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International Development Advisory Board

INTERNATIONAL COOPERATION ADMINISTRATION

Washington 25, D. C.

U. S. FOREIGN ECONOMIC POLICY AND OBJECTIVES

Panel Discussion, October 30, 1956

Place: California Room, Hotel Statler
Washington, D. C.

Time: 10:00 a. m.

Panel Participants:

Chairman:

Max F. Millikan - Director, Center of International Studies, M. I. T.

Conrad M. Arensberg - Professor of Anthropology, Columbia.

Sune L. Carlson - Director, Bureau of Econ. Affairs, U. N.

Robert A. Dahl - Assoc. Professor of Political Science, Yale.

Richard H. Demuth - Technical Assistance Staff, I. B. R. D.

Edward W. Doherty - Office of Intelligence Research, Dept. of State.

Paul H. Nitze - President, Foreign Service Educational Foundation.

George S. Pettee - Asst. Director, O. R. O., Johns Hopkins.

Walter W. Rostow - Center of International Studies, M. I. T.

Thomas Schelling - Assoc. Professor of Economics, Yale.

Francis X. Sutton - Sociologist, Ford Foundation.

Philip H. Trezise - Policy Planning Staff, Dept. of State.

DISCUSSION OUTLINE FOR MEETING ON OCTOBER 30, 1956

For some months, the I. D. A. B. has felt the need for a reexamination of the objectives and a restatement of the rationale underlying U. S. foreign development policy toward the low income countries. Existing statements have been unclear, at times contradictory, and, because of this, subject to increasing criticism. The Board believes that, until such objectives have been defined and a rationale articulated in terms understandable to the general public, the Administration will continue to have difficulties in obtaining the moral support of our people and the financial support of the Congress for its proposed programs.

This question of objectives and rationale is a complex one. The Board undertakes its current study with no illusions that it will produce anything startlingly new in this field. It hopes, however, that, by discussing these matters with specialists from various professions, each of whom has been studying the problem, it may clarify its own thinking and perhaps be able to contribute somewhat to the understanding of the problem which is needed.

As an outline for the meeting on October 30th, we suggest that the discussion center about the topics which are stated below:

- A. What are, or should be, the foreign policy objectives of the United States in the low income countries of the non-communist world?
- B. Can economic growth in such countries make a significant contribution to the achievement of U. S. objectives? Can U. S. foreign policies make a significant contribution to economic growth in such countries?
- C. What are the broad policy implications to be drawn from the discussion of the preceding questions?

A. What are, or should be, the foreign policy objectives of the United States in the low income countries of the non-communist world?

Challenged as the United States is today by the forces of Soviet Imperialism and by the aspirations of many "uncommitted nations" for independence and economic development, there is a need to reexamine the soundness of our policies toward the low income countries of the non-communist world. First, however, we must determine what it is that we are attempting

to achieve. What are the ends or objectives of U. S. foreign policy in such countries? Involved are a set of military, political, economic, and humanitarian considerations. We propose to discuss them in that order.

1) For over seven years now, we have been agreed that the military strength of the United States and that of its West European allies must be built up and maintained. The NATO countries are, relatively speaking, economically strong, politically stable and have a considerable measure of support for the military policies of their governments. This is not true of the low income countries. Nonetheless, should the United States also attempt to foster military strength against external aggression in some or all of the low income countries of the non-communist world?

One view is that the military potential of these countries could never stop a determined communist move, that the requirements of a military build-up detract from economic strength, and that U. S. pressures for a military program foster the image of this country as a warlike, aggressive power. Another view is that a military program trains technicians, widens the horizons of many of its recruits, hastens the process of social change, and constructs public works. Moreover, overseas bases in certain countries are considered by the Pentagon as essential to U. S. security, and, as a practical political matter, it would seem most difficult to curtail the military program in the countries now receiving major military assistance, even if this is desirable.

2) A large part of diplomatic history has been the story of the creation of alliances. Are alliances with the low income countries an attainable major objective for the United States, and, if so, are they a desirable objective? Ex-colonies and emerging nations are very jealous of their independence. Should the United States be willing to accept less than full alliance, and less than full leadership in the foreign policies of these countries? Is mere non-alignment with the Communist bloc, popularly referred to as "neutralism", too low a target at which to aim? What should be our policy toward uncommitted nations and what effect will this policy have on our relations with the nations who are tied to us through alliances.

3) For many, the U. S. political and economic system has proved its advantages as a method of achieving rapid economic growth with a maximum of political freedom. Moreover, countries with similar systems tend to be our friends and allies. Does this mean that the U. S. should attempt

to foster political and economic institutions in the low income countries similar to ours? What should be our policy toward countries where U. S. assistance would seem to be subsidizing socialism? Should the United States attempt to achieve a democratic distribution of political power regardless of the economic system? Should the United States concern itself with foreign political and economic systems at all or only with specific government policies?

4) The internal political evolution of these countries can have profound external repercussions. Communism could attain power not only by external force, but by internal force and by legal means. Irrespective of the factor of communism, local revolutions and disorder can be disruptive and may lead to war involving the major powers. In the light of these possibilities, should it be an objective of U. S. policy to strengthen the internal political stability and the internal military security of the non-communist countries? Should we differentiate in our policy between friendly and neutral governments, between popular and unpopular ones?

5) Much has been written of late about the challenge presented by social and political transformation in the low income countries. Should it be a policy objective of the U. S. to link itself with their aspirations for independence and development? To what extent is this question linked to the external and the internal stability considerations discussed above or to the humanitarian considerations noted below? Would the answers be the same in the absence of the Soviet challenge?

6) The Paley Report pointed out the rapid shift of the United States to a "have-not" nation for many raw materials. Our dependence on foreign sources was expected to rise dramatically from 1950 to 1975. Other economists have pointed out the importance of U. S. exports to continued U. S. economic prosperity. Recently, an analysis was made for Business International by the economists, research and planning directors of the international divisions of 16 major U. S. firms, which analysis supports these contentions. Is the United States' interest in sources of raw materials and in markets for U. S. products sufficient to justify a government program supporting foreign economic development?

7) In defining its objectives in the low income countries, the U. S. should make certain that its policies do not conflict, and, if possible, assist in the attainment of its goals in the developed countries. Can this be done? Should Western Europe and Japan participate in U. S. economic programs for the low income countries? Can they? What would be the political and economic results of such cooperation both in the developed and in the underdeveloped countries?

8) To some extent, humanitarian, ethical or moral considerations lie behind many parts of U. S. domestic economic policy, as, for example, social security. The Marshall Plan also had humanitarian motivations, even though the fall of Czechoslovakia may have helped it through Congress in 1948. But many argue that such considerations are an appropriate basis for action only by individuals or by states within their own borders. Should the U. S. Government base its foreign policy on humanitarian or moral grounds?

B. Can foreign economic growth make a significant contribution to the achievement of U. S. objectives? Can U. S. foreign economic policies make a significant contribution to foreign economic growth?

1) In many of the low income countries, the drive for economic development appears second only to political independence in its emotional appeal. The stability of a government may depend in large measure on its ability to produce "successful" economic growth or even, occasionally, to negotiate aid. There are two successful models for economic growth. One is that of the U. S., Western Europe and Japan. The other is that of Soviet Russia and, perhaps, will prove to be that of Communist China. What are the attitudes of the governments, the leaders and peoples of the low income countries toward economic development, and toward the Western and the Soviet methods for achieving it? What are their attitudes toward the role which the U. S. should play in their economic growth?

2) We must recognize that economic growth in these countries can well raise serious problems for the United States. Economic development has the inherent possibility of disrupting, rather than improving, internal stability. The destruction of peasant and tribal standards of value, the growth of a landless, urban proletariat, increased state activity in economic life, all could produce results which are inimicable to U. S. objectives. Does this mean that economic growth is undesirable from the U. S. point of view? Does the U. S. have any choice in the matter? Or, does this mean that those nations which are pressuring for economic growth are merely in a more advanced state of political evolution which the more dormant states will sooner or later reach? How can their economic aspirations be met with a minimum of adverse repercussions on the U. S.? What are the psychological advantages and disadvantages of the act of giving U. S. foreign aid?

3) In the past three years, the Soviet Bloc has capitalized on the preoccupation of many of these low income countries with economic advancement. Though still low, Soviet Bloc trade with these countries has gone up

markedly and a substantial amount of medium term and long term credits have been granted on favorable terms. The Soviet Bloc has a large unused potential for increasing these activities. What are the implications of this for future U. S. foreign economic policy?

4) The Marxists argue that impoverished people will turn toward communism. Frequently, American public officials, as well as private citizens, make statements which implicitly or explicitly accept this thesis. What validity is there to "stomach-communism"? Are better fed, clothed and housed people a necessary condition for achieving U. S. objectives in the low income countries?

5) There are those within the United States who believe that more can be done for achieving U. S. objectives in these countries by technical assistance, exchange of persons, cultural collaboration and large-scale support to education than by contributions to economic development. Is this a more fruitful approach to the challenge presented by the low income countries? If not, are such programs a necessary companion to economic programs, if U. S. objectives are to be achieved?

6) One of the important factors which has contributed to social and political harmony in a strong democratic environment in the U. S. may well have been the existence of an expanding economy. This has provided a major outlet for the energies of the dynamic people of American society -- energies which in other countries have taken anti-social channels. Would the establishment of a growing economy with expanded economic and social opportunities provide a similar channel for the restless energies of selected individuals, if not large numbers, in the low income countries?

7) Economic growth has been measured in terms of national aggregates (total production) or national averages (per capita production) or in some terms showing a changed distribution of income. Are these adequate measures of economic growth? What constitutes "satisfactory" economic growth? Is it the achievement of a certain level of economic activity or of a certain pace of expansion? Is there an absolute goal, say of one or two percent per capita per year? Is there a relative goal -- would India have to match Communist China's rate of growth to be "satisfactory"? It appears that no attempt to narrow the gap between the low income countries and the developed countries can be successful over the next several decades. In fact, the absolute gap, now so large, seems certain to widen. What are the implications of this?

8) Economic growth is a complex and not well understood process. Many low income countries have been stagnant economically for centuries. The obstacles to growth are many. Capital is lacking. Population rises rapidly (or even "explodes") as inexpensive health measures force down death rates. Where this occurs, tremendous economic achievements are required if the individual is to maintain merely his present low standard of living. Technicians are scarce. The entrepreneurial spirit is frequently weak. Natural resources may, or may not, be abundant. In this situation, how much influence can the developed nations bring to bear on foreign economic growth? Is there reason to believe that, within a foreseeable period, a "satisfactory" pace of economic activity can be maintained by the low income countries without extraordinary external assistance?

SUMMARY AND CONCLUSIONS

Our stated purpose in discussing the questions propounded in Sections A and B of this outline has been to clarify our thinking about the objectives of U. S. foreign development policy. At this point, let us summarize our conclusions. Let us attempt to do this simply and in non-technical language which can serve as the basis for obtaining the support of the general public.

C. What are the broad policy implications to be drawn from the discussion of the preceding questions?

The discussion to this point should have lead to some conclusions as to the adequacy of present U. S. policy and programs. If it should be concluded that changes in such policies or programs are needed, then a few of the questions which will also require answers are listed hereafter.

It is extremely doubtful that time will permit a discussion of these questions at the October 30th meeting, but we include them as a guide for possible future discussion.

1) Additional Capital Requirements. One of the ways in which the U. S. can indirectly affect foreign economic development is through its own economic growth, especially if that were coupled to the sort of trade policy envisaged in the recent Bell and Randall Reports. A more active attempt to affect foreign economic development would involve the provision of additional capital. Is it possible and useful to make estimates of the annual amounts of foreign capital that could be effectively used in the low income countries to promote "satisfactory" economic development? If so, how do the amounts compare with what is now being done? Is the repayment (transfer) problem an important limitation?

2) Private Capital. Part of the capital which the underdeveloped countries need, and are receiving, comes from U. S. private investment sources. What more can and should be done to promote this flow? What are the limitations on the ability of U. S. governmental policy to stimulate an expanded private capital outflow? Differentiate between types of capital (overhead and other) and areas, Latin America compared with Asia.

3) Public Capital. The U. S. governmental agencies, the I. B. R. D., the new International Finance Corporation, and U. N. technical assistance already provide some public capital. Should this be expanded? Should the expansion take place through bilateral programs run by the U. S. or should the emphasis be placed more heavily on other agencies such as the I. B. R. D., or perhaps a new international organization? What are the merits and demerits of public loans, public grants, or the intermediate "soft loan"? How serious a limitation on the effectiveness of U. S. programs are the annual Congressional hearings, debates and appropriations? Should military type aid be separated from economic aid?

4) Advisory Function. One of the important contributions which the U. S. and the I. B. R. D. makes in its aid programs is the advice which it gives to the inexperienced technicians and public administrators in the low income countries. Aid is an important lever for transmitting such advice. Yet, we know that these new nations are most sensitive about "pressure" from the U. S. How can such advice be given without the ill effects which sometimes result from it? Does an international agency stand a better chance at having its advice accepted? Should the advice be limited to technical and narrow economic questions or should it also include broad economic, political and military "suggestions"?

5) Impact Projects. Should U. S. bilateral aid (or U. N. multi-lateral aid) be concerned with the building of "public relations projects" -- projects such as a dam, a steel mill, or a housing development, constructed entirely with aid funds -- in addition to, or instead of, less dramatic works aimed at the general improvement of economic conditions regardless of their dramatic effect?

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INTERNATIONAL DEVELOPMENT ADVISORY BOARD
WASHINGTON 25, D. C.

NOV 23 1956

CHAIRMAN
ERIC JOHNSTON

NOV 20 1956

Dr. Max F. Millikan
Director
Center of International Studies
Massachusetts Institute of
Technology
Cambridge, Massachusetts

Dear Dr. Millikan:

We want to thank you for chairing our discussion of U. S. Foreign Economic Policy and Objectives, on October 30th.

The conference would have been much more superficial and less stimulating without your leadership and your refusal to take the first simple answer to a question as the last word.

I know that the discussion had an important impact on the Board, and will be reflected in the report which we are preparing. I hope that it also had an equal impact on the members of the Fairless Committee staff, who were present.

Sincerely yours,

Eric Johnston



International Development Advisory Board

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INTERNATIONAL COOPERATION ADMINISTRATION

Washington 25, D. C.

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October 12, 1956

DISCUSSION OUTLINE FOR MEETING ON OCTOBER 30, 1956

For some months, the I. D. A. B. has felt the need for a restatement of the objectives and the rationale underlying U. S. foreign policy in the low income countries. Existing statements have been unclear, at times contradictory, and, because of this, subject to increasing criticism. The Board believes that, until such objectives have been defined and a rationale articulated in terms understandable to the general public, the Administration will continue to have difficulties in obtaining the moral support of our people and the financial support of the Congress for its proposed programs.

This question of objectives and rationale is a complex one. The Board undertakes its current study with no illusions that it will produce anything startlingly new in this field. It hopes, however, that, by discussing these matters with specialists from various professions, each of whom has been studying the problem, it may clarify its own thinking and perhaps be able to contribute somewhat to the articulation which is needed.

As an outline for the meeting on October 30th, we suggest that discussion center about the topics which are stated below:

- A. What are, or should be, the foreign policy objectives of the United States in the low income countries of the non-communist world?
 - B. Can U. S. foreign policies make a significant contribution to economic growth in such countries? Can economic growth in such countries make a significant contribution to the achievement of U. S. objectives?
 - C. What are the broad policy implications to be drawn from ^{our} ~~the~~ discussion of the preceding questions?
- A. What are, or should be, the foreign policy objectives of the United States in the low income countries of the non-communist world?

Before attempting to evolve a U. S. economic policy toward the low income countries, we must first attempt to define the ends, or objectives of U. S. foreign policy in such countries. It is frequently stated that the basic motivation for foreign policy is national security, and this is customarily construed to include not merely physical or military security, but also the freedom of the U. S. to continue its life in accordance with its traditions and the objectives espoused in its Constitution. Much of our current policy is based on such a national security objective, or at least defined and articulated on this basis.

What are the threats to our "security"? Short run, long run

*Don't attack security objective, but look
at the meaning.*

However, there are those who maintain that although this national security objective may be sufficient when dealing with the challenge of Soviet Imperialism, it is not broad enough in scope to meet the challenge of the "uncommitted nations" with their mass aspirations for independence and development. Therefore, we must inquire whether there are legitimate foreign policy objectives for the U. S. which extend beyond the protective goals of national security. Some of the questions which come to mind are enumerated below. They involve military, political, economic and humanitarian considerations, in that order.

1) For over seven years now, we have been agreed that the military strength of the United States and that of its West European allies must be built up and maintained. Should the United States also attempt to foster military strength in some or all of the low income countries of the non-communist world, and to what extent?

what kind? strengths to resist external aggression vs. resisting internal subversion + chaos.
The NATO countries are, relatively speaking, economically strong, politically stable and have a considerable measure of support for the military policies of their governments. This is not necessarily true in the low income countries. On the other hand, it has been argued that the military potential of these countries could never stop a determined communist move; that the requirements of a military build-up detract from economic strength, and that U. S. pressures for a military program foster the image of this country as a warlike, aggressive power. On the

other hand, overseas bases are still considered by the Pentagon as essential to U. S. security. In addition, it has been pointed out that a military program trains technicians, widens the horizons of many of its recruits, hastens the process of social change, and constructs public works. Then there is a pragmatic consideration. In many countries -- U. S. military assistance being limited largely to South Korea, Taiwan, Pakistan and the South Indochinese States -- would it now be "politically" possible to curtail the military program even if desired?

2) A large part of diplomatic history has been the story of the creation of alliances. Are alliances with the low income countries an attainable major objective for the United States, and, if so, are they a desirable objective? Ex-colonies and emerging nations are very jealous of their independence. Should the United States be willing, as a stated objective, to accept less than full alliance, and less than full leadership, in the foreign policies of these countries? Is mere non-alignment with the communist block, popularly referred to as "neutralism", too low a target at which to aim? What should be our policy toward uncommitted nations and what effect will this policy have on our relations with the nations who are tied to us through alliances?

Should our main concern be the foreign policy of the low income countries or their internal political dept.

Heading: Under what circumstances will econ growth lead to polit. evolution in our interest

3) For many of us, the U. S. political and economic system has proved its advantages as a method of achieving rapid economic growth with a maximum of political freedom. Moreover, it is not infrequently

found that countries with similar systems tend to be our friends and allies.

Does this mean that the U. S., as a defined objective, should attempt to foster political and economic institutions in the low income countries similar to ours? More generally, should the U. S. concern itself with foreign political and economic systems ^{and stated ideologies?} or only with specific government policies?

Depending upon the direction of the discussion on the above questions, the participants may wish to discuss possible analogies between the low income countries of Asia, and our recent policies in Spain and in Latin America.

Should we be worried about subsidizing "socialism"?

4) Is it in the interest of the U. S. to attempt to strengthen the internal security of the non-communist countries? The Communist parties in such countries could come into power not only by force but through legal means. Irrespective of the factor of communism, local revolutions and disorder can be disruptive and may lead to war involving the major powers. In the light of these possibilities, should we differentiate in our policy between friendly and neutral governments, between popular and unpopular ones?

5) The Paley Report pointed out the rapid shift of the United States to a "have not" nation for many raw materials. Our dependence on foreign sources was expected to rise dramatically from 1950 to 1975. Other economists have pointed out the importance of U. S. exports and export markets to continued U. S. economic prosperity. Recently, an analysis was made for Business International by the economists, research, and planning directors

of the international divisions of 16 major U. S. firms, which analysis supports these contentions. Is the United States' interest in sources of raw materials and in markets for U. S. products sufficient to justify a government program supporting foreign economic development?

Make #6
6) Many of the previous questions have reflected the current U. S. preoccupation with the challenge of Soviet imperialism. *what is the nature of that challenge?* To what extent does the social transformation in the low income countries present a challenge of its own? Should it be a policy objective of the U. S. to link itself with the mass aspirations for independence and development in these countries? If the answer is yes, is this an affirmative objective in itself, or merely an extension of our national security or national interest objectives? Would the answers be the same in the absence of the Soviet challenge?

7) To some extent, humanitarian, ethical or moral considerations lie behind many parts of U. S. domestic economic policy, as, for example, social security. The Marshall Plan also had motivations of humanitarian consideration, even though the fall of Czechoslovakia may have helped it through Congress in 1948. But many argue that such considerations are an appropriate basis for action only by individuals or by states within their own borders. Should the U. S. Government base its foreign policy on humanitarian or moral grounds?

B. Could U. S. foreign economic policies make a significant contribution to foreign economic growth? Could foreign economic growth make a significant contribution to the achievement of U. S. objectives?

1) Economic growth is a complex and not well understood process. Many low income countries have been stagnant economically for centuries. The obstacles to growth are many. Capital is lacking. Population rises

rapidly (or even "explodes") as inexpensive health measures force down death rates. Where this occurs, tremendous economic achievements are required if the individual is to maintain merely his present low standard of living. Technicians are scarce. The entrepreneurial spirit is frequently weak. In this situation, how much influence can the U. S. bring to bear on foreign economic growth?

2) For the moment, let us assume that economic growth can be measured in terms of national aggregates (total production) or national averages (per capita production) or in some terms showing a changed distribution of income. *Should our criteria be rates or levels?* What constitutes a "satisfactory" pace of economic growth? Is there an absolute goal, say one or two percent per capita per year; is there a relative goal? Would India have to match Communist China's rate of growth to be "satisfactory"? From present studies, it appears that by 1975 no attempt to narrow the gap between the low income countries and the developed countries (especially the U.S.) can be successful. Would the rapid growth of Indian production, a doubling, be "satisfactory", or will the widening of the absolute gap with the United States create "dissatisfaction" in India nonetheless? Does this have a bearing on how any U. S. aid should be administered?

3) In many of the low income countries, the drive for economic development appears second only to independence in its emotional appeal. The stability of the government may depend in large measure on its ability

to produce "successful" economic growth or even, occasionally, to negotiate aid. There are two successful models for economic growth. One is that of the U. S., Western Europe and Japan. The other is that of Soviet Russia and, perhaps, may be that of Communist China. What are the attitudes of the governments, the leaders and peoples of the low income countries toward economic development, and the Western and the Soviet methods for achieving it? What are their attitudes toward the role which the U. S. should play in their economic growth?

4) We must recognize that economic growth in these countries can raise serious problems for the U. S. Economic development can well disrupt, rather than improve, internal stability. The destruction of peasant and tribal standards of value, the growth of a landless, urban proletariat, increased state activity in economic life, all could produce results which are inimicable to U. S. objectives. Does this mean that economic growth is undesirable from the U. S. point of view? Does the U. S. have any choice in the matter? Or, does this mean that those nations which are pressuring for economic growth are merely in a more advanced state of political evolution which the more dormant states will sooner or later reach? How can their economic aspirations be met with a minimum of adverse repercussions on the U. S.? What are the psychological advantages and disadvantages of the act of giving U. S. foreign aid?

Advantages + disadv. of tech assistance contacts.
5. In the past three years, the Soviet Bloc has taken advantage of the preoccupation of many of these low income countries with economic advancement. Though still low, Soviet Bloc trade with these countries has gone up

markedly and a substantial amount of medium term and long term credits have been granted on favorable terms. The Soviet Bloc has a large unused potential for increasing these activities. What are the implications of this for future U. S. foreign economic policy?

dangerous for the U.S. if the Soviet competition. However we must follow.

6) The Marxists argue that impoverished people will turn toward communism. Frequently, American public officials, as well as private citizens, make statements which implicitly or explicitly accept this thesis. What validity is there to "stomach-communism"? Are better fed, etc., people a necessary condition for achieving U. S. objectives in the low income countries?

7) There are those within the United States who believe that more can be done for achieving U. S. objectives in these countries by technical assistance, exchange of persons, cultural collaboration and large-scale assistance to education than by contributions to economic development. Is this a more fruitful approach to the challenge presented by the low income countries? If not, are such programs a necessary companion to economic programs, if U. S. objectives are to be achieved?

8) One of the important factors which has contributed to social and political harmony in a strong democratic environment in the U. S. may well have been the existence of an expanding economy. This has provided a major outlet for the energies of the dynamic people of American society --energies which in other countries have taken anti-social channels. Would the establishment of a growing economy with expanded

economic and social opportunities provide a similar channel for the restless energies of selected individuals, if not large numbers, in the low income

countries?

Cut-off point - R level on a rate? Any assumed rate can be maintained? WBR Point

C. What are the broad policy implications to be drawn from the discussion of the preceding questions?

Do our security interests coincide with or overlap the interests of the U/O countries.

1) The premise upon which this discussion has evolved is that there is a present need in the U. S. for a restatement of the objectives and rationale of its foreign economic policy, particularly toward the low income countries. Many believe that the primary need is one of articulation. How does one state the objectives of our policy? Any rationale based strictly upon U. S. national security or security from Soviet Imperialism seems to have little persuasive appeal to the low income countries. Any rationale based upon moral or humanitarian ground seems to have equal lack of appeal to U. S. taxpayers. Some historians have said that the United States is at its best when its national interests and its national ideals coincide. Do we have such a case to support our objectives here?

2) One of the ways in which the U. S. can indirectly affect foreign economic development is through its own economic growth, especially if that were coupled to the sort of trade policy envisaged in the recent Bell and Randall Reports. A more active attempt to affect foreign economic development would involve the provision of additional capital. Is it possible and useful to make estimates of the annual amounts of foreign capital that could be effectively used in the low income countries to promote "satisfactory"

economic development? If so, how do the amounts compare with what is now being done? Is the repayment (transfer) problem an important limitation?

3) Part of the capital which the underdeveloped countries need and are receiving come from U. S. private investment sources. What more can and should be done to promote this flow? What are the limitations on the ability of U. S. governmental policy to stimulate an expanded private capital outflow?

4) The U. S. governmental agencies, the IBRD, the new International Finance Corporation, and U. N. technical assistance already provide some public capital. Should this be expanded? ~~Should this be expanded?~~ Should the expansion take place through bilateral programs run by the U. S. or should the emphasis be placed more heavily on other agencies such as the IBRD, or perhaps a new international organization? What are the merits and demerits of public loans, public grants, or the intermediate "soft loan"? How serious a limitation on the U. S. programs is the annual Congressional hearings, debates and appropriations?

5) One of the important contributions which the U. S. and the IBRD makes in its aid programs is the advice which it gives to the inexperienced technicians and public administrators in the low income countries. Aid is an important lever for transmitting such advice. Yet, we know that these new nations are most sensitive about "pressure" from the U. S. How can such advice be given without the ill effects which sometimes result from it? Does an international agency stand a better chance at having its advice accepted? Should the advice be limited to technical and narrow economic questions or should it also include broad economic, political and military "suggestions"?

(over)

How important is continuity and a longer time horizon? How can it be secured?

How important is internationalization?

separation from military?

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INTERNATIONAL DEVELOPMENT ADVISORY BOARD ←
INTERNATIONAL COOPERATION ADMINISTRATION
Washington 25, D. C.

December 11, 1956

DEC 19 1956

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EXECUTIVE DIRECTOR

Dr. Max F. Millikan
Center of International Studies
Massachusetts Institute of Technology
Cambridge, Massachusetts

Dear Max:

My conscience has been bothering me ever since October 30th for not having written you a note of appreciation for the magnificent job you did at that meeting. As we told you by telephone the other day, Al and I have been working at forced-draft in order to get Mr. Johnston's testimony ready for his appearance before the Fairless Committee. Enclosed is a copy of that testimony.

We are now going to work to prepare the Board's paper which we must have in their ^(Fairless Committee) hands in Japan on February 9 if we are to have any effect upon their report. As you know, they are leaving on December 27th for a six-week junket which will take in 20 countries. Messrs. Fairless, Darden and Reid, plus four members of the staff, are the only ones making the entire junket. Mr. John L. Lewis will cover the European portion of the trip, Mr. Jesse Tapp will go as far as Ankara, and General Smith and Mr. Dupree will not be able to make the journey. However, all of them will gather together in Hawaii about February 12th, and they will then draft their report.

It is our feeling that we should get our opinions to them so that they may read them before they start putting pen to paper in Hawaii.

As you have no doubt heard, Everett Hagen has agreed to participate in our Board meeting this Thursday. There is an interesting anecdote to tell you in connection with this. Please remind me to do so the next time I see you. I hasten to add that this is not a commentary upon your Mr. Hagen but a commentary upon the workings of the U. S. Government which I still find to be "a riddle within an enigma".

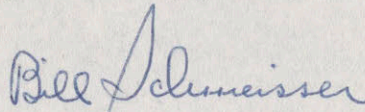
(Dr. Millikan)
12/11/56 - p.2.

There is a growing amount of sentiment here in Washington which is lining up behind the views which you and our Board hold about foreign aid, and I am, therefore, more hopeful than I was six weeks ago about the impact our Board may be able to have if its report is really first-rate.

Incidentally, I have just seen Paul Nitze at the NPA annual luncheon and he was glowing in his praise for your book, which apparently he has read in the page proofs.

Please let Al and myself know the next time you are in town, and, if we do not see you before Christmas, many thanks again and the best of the season's greetings.

Very sincerely yours,

A handwritten signature in blue ink that reads "Bill Schmeisser". The signature is written in a cursive style with a large, prominent initial "B".

William C. Schmeisser, Jr.
Executive Director

1 Enclosure



International Development Advisory Board

INTERNATIONAL COOPERATION ADMINISTRATION

Washington 25, D. C.

Testimony of Eric Johnston before the Fairless Committee

November 28, 1956

I am Eric Johnston, Chairman of the International Development Advisory Board.

The I. D. A. B., as this Board is referred to here in Washington, was established by Act of Congress in 1950, and its duties are to advise the President and the Director of I. C. A. on foreign development policy.

This Board, like your Committee, is composed of private citizens rather than government employees. Its present membership is as follows:

Mr. Gardner Cowles
President of Cowles Magazines, Inc.

Dr. Robert P. Daniel
President of Virginia State College.

Mr. Harvey S. Firestone, Jr.
Chairman of the Board,
Firestone Tire & Rubber Co.

Mr. J. Peter Grace
President of W. R. Grace & Co.

Dr. Wilton L. Halverson
Associate Dean, School of Public Health,
University of California.

Mrs. J. Ramsay Harris
Newspaperwoman and
Member, U. S. Committee for UNICEF.

Mr. Lloyd A. Mashburn
General President, International Union of Wood,
Wire & Metal Lathers (AFL).

Mr. Lee W. Minton
International President, Glass Bottle Blowers Assoc.
and Vice-President of the AFL-CIO.

Dr. William I. Myers
Dean, N. Y. State College of Agriculture,
Cornell University.

Mr. Herschel D. Newsom
Master of the National Grange.

Mr. William M. Rand
formerly President, Monsanto Chemical Co.
and also formerly Deputy Director of the
Mutual Security Agency.

Mr. Laurence F. Whittemore
Chairman of the Board,
The Brown Company.

I understand from Mr. Mullin that your Committee is generally familiar with the activities of the I. D. A. B. -- such as its original report "Partners in Progress" under the Chairmanship of Mr. Nelson A. Rockefeller, its investment conferences at New Orleans and Havana, and its studies for and recommendations to I. C. A. and its predecessor agencies. Therefore, I shall not bore you with any additional details at this time.

As you know, we are now restudying the fundamentals of U. S. foreign economic development policy. Many of your staff attended one of our October conferences. We have additional meetings planned for this

month as well as December and January. Out of this, the I. D. A. B. hopes to formulate some conclusions and recommendations.

I wish that we had these conclusions ready for you now. We do not. But I would like to use the time you have so generously allowed me to give you some idea of the questions we are asking ourselves, and where I think we may come out on a few of them.

I. Causes of the Present Confusion.

During the past year, there have been steadily mounting doubts and confusion about United States foreign development policy and United States foreign assistance programs. The innumerable studies and investigations which are now in progress provide eloquent testimony that the Administration, the Congress, and the public all feel there must be something wrong with these programs.

Perhaps indeed there are improvements which are needed. But we of the I. D. A. B. do not believe that the root of the trouble is to be found in examinations of the scope, magnitude, duration, administration, or effectiveness of our aid programs, important though these questions are. We are convinced that the root of our confusion and our doubts is to be found in one simple fact -- we no longer have a clear idea of our objectives, a simple philosophy of what we are trying to accomplish.

This was not always so. The Marshall Plan and Point Four, which form the basic philosophy of U. S. foreign economic development policy, had clear and simple ideologies, at least at their conception.

When Secretary of State George C. Marshall made his historic commencement address at Harvard University on June 5, 1947, he enunciated the objectives of U. S. assistance policy in these two sentences: "Our policy is directed not against any country or doctrine but against hunger, poverty, desperation and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist".

In his inaugural address of 1949, President Truman said, "Fourth, we must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas . . . Their poverty is a handicap and a threat both to them and to more prosperous areas . . . Our aim should be to help the free peoples of the world, through their own efforts, to produce more food, more clothing, more materials for housing, and more mechanical power to lighten their burdens . . . Only by helping the least fortunate of its members to help themselves can the human family achieve the decent, satisfying life that is the right of all people".

These two programs captured the imagination of the American people and of the people of the foreign countries to which they were addressed. A large part of the reason for their success is to be found in the fact that they had three simple motivations: humanitarian -- to assist less fortunate people; economic -- to help to build a more prosperous world in the interest of all;

political -- to help to attain internal stability in impoverished countries where poverty and lack of hope might cause the people to seek extreme solutions to their problems.

Since 1950, however, the rationale and objectives of U. S. foreign economic policy have become more complex and less clear. We have fought a minor world war -- the police action in Korea. We have rearmed ourselves and the nations of Western Europe. And we have established new political and military alliances with many of the nations of Asia.

Perhaps, one of the major sources of confusion has been the development and growth of a program of military assistance which was originally grafted onto the economic program and now all but encompasses it. Today, 90 percent of our total foreign assistance goes to countries that sign military training agreements with the U. S., and over one-half of all of our aid funds are expended on military hardware. Even the small segment remaining for technical and development assistance has been presented to Congress as a "defense requirement".

It is not my purpose, at this time, to discuss the subject of military assistance. We do believe, however, that our military and our economic programs should each be considered separately, even though the two may have objectives in common. Such separate consideration would do much to eliminate doubt and confusion both at home and abroad as to our purposes.

Another major source of confusion has been that our people have come to expect our economic aid programs to do much more than they were ever designed to do. Much more in fact than any aid program, no matter how improved, should be expected to accomplish.

We expect our economic assistance programs to earn the United States the gratitude of foreign countries, to make the United States popular abroad. We expect that the United States will be able to obtain diplomatic concessions or agreements as well as military collaboration from foreign countries. We hope or expect that countries receiving our aid will establish political and economic institutions similar to those which we have. We would like to see immediate results, especially in the reduction of Communist strength, in the countries receiving our aid. We hope to solve some of our own economic problems -- to provide markets for U. S. surpluses and to expand production of needed raw materials abroad. Finally, we expect our economic assistance to strengthen the military power of friendly countries.

It may be possible that, over the long run, our economic programs could achieve many or all of these expectations. It would certainly be desirable if such results would follow. But for many reasons which I will not go into at this time, we must not count upon these results. Moreover, if we have them as the goals of our programs, we make it that much more difficult to achieve the objectives which are attainable and very desirable. For example,

we lost much of the reservoir of good will which had accumulated in India as a result of our aid, by our continued criticism of that country as ungrateful because it was unwilling to join with us in a regional collective security arrangement.

Nonetheless, foreign economic policy remains a major, if not the major, instrument for building the type of international community in which we would like to live. The preponderance of U. S. material production has given this country a tool, for good or for evil, which cannot be overestimated.

Therefore, we of the I. D. A. B. believe that it is of overriding importance that the United States develop a basic philosophy as to its interest in foreign economic development. Only then can we sustain a program with sufficient stability to surmount short-term disappointments and to achieve results over the long pull. Only then can we focus our full attention on the very difficult operational problems.

We seem to do this in other fields. After long years of debate, free public education became an accepted principle of American life. The subject is still debated, but the issues are the school building budget, teachers' salaries and the curriculum.

Foreign economic policy ought to receive a similar though less permanent status. The annual debates ought to continue but they should consider questions of the amount of aid, the merits of loans and grants,

the advantages of unilateral, bilateral or multilateral administration, the proper role of private foreign investment. But this can be achieved only after a political or ideological basis for a U. S. foreign development policy is agreed to by the U. S. people, Congress and Administration.

We of the I. D. A. B. feel that if we can help to find such a consensus, we will have performed a useful function.

II. The U. S. Interest in Foreign Economic Growth.

U. S. policy and U. S. public opinion during the post-war decade have been completely absorbed by the problems created as a result of the bi-polarization of world power between the United States and the Soviet Union. Thus it has been all too easy for us to see the Communist threat as the overriding problem of our time. But in our preoccupation with the struggle between ourselves and the Soviet Union, we have tended to overlook the fact that the non-Communist world is itself split into two parts -- the developed and the underdeveloped countries. We are just beginning to realize that, in the latter, a revolution has been taking place -- a revolution which may well be the single, most significant factor of the 20th century.

The ancient civilizations of Asia and the Middle East, once dynamic and creative, but stagnant throughout much of modern history, are now awakening. The social revolution which is taking place is sparked by a rising tide of nationalism which demands expression in freedom from colonial domination. (In the past 15 years, more than half a billion people in Asia and Africa have

gained national independence.) Coupled with this aspiration for independence has come a pressing demand for more of the material things of life and for a feeling of personal pride, prestige and dignity.

We in America, in conjunction with our friends in Western Europe, bear a large share of the responsibility for this social revolution. Its cause can only be ascribed to the impact of Western economic and political ideas and values on the underdeveloped areas of the world. Also, in this respect, Communism is a Western ideology, because it joins non-Communist thought in preaching that there is an alternative to traditional poverty and that man can, within very wide limits, remake his way of life to achieve greater material benefits for himself and greater power for his nation.

But this spread of Western ideas and the achievement of national independence have not yet brought the human betterment which is so urgently demanded. The new countries find it difficult to make progress toward these goals at a pace that satisfies their aspirations. Capital is required, new techniques must be learned, able administrators must be trained and a tradition must be developed of responsible dedication to the public interest.

The split between the developed and underdeveloped countries of the non-Communist world is very real and very wide. It presents many complex problems and it is compounded of many different factors. We are extraordinarily rich; the people of the underdeveloped countries are extraordinarily poor. We are white; they are colored. We have been identified with

colonial and imperial powers; they are acutely aware of their recent status as colonies.

In the field of economics, the present gap between the developed and underdeveloped countries of the non-Communist world is so wide as to defy simple description. Moreover, there is little doubt that regardless of what United States policy may be in the near future, this gap will grow rather than narrow over the next two decades. If India, for example, were to achieve its present economic goals and to double its per capita income by 1975, this would be a tremendous achievement. And yet each man, woman and child would have an income of only a little over \$100 per year. On the other hand, if U. S. personal income were to increase by only 50 percent over the same period of time -- less than seems probable to most observers -- our per capita income in 1975 would exceed \$3,000 per person. This means that the absolute gap between personal income in the United States and personal income in India would have risen from less than \$2,000 at present to about \$3,000 in 1975.

The problem which faces the U. S., as the leader of the developed countries of the non-Communist world, is how to prevent this growing economic gap from creating an even more disruptive and chaotic situation within the non-Communist world than now exists. It is a problem which U. S. foreign policy cannot avoid. The underdeveloped countries contain a third of the world population and take in more than a third of the world's land area.

They are the source of many important raw materials. The Asian-African countries now control the balance of voting power within the United Nations, a balance previously held by the underdeveloped countries in Latin America. The importance of these groups will grow whether the Communist threat increases or subsides.

With this situation and this outlook, is it in our national interest and should it be an objective of our foreign economic policy to give the underdeveloped countries substantial assistance in their struggle for economic betterment? Can this help in creating a world in which our people can continue to live in accordance with their ideals and traditions? We believe that the answer is yes.

There seem to us to be two reasons why the United States should be interested in furthering the development of these underdeveloped countries, one of them political and one humanitarian.

1) By allying ourselves with the aspirations of these countries and by giving them substantial economic and technical assistance toward the achievement of their aspirations, we can stimulate or assist economic growth. With a more satisfactory pace of economic growth, we can reasonably hope that there will emerge political and social conditions favorable to the existence of a healthy, free society. It is in such a world that our own people can best live in peace and prosperity.

The problem which we face is one of social and political ferment. We have faced it before in our own history and have found that these problems were solved as our production grew and as our economic horizons expanded. Despite the expectations of some in the 1930's, our own underprivileged of that period did not accept extreme solutions but were able to find employment as our economy threw off its shackles and moved forward. After a brief period of violence, labor and management in the United States are now equally responsible members of our economic society and both seem to have fairly similar politics, in marked contrast to the wide gulf in political belief which exists in most countries of the world.

The existence of an expanding economy in which intelligence and hard work were rewarded has broken down the social classes which we brought with us from Europe. An expanding economy has made possible an open and classless society far beyond the dreams of the founding fathers or even of the prophets of only two decades ago.

Here at home business has found it profitable to take a broad interest in labor and in the community. Beginning in the 1940's, American private enterprise found it profitable, in its foreign operations, to take an interest in the countries in which they were working. I believe that we, as a nation, likewise will find it profitable to take an interest in the underdeveloped countries and in increasing their standards of living, their production and their markets.

We should be under no illusion that economic development will solve all problems. We know that it will create many problems in the countries undergoing the process, and, as a result, for the United States. Economic and social change is disrupting the centuries old patterns of life, habits, and traditions. But I believe that the problems created by the social revolution already in process can be eased only by more economic growth than seems possible without outside assistance.

Consider what could happen if the peoples of the underdeveloped areas fail to achieve a steady pace of economic growth. We know that they want economic development and are struggling to achieve it with all the means at their disposal. No one who has traveled in these areas, be he a private citizen such as myself or a government official such as the Vice-President of the United States, has failed to be impressed by the force of this determination. Indeed, governments which cannot show some progress in this direction will not long hold power.

There are two successful models for such development -- the democratic, free enterprise model of which the prime example is the United States, and the totalitarian method which is personified by the Soviet Union and Communist China. The peoples and governments of the underdeveloped countries are not committed to either model. I personally believe that their leaders, given a choice, would prefer to follow the example set by the United States, but in many ways the people of these countries may be more susceptible to

the Soviet one which is not associated with Western colonialism and exploitation and which has an ideology of social equality apparently appealing to these people.

Recently, the Soviet Bloc has been expanding its economic relations with the underdeveloped countries. This has helped to paint a picture of the Communist world as a peaceful trader interested not in aggression or domination of countries outside of the Bloc, but interested solely in their economic growth. This policy of the Communist countries has been in effect some two or three years now, but it cannot be expected to have achieved substantial results in such a short time. Fortunately, the events of the past month have done something to show the Soviet's true colors.

Nonetheless, given the many economic and social problems which exist in the underdeveloped countries, a totalitarian, if not a Communist answer, may appear to many to be a simple way out. Speaking two years ago at the Bicentennial Anniversary of Columbia University, the Ambassador from Pakistan stated the problem as follows: "An empty freedom under which poverty and disease prevail, cannot stand up to the lure of economic betterment even if its promise is accompanied by political slavery".

2) Secondly, I feel strongly that a foreign development policy which has as its sole objective the economic betterment of the impoverished countries of the world finds ample and, to me, sufficient justification in the morality and tradition of American society. We should not be self-conscious because of the strong humanitarian element in our earlier aid programs.

This was America at its noblest. America is concerned with spiritual and moral values. We can demonstrate this to ourselves and to the world by the way we share our material abundance and technical knowledge with the less fortunate of the globe.

The only channel through which we can hope to transfer to the people of the underdeveloped countries something of the values of our way of life is our mutual concern with economic growth. Our values cannot be transferred by words alone. They can be transferred by deeds, by working together for a common purpose with the people of the underdeveloped countries.

If we wait, we may well see the countries of the underdeveloped areas failing to accomplish any perceptible economic progress. Even if they do achieve some growth by their own efforts alone, the widening of the gap between them and us may well create political and moral problems which we cannot now foresee and which it may be too late to treat a decade or so from now.

I believe that we face a situation in which U. S. self-interest and U. S. ideals both support the same course of action. We have an opportunity to assert a moral and political leadership, an opportunity which will certainly be lost if we attempt to calculate its benefits in the same currency in which we must reckon its costs.

III. Basic Operational Problems.

I have answered to the best of my ability the question proposed at the beginning -- why the U. S. should be interested in foreign economic development. Perhaps I should go no further. I hope you will forgive me, however, if I take a

few more minutes to touch upon certain major operational problems. These are problems that the I. D. A. B. will specifically study in its coming meetings, and therefore I shall do little more than indicate the outlines of each.

1) How much additional foreign capital do the underdeveloped countries "require"?

I would suggest that, for purposes of this discussion, we interpret the word "require" as the amount by which total investment would have to be increased in the underdeveloped countries in order that, after a reasonable period of time, they would be able to experience a self-sustaining rate of economic growth -- i. e. a steady increase in per capita consumption, as well as in domestic investment, without requiring extraordinary financial assistance from abroad.

We cannot expect the gap in standards of living between ourselves and the underdeveloped countries to be narrowed; but we can hope to help the latter achieve a satisfactory pace of economic growth which will eventually be self-sustaining.

The major external requirement would be the financing of a significant increase in investment in the underdeveloped areas.

The popular impression seems to be that this is a hopeless task. Nothing could be farther from the truth. Gross capital formation in the non-Communist countries of Asia and Africa is currently estimated at about \$7 billion per year. (In Latin America, where private investment can play the primary role, the gross capital formation is about \$8 billion per year.) Obviously, a relatively light U. S. Governmental effort could make a significant increase to capital formation of such small magnitude.

It is true that capital formation alone is not enough. Economic development involves a whole host of social, political, and economic factors. Nevertheless, capital is the one major deficiency of these areas and is the one commodity which the U. S. can most readily supply.

2) Can the U. S. afford substantial economic assistance?

It seems clear to me that the United States can afford a substantial program of economic assistance to the underdeveloped countries. I say this in full recognition of the urgent needs of this country for schools, for highways, and for tax reduction. This judgment stems from the magnitude of the foreign needs and some knowledge of the strength of the American economy. Total American production is now running at the rate of \$414 billion per year. It has been increasing at about three and one-half percent per year, or an absolute amount of over \$14 billion per year. In other words, a large increase could be made in capital formation of the underdeveloped countries with no reduction at all in U. S. income and with only a small reduction in the amount by which our income increases each year.

3) What role, if any, should the other developed countries play in economic assistance?

We think that careful consideration should be given to bringing the countries of Western Europe and Japan into the task of aiding economic growth in the underdeveloped nations.

At the present time, our policy largely excludes the participation of these other countries. We now face a time when the countries of Western

Europe want to join with us. In N. A. T. O., the O. E. E. C. and in public statements, they have offered to participate and to contribute.

These nations can relieve the U. S. taxpayer of some of the burden. Moreover, common action would help to restore the pride, the prestige, and the self-respect which the war and the post-war years have cost Western Europe and Japan. It is important that this be done.

4) What additional role can U. S. private investment play?

As a businessman I am firmly convinced that private foreign investment is of great importance. In the post-war years the quantities have not been large, and they have been directed almost entirely to Latin America and Canada. Nevertheless, we must recognize that there are many "qualitative" advantages to private investment abroad which are underestimated as the "quantitative" effects are exaggerated. Private investment generally brings with it managerial skills and know-how which are as important to the underdeveloped countries as is the capital itself.

Measures should be considered to stimulate foreign private investment. This is a problem which we are studying in considerable detail, especially in connection with our experience after the New Orleans Conference and the necessity to strengthen existing mechanisms before the Caracas Conference.

In underdeveloped areas outside of Latin America, the increase in U. S. private investment is likely to be small and concentrated in the extractive industries. Much of the present need of the underdeveloped areas is for capital

in social overhead -- ports, transportation, and schools, for example.

Although private capital did finance these investments in the pre-war period, it has not done so, nor does it seem likely to do so, today.

CONCLUSIONS

I believe that the United States should, at its highest levels, reaffirm its purpose to aid in the development of independent and growing nations in the world, so as to encourage the emergence of political and social conditions in which free institutions can flourish.

I believe that in order to clarify U. S. objectives, for our own people and for the people of the world, we should separate the military and economic segments of our assistance budgets.

I believe that the United States must find some means to enlist the support of the other developed nations of the world in this crusade against hunger, poverty, and desperation.

I have been able to find no words which sum up my position more succinctly than those of the late Henry L. Stimson when in 1947 he wrote, "I do not mean to belittle the Communist challenge. I only mean that the essential question is one which we should have to answer if there were not a Communist alive. Can we make freedom and prosperity real in the present world? If we can, Communism is no threat. If not, with or without Communism, our own civilization would ultimately fail".

11/27/56

The Philosophy and Principles of U. S. Economic
Assistance to Foreign Countries

I. Introduction.

1. There have been steadily mounting doubts and confusion about United States foreign development policy and United States foreign assistance programs. The innumerable studies and investigations which are now in progress provide eloquent testimony that the Administration, the Congress, and the public^{all} feel there must be something wrong with these programs.

2. Perhaps indeed there are improvements which are needed. But the I. D. A. B. does not believe that the root of the trouble is to be found in examinations of the scope, magnitude, duration, administration, or effectiveness of our aid programs, important though these questions are. We are convinced that the root of our confusion and our doubts is to be found in one simple fact -- we no longer have a clear idea of our objectives, a simple philosophy of what we are trying to accomplish.

3. This was not always so. The Marshall plan and Point Four, which form the basic philosophy of U. S. foreign economic development policy, had clear and simple ideologies, at least at their conception.

a. When Secretary of State George C. Marshall made his historic commencement address at Harvard University on June 5, 1947, he enunciated the objectives of U. S. assistance policy in these

two sentences: "Our policy is directed not against any country or doctrine but against hunger, poverty, desperation and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist".

- b. In his inaugural address of 1949, President Truman said, "Fourth, we must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas . . . Their poverty is a handicap and a threat both to them and to more prosperous areas . . . Our aim should be to help the free peoples of the world, through their own efforts, to produce more food, more clothing, more materials for housing, and more mechanical power to lighten their burdens . . . Only by helping the least fortunate of its members to help themselves can the human family achieve the decent, satisfying life that is the right of all people".

4. These two programs captured the imagination of the American people and of the people of the foreign countries to which they were addressed. A large part of the reason for their success is to be found in the fact that they had three simple motivations:

humanitarian -- to assist less fortunate people

economic -- to help to build a more prosperous world
in the interest of all

political -- to help to attain internal stability in im-
poverished countries where poverty and lack of hope
might cause the people to seek extreme solutions to
their problems.

*Plus
Independence*

5. Since 1950, however, the rationale and objectives of U. S. for-
eign economic policy have become more complex and less clear. We have
fought a minor world war -- the police action in Korea. We have rearmed
ourselves and the nations of Western Europe. And we have established new
political and military alliances with many of the nations of Asia. J M F

6. Perhaps one of the major sources of confusion has been the de-
velopment and growth of a program of military assistance which was originally
grafted onto the economic program and now all but encompasses it. Today,
90 percent of our total foreign assistance goes to countries that sign military
agreements with the United States, and over one-half of all of our aid funds
are expended on military hardware. Most of the amount remaining for tech-
nical and development assistance has been presented to Congress as a "de-
fense requirement".

7. In addition to the large military aid program and the governmental
practice of giving economic aid to countries with which we have military al-
liances under the label of "defense support", we have further confused our-
selves by mingling programs with short-term objectives with those which

can "pay off" only in the long term. Some part of U. S. economic aid is used to tide countries over particular crises. We supply wheat to Tunisia to avoid a famine. We assist Vietnam to restore a war-ravaged economy.

8. The military aid program and the "crash" programs with limited short-term objectives are important. They can easily be justified as a major tool of U. S. foreign and defense policy. But this is outside of the scope of the present task which the I. D. A. B. has set for itself. We are concerned with the considerations which bear on the U. S. interest in long-term foreign economic growth.

9. In addition to the confusion introduced into the economic aid programs by the growth of foreign military assistance, there is another major source of confusion and disappointment. The people, the Congress and even the Administration have come to expect our economic aid programs to do much more than they were ever designed to do. Much more in fact than any aid program, no matter how improved, should be expected to accomplish.

10. We expect our economic assistance programs to earn the United States the gratitude of foreign countries, to make the United States popular abroad. We expect that the United States will be able to obtain diplomatic concessions or agreements as well as military collaboration from foreign countries. We expect to strengthen the particular governments receiving U. S. aid and to have them follow U. S. policy leadership or desires both in international matters and, occasionally, even in some domestic affairs.

We hope or expect that countries receiving our aid will establish political and economic institutions similar to those which we have. We expect to see immediate results, especially in the reduction of Communist strength, in the countries receiving our aid. We expect to solve some of our own economic problems -- to provide markets for U. S. surpluses and to expand production of needed raw materials abroad. We expect our economic assistance to strengthen the military power of friendly countries. (And yet, at the same time, we have grown more sophisticated; we have learned that there is not a simple relationship between aid, foreign economic growth and the achievement of U. S. foreign policy objectives.)

11. It may be possible that our economic programs could achieve many or all of these expectations. It would certainly be desirable if most would be realized. But for many reasons we must not count upon these results. Moreover, if we have them as the goals of our programs, we make it that much more difficult to achieve the objectives which are attainable and very desirable.

a. It is unreasonable to expect that foreign aid would make the United States popular abroad, and, moreover, unnecessary that it do so to be successful. The donor-recipient relationship does not make for love or popularity. There are wide differences of all sorts between the underdeveloped countries and ourselves, and the former are exceedingly conscious of

the differences. Aware of their recent status as colonies, these countries will become increasingly independent and increasingly hostile to the idea that they can be dictated to or dominated by a stronger power. It is much more important to U. S. security and future well-being that these countries develop a sense of pride and a confidence in their own institutions and abilities, than that they be made more aware of their own poverty and of the real extent of their dependence on the United States. We do not want a new type of colonialism; we do want strong, independent nations in the world.

- b. The United States should not expect to obtain diplomatic or military collaboration in return for foreign economic assistance. A country joins, or should join, with the United States in a diplomatic or military alliance if it is to its advantage to do so. The European countries joined with the United States in NATO because this was the case. Had they joined under U. S. economic pressures or inducements, the organization would have been the weaker and there would be little willingness to support it on the part of governments or peoples.
- c. The association of U. S. foreign economic programs with U. S. military objectives has given rise to the image of the

United States as a warlike, aggressive power. The Soviet Union has taken advantage of this and in its foreign economic programs makes much of the fact that it has no "strings" attached. Aid to strengthen friendly military powers abroad will certainly continue to be an important tool for U. S. policy makers. It would be desirable, however, if this could be separated at least conceptually from a general program of aid which has as its objective the economic growth of the foreign countries.

- d. It might be desirable if foreign countries were to establish political and economic institutions similar to those which we have. But coercion cannot, in the long run, achieve the results we desire. The example of U. S. performance at home and in the world is much stronger and coercion would be resisted if it did not boomerang on the country attempting to use it.
- e. It is true that the United States has an important narrow economic interest in the expansion of production and markets in foreign countries. But this interest does not seem sufficient to justify a governmental aid program. If our objective were to further the economic interests of this country, it could probably be done more efficiently by spending the same amount of money in a different manner, such as building more roads and

schools within the territorial limits of the United States itself, or by reducing governmental expenditure and taxation. Moreover, the foreign political repercussions of a program which has U. S. economic improvement as one of its primary objectives would be bad. Even if this were not an explicit U. S. objective, it would be difficult, but not impossible, to convince foreigners that the U. S. program was not a means of solving our own domestic economic problems. (For example, in Western Europe in the early days of the Marshall Plan, it was widely believed that the program was devised to save the United States from mass unemployment. Nothing could have been further from the truth since at that time there was price and materials controls and shortages of many commodities which were being shipped to Europe.)

12. Despite the large number of objectives which U. S. foreign economic policy cannot and should not be expected to achieve, it remains a major, if not the major, instrument for building the type of international community in which we would like to live. The preponderance of U. S. material production has given this country a tool, for good or for evil, which cannot be overestimated.

13. Therefore, the I. D. A. B. believes that it is of overriding importance that the United States develop a basic philosophy as to its interest in foreign economic development. Only then can we sustain a program with sufficient

stability to surmount short-term disappointments and to achieve results over the long pull. Only then can we focus our full attention on the very difficult operational problems.

14. We seem to do this in other fields. After long years of debate, free public education became an accepted principle of American life. The subject is still debated, but the issues are the school building budget, teachers' salaries, the curriculum.

15. Foreign economic policy ought to receive a similar status. The annual debates ought to continue but they should consider questions of the amount of aid, the merits of loans and grants, the advantages of unilateral, bilateral or multilateral administration, the proper role of private foreign investment. But this can be achieved only after a political or ideological basis for a U. S. foreign development policy is agreed to by the U. S. people, Congress and Administration.

16. We of the I.D.A.B. feel that if we can help to find such a consensus, we will have performed a useful function.

II. The Present and Prospective World Setting

17. U. S. policy and U. S. public opinion during the post-war decade have been completely absorbed by the problems created as a result of the bi-polarization of world power between the United States and the Soviet Union. Thus, it has been all too easy to see the Communist threat as the overriding problem of our time. But in our preoccupation with the struggle between ourselves and the Soviet Union, we have tended to overlook the fact that the non-Communist world is itself split into two parts -- the developed and the underdeveloped countries. We are just beginning to realize that, in the latter, a revolution has been taking place -- a revolution which may well be the single, most significant factor of the latter half of the 20th Century.

18. The ancient civilizations of Asia and the Middle East, once dynamic and creative, but stagnant throughout much of modern history, are now awakening. The social revolution which is taking place is sparked by a rising tide of nationalism which demands expression in freedom from colonial domination. (Since World War II, more than half a billion people in Asia and Africa have gained national independence.) Coupled with this aspiration for independence has come a pressing demand for more of the material things of life and for a feeling of personal pride, prestige and dignity.

19. This growing revolution can only be ascribed to the impact of Western economic and political ideas and values on the underdeveloped areas of the world. In this respect, Communism is a Western ideology; it joins non-Communist thought in preaching that there is an alternative to traditional poverty

and that man can, within very wide limits, remake his way of life to achieve greater material benefits for himself and greater power for his nation.

20. But this spread of Western ideas and the achievement of national independence have not yet brought the human betterment which is so urgently demanded. Moreover, there is no reason to believe that most of the underdeveloped countries are on the threshold of achieving a satisfactory pace of economic growth or even a slow, but steady, rate of increase in per capita production. The reasons are diverse and complex. The rapid growth in population, which results from the decrease in the death rate as low cost health measures are introduced, coupled with very low incomes, which make saving and investment very difficult and very limited, constitute the basic economic problem of the underdeveloped countries. There are other problems as well. A business or entrepreneurial spirit and class must be developed; new techniques must be learned; able administrators must be trained and a tradition of responsible dedication to the public interest must be established.

21. Addition foreign capital could make an important contribution, but it would, at best, be marginal. By and large, the economic development of Asia, Africa, and Latin America will have to be accomplished by the people in, and the capital of, those areas. And there is little reason to be optimistic about the success with which this can be done in the first two areas.

22. The gap between the developed and underdeveloped countries of the non-Communist world is very real and very wide. It is compounded of many

*less on gap —
more on a positive
regular increase*

different factors. We are extraordinarily rich; the people of the underdeveloped countries are extraordinarily poor. We are white; they are colored. We have been identified with colonial and imperial powers; they are acutely aware of their recent status as colonies.

23. In the field of economics, the present gap between the developed and underdeveloped countries of the non-Communist world is so wide as to defy simple description. Moreover, there is little doubt that regardless of what United States policy may be in the near future, this gap will grow rather than narrow over the next two decades. (If India, for example, were to achieve its present economic goals and to double its per capita income by 1975, this would be a tremendous achievement. Yet, each man, woman and child would have an income of only a little over \$100 per year. On the other hand, if U. S. personal income were to increase by only 50 percent over the same period of time -- less than seems probable to most observers -- our per capita income in 1975 would exceed \$3,000 per person. This means that the absolute gap between personal income in the United States and personal income in India would have risen from less than \$2,000 at present to about \$3,000 in 1975.)

24. The problem which faces the U. S., as a leader of the developed countries of the non-Communist world, is how to prevent this growing economic gap from creating an even more disruptive and chaotic situation within the non-Communist world than now exists. It is a problem which U. S. foreign policy cannot avoid. The underdeveloped countries contain a third of the world population and take in more than a third of the world's land area. They are the source

of many important raw materials. The Asian-African countries now control the balance of voting power within the United Nations, a balance previously held by the underdeveloped countries in Latin America. The importance of these groups will grow whether the Communist threat increases or subsides.

25. No one can view the social and political future of the underdeveloped countries without serious concern. There is a very real possibility that many parts of the underdeveloped areas will ultimately fall within the Communist orbit. Whether they do or not, the outlook is for the continuation of, and increase in, totalitarianism, internal instability and violence, and external adventurism.

26. The new sovereign states of the world have, by and large, adopted the political forms of Western democracy. Yet, this superstructure does not have the firm foundation in tradition or doctrine which is the case in the West. It must be remembered that Western political democracy is a product of a long period of evolution, of trial and error, of religious and political thought. This experience is relatively non-existent in the underdeveloped countries despite their adoption of Western political forms. In many countries there are personal or military dictatorships or one party rule.

27. Communism is attractive or, at least, not repugnant, to a large part of the elite of the underdeveloped areas. Lacking the Western religious tradition, with its emphasis on the natural rights of the individual, and faced with the urgent desire to speed millions of retarded, illiterate, and impoverished countrymen into the modern world, there is a great tendency to use totalitarian

methods. Communism would not make for them, as it would for us, the destruction of values built up over many years. Rather, it would be viewed as another mechanism to achieve power and prestige for the elite as individuals, and for the entire people as a nation. It has been successful in doing this in a short time in the Soviet Union. Communism is also attractive to the elite in the underdeveloped countries because it offers an emotionally satisfying explanation of their country's poverty. If they are frustrated in the attempt to achieve a satisfying pace of economic growth, they can blame this on "colonial exploitation", for which there is adequate documentation in Communist theory.

28. There are two successful models for successful economic development -- the democratic, free enterprise model of which the prime example is the United States, and the totalitarian method which is personified by the Soviet Union and Communist China. The people and governments of the underdeveloped countries are not committed to either model. Given the many economic and social problems which exist in the underdeveloped countries, a totalitarian, if not a Communist answer, may appear to many to be a simple way out. Speaking two years ago at the Bicentennial Anniversary of Columbia University, the Ambassador from Pakistan stated the problem as follows: "An empty freedom under which poverty and disease prevail, cannot stand up to the lure of economic betterment even if its promise is accompanied by political slavery."

29. Even if Communism does not develop in the fertile soil of frustrated ambitions in the underdeveloped countries, chaotic and disrupting events seem likely to be the rule rather than the exception. There are a more than

ample number of powder kegs which can easily be ignited: Arab-Israel, Afghanistan - Pakistan, Pakistan - India, Indonesia - Netherlands and Netherlands New Guinea, Egypt - Sudan. Moreover, internal strife and revolutions seem more likely than not. All of these contingencies raise real dangers to the world as well as the particular trouble spot. They require the U. S. to maintain large armed forces and restrictions on personal freedom which this country finds onerous and unpalatable. They multiply the number of incidents which could set off mass destruction. They become increasingly unbearable as thermonuclear weapons become more widely available -- within the next one to two decades, it has been reported, a number of countries besides the U. S. and U. S. S. R. will have substantial thermonuclear warfare capabilities.

III. The U. S. Interests in Foreign Economic Growth

30. With this situation and this dark outlook, is it in our national interest and should it be an objective of our foreign economic policy to give the underdeveloped countries substantial assistance in their drive for economic betterment? Can this help in creating a world in which our people can continue to live in accordance with their ideals and traditions? Or would U. S. interests be best served by building up economic strength at home and by granting only limited military assistance to friendly governments to prevent internal disorder and to deter external aggression.

31. The I. D. A. B. firmly believes that it is in the interest of this country to actively support economic growth everywhere in the non-Communist world. There are two reasons for this -- one is political, the other, moral,

32. The political argument is simple. It is the belief that economic growth can solve or ease many social and political problems of the underdeveloped countries.

*More
power
country*

independent + stable

33. Accelerated growth of industry, commerce, and government services can provide more jobs and more economic opportunities for the growing middle classes in the underdeveloped countries. Involvement in the economic development of their nation, or even the economic advancement of themselves and their families can channel the ambitions and energies of the new, restless, and important middle class into constructive, socially desirable activity, and away from domestic revolution -- towards Communism or, more likely, another form of totalitarianism -- and away from adventuristic nationalism which would rest

in the starting of local wars of conquest.

34a. The U. S. has faced similar difficult social and political problems in its own history -- most recently during the days of mass unemployment in the 1930's. But, our own unemployed and underprivileged did not accept extreme solutions, as many prophesied, but were able to find employment and personal satisfaction as our economy recovered and expanded. After a brief period of violence, labor and management in the U. S. are now equally responsible members of our economic society and both seem to have fairly similar politics, in marked contrast to the wide gulf in political belief which exists in most countries of the world. American social and political problems are resolved within a peaceful stable framework of law and order.

34b. The existence of an expanding economy in which intelligence and hard work were rewarded has broken down the social classes which we brought with us from Europe. An expanding economy has made possible an open and classless society far beyond the dreams of the founding fathers or even of the prophets of only two decades ago.

35. Failure to achieve a satisfying pace of economic growth in the underdeveloped countries would be serious. These countries want economic development and are struggling to achieve it with all the means at their disposal. Governments which cannot show some progress in this direction cannot long hold power except by domestic repression or by organizing the loyalty of the population through external aggression.

36. Recently, the Soviet Bloc has been expanding its economic relations -- trade and aid -- with the underdeveloped countries. This has helped to paint a picture of the Communist world as a peaceful trader interested not in aggression or domination of countries outside of the Bloc, but interested solely in their economic growth. This policy of the Communist countries has been in effect some two or three years now, but it cannot be expected to have achieved substantial results in such a short time. Fortunately, the events of the past month have done something to show the Soviet's true color. Nevertheless, the Soviet foreign economic program can be expanded and can do much to increase the sympathy of the underdeveloped countries for the Communist regime and economic methods.

37a. We should be under no illusion that economic development will solve all problems. We know that it will create many problems in the countries undergoing the process, and, as a result, for the United States. Economic and social change is disrupting the centuries old patterns of life, habits, and traditions. But the problems created by the social revolution already in process can be eased only by more economic growth than seems possible without outside assistance.

37b. It must be noted that the impact of Western ideas has given rise to the desire for economic growth and that economic growth itself generates expectations of further economic growth. This reinforcing process creates a very serious problem -- that expectations of economic improvement may rise much more rapidly than they can be satisfied. No doubt some dissatisfaction is necessary to achieve

self-sustaining economic growth. But if the margin between expectations and achievements becomes too wide, either because expectations are too unrealistic or achievements too small, there will be created a serious political problem. This is a real and dismal possibility.

38a. Nevertheless, the I. D. A. B. believes that economic development can solve or ease many of the social and political problems of the underdeveloped countries and can, therefore, help to build the sort of world in which the U. S. can more readily live in accordance with its own democratic traditions. We know that the results are far from certain. But we see no alternative to a vigorous aid policy by the U. S.

38b. We are vitally concerned with the revolutionary changes which are taking place in the underdeveloped countries. They may well determine our own fate and that of our civilization. We believe that we can help these nations to achieve a reasonable pace of economic growth, although even this is not certain. But, most important, we believe that we can help to heal the gap in the non-Communit world by working with the people of the underdeveloped countries to help them achieve what has become one of the driving forces in their lives.

38c. We know that there is no other device -- no diplomacy, no military force -- which can achieve U. S. foreign policy objectives in these areas. The only device which promises some hope of success is an expanded economic and technical assistance program which has as its sole objective the economic growth of the underdeveloped countries.

39. The I. D. A. B. also believes that such a foreign economic development policy has ample and perhaps even sufficient justification in the morality and tradition of America society. We should not be self-conscious because of the strong humanitarian element in our earlier aid programs. This was America at its noblest. America is concerned with spiritual and moral values. We can demonstrate this to ourselves and to the world by the way we share our material abundance and technical knowledge with the less fortunate of the globe.

40. "Winston Churchill once called the Marshall Plan 'the most un-sordid act of history.' His generous words reveal his feeling that many Americans supported the Marshall Plan not merely because it was good policy but also because they were genuinely concerned for the people of Britain and Europe and felt their own fate to be inextricably linked with the fate of European civilization. The Marshall Plan was not a humanitarian enterprise; aid to Europe was vitally important to our security in the years 1947-50. But the moral overtones of the Plan help to account for the creative vigor with which it was administered -- and for the answering vigor of the European response. Had our aid been motivated solely by considerations of national advantage, it would not have been as successful as it was in building a sense of community within the Western world." 1/

41. The channel through which we can hope to transfer to the people of the underdeveloped countries something of the values of our way of life is our mutual concern with economic growth. Our values cannot be transferred by

1/ From an address by H. Van Buren Cleveland before The National Academy of Economics and Political Science, October 16, 1956.

by words alone. They can be transferred by deeds, by working together for a common purpose with the people of the underdeveloped countries.

42. If we wait, we may well see the countries of the underdeveloped areas failing to accomplish any perceptible economic progress. Even if they do achieve some growth by their own efforts alone, slowness of the growth and the widening of the gap between them and us may well create political and moral problems which we cannot now foresee and which it will be too late to treat a decade or so from now.

43. We believe that we face a situation in which U. S. self-interest and U. S. ideals both support the same course of action. We have an opportunity to assert a moral and political leadership, an opportunity which will certainly be lost if we attempt to calculate its benefits in the same currency in which we must reckon its costs.

IV. Major Policy Problems of an Economic Development Program

44. The major purpose of the present study, to decide whether there is a fundamental U. S. interest in foreign economic growth, has been achieved. This leaves, of course, many important and difficult problems unanswered. The I. D. A. B., composed of representatives of the main streams of American life, does not presume that it has the technical knowledge to provide specific answers to these questions. Yet, it feels that it cannot avoid raising the major questions of principle and suggesting the general direction in which it believes the answers lie. Thus, in this section of the report, the basic policy problems are raised for brief discussion.

A. What should American economic assistance be used for?

45. Let us confine the discussion of this question to the economic development of foreign countries. We are not considering whether we can "buy" friends or "buy" diplomatic or military allies. We will not consider the use of aid to achieve short-term objectives or to meet short-term problems such as a famine, an oil import financing crisis, or a budget crisis of a particular country. Let us also rule out considerations of what economic aid can do to bolster a foreign country's military power. This does not mean, we repeat, that it is not legitimate to use America's economic power to meet short-term problems or to strengthen the military power of friendly nations.

46. What is left? Foreign capital in general, and U. S. aid in particular, can be used either to raise the rate of investment in a country, or the rate of personal consumption, or both. It is clear, however, that no American aid program of moderate proportions -- say, \$5 billion per year --

could directly raise standards of living of all of the people in non-Communist Asia or Africa sufficiently to make a serious impact. This flows from the simple fact that there are in non-Communist Asia and Africa about one billion people. Thus, the most that an aid program could accomplish would amount to only, at most, several dollars a year for each individual. Moreover, the amount of this type of aid could have to be continually increased or it would have no new effect; the same amount of consumption aid the second year would see no additional increase in consumption. And it would not increase employment or capture the imagination or the constructive energies of the people of the underdeveloped areas.

47. This does not mean that the U. S. could not make an improvement in the standard of living of a small area, like the Republic of Korea or the Jordan Valley. But, it does mean that as a general proposition for all the underdeveloped areas, consumption aid could not hope to achieve anything substantial and would involve the U. S. in an endless and growing program.

48. American economic assistance can, we hope to show in the following section, have an important impact if it is concentrated on raising the level of capital formation, the rate of investment, in the underdeveloped countries of the world. In this manner, the process of successful economic growth can be started or stimulated further so that per capita consumption can eventually rise and the requirements for increases in capital can eventually be supplied by the country itself, supplemented by normal flows of capital from abroad. In this manner, the process of economic growth can be accelerated and

and the energies of the people can be absorbed in socially constructive tasks.

49. What can the U. S. expect to accomplish and what should the people of the underdeveloped areas expect to achieve under an expanded American economic development assistance program? Neither should be allowed to anticipate that the gap in the standards of living between the developed and underdeveloped countries will close. In fact, as pointed out earlier, there is every reason why this gap will widen. But, what can be achieved and what we believe may be sufficient for the success of the program, is what the leaders, the middle class, and the mass of the people of the underdeveloped countries be given hope that their own economic situation can, and is being, improved. What is important is that these people do make substantial economic progress in terms of useful employment, of growing per capita production and growing per capita consumption.

B. How much additional foreign capital do the underdeveloped countries "require"?

50. This is an exceedingly difficult question to answer even if a definition of "require" could be agreed upon. The "requirements" the U. S. should have in mind are basically political or psychological, as suggested above. Translating them into economic terms is necessary but far from simple; turning the economic objectives into aid requirements is easier, but only by comparison.

51. But the task is not hopeless. Having limited U. S. objectives to raising the rate of capital formation in the underdeveloped countries, we have

set an attainable and roughly measurable goal. Gross capital formation in the non-Communist countries of Asia and Africa is currently estimated at about \$7 billion per year. 1/ (In Latin America, where private investment can play the primary role, the gross capital formation is about \$8 billion per year.) Obviously, a relatively moderate U. S. Governmental effort could make a significant increase in a rate of capital formation which is so restricted.

52. But how much money should the U. S. Congress appropriate? It would seem desirable to err on the high side rather than on the low side at the beginning of the new program and to apply rigorous criteria as to the expenditure of the funds. No doubt there will be difficulties in spending quickly a large sum of money. If this is done, however, and if the Administration has to ask the Congress for an additional appropriation, it would be a sign of a successful program. Only after economic growth is well started can large amounts of capital be absorbed. The real danger and a real sign of failure of the program would be the inability of the Administration to spend an increasing amount on capital formation in the underdeveloped countries. There is every reason to believe that this is the actual situation at the moment.

C. How long must an enlarged U.S. economic assistance program be continued?

53. The question of "how long" is really part of the question "how much", and is just as difficult. And the I.D.A.B. does not have a definite answer to this one, either except to note that a program to stimulate successful economic growth is, and must be, a long-term program. It will take a long time before the nations of Asia and Africa are in a position to supply their expanding consumption and capital requirements from their own resources or from the normal capital markets of the world.

54. The U.S. should not expect its expanded assistance program to end before a generation--two decades--has elapsed. It has been more than a decade since the close of World War II. Yet, the U.S. is still in the "temporary" business of extending financial assistance to foreign countries.

55. While the concept of continued aid for another generation, or even more, is at first shocking, it should not be. The businessmen on the Board plan more than 10 years ahead for their own firms; the university people are involved in research which looks even farther into the future. Is it unreasonable to expect that U.S. governmental policies concerned with the basic problem of the type of world in which we and our children are going to live should look less far into the future than business or academic research does for their own special spheres of interest? Finally, we believe that it would be a serious diversion of effort and time, to debate the problem of the length of the program. The important thing is that it be stable and continuous for, at least, the near term and that quick results not be expected.

D. Can the U.S. afford substantial economic assistance?

56. It seems clear that the United States can afford a substantial program of economic assistance to the underdeveloped countries. We say this

in full recognition of the urgent needs of this country for schools, for highways, for tax reduction, etc. This judgment stems from the magnitude of the foreign needs and knowledge of the strength of the American economy. Total American production is now running at the rate of \$414 billion per year. It has been increasing at about three and one-half percent per year, or by an absolute amount of over \$14 billion per year. In other words, a large increase could be made in the rate of capital formation of the underdeveloped countries with no reduction at all in U.S. income and with only a small reduction in the amount by which our income increases each year.

E. Should U.S. foreign economic assistance be in the form of loans or grants?

57. When the I.D.A.B. first approached this question, its immediate answer was the simple and obvious one: loans. If loans rather than grants were made, the recipient country, as well as the lending agency, would be more frugal in the use of the resources. We are convinced of this, and therefore continue to have a bias in favor of loans.

58. But, on further examination of the problem, we recognized important qualifications. Renumerative investment will be made by private capital, which should be encouraged; fairly sound projects will also be financed by the IHRD, the International Finance Corporation (IFC), and the Export-Import Bank. Thus, what will remain for the expanded program which we envisage, are the less obviously remunerative or sound loans. Moreover, repayment will certainly hinder the future accumulation of capital by the underdeveloped countries. We cannot envisage a time when their situation will be such that payment of interest and principle will not be a serious burden on them.

59. Thus, we suggest no firm answer to this question except that it be handled judiciously in the future when the question of repayment arises. In

popular terminology, we are recommending that the aid program consist largely of "soft loans" supplemented by grants where they seem to be in order. We also recommend for further consideration the possibility of making loans in perpetuity: loans whose principle would never be repaid but which would pay interest forever.

F. What are the advantages and disadvantages of a U.S. bilateral program as compared with a multilateral program?

60. Basically, there are two devices which can be employed in an aid program. The first is illustrated by the present US aid program which is largely a bilateral one. It has the distinct advantage that the U.S. has complete control of the funds. Since objective criteria for allocating grants and soft loans among the many^y claimants are virtually non-existent, so that distribution depends upon political and social judgements, U.S. control is an important factor. At the same time, U.S. distribution of funds makes it clear that whatever credit or popularity does result from the giving of aid accrues to this country.

61. But, there is a widespread feeling in the rest of the world in favor of enlarged multilateral programs. This would have some advantage in raising funds from Western Europe and Japan. It should not be overestimated, however, as the amounts involved are likely to be small. Secondly, the frictions and antagonisms likely to develop in a bilateral donor-recipient relationship are not likely to affect a multilateral organization as seriously as it would the U.S. An international agency could impose tougher restrictions on the use of aid than could be imposed by the U.S. without insulting the sensitivities of the new nations.

62. These arguments, especially the latter, are compelling reasons for U.S. support of an enlarged multilateral aid program. We could multilateralize the giving of aid as is the case of the IBRD and the proposed Special United Nations Fund for Economic Development (SUNFED). We could multilateralize the giving of advice, the screening of projects, as has been proposed in a noteworthy book on foreign aid by Drs. Max Millikan and W.W. Rostow of M.I.T.

We could multilateralize the administration of an aid program, as has been suggested by others.

63. SUNFED has many advantages, one of which is that there seems to be a large demand for it among most of the underdeveloped nations and the nations of Western Europe. It has two major disadvantages. With each nation -- recipient and donor -- entitled to equal voting, it seems likely that criteria for the distribution and use of aid will not be as rigorous as would be desirable. Thus, large countries are likely to be less well treated in relation to their population than the smaller underdeveloped ones. Secondly, SUNFED is likely to be relatively small, being limited by the fact that the nations have to match the U.S. financial contribution. An initial capital of \$200 million has been proposed.

It would seem desirable to support this limited proposal which could make "soft loans" to compliment the "hard loans" now being granted by the IBERD.

64. There is something to be said for international agencies which would screen requests for loans to make sure they meet rigorous criteria. Similarly, there is much to be said for having this international agency, or a separate one, administer part of the funds. In fact, a separate international administration could be established for each large project. One such example would be the Jordan Valley Development Program.

65. The IDAB believes that the demand for greater multilateralization of U.S. aid should be considered favorably, but that there is no urgency to come up with a new institutional arrangement for the entire program. This is something which can start off slowly, and which can be shaped by the lessons of experience. It is important that consideration of appropriate aid institutions or mechanisms not interfere with the acceptance of the principle of the need for a larger aid program. An expanded program could easily utilize the existing institutions -- primarily ICA -- while other institutions are staffing and experimenting.

G. Should the aid program continue in its present form of annual appropriations or should a capital fund be established?

66. As noted earlier, the I.D.A.B. feels strongly that the annual review of the fundamentals of U.S. foreign development policy is a harmful, destructive process. It gives the appearance of instability to our aid programs, which though certainly not justified by U.S. performance, is nevertheless damaging to U.S. interests. Thus, the IDAB believes that a large Capital Fund ought to be established with perhaps as much as \$10 billion for the making of soft loans and grants for the economic development of Asia, Africa and Latin America.

67. Such a Fund would demonstrate to the world the stability of the U.S. purpose in this field. It would avoid the problem of making accurate appraisals of the amount of aid which should be expended in any fiscal year. It would give the Administration the permanence and flexibility which it needs to plan and carry out a successful program of economic development.

H. What additional role can U.S. private investment play?

68. We are convinced that private foreign investment is of great importance. In the post-war years the quantities have not been large, and they have been directed almost entirely to Latin America and Canada. Nevertheless, we recognize that there are many "qualitative" advantages to private investment abroad which are underestimated as much as the "quantitative" effects are often exaggerated. Private investment generally brings with it managerial skills and know-how which are as important to the underdeveloped countries as is the capital itself.

69. Measures should be considered to stimulate private foreign investment. This is a problem which the IDAB is studying in considerable detail, especially



International Development Advisory Board

INTERNATIONAL COOPERATION ADMINISTRATION

Washington 25, D. C.

SUMMARY OF BASIC DATA ABOUT THE

INTERNATIONAL DEVELOPMENT ADVISORY BOARD

Legal Basis: The Board had its origin in Section 409 of the Act for International Development enacted in June, 1950, and in Executive Order 10159 of September 9, 1950. It is currently included in the Mutual Security Legislation as Sec. 308 of the Mutual Security Act of 1954. (Public Law 665 - 83rd Congress), as amended.

Purpose: To advise and consult with the President, and such other officer as he may designate (Director of International Cooperation Administration), with respect to general or basic policy matters arising in connection with the operation of --

- 1) Development Assistance Programs.
- 2) Technical Cooperation Programs.
- 3) Programs designed to Encourage Participation by Private Enterprise in Achieving the Purposes of the Mutual Security Act.

Special Activities of the Board:

1) When the Board was first convened in 1950, under the Chairmanship of Nelson A. Rockefeller, President Truman requested that it make a study "of desirable plans to accomplish with maximum dispatch and effectiveness the broad objectives and policies of the Point Four Program." In response to this request, the Board issued a report "Partners in Progress" in March, 1951. Among other things, this report recommended the centralization and unification of major foreign economic activities, and the creation of an International Finance Corporation, both of which recommendations have been carried into effect.

2) In December, 1953, under the Chairmanship of Eric Johnston, the Board issued a series of "Conclusions and Recommendations" regarding Technical Cooperation Programs. This report has been used extensively by the U. S. representatives in the UN and by representatives of other nations to that body.

3) The idea and plan for the Inter-American Investment Conference, held at New Orleans in February and March, 1955, was first developed by the Board. This conference brought together approximately 1,000 businessmen from the United States and Latin America to discuss the possibilities for accelerating economic and social development in Latin America through private investment. Subsequently, the Board aided the Cuban Investment Committee and the Florida State Chamber of Commerce and the Pan American Commission of Tampa in organizing a Cuban-American Business Conference, which was held in Havana in January, 1956. At this meeting, representatives of private business in Cuba and Florida discussed specific mutual problems of cooperation and investment, and arranged for continuing interchange of investment data.

4) The Board has made numerous recommendations to the President, and to the Director of the ICA (and his predecessors) for their action. Among the matters reported on in 1956 have been: the necessity for long-term planning for foreign aid, the principles which should govern utilization of the Asian Development Fund, and the critical importance of action on an enlarged program for malaria "eradication" as contrasted with present malaria "control" activities.

IDAB
7/13/56

SEP 12 1956

September 7, 1956

Dr. Max F. Millikan
Center of International Studies
Massachusetts Institute of Technology
Cambridge, Massachusetts

Dear Max:

It was very good to talk to you on Wednesday, but I miss the personal touch which the telephone can't and a martini or beer can supply.

I seem to be continuing to follow you around. As I mentioned, I am about to join the International Development Advisory Board (the Johnston Board, formerly Rockefeller) to do a general review of U. S. interest in foreign economic development. (Attached is a paper which tells you and me what the I.D.A.B. is all about.) We, of course, read with great interest your and Walt Rostow's forthcoming book on the subject and, as I mentioned, would like to distribute copies of it to the Board as soon as possible.

We were also jealous of the fact that you have been advising the Senate and would appreciate whatever advice you may have to give us on what our Board can do in this broad but *now* crowded field.

Attached is a copy of a paper by Bert Gould criticizing the concept of the use of capital-output ratio.* I think it is a good paper and hope that you may find it of value.

I hope that we will be able to get together when you come to Washington. I am shuttling back and forth between my State Department office (telephone - RE-7-5600 or Code 191, x-3742) and the I.D.A.B. office (ST-3-6400 or Code 140, x-2293).

Please send my regards to Bill Malenbaum, Charlie Kindleberger, and, if you ever cross the river, to Arthur Smithies, Jim Dusenberry and Guy Orcutt.

a bientot

Sincerely yours,

Al
Alfred Reifman

2 Enclosures

* in MFM's office (Sept. 13, 1956)

Almb
ICA file

September 13, 1956

Mr. Alfred Reifman
International Development Advisory Board
International Cooperation Administration
Washington 25, D. C.

Dear Al:

Thanks for your letter of September 7 and the enclosures which I have just received. I have been meaning to write you since receiving your phone call but have only now been able to get to it. We dispatched the requested number of copies of our manuscript to you after you called and you should have them by now.

Walt and I have given some thought to what your committee might usefully concentrate on. You will, of course, have to cover some of the central issues that all of the other groups working on this business will tackle, such as the relation between military and economic assistance, the basic rationale of assistance programs, the best institutional arrangements to handle future assistance programs, etc.

In addition, it occurs to us that there are two important topics which, so far as I know, the other groups are not planning to dig into deeply and which badly need a further look.

The first of these would be a series of case studies on the relationship of political evolution and political behavior in particular foreign countries to economic developments including, but not confined to, assistance programs. As you will see from the manuscript of the paper Walt and I have prepared, we believe that the case for continued economic assistance rests very critically on the importance of internal economic developments in the underdeveloped areas to their political health and dedication to democracy. Limitations of space prevented us in our study from developing as subtle and perceptive

Mr. Alfred Reifman

3

September 13, 1956

These are just a few random reflections. If we have any other ideas, I will communicate them to you when I see you out week after next.

Best regards.

Yours,

Max F. Millikan
Director

MM:pec

a description of the relation between political and economic change as we would have liked to have done. I am sure that you will criticize our draft on the ground that it is oversimple and neglects a lot of complications that are present in particular cases. We would plead guilty to this charge without further debate, and would justify our draft solely on the ground that an exaggerated and oversimplified picture had to be drawn to get across a central point. I feel that a great service would be performed by perceptive analysis of the situation in such places as Egypt, Indonesia, and Afghanistan. How valid is it to assume in each of these cases that reasonably successful internal development programs would produce results in our interest? Are there situations (e.g. Afghanistan?) in which the instruments of political influence are already so firmly in Communist hands that any strengthening of the economy increases rather than decreases our problems? What is the relation in each of these countries between our economic assistance activities and the efforts of other branches of our government, such as the State Department, the Information Agency, and the like? How in these particular cases might technical assistance and economic development aid programs be more effectively used, in conjunction with other instruments of U.S. policy, to further our objectives in these countries?

The other topic is the relationship of economic growth in the underdeveloped areas to the economic, political, and even psychological problems of the industrialized areas. In how far and in what ways will rising levels of income in the underdeveloped world contribute to a solution of the market and raw material problems of Western Europe and Japan? How will this be influenced by the type of economic assistance provided, the sort of international trading community which all of the countries concerned can be persuaded to construct, and the like? How can a partnership development activity be organized so as to secure the active participation of the Western European countries and provide for them a sense that they are engaging along with us in a constructive and imaginative program to improve world stability?

5 Sept. 56

File with Reifman
letter.

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

CAMBRIDGE 39, MASSACHUSETTS

A

REIFMAN, AL:

Deputy Director, Int'l Dept. Advisory

Board - Eric Johnson Committee -

Going to study foreign aid.

E. Johnson, Chmn.

G. Cowles

Robt. Daniel - neg. ed.

Harvey Winston

Walter Myers

Peter Grace

Halverson v of Cal.

Herschel Vernon - Grange

Wm Rand

L.F. Whittmore

Volkmann } Labor
Minton }

Intercollegiate Debating Topic

Resolved U.S. sho

Internal Dept. H. do. D. ed

DCA

Washington 25

Relation of Dept. to industrialized
areas.

Relation of polit. to econ.

- case studies - Egypt, Indonesia
Afghanistan, - Relation to diplomacy, etc, etc.

DEC 26 1956

IDAB

INTERNATIONAL DEVELOPMENT ADVISORY BOARD
WASHINGTON 25, D. C.

CHAIRMAN
ERIC JOHNSTON

DEC 18 1956

Dr. Max F. Millikan
Center of International Studies
Massachusetts Institute of Technology
Cambridge, Massachusetts

Dear Dr. Millikan:

I was sorry that we were not able to have you with us on December 13th but wish to express our appreciation for sending down Professor Everett E. Hagen to present the views of your group.

Professor Hagen made a first-rate contribution to our meeting and did much to round out the picture as presented by the other three participants.

I understand from Professor Hagen that your book will be out shortly after the first of the year, and, although I have read your hectographed report, I shall be most interested to see the final product.

Again many thanks for the cooperation of your Center during these past months, and with best wishes for a Merry Christmas and a Happy New Year, I remain

Sincerely yours,

Eric Johnston

Shown to E. E. H.

INTERNATIONAL DEVELOPMENT ADVISORY BOARD

INTERNATIONAL COOPERATION ADMINISTRATION

Washington 25, D. C.

December 12, 1956

DEC 17 1956

ERIC JOHNSTON
CHAIRMAN

GARDNER COWLES

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HARVEY S. FIRESTONE, JR.

J. PETER GRACE, JR.

WILTON L. HALVERSON

MRS. J. RAMSEY HARRIS

LLOYD A. MASHBURN

LEE W. MINTON

W. I. MYERS

HERSCHEL D. NEWSOM

WILLIAM M. RAND

L. F. WHITTEMORE

Wm. C. Schmeisser, Jr.

~~GEORGE A. BARNES~~

EXECUTIVE DIRECTOR

Mr. Max F. Millikan
Director
Center of International Studies
Massachusetts Institute of Technology
Cambridge, Massachusetts

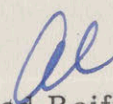
Dear Max:

I expect to be in Cambridge on December 18th and 19th to attend a seminar at the Russian Research Center, but also to get away from the "Johnston Report", the first draft which will have been completed by then.

I hope we can get together for awhile on one of these days for the most important reason of all -- pleasure -- and also so that we may talk briefly as to what you think the Johnston Board ought to come up with in a way of a report. As I see it, the tree that will grow will follow the "twig" of Johnston's testimony before the Fairless Committee.

Best regards. I hope to see you soon.

Sincerely yours,


Alfred Reifman
Deputy Director

October 12, 1956

Dear Max

One of my girls is currently typing the draft to send you, and the other is doing a letter to Dr. Grayson, Kirk; so the pen will have to suffice.

The attached draft is really "rough", and suggestions to start over again are welcome. I have serious doubts about the last section. It seems to me that we may have to hold some of these items for our November or December meetings, not because they are not important, but because of time limitations. We plan 10-4:30^{or 5} with 1½ for cocktails and lunch. You have had much more experience with the timing on a discussion such as this; so again we will take our cue from you.

When you have corralled your ideas, please call us collect: Sterling 3-6400, X-3305 or X-2293. We hope to get letters plus outline out to all participants about the middle of next week.

Many thanks,
Bill Schweisser

IDAB

File with Internat. Devel.
Advis. Board
(Schmeisser + Reifman)

Prospective Attendance

SUBCOMMITTEE ON REAPPRAISAL OF FOREIGN ECONOMIC AND TECHNICAL ASSISTANCE PROGRAM

Foreign Commerce Committee

October 17, 1956 -- Hay-Adams Hotel -- Washington, D. C.

CHAIRMAN: W. R. Jeeves
Vice President & Director
Overseas Operations
Parke, Davis and Company

Ralph M. Binney, Vice President
Foreign Division
The First National Bank of Boston
Boston, Massachusetts

Samuel K. C. Kopper
Assistant to Chairman of the Board
Arabian American Oil Company
New York, New York

John M. Coates, President
Masonite Corporation
Chicago, Illinois

Frank T. Magennis
Vice President & General Manager
Goodyear Foreign Operations, Inc.
Akron, Ohio

F. L. Elmendorf, Senior Vice President
Robert Heller and Associates, Inc.
Cleveland, Ohio

Norman T. Ness, Secretary
Anderson, Clayton and Company, Inc.
Houston, Texas

Theodore V. Houser
Chairman of the Board
Sears, Roebuck and Company
Chicago, Illinois

F. C. W. Paton, Vice President
Gulf Oil Corporation
Pittsburgh, Pennsylvania

James A. Jacobson, Vice President
The Chase Manhattan Bank
New York, New York

Howard E. Ridgway, Vice President
The Seven-Up Company
St. Louis, Missouri

Ralph E. Smiley, President
Booz-Allen & Hamilton International, Ltd.
Washington, D. C.

William Blackie
Executive Vice President
Caterpillar Tractor Company
Peoria, Illinois

Kenneth H. Campbell
Foreign Commerce Department
Chamber of Commerce of the U. S.
Washington, D. C.

Richard G. Gettell
Chief Foreign Economist
The Texas Company
New York, New York

Charles W. Vear
Foreign Commerce Department
Chamber of Commerce of the U. S.
Washington, D. C.

Max F. Millikan, Director
Center for International Studies
Massachusetts Institute of Technology
Cambridge, Massachusetts

(Prospective Guest for Dinner)

INTERNATIONAL DEVELOPMENT ADVISORY BOARD
WASHINGTON 25, D. C.

OCT 8

1956

IDAB

CHAIRMAN
ERIC JOHNSTON

October 5, 1956

Dr. Max F. Millikan
Center of International Studies
Massachusetts Institute of
Technology
Cambridge, Massachusetts

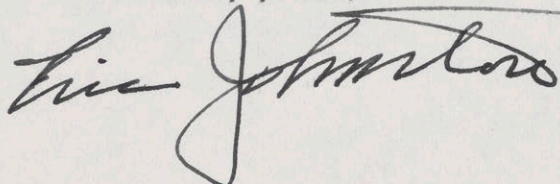
Dear Dr. Millikan:

I was particularly delighted to learn from Bill Schmeisser and Al Reifman that you had agreed to chair the discussion sessions of the I. D. A. B. on October 30th. I have been reading the report prepared by you and Dr. Rostow and look forward to meeting you.

This is just a short note of appreciation prior to my departure, on Monday, for a swing behind the Iron Curtain. My staff will write you a more complete letter in the near future, and I understand from them that they are relying heavily upon your advice in the selection of other speakers and in the outline of the program.

Many thanks for your cooperation and help.

Sincerely yours,



Eric Johnston

INTERNATIONAL DEVELOPMENT ADVISORY BOARD
INTERNATIONAL COOPERATION ADMINISTRATION
Washington 25, D. C.

← P.M.
OCT 23 1956

ERIC JOHNSTON
CHAIRMAN

October 22, 1956

GARDNER COWLES

Dr. Max F. Millikan
Director, Center of
International Studies
Massachusetts Institute
of Technology
Cambridge, Massachusetts

ROBERT P. DANIEL

HARVEY S. FIRESTONE, JR.

J. PETER GRACE, JR.

WILTON L. HALVERSON

Dear Max:

MRS. J. RAMSEY HARRIS

It was not only a great help to have you go over the outline with us last week, but I thoroughly enjoyed our discussion at the Hay-Adams.

LLOYD A. MASHBURN

LEE W. MINTON

I am enclosing four copies of the outline for October 30th, and, on one of them, I have noted the people we have asked to kick off the discussion. They have been asked to lead-off with "not more than three minutes". I can see you shudder because I have upped this from your one minute rule, but I listened to Victor Borge the other night trying to play the Minute Waltz in sixty seconds.

W. I. MYERS

HERSCHEL D. NEWSOM

WILLIAM M. RAND

L. F. WHITTEMORE

As you can see, Grayson Kirk was not able to rearrange his schedule, but it seems to me that we have pretty much of a powerhouse as it is.

Wm. C. Schmeisser, Jr.

~~GEORGE A. BARNES~~

EXECUTIVE DIRECTOR

If you have any questions, you know where you can reach us. Looking forward to seeing you next week, I remain

Very sincerely yours,

Bill

4 Enclosures

DB has one

William C. Schmeisser

Master Copy



International Development Advisory Board

INTERNATIONAL COOPERATION ADMINISTRATION

Washington 25, D. C.

U. S. FOREIGN ECONOMIC POLICY AND OBJECTIVES

Panel Discussion, October 30, 1956

Place: California Room, Hotel Statler
Washington, D. C.

Time: 10:00 a. m.

Panel Participants:

Chairman:

Max F. Millikan - Director, Center of International Studies, M. I. T.

Conrad M. Arensberg - Professor of Anthropology, Columbia.

Sune L. Carlson - Director, Bureau of Econ. Affairs, U. N.

Robert A. Dahl - Assoc. Professor of Political Science, Yale.

Richard H. Demuth - Technical Assistance Staff, I. B. R. D.

Edward W. Doherty - Office of Intelligence Research, Dept. of State.

Paul H. Nitze - President, Foreign Service Educational Foundation.

George S. Pettee - Asst. Director, O. R. O., Johns Hopkins.

Walter W. Rostow - Center of International Studies, M. I. T.

Thomas Schelling - Assoc. Professor of Economics, Yale.

Francis X. Sutton - Sociologist, Ford Foundation.

~~Philip H. Trezise~~ - Policy Planning Staff, Dept. of State.

Henry Owen

DISCUSSION OUTLINE FOR MEETING ON OCTOBER 30, 1956

For some months, the I. D. A. B. has felt the need for a reexamination of the objectives and a restatement of the rationale underlying U. S. foreign development policy toward the low income countries. Existing statements have been unclear, at times contradictory, and, because of this, subject to increasing criticism. The Board believes that, until such objectives have been defined and a rationale articulated in terms understandable to the general public, the Administration will continue to have difficulties in obtaining the moral support of our people and the financial support of the Congress for its proposed programs.

This question of objectives and rationale is a complex one. The Board undertakes its current study with no illusions that it will produce anything startlingly new in this field. It hopes, however, that, by discussing these matters with specialists from various professions, each of whom has been studying the problem, it may clarify its own thinking and perhaps be able to contribute somewhat to the understanding of the problem which is needed.

As an outline for the meeting on October 30th, we suggest that the discussion center about the topics which are stated below:

- A. What are, or should be, the foreign policy objectives of the United States in the low income countries of the non-communist world?
 - B. Can economic growth in such countries make a significant contribution to the achievement of U. S. objectives? Can U. S. foreign policies make a significant contribution to economic growth in such countries?
 - C. What are the broad policy implications to be drawn from the discussion of the preceding questions?
- A. What are, or should be, the foreign policy objectives of the United States in the low income countries of the non-communist world?

Challenged as the United States is today by the forces of Soviet Imperialism and by the aspirations of many "uncommitted nations" for independence and economic development, there is a need to reexamine the soundness of our policies toward the low income countries of the non-communist world. First, however, we must determine what it is that we are attempting

to achieve. What are the ends or objectives of U. S. foreign policy in such countries? Involved are a set of military, political, economic, and humanitarian considerations. We propose to discuss them in that order.

Nitze
1) For over seven years now, we have been agreed that the military strength of the United States and that of its West European allies must be built up and maintained. The NATO countries are, relatively speaking, economically strong, politically stable and have a considerable measure of support for the military policies of their governments. This is not true of the low income countries. Nonetheless, should the United States also attempt to foster military strength against external aggression in some or all of the low income countries of the non-communist world?

One view is that the military potential of these countries could never stop a determined communist move, that the requirements of a military build-up detract from economic strength, and that U. S. pressures for a military program foster the image of this country as a warlike, aggressive power. Another view is that a military program trains technicians, widens the horizons of many of its recruits, hastens the process of social change, and constructs public works. Moreover, overseas bases in certain countries are considered by the Pentagon as essential to U. S. security, and, as a practical political matter, it would seem most difficult to curtail the military program in the countries now receiving major military assistance, even if this is desirable.

Lezise
2) A large part of diplomatic history has been the story of the creation of alliances. Are alliances with the low income countries an attainable major objective for the United States, and, if so, are they a desirable objective? Ex-colonies and emerging nations are very jealous of their independence. Should the United States be willing to accept less than full alliance, and less than full leadership in the foreign policies of these countries? Is mere non-alignment with the Communist bloc, popularly referred to as "neutralism", too low a target at which to aim? What should be our policy toward uncommitted nations and what effect will this policy have on our relations with the nations who are tied to us through alliances.

Rostow
3) For many, the U. S. political and economic system has proved its advantages as a method of achieving rapid economic growth with a maximum of political freedom. Moreover, countries with similar systems tend to be our friends and allies. Does this mean that the U. S. should attempt

to foster political and economic institutions in the low income countries similar to ours? What should be our policy toward countries where U. S. assistance would seem to be subsidizing socialism? Should the United States attempt to achieve a democratic distribution of political power regardless of the economic system? Should the United States concern itself with foreign political and economic systems at all or only with specific government policies?

Dahl

4) The internal political evolution of these countries can have profound external repercussions. Communism could attain power not only by external force, but by internal force and by legal means. Irrespective of the factor of communism, local revolutions and disorder can be disruptive and may lead to war involving the major powers. In the light of these possibilities, should it be an objective of U. S. policy to strengthen the internal political stability and the internal military security of the non-communist countries? Should we differentiate in our policy between friendly and neutral governments, between popular and unpopular ones?

Arensberg

5) Much has been written of late about the challenge presented by social and political transformation in the low income countries. Should it be a policy objective of the U. S. to link itself with their aspirations for independence and development? To what extent is this question linked to the external and the internal stability considerations discussed above or to the humanitarian considerations noted below? Would the answers be the same in the absence of the Soviet challenge?

Reifman

6) The Paley Report pointed out the rapid shift of the United States to a "have-not" nation for many raw materials. Our dependence on foreign sources was expected to rise dramatically from 1950 to 1975. Other economists have pointed out the importance of U. S. exports to continued U. S. economic prosperity. Recently, an analysis was made for Business International by the economists, research and planning directors of the international divisions of 16 major U. S. firms, which analysis supports these contentions. Is the United States' interest in sources of raw materials and in markets for U. S. products sufficient to justify a government program supporting foreign economic development?

Rostow

7) In defining its objectives in the low income countries, the U. S. should make certain that its policies do not conflict, and, if possible, assist in the attainment of its goals in the developed countries. Can this be done? Should Western Europe and Japan participate in U. S. economic programs for the low income countries? Can they? What would be the political and economic results of such cooperation both in the developed and in the underdeveloped countries?

Doherty
8) To some extent, humanitarian, ethical or moral considerations lie behind many parts of U. S. domestic economic policy, as, for example, social security. The Marshall Plan also had humanitarian motivations, even though the fall of Czechoslovakia may have helped it through Congress in 1948. But many argue that such considerations are an appropriate basis for action only by individuals or by states within their own borders. Should the U. S. Government base its foreign policy on humanitarian or moral grounds?

B. Can foreign economic growth make a significant contribution to the achievement of U. S. objectives? Can U. S. foreign economic policies make a significant contribution to foreign economic growth?

Doherty
1) In many of the low income countries, the drive for economic development appears second only to political independence in its emotional appeal. The stability of a government may depend in large measure on its ability to produce "successful" economic growth or even, occasionally, to negotiate aid. There are two successful models for economic growth. One is that of the U. S., Western Europe and Japan. The other is that of Soviet Russia and, perhaps, will prove to be that of Communist China. What are the attitudes of the governments, the leaders and peoples of the low income countries toward economic development, and toward the Western and the Soviet methods for achieving it? What are their attitudes toward the role which the U. S. should play in their economic growth?

Arensberg
2) We must recognize that economic growth in these countries can well raise serious problems for the United States. Economic development has the inherent possibility of disrupting, rather than improving, internal stability. The destruction of peasant and tribal standards of value, the growth of a landless, urban proletariat, increased state activity in economic life, all could produce results which are inimicable to U. S. objectives. Does this mean that economic growth is undesirable from the U. S. point of view? Does the U. S. have any choice in the matter? Or, does this mean that those nations which are pressuring for economic growth are merely in a more advanced state of political evolution which the more dormant states will sooner or later reach? How can their economic aspirations be met with a minimum of adverse repercussions on the U. S.? What are the psychological advantages and disadvantages of the act of giving U. S. foreign aid?

Tregise
3) In the past three years, the Soviet Bloc has capitalized on the preoccupation of many of these low income countries with economic advancement. Though still low, Soviet Bloc trade with these countries has gone up

markedly and a substantial amount of medium term and long term credits have been granted on favorable terms. The Soviet Bloc has a large unused potential for increasing these activities. What are the implications of this for future U. S. foreign economic policy?

4) The Marxists argue that impoverished people will turn toward communism. Frequently, American public officials, as well as private citizens, make statements which implicitly or explicitly accept this thesis. What validity is there to "stomach-communism"? Are better fed, clothed and housed people a necessary condition for achieving U. S. objectives in the low income countries?

5) There are those within the United States who believe that more can be done for achieving U. S. objectives in these countries by technical assistance, exchange of persons, cultural collaboration and large-scale support to education than by contributions to economic development. Is this a more fruitful approach to the challenge presented by the low income countries? If not, are such programs a necessary companion to economic programs, if U. S. objectives are to be achieved?

6) One of the important factors which has contributed to social and political harmony in a strong democratic environment in the U. S. may well have been the existence of an expanding economy. This has provided a major outlet for the energies of the dynamic people of American society -- energies which in other countries have taken anti-social channels. Would the establishment of a growing economy with expanded economic and social opportunities provide a similar channel for the restless energies of selected individuals, if not large numbers, in the low income countries?

7) Economic growth has been measured in terms of national aggregates (total production) or national averages (per capita production) or in some terms showing a changed distribution of income. Are these adequate measures of economic growth? What constitutes "satisfactory" economic growth? Is it the achievement of a certain level of economic activity or of a certain pace of expansion? Is there an absolute goal, say of one or two percent per capita per year? Is there a relative goal -- would India have to match Communist China's rate of growth to be "satisfactory"? It appears that no attempt to narrow the gap between the low income countries and the developed countries can be successful over the next several decades. In fact, the absolute gap, now so large, seems certain to widen. What are the implications of this?

Sutton

Not
Assigned
As
yet.

Dahl

Schelling

Carlson
8) Economic growth is a complex and not well understood process. Many low income countries have been stagnant economically for centuries. The obstacles to growth are many. Capital is lacking. Population rises rapidly (or even "explodes") as inexpensive health measures force down death rates. Where this occurs, tremendous economic achievements are required if the individual is to maintain merely his present low standard of living. Technicians are scarce. The entrepreneurial spirit is frequently weak. Natural resources may, or may not, be abundant. In this situation, how much influence can the developed nations bring to bear on foreign economic growth? Is there reason to believe that, within a foreseeable period, a "satisfactory" pace of economic activity can be maintained by the low income countries without extraordinary external assistance?

SUMMARY AND CONCLUSIONS

Millikan
↑
You
Our stated purpose in discussing the questions propounded in Sections A and B of this outline has been to clarify our thinking about the objectives of U. S. foreign development policy. At this point, let us summarize our conclusions. Let us attempt to do this simply and in non-technical language which can serve as the basis for obtaining the support of the general public.

C. What are the broad policy implications to be drawn from the discussion of the preceding questions?

The discussion to this point should have lead to some conclusions as to the adequacy of present U. S. policy and programs. If it should be concluded that changes in such policies or programs are needed, then a few of the questions which will also require answers are listed hereafter.

It is extremely doubtful that time will permit a discussion of these questions at the October 30th meeting, but we include them as a guide for possible future discussion.

1) Additional Capital Requirements. One of the ways in which the U. S. can indirectly affect foreign economic development is through its own economic growth, especially if that were coupled to the sort of trade policy envisaged in the recent Bell and Randall Reports. A more active attempt to affect foreign economic development would involve the provision of additional capital. Is it possible and useful to make estimates of the annual amounts of foreign capital that could be effectively used in the low income countries to promote "satisfactory" economic development? If so, how do the amounts compare with what is now being done? Is the repayment (transfer) problem an important limitation?

2) Private Capital. Part of the capital which the underdeveloped countries need, and are receiving, comes from U. S. private investment sources. What more can and should be done to promote this flow? What are the limitations on the ability of U. S. governmental policy to stimulate an expanded private capital outflow? Differentiate between types of capital (overhead and other) and areas, Latin America compared with Asia.

3) Public Capital. The U. S. governmental agencies, the I. B. R. D., the new International Finance Corporation, and U. N. technical assistance already provide some public capital. Should this be expanded? Should the expansion take place through bilateral programs run by the U. S. or should the emphasis be placed more heavily on other agencies such as the I. B. R. D., or perhaps a new international organization? What are the merits and demerits of public loans, public grants, or the intermediate "soft loan"? How serious a limitation on the effectiveness of U. S. programs are the annual Congressional hearings, debates and appropriations? Should military type aid be separated from economic aid?

Tech. Assist.
4) Advisory Function. One of the important contributions which the U. S. and the I. B. R. D. makes in its aid programs is the advice which it gives to the inexperienced technicians and public administrators in the low income countries. Aid is an important lever for transmitting such advice. Yet, we know that these new nations are most sensitive about "pressure" from the U. S. How can such advice be given without the ill effects which sometimes result from it? Does an international agency stand a better chance at having its advice accepted? Should the advice be limited to technical and narrow economic questions or should it also include broad economic, political and military "suggestions"?

5) Impact Projects. Should U. S. bilateral aid (or U. N. multi-lateral aid) be concerned with the building of "public relations projects" -- projects such as a dam, a steel mill, or a housing development, constructed entirely with aid funds -- in addition to, or instead of, less dramatic works aimed at the general improvement of economic conditions regardless of their dramatic effect?

1. Magnitude - threshold.
2. strings - Military, Political
3. international admin
4. continuity - case by case?
5. Grants-loans, public-private.
6. Agricult. surpluses.

10/22/56



International Development Advisory Board

INTERNATIONAL COOPERATION ADMINISTRATION

Washington 25, D. C.

MEMORANDUM

To: Panel Participants

From: Miss K. Snitehurst, Admin. Asst., IDAB

To receive compensation for your transportation and travel expenses, please furnish pertinent details on the attached travel information sheet and sign the attached travel voucher form, where checked in red, after "payee".

Also, please indicate below whether or not you desire to be paid the consulting fee of \$50.00 per day which is authorized in connection with your participation at this meeting.

_____ Yes

_____ No