severe conditions should be applied governing the economic effectiveness of assistance in promoting the development of the recipient country. But the conditions should in no case be narrowly political or military.

This suggests that the sponsorship of the program must be international rather than national. If the criteria for eligibility are established by an international body in the deliberations of which the recipient countries themselves participate, they will have

confidence that these criteria are politically disinterested. This does not mean that all administration of the program must be turned over to the United Nations or some other international organization. There should be many countries contributing to the program, and each may have several instrumentalities, public and private, administering different kinds of assistance. Our experience with detailed administration by agencies responsible to many national governments at the same time suggests that this may not be the most efficient way to operate an enterprise of this kind. But the basic philosophy and ground rules should be laid down by international agreement, and an international secretariat, perhaps broken down into regional commissions, should coordinate and interrelate the various parts of the program. The closest model for what we have in mind is the present Colombo Plan organization. Detailed assistance agreements are in every case bilateral, but these are negotiated against a background of general principles established by all the members acting together.

We believe the incentive effects of the plan will be much more pronounced if it is worldwide in application than if it is limited to one or two regions of the world like Southeast Asia and the Middle East. It should be clear from what has gone before that we do not think it should be labelled specifically as an anti-Communist or anti-Soviet program. We are as interested in stability and growth, in the long run, in Africa and Latin America, as we are in Asia. Since much of Africa consists of colonies, there will be difficulties in launching an African program unrelated to anything else. In the context of a global program, Africa clearly deserves a place, and many of the conditions which should be set down for

programs elsewhere can and should be applied there. This does not, of course, mean that all planning and administration must be on a global basis. Regional units are both more meaningful and more efficient. But once again, the philosophy and ground rules of the program would gain great support from being placed in a global context.

Finally, the program will have very little incentive effect if it is not assured of continuity over a number of years. The steps that must be taken to prepare a country for effective use of additional investment resources are complex, time consuming, and difficult. If an offer of assistance is to stimulate action in compliance with its conditions, it must be a standing offer effective over a number of years. Even where the general environmental conditions are already favorable, project planning, the adjustment of development programs, and the like may require two or three years. Where more fundamental deficiencies in education, statistical information, labor and entrepreneurial skills, transport and communications, and public administration exist, the lead time may be a decade or more. Even quite a large program which teeters along from year to year, always on the verge of Congressional disapproval with no more than a one-year lease on life, will lose most of its effectiveness. The limited magnitude and great uncertainty of our programs for the underdeveloped areas to date go far to explain the lack of response to such offers as the President's special fund for Asian regional development.

There is one added problem to consider. Though the underdeveloped countries will establish home industry, and will become somewhat more self-sufficient, they must not develop autarkically.

Their experience with dependence on world trade has not been a happy one, and it would be understandable if they were to press for making themselves as independent of the rest of the world economically as possible. They must be persuaded, however, that their own rapid growth requires that their development be based on a considerable international division of labor. The criteria for acceptable investment programs must include such a requirement. If this is to be defensible and acceptable, however, it must be accompanied by provision for more stable markets for the foodstuffs and industrial materials which will be their major exports, and with whose proceeds they must pay for their imports. This, of course, does not mean that they must remain raw-material producing, nonindustrial countries. It would be neither to their own advantage nor to that of the world that they should do so. But they must be willing to emphasize in their investment programs sectors in which their international comparative advantage is great.

5. Requirements of developed countries

This is what is needed for the underdeveloped areas. What of Japan and the industrialized countries of Western Europe? Their problems can also be met in large measure by a plan of this sort. They no longer face a shortage of resources for self-reinforcing development, but they do face a problem of international specialization correlative to that faced by underdeveloped countries. Their economies developed in an era of international specialization and international trade. Without continued specialization and trade

they certainly cannot provide expanding incomes for their people and may not even be able to maintain their present standards of living. They need two things: markets in which they can sell those goods they can produce most cheaply and sources for food and raw materials which they cannot efficiently produce at home.

If development elsewhere in the world takes forms which provide these expanded markets and increased supplies, the industrialized countries can continue to grow. Two elements in the plan would insure this. One of these is the provision for a Free World trading pattern discussed above. The health of industrial as well as underdeveloped countries requires such a pattern. The kinds of loan criteria required to insure that development makes a real contribution to world growth and not just country growth are discussed in Part II.

The second element of the plan required for the growth of the industrialized countries is a serious effort on the part of the United States to open its markets on a long-term basis to producers elsewhere in the world. If we are to insist, as we must, that other countries recognize the advantages of international division of labor, we must be much more willing than we have so far been to recognize those advantages ourselves in our own commercial policies. How large an economic contribution a modification of U. S. commercial policy might make towards solving the market problems of the industrialized nations is a matter for dispute. But even if its economic importance should turn out to be relatively small, we cannot press upon other countries policies important to world development which we are not willing to follow with at least equal vigor ourselves.

6. The Role of Agricultural Surpluses

Many of the underdeveloped countries have a huge unutilized resource available to be used for developmental purposes in their unemployed or underemployed labor force. In most of the Asian countries there are many people now idle or ineffectively employed whose labor, if mobilized, could be used to build roads, buildings, canals and irrigation works, to reclaim land, to modernize villages, and the like. They remain unemployed for three reasons. First, the governments of these countries may not have the administrative skills or the supervisory talent to put them to work. Second, in even the most labor-intensive projects some equipment is necessary, if only hand tools, to be used by the workers. Third, the additional demands for food and fibers which would result from hiring presently undernourished workers and paying them a money wage would result in inflation of prices in the country in question. This last difficulty can be met by importing agricultural commodities to cover the additional demands of newly employed workers.

Thus where administrative bottlenecks can be overcome and where capital equipment can be made available, agricultural commodities can be an important part of development assistance. Where these other two conditions are not met, the movement of agricultural commodities to underdeveloped countries can have very damaging effects. For if there is an increase in agricultural supplies without any corresponding increase in demand, agricultural prices may fall sharply, reducing the incomes of peasants and slowing or stopping

programs of agricultural and village improvement. Furthermore, some of the underdeveloped countries are themselves exporters of agricultural surpluses, and depend on the sale of these surpluses for the imports which they, in turn, require for their own development. Thus the unplanned dumping abroad of agricultural surpluses can be much worse than useless. It can be disastrous.

Experts who have looked at the problem are convinced, however, that in the context of a development program which also provides capital goods and which is planned for some years ahead in the light of the various bottlenecks existing in the economy of the recipient country, there are possibilities for the use of a very substantial volume of agricultural commodities in assistance programs. The FAO, for instance, has estimated that something like 100 million dollars worth of agricultural surpluses could be used annually in India in connection with an expansion of \$250 million per year in her investment program.

7. Proposed U. S. Action

We may now summarize the component parts of the proposals elaborated in Part III of this report:

a. The United States should launch at the earliest possible moment a long-term program for sustained economic growth in the Free World. This program would make available sufficient additional capital and technical assistance to satisfy all likely demands for such assistance which meet fairly high standards of eligibility based on the prospective productivity of investment. The levels of

investment assumed would be sufficient to make possible an over-all one per cent annual increase in real income per capita for all the underdeveloped countries of the Free World. In practice, some would grow faster, some slower than this rate.

b. As part of this program the U. S. government should offer to provide a new long-term capital fund of from ten to twelve billion dollars to be available for loans and grants over a five-year period to accelerate economic growth in underdeveloped areas. Although an initial five-year allocation is recommended, the plan would look ahead for a longer period, at least a decade.

c. This sum would be accompanied by commitments from the governments of other advanced industrialized countries to make additional loans and grants of from two to three billion dollars over the same time period, as part of a unified Free World program.

d. Concerted measures should be taken to enlarge the international flows of private capital. Such measures might yield an addition over present levels of three to four billion dollars during the first five-year period.

e. These sums must be made available to Free World countries without any military or political strings, but under strict business-like criteria designed to guarantee that the loans and grants could be effectively used and that the loans could be repaid within a reasonable period of time.

f. It is most unlikely, if such criteria are enforced, that the whole of the sums offered would be taken up. It is essential to the plan, however, that availability of the full amount be

guaranteed in order to remove capital as a bottleneck to economic growth and to provide maximum stimulus for the governments and peoples of the underdeveloped countries to expand their capacities to use capital effectively.

g. Loans and grants should be administered by existing national and international agencies, including the Export-Import Bank, the International Bank, the Colombo Plan organization, etc. New machinery is required, however, to set the ground rules, lay down the criteria for the investment program, and arbitrate differences that might arise in their application. This machinery is further discussed in Part III.

h. Against the background of the loans and grants envisaged the program would include features designed to:

- restore and maintain an efficient international division of labor, insuring for industrial countries sources of agricultural products and raw materials and markets for their products;

- utilize agricultural surpluses for development purposes

- stabilize in the interest of the supplying countries raw material and foodstuff markets and prices;

- liberalize U. S. trade policies by progressive stages;

- achieve Free World currency convertibility;

- achieve a common Free World policy on East-West trade.

It should be emphasized that this is a program which will not achieve its basically political and psychological purposes unless its fundamental features are preserved. Dilution could prove extremely dangerous. The sharp edges of policy which must be preserved appear to be these:

- a. The additional sums envisaged must be large enough to remove capital as a bottleneck to growth.
- b. There must be no tie between economic aid and military pacts; and no explicit political conditions within the Free World. An aid program with strings yields satellites, not partners.
- c. The plan must look to a long future and envisage a sustained U. S. effort.
- d. There must be a real measure of international contribution and international administration.

Without these elements, the proposal would probably be rejected by some nations we would wish to see join in the efforts, e.g., India. With these elements maintained we believe this plan will go far toward restoring and maintaining the unity of the Free World.

PART III: THE PROPOSAL IN DETAIL

As explained in Part I we recommend the prompt initiation by the United States of a Free World program for economic growth involving substantial additional American resources; organized in the form of a sustained international partnership; separated in its execution from parallel efforts to erect and maintain a structure of tight military alliances; and administered in such a way as to preserve the economic advantages of international exchange and thus help the developed and the underdeveloped countries alike. We are sure of the validity of these broad principles of the effort. The specific estimates and suggestions for implementation which follow in Part II and the Appendix, however, are tentative. They are designed to stimulate more definitive staff work by those operationally responsible for setting up such a program.

Before proceeding to detailed suggestions for U. S. action it will be well to look at two further aspects of what is required for Free World growth. First, what is the order of magnitude of the sum which must be made available to insure that capital availability is not the effective bottleneck inhibiting development. Second, what conditions should be laid down in order to insure that capital made available will be used in such a way as to make the maximum contribution to Free World growth.

1. Capital Requirements for Growth

Specific estimates must be made against a background outline of the broad stages in which the growth process takes place. Once societies

are stirred from the lethargy of traditional economic stagnation, their transition to mature, self-sustained growth can be divided into three phases.

First, there is a substantial period during which the preconditions for economic progress are established. The idea that economic progress is possible spreads. Education, for some at least, broadens and changes to suit the needs of modern economic activity. New enterprising men come forward willing to mobilize savings and to take risks in pursuit of profit. Institutions for mobilizing capital appear. Basic capital is expanded, notably in transport, communications, and products, such as raw materials, in which other nations have an economic interest. The orbit of commerce, internal and external, widens. And, here and there, manufacturing enterprise appears.

But all this activity proceeds on a limited basis within an economy and a society still mainly characterized by traditional low productivity techniques and by the old values and institutions which developed in conjunction with them. During this period, which generally lasts some time, the capacity to absorb capital is low but the small amounts absorbed are critical to further growth. This is the most dangerous period in that early signs of growth can wither and the economy return to stagnation. It is also the period when technical assistance is most urgently needed. Roughly, this was the stage in which Great Britain found herself in 1783; Japan in 1868; Russia in 1890; Indonesia in 1954.

Second, there is the complex transition to a position where sustained economic growth becomes possible. Under the impact of a particular stimulus, sometimes technological, sometimes political, the economy lurches forward. The forces for economic progress, which have yielded marginal bursts of activity, expand and become the main trends. The rate of savings rises from (say) five per cent of the national income to ten per cent or more. Key new industries expand rapidly, yielding profits which are substantially reinvested in new capacity. New techniques spread in agriculture as well as industry, as increasing numbers of persons are prepared to accept them and the deep changes they bring to ways of life. A new class of businessmen (usually private, sometimes public servants) emerges and acquires control over the key decisions determining the use of savings. New possibilities for export and new import requirements develop. The economy exploits unused backlogs in technique and natural resources. This is the stage when the need for foreign capital is at its peak. Often, all this burgeoning enterprise attracts substantial private international capital. In a decade or two the basic structure of the economy, and the social and political structure of the society are transformed in such a way that a steady rate of growth can be sustained with a diminishing inflow of capital. Roughly, this was the process through which Britain had passed by 1815; Japan by 1890; Russia by 1913; and through which India seeks to pass in the next decade or so.

Third comes the long stage of regular if fluctuating progress. Some 10-20 per cent of the national income is steadily invested. The

structure of the economy changes unceasingly as technique improves. The economy finds its place in the international economy. The society makes its terms with the requirements of modern and efficient production. As rapid growth provides the margin of resources from which additional investment can be made the need for capital from abroad slackens and ultimately ceases entirely, until domestic savings become so abundant that they begin to seek profitable employment abroad in economies even more recently launched on the growth sequence.

The so-called underdeveloped countries of the contemporary world stand at different points in relation to these three rough stages. Some, notably in Africa and the Middle East, have barely begun the process of developing the preconditions for the transition to growth. Others, like Indonesia, and perhaps Egypt and Iran, are approaching a point in time where a sustained effort to make the transition may become feasible within, say, a decade. India and Burma are beginning the transition and Mexico, is, perhaps, emerging from it. Argentina and Brazil have, on the whole, passed through this transition with success and confront now the problems of regular growth itself.

The capital needs of a Free World growth program will reflect these different stages and, therefore, the different requirements of the various countries involved. At an early stage basic education may be the prime requirement in many countries and in others such overhead capital as ports and railways. In many technical assistance of various kinds may be more urgent than capital. In a few, industrial capital equipment itself may be the urgent prerequisite for continued

progress. Most country programs should have all these elements within them, in different degrees. Each country must work out its program individually. There are no general rules of thumb, such as the balance of payments deficits which so powerfully affected Marshall Plan allocations.

Against this background it is possible to indicate only in the broadest over-all terms the scale on which additional capital sums should be envisaged within the present program. Although the calculations in the Appendix are built up from country estimates the considerations cited above justify, at most, rough regional indications of allocation.

broadly speaking, we believe that a rise in income per head of one per cent per annum in the underdeveloped portions of the Free World is as ambitious a goal as can be set with any hope of realization. To achieve this and to create a market environment in which the industrialized areas of the Free World can flourish additional capital imports of about \$3.8 billion per annum need to be made available for a decade, for the underdeveloped portions of the Free World. On a regional basis this estimate breaks down roughly as follows:

South Central Asia	\$1 billion
Rest of Asia	1
Middle East (including Egypt)	0.5
Latin America	1
Africa	<u>0.3</u>
	\$3.8 billion

Roughly this annual sum might be made up as follows:

Grants:

U. S. Contribution	\$ 360 million
Other Contribution	240
Direct Private Investment	700
Additional International Bank Loans Financed by Sale of Bank Securities in U. S. Bond Market	400

Public Loans:

U. S. Appropriation	1,800
Other Contribution	<u>300</u>
	\$3,800 million

In addition, to develop the capacity to use these grants and loans productively, the level of U. S. technical assistance should probably be raised about 100 million dollars per year.

The derivation of this figure for capital requirements is explained in the Appendix. At present the capacity of the recipient countries to make effective use of additional capital would limit the flow to much less than the suggested figure. But we assume that were a standing commitment to finance well-designed programs up to a given limit announced and maintained, what is called technical absorptive capacity could be stepped up on the average by 40-50 per cent within about three years. Very few governments will indulge in the formal exercise of preparing investment programs for which no resources are in sight, but once the assurance is given that capital

will be forthcoming, the programming effort will increase considerably. We assume that roughly two years might be required after the announcement of the program for the elaboration of well-prepared programs and projects, and perhaps an additional third year for solving the problem of logistics (selecting proper equipment, purchasing organization, etc.).

Thus if all countries were equally efficient at working out acceptable programs and projects, a commitment made today of a target amount of annual aid should lead to disbursements beginning on a large scale only after about three years. If by this process absorptive capacity were increased by 40-50 per cent, the amount of foreign investment called for would be the above-mentioned figure of about \$3.8 billion per annum. This would make possible a rise in per capita output of about one per cent. Technical absorptive capacity would continue to rise after the first three years by 5-10 per cent per year but the additional capital required to take advantage of this could be supplied from domestic savings.

In practice the rate at which countries will be able to qualify for capital will vary according to their stage of development. Some countries are probably prepared right now to absorb productively substantial additional sums (e.g., India); some might organize themselves to use sizable amounts in a few years (e.g., Indonesia); some may require a decade or more before the preconditions for effective investment on any scale are established (e.g., certain

African regions). Thus it seems most unlikely that, if a commitment to make available \$3.8 billion annually is entered into, the rate of actual disbursement will rise above, say, 60 per cent of that amount. Thus on the average we would predict an annual actual flow, once the program got going, of something like \$2.3 billion. Of this the actual U. S. Government disbursement (apart from private investment and the International Bank) would constitute about \$1.3 billion per annum.

It should be emphasized, however, that for such a program to exert real pressure the commitment must be greater than expected disbursements. If the commitment is pared below the above-suggested figure the actual disbursements will also fall at least in proportion. We regard it as of the highest importance that sums of the full order of magnitude suggested above be made available to insure that capital is forthcoming whenever clear criteria for productive investment are met.

It is important to be clear as to the economic purpose of these loans and grants. They are not designed to meet a requirement for foreign exchange or for particular goods which can only be supplied from abroad. They are designed to supplement the over-all resources of the underdeveloped countries in order to permit them to add to their productive equipment at a rate faster than would be possible without such loans. They may be used for the import of such equipment itself or for the import, for example, of food which would free domestic resources from agriculture for building roads, digging wells

and other capital-forming activities. Criteria must be rigidly set, however, to prevent their use for an unproductive and temporary expansion in consumption.

A program conceived on this scale, stabilized for a substantial future period, founded on an incentive system which would remove capital from bottleneck status and throw the burden of responsibility on the developing areas, would we believe maximize the pace of economic growth in the Free World.

2. Criteria for Productive Investment

We have repeatedly emphasized that capital should be made available only where there is reasonable assurance that it will be productively used. Can criteria be developed which will permit an objective judgment to be made as to when this is the case? We believe they can, though these criteria will of necessity involve a much broader analysis than is customary in private lending operations.

At least four kinds of considerations must be involved:

a. It must be within the technical and administrative capabilities of the receiving country to carry out the proposed project with reasonable efficiency, and steps must be under way to remedy any weaknesses which exist.

b. Steps must have been taken to insure that the rest of the economy of the receiving country is being developed sufficiently to make the proposed project fully productive, in the time period envisaged by the loan.

c. There must be an over-all development program designed to make the most effective possible use of the country's resources, including not only a series of interrelated capital projects, but also necessary educational and training programs.

d. The country's development program, of which the project is a part, must be consistent with the requirements of expanding world commerce and the international division of labor.

Each of these criteria deserves a word of explanation. The first is for the most part of a kind that any lending organization would automatically apply. Are there trained managers to run the project? Is adequately skilled labor available? Has provision been to insure competent technical supervision? Any investment banker could spell out these requirements in detail. The application of these rather simple criteria will probably exclude in the first instance a large proportion of the proposals of the underdeveloped areas. Lending agencies should not, of course, confine themselves to ruling that the criteria have not been met, but should provide advice and assistance to make good the deficiencies discovered.

The second criterion is likewise one that lending agencies customarily apply. Do markets exist for the product of proposed installations? Are transport, communications, and public services adequate to serve the needs of the project, or are they being developed? Have complementary activities producing needed inputs been promoted on the required scale? Again, rejection of project applications

should be accompanied by recommendations for action to eliminate the deficiency.

These are frequently the only criteria applied in international investment operations. While important they are much less important in a program of the scale here contemplated than the remaining two. For any substantial expansion of international investment above existing levels it is essential that investment programs (not merely projects) be developed by the recipient countries. Such programs are necessary to insure: (1) that the various component projects interrelate and reinforce each other; (2) that the general objectives implied in the entire pattern of projects are ones which the people of the country will support; (3) that the collection of projects and measures undertaken will produce a faster growth of national product than any other which is consistent with the goals of the society. At a minimum the existence of such a program is evidence that the country has explicitly faced certain fundamental choices about its development such as the relative weight to be given to agriculture as against industry, the fraction of resources to be devoted to social overhead capital such as railroads, public utilities, and the like, the importance to be placed on consumers' capital such as housing as against more directly productive instruments. There will be many elements in such a program which must reflect the values and goals of the people of the country for which it was drawn. The purpose of review by a lending authority is not to pass on the values reflected in the program but to insure its internal self consistency,

to make certain that all relevant issues have been faced, and, where it rests strictly on economic or technical relations, to see to it that they have been correctly applied.

There are few countries which, in the first stage of growth described above, will be able to meet this third criterion. Investment can nevertheless go forward on the basis of the first two criteria in those cases where it is clear that the project in question would be part of any sensible development program, whatever its details. Many investments in transportation, public services, basic power sources, improvement of agricultural techniques, and the like will be of this character. Some modest expansion of existing investment programs could probably be approved in this way in the absence of program planning. Before the levels of investment contemplated in this plan can be fully reached, however, many underdeveloped countries must institute much more sophisticated programming procedures than they now have. Indeed in most cases it will be strictly speaking impossible to pass on the soundness of an individual project, even according to conventional investors' standards, without familiarity with the program of which it is a part. In a developed economy the environment of a project often changes slowly enough to be taken as given. In an economy undergoing sudden transition everything changes together and the whole pattern of change must be examined to evaluate any part. Agencies applying this third criterion to investment projects can be of great help in assisting countries to undertake effective programming.

One criterion in particular which the private banker customarily employs must give way to this broader criterion of contribution to a consistent program. Private loans often hang on the question of whether the project to be financed is self-liquidating in the sense that its operation will directly produce the revenues necessary to repay the loan. This is a very poor criterion for development loans. In the first place a project may be self-liquidating because it discourages other investments which would otherwise take place and attracts to itself revenues which constitute a diversion rather than an increase of total product. On the other hand a project such as an irrigation scheme may greatly expand total output but may be of such a character that it is not possible to collect from the immediate beneficiaries' equivalent added revenue.

All projects taken together, that is the whole program, should of course be self-liquidating. Moreover, each individual project should clearly produce a sufficient increase in the total product of the country to more than cover in time the costs of interest and amortization of the loan. The increase may take the form of lower costs to other industries for example and need not accrue in an identifiable way to the project. The narrow criterion of whether a project can repay from its own revenues is at best irrelevant and at worst may be seriously misleading.

3. The Restoration of International Trade

The fourth criterion deserves special attention, since planning officials in the underdeveloped countries, understandably preoccupied

with internal problems, may well fail to pay adequate attention to the ways in which their own economies can gain from being integrated into an expanding world economy. Furthermore the contribution which this plan can make to the growth possibilities of the industrialized countries depends on the successful application of this criterion.

In a stable world of free trading relations such as is sometimes thought to have characterized the nineteenth century no separate criterion of this sort would have been required. That development program for any country which produced the largest internal rate of growth would also be the one which took most advantage of the possibilities of international specialization and division of labor. But in a world of instability, plagued by extreme fluctuations in the prices of basic commodities, subject to almost daily changes in the terms and conditions on which international trade is carried on, and subject above all to the overriding risk that foreign areas may be cut off altogether at almost any moment by political or military developments, programming authorities are under great pressure to abandon the obvious benefits of international trade for the security of some degree of autarky.

For a number of reasons the plan here envisaged must contain safeguards against this trend. In the first place the economic costs of attempted self-sufficiency in sectors in which the underdeveloped countries have no experience would probably be great enough to thwart their own prospects for growth. Beyond this, without a restoration of international trade there is little hope of finding a solution

for the growth problems of the developed countries of Western Europe and Japan.

At the moment the international position of the Western European countries appears to have improved. Most of them have succeeded in increasing their reserves of foreign exchange, and the gap between black market exchange rates and official rates has narrowed in many cases. However, it should be kept in mind that the total flow of aid, military and economic, was greater in 1953 than in any previous peacetime year. The impact of a sharp reduction in this flow would be serious. Furthermore, expanding levels of income in Europe will require expanding levels of trade both because greater production in Europe requires greater imports of materials and because it needs the stimulus of expanded markets. The Japanese situation is much more serious. Japan has been able to maintain her level of activity only because of the extraordinary disbursements of the United States in Japan connected with the Korean War and its aftermath. In the fiscal year just closed her reserves of foreign exchange dropped dangerously, and they will soon be exhausted if fundamental changes in the situation are not made.

The precise ways in which the growth of the underdeveloped areas could contribute to solving the problems of the industrialized countries need to be worked out in detail. But broadly what is required is that part of the capital equipment needed for development should come from Europe and Japan and that the underdeveloped areas should continue to devote a part of their investible resources to the development

(and increasingly refined processing) of agricultural and raw material output. It is reasonable to expect them to do this only if the plan includes provisions for protecting the raw material producing countries from the kind of violent fluctuation in the markets for their products to which they have been subjected in the past.

A word is in order as to the relation of this plan to the problem of general Free World convertibility of currencies. We do not believe that the institution of convertibility will, by itself, do much to solve the underlying problems of the industrialized countries. Convertibility can only be achieved if the underlying conditions for it exist. A commitment by the United States and other dollar areas, however, to provide the world's trading system with a substantial increment of dollars, for development programs which meet the criteria of efficient international specialization, might well make Free World convertibility a workable arrangement, provided that a substantial part of the dollar grants and loans is not tied to dollar purchases. Under these circumstances this plan for economic growth would, in our judgment, help to insure the underlying conditions which would make convertibility a success.

4. American Tasks in the Partnership

It is the essence of this proposal that it be pursued as a sustained act of partnership among allies, with contributions and authority in the enterprise widely shared. It is evident, nevertheless, that the United States has a decisive role to play. Its tasks fall under the following six operational headings:

- a. The Institutions to Carry Out the Program
- b. The Mobilization of Capital
- c. The Development of Absorptive Capacity
- d. U. S. Trade Policy and Convertibility
- e. U. S. Food and Raw Material Policy
- f. U. S. Policy on East-West Trade

The broad implications of this proposal for U. S. action under these main headings are suggested below.

a. Institutions to Carry out the Program. The organization of this new lending effort poses two very difficult problems: the problem of coordination and the problem of objective standards of eligibility.

International loan or grant activities are already being undertaken by a multitude of agencies. An underdeveloped country may deal with the Export-Import Bank, the International Bank, the U. S. Foreign Operations Administration, the Colombo Plan, the national and international technical assistance agencies and other specialized agencies of the U. N., the agencies of governments of creditor countries other than the United States, and perhaps others. Proposals are afoot for the creation of numerous other instrumentalities. A program of the sort here proposed might be handled through one or more existing channels; through a new agency set up for the purpose; or through some combination of new and existing agencies. It is tempting to suggest that all these operations be combined into one master operation under international direction which could insure coordination. This seems to us a bad and probably politically unacceptable solution.

There are many agencies because there are many suppliers of many kinds of capital and many purposes for which capital is supplied. A large single organization would lose the advantages of specialization, would deprive lending countries of ultimate control over their funds, and would be subject to all the bureaucratic diseases of inertia and red tape which plague large organizations.

But if programs are to be carried forward by existing agencies plus such new ones as lending countries like the United States or the United Nations may choose to set up, how is coordination to be secured so that the many different flows of funds produce a consistent integrated result?

We propose that in the first instance the function of coordination be performed by the borrowing countries themselves. It is the borrowing countries which will be faced with the problem of how to make a series of separate loans and grants contribute to a unified result. If they undertake effective programming, and if they fit all capital inflows into the framework of the program, and if the program reflects international as well as national considerations, the necessary coordination will have been secured.

This leaves the question of how lending agencies are to be satisfied that these three conditions have been met in any particular case. For this purpose we suggest that one agency be designated to examine country development programs and to certify to their over-all adequacy or inadequacy according to clearly stated criteria. This could be the International Bank or an International Development

Authority of which the International Bank would be the larger and an International Grant Agency like SUNFED the smaller part. Each country's programming authority need then discuss its program with only one international agency, the Bank, which in its turn will have liaison with all other agencies. Once the program is agreed upon, that is once the priorities of sectors and projects are established, any agency should be free to participate in its financing. Individual lending agencies will presumably continue to make their own judgments concerning the feasibility of particular projects they are asked to finance, but they can rely on the International Bank for an advisory opinion as to whether and how such projects fit into the over-all investment program.

It is most important to the success of this plan that standards of eligibility be laid down which will be accepted as objective and disinterested and that their application in particular cases have general support. In order to insure this we propose the creation of perhaps three or four Regional Development Advisory Councils. Each of these councils would have, for its region, two functions. First, it would be responsible for advising on general principles of desirable foreign lending policy. It might for instance prescribe that local currency financing is inadvisable under inflationary conditions. Second, it would accept and pass upon appeals from the decisions of the International Bank as to the merits of country programs. It would be in essence a judicial body with no capital funds of its own, whose decisions would be purely advisory and binding on nobody. But

its membership would have to be sufficiently distinguished to insure that its views would carry great weight. Such a Council might have the following composition: one representative each of the International Bank, the International Monetary Fund, the regional Economic Commission of the U. N. for the area, and the U. S. Government (and/or Export-Import Bank), two or three independent experts from developed countries, two or three representatives of governments of the region, and three to five independent experts from the region. The Council would not sit continuously but would convene once or twice a year for a period of a few weeks. Staff work could be provided by the U. N. regional commission.

One further requirement cannot be shirked if the plan is to succeed. The United States must discover a device for guaranteeing a continuity in capital loans and grants which would avoid an annual Congressional renewal of the effort. Without a firm conviction that the U. S. portion of the effort will be sustained, none of the larger benefits of the proposal can be envisaged. One possible device would be to appropriate the necessary funds in a once-for-all act, looking ahead (say) five years, leaving discretion for their release to the executive branch of the government, following broadly the technique of appropriation now used with respect to the Export-Import Bank.

The importance of generating substantial capital contributions from the well-developed countries of the Free World other than the United States cannot be overestimated, in our judgment. This will

not only make the concept of partnership more persuasive in the United States, but appears essential in order to impart the international character to the enterprise requisite for its acceptance and continued support in the underdeveloped areas.

b. Capital. On the tentative but not unreasonable criteria set out in the Appendix, the U. S. Government commitment in loans and grants might come to \$2.2 billion per annum of which \$1.3 billion might be disbursed, on the average, if sound criteria for efficient use were applied. This suggests that the initial Congressional appropriation, under the organizational principle set out above, (and taking account of some \$2 billion which could be carried by existing resources of the IBRD) might be \$11.0 billion, for allocation over a five-year period.

These sums might, in part, be disbursed through the Export-Import Bank. In part they might be united with those made available by other countries for disbursement through the International Bank, acting as agent.

It should be emphasized, however, that intergovernmental loans and grants are meant to be only a portion of the program. Against the background of the intergovernmental effort envisaged, it is believed that major progress might be made in the end at increasing the flow of private capital to the underdeveloped areas. Changes in the U. S. revenue code may help encourage more direct investment, as would a revitalization of the transfer guarantee by the Export-Import Bank. An expanded stockpile program of the kind discussed below

may encourage increased foreign investment by American and other mining companies. We would support the familiar proposal for an International Finance Corporation (IFC), affiliated with the International Bank, whose purpose would be to join in cooperation with private capital in international ventures. We would support the development of similar institutions within countries, such as the proposed Indian Development Corporation.

Private investment projects generally require, for their success, a favorable environment in terms of developing local markets, available transport and communications facilities, and the like. Thus their share in the early stages of development must necessarily be low. Public loans can, by helping to create the necessary environment, pave the way for greatly expanded private investment as growth takes hold. We should not set our hopes for private investment flows too high; but the effort to expand their role should be pushed with vigor.

The lack of success hitherto achieved in negotiating a more favorable climate for private investment should not be taken as evidence that further efforts are futile. International private capital flows have been held up by political and psychological blocks which have perceptively diminished although they have by no means disappeared. In the context of this program it may well be appropriate for the capital-importing countries to explore a Free World code for capital movements which would incorporate the best lessons of recent experience in protecting both the international sovereignty of the recipient and the legitimate economic interest of the lender.

c. The Development of Absorptive Capacity. It is basic to our analysis that economic growth in many areas would depend, if our plan were accepted, more on the development of absorptive capacity than on the availability of capital funds. In its widest sense, this is the basic function of technical assistance. It is suggested, therefore, that existing technical assistance programs be reviewed and if necessary expanded, in the light of the experience of the past decade; and that they be purposefully reshaped to mesh with the proposed program of loans and grants. In general, where the bulk of a country's loan or grant applications fail to meet the proposed criteria, a prima facie case for expanded technical assistance would exist.

We would underline here several kinds of technical assistance which may deserve more priority and resources than they have hitherto been given:

(1) We have emphasized throughout the great importance for these countries of working out consistent and detailed development programs. In the early stages and for many countries the lack of such well-considered programs will be a principal limitation on their ability to absorb loans and grants. In recent years the pool of talent and experience in programming techniques has been growing rapidly. It should be possible to supply countries just starting the programming process with technical assistance in this area which could greatly accelerate their progress.

(2) One of the most serious bottlenecks inhibiting absorptive capacity is a shortage of managerial and administrative skills in the underdeveloped countries. Two kinds of assistance would be useful here. The first would be a help in establishing educational and training programs designed to develop a bigger supply of indigenous managerial and administrative talent, and the second would be devices to assist these countries, in the meanwhile, to find ways of using foreign managerial expertise without compromising domestic control. New forms of management contracts need to be explored which will accomplish this end.

(3) Existing technical assistance programs under both U. S. and U. N. auspices are already making available much engineering advice. If this plan is adopted, however, the needs for such assistance will expand greatly. Some thought might be given to the organization of an international pool of engineering experts with experience in the problems of adapting engineering design to the conditions present in underdeveloped areas. Such a pool, in addition to consulting on projects on request, might conduct research into problems of engineering design common to a number of countries.

(4) More fundamentally, a purposeful effort should be launched to develop new scientific possibilities for economic application in underdeveloped areas. One of the resources in which the United States is richest is scientific skill and imagination. This resource has been of necessity rather heavily focussed in recent years on the development of weapons. Many of our top scientists would eagerly

welcome an opportunity to turn their energies to constructive problems relating to human welfare.

The concept enunciated in the President's proposal for the development of atomic energy for peacetime uses could be made the focal point for a more general cooperative scientific program. The President's proposal has now been turned down by Moscow. We must proceed, without the Russians if necessary, to implement this proposal. Scientists generally agree that a practical inspection program could provide the necessary safeguards against improper use of atomic materials.

Peacetime use of atomic energy is only one of many exciting new technical developments which should be pursued. Imaginative effort on an adequate scale might well produce important developments on such problems as making fresh water from sea water at low cost, rainfall control, the capture and use of solar energy, the development of algae as food sources, and chemical means of population control. Regional laboratories or institutes could be established to work on these problems, and scientists and engineers from the entire Free World could be brought to them.

d. Trade and Currency Arrangements. We have indicated earlier why we believe that both for the developed and for the underdeveloped countries a further expansion of world trade is essential if growth is to occur. American commercial policy is vital to this expansion for both economic and political reasons. There is no doubt that it is both the American economic interest in the narrow sense and the

American security interest in the widest sense that U. S. tariff barriers be lowered as rapidly as possible. At the present stage of our history our economic adjustment to freer trade would be a minor matter, at sustained levels of domestic prosperity; and on balance American industry, agriculture, and the consumer would benefit directly. In addition, of course, the Free World economy would be placed on a firmer long-term footing and the political bonds between the United States and the rest of the Free World would be strengthened.

All this is familiar enough. The task is to sustain steady political leadership and public education in this direction. Tariffs have a long history in the United States, and the national attachment to them will take time to erode. But the trend of the past twenty years is not discouraging. We would recommend that the present proposals be accompanied by further efforts to push towards freer trade; and that the majority conclusions of the Randall Commission constitute a satisfactory basis for a next step in the right direction. It cannot be too strongly emphasized that in this as in other parts of our proposals a policy sustained vigorously over a long period is of the essence. The uncertainty of our commercial policy has been at least as detrimental both economically and politically to the growth of trade as the level of our tariffs at any moment. Changes in policy will have important effect only as the rest of the world becomes convinced that we mean to persist in them.

There is also no doubt that the instinct of American policy and public opinion to push for Free World currency convertibility is

sound. Convertibility, in itself, would not solve the growth problems of the Free World; and it could lead, as it did in 1947, to a serious crisis if the preconditions for its maintenance have not been assured. As indicated above we believe that a U. S. commitment to supply the Free World economy with an additional several billion dollars, untied, (accompanied, if possible, by a movement for lower tariffs) would do much to meet the conditions for sustained convertibility. We believe it would be a great mistake, however, to hold up the proposal as a whole until agreement on convertibility is reached. We hold this view because we are confident that the desire for convertibility is strong and general enough to bring it about, once confidence in the scale and stability of U. S. action is established. Such confidence can be produced by U. S. willingness to proceed with these proposals; but it cannot be produced by negotiating pressure.

e. Raw Material Stockpiles and Food Surpluses. U. S. requirements for additional raw material stockpiles and the existence of U. S. food surpluses can, we believe, be woven constructively into the present proposals. As already suggested, the raw material producing countries cannot be expected to maintain their interest in the development of their raw material resources for export unless some part at least of the uncertainties now attaching to raw material markets can be reduced. It is not at all clear that commodity stabilization schemes such as we are being pressed to enter into are the best way to deal with this problem. Two sorts of unilateral action are possible, however, which would be in our own interest. First, it would be

desirable to encourage longer-term contracts, both public and private, for raw material procurement.

Second, we should envisage enlarged stockpiling of strategic minerals and metals, on a long-term basis. Such purchases, properly timed to phases when inventories were being run down in the American economy, could be an important stabilizer of raw material prices and source of dollars abroad. Such a program would, of course, have to avoid encroaching on the development and maintenance of economic U. S. resources. There is, nevertheless, scope for action in this area which would contribute to the balance and stability of the Free World economy as well as to its dollar availabilities.

There appear to be a number of cases in which grants of U. S. food can contribute to the larger purposes of this proposal, without interfering or competing with normal commercial trade. First, we have emphasized that the \$3.8 billion annual program to supply capital is a program not just to make capital goods available but to expand the resources of the underdeveloped countries in all ways which will promote capital formation. One of the important forms that such investment should take is grants or loans to cover food requirements when measures to increase agricultural output have already been firmly taken, but the results of investment have not yet come to fruition.

Second, the progress of the investment program here proposed could be seriously endangered in certain countries by one or two unexpectedly bad harvests. We should of course stand by, as we traditionally have in the past, to give help in such emergency

situations. We might broaden our definition of what constitutes an emergency somewhat in recognition of the fact that what will be at stake will be not only present human suffering but economic growth which could eliminate the possibility of future human suffering.

Finally, we could reinforce the view abroad that we stand for the common man everywhere by making temporary grants of food to cushion the short-term effects of land reform when the latter is being carried through as a high priority political and social measure.

f. East-West Trade. Two problems relating to the Soviet Bloc will have to be faced in the design of this program: (1) what position should we take with respect to participation in the program by Soviet Bloc countries, and (2) how might our policy with respect to East-West trade be affected by the plan.

Communist countries might seek participation in two opposite senses. The Soviet Union itself could obviously, if it chose, supply some capital for development, while some of its satellites, particularly China, might be potential recipients of loans. Our calculations of capital requirements and possible sources of supply have all been made on the probably reasonable assumption that the entire Soviet Bloc would remain outside the program, both as lenders and as borrowers. Consideration should nevertheless be given to whether Communist countries should not be invited to participate on the same terms as everyone else. No particular problems would seem to be raised by inviting contributions from Russia. And the criteria of submission of detailed economic plans of potential borrowers for international

inspection and approval would almost certainly exclude the satellites in practice. The desirability of making the gesture would have to be determined by weighing the possible dangers of such a move against the not inconsiderable virtues of being able to announce that the plan is open to every country in the world which is willing to abide by the wholly nonpolitical conditions set upon participation.

With respect to East-West trade we believe that this plan, if put into operation, might render this issue a less divisive one in the Free World than it is present. Important groups in Europe and Asia have seen in an expansion of East-West trade one solution to the international economic problems of their countries, and have therefore strongly opposed our policy of restricting such trade.

It is our view that in fact their hopes of a real solution in trade with the Communist Bloc are largely illusory. The economic position within the Bloc combined with its political policies make it in fact most unlikely that any substantial increase in East-West trade would take place if all controls by the West were dropped. It is certain, for example, that Communist China could not supply the commodities needed by Japan, on the requisite scale, without dismantling its trade ties with the Communist Bloc: an outcome not in sight. Technically, then, we believe that a serious solution to the Free World's economic problem must be found in the Free World if it is to be found at all.

Nevertheless, our allies, notably Germany, Britain, and Japan, will tend to be attracted by dangling offers of East-West trade so

long as they feel the pinch of inadequate Free World markets and inadequate supplies of nondollar foodstuffs and raw materials. Moscow and Peking can be relied upon to exploit this sense of marginal strain so long as it exists. These proposals, taken as a whole, would in our judgment permit a solid Free World solution without East-West trade, leaving the Free World to take or leave trade with the Communist bloc as it suited Free World interests.

Politically, East-West trade is neutral; that is, depending on the posture of the two trading partners it can just as well pull on the East as on the West. The basic rule of the West should be: the only safe East-West trade is that trade we are prepared to redirect on short notice. This requires, in general, a viable growing Free world economy of the kind envisaged in these proposals. It may require, in addition, special stockpiling provisions for those commodities coming from the Communist Bloc, designed to permit a quick transfer of source of supply.

Against such a background the Free World would be in a position to play the game of East-West trade, on a united basis, from a position of strength, using it to exert political pull on elements within the Communist Bloc, or for any other purposes which may be agreed as advantageous.

July 23, 1954