A FOREIGN ECONOMIC POLICY FOR THE 1970'S

HEARINGS

BEFORE THE

SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY

OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

NINETY-FIRST CONGRESS

SECOND SESSION

PART 3—U.S. Policies Toward Developing Countries

MAY 13, 14, 18, AND 19, 1970

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE

40-333 O WASHINGTON : 1970

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 - Price $1.25

JOINT ECONOMIC COMMITTEE

[Created pursuant to sec. 5(a) of the Public Law 304, 79th Cong.]

WRIGHT PATMAN, Texas, *Chairman*
WILLIAM PROXMIRE, Wisconsin, *Vice Chairman*

HOUSE OF REPRESENTATIVES	SENATE
RICHARD BOLLING, Missouri	JOHN SPARKMAN, Alabama
HALE BOGGS, Louisiana	J. W. FULBRIGHT, Arkansas
HENRY S. REUSS, Wisconsin	HERMAN E. TALMADGE, Georgia
MARTHA W. GRIFFITHS, Michigan	STUART SYMINGTON, Missouri
WILLIAM S. MOORHEAD, Pennsylvania	ABRAHAM RIBICOFF, Connecticut
WILLIAM B. WIDNALL, New Jersey	JACOB K. JAVITS, New York
W. E. BROCK 3D, Tennessee	JACK MILLER, Iowa
BARBER B. CONABLE, JR., New York	LEN B. JORDAN, Idaho
CLARENCE J. BROWN, Ohio	CHARLES H. PERCY, Illinois

JOHN R. STARK, *Executive Director*
JAMES W. KNOWLES, *Director of Research*

ECONOMISTS

LOUGHLIN F. MCHUGH   JOHN R. KARLIK   RICHARD F. KAUFMAN
COURTENAY M. SLATER

Minority: DOUGLAS C. FRECHTLING   GEORGE D. KRUMBHAAR

SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY

HALE BOGGS, Louisiana, *Chairman*

HOUSE OF REPRESENTATIVES	SENATE
HENRY S. REUSS, Wisconsin	JOHN SPARKMAN, Alabama
WILLIAM S. MOORHEAD, Pennsylvania	J. W. FULBRIGHT, Arkansas
WILLIAM B. WIDNALL, New Jersey	HERMAN E. TALMADGE, Georgia
W. E. BROCK 3D, Tennessee	STUART SYMINGTON, Missouri
BARBER B. CONABLE, JR., New York	ABRAHAM RIBICOFF, Connecticut
	JACOB K. JAVITS, New York
	JACK MILLER, Iowa

MYER RASHISH, *Consulting Economist*

CONTENTS

WITNESSES AND STATEMENTS

WEDNESDAY, MAY 13, 1970

THURSDAY, MAY 14, 1970

MONDAY, MAY 18, 1970

TUESDAY, MAY 19, 1970

SUBMISSIONS

A FOREIGN ECONOMIC POLICY FOR THE 1970'S

WEDNESDAY, MAY 13, 1970

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The Subcommittee on Foreign Economic Policy met, pursuant to notice, at 10 a.m., in room S-407, the Capitol Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representatives Boggs and Reuss; and Senator Javits.

Also present: John R. Stark, executive director; John R. Karlik, economist; Myer Rashish, consultant; and George D. Krumbhaar, economist for the minority.

Chairman BOGGS. Today we begin a series of hearings to examine U.S. policies toward developing countries. To outline the context of our activities over the next few days, I should perhaps say that the Subcommittee on Foreign Economic Policy is currently engaged in a year-long effort to establish a set of economic policy goals for the decade of the 1970's.

Our first series of hearings in this exercise—held last December—considered general issues, and the second set, in March, concentrated on U.S. trade policy toward other industrial countries. Thus, the hearings beginning today on U.S. policies toward developing countries are the third set in our current effort.

A fourth set of hearings at the end of July will deal with the multinational corporation.

Early last March a task force on international development, chaired by Mr. Rudolph A. Peterson, our initial witness this morning, submitted its report to President Nixon. This report was entitled "U.S. Foreign Assistance in the 1970's: A New Approach."

Under the Javits amendment to the 1968 Foreign Assistance Act, the President was to have sent to the Congress last month his reaction to the recommendations of the Peterson task force and his own proposals for a new development assistance program. Unfortunately, events in Southeast Asia have kept the President fully occupied and have prevented him from fulfilling this expectation. We appreciate the extraordinary pressures under which President Nixon has been laboring.

As I have already mentioned, our first witness today, who will appear singly, is Mr. Rudolph A. Peterson, chairman of the Presidential task force on international development and the former chairman of the Bank of America. Following our questioning of Mr. Peterson, the next three witnesses will appear as a panel. However, before I call on Mr. Peterson, I yield to Senator Javits, who would like to make a brief statement.

Senator JAVITS. Thank you, Mr. Chairman.

I commend you for your initiative in calling this particular set of hearings which are designed to be the opening reappraisal of the Foreign Assistance Programs of this Government in the decade of the 1970's. When these hearings were scheduled, it was planned that we would have before us the administration's response to my amendment to the Foreign Assistance Act of 1968 which requested the President to make a thorough and comprehensive appraisal of the United States foreign assistance programs, as described in section 501, and to submit to the Congress, on or before March 31, 1970, his recommendations for achieving such reforms in and reorganization of future foreign assistance programs as he determines to be necessary and appropriate in the national interest in the light of such reappraisal. I ask unanimous consent that the complete text of my amendment be printed in the record at this point.

Chairman BOGGS. Without objection.

(The document referred to follows:)

2. FOREIGN ASSISTANCE ACT OF 1968

Partial Text of Public Law 90-554 [H.R. 15263], 82 Stat. 960, approved October 8, 1968

PART V—REAPPRAISAL OF FOREIGN ASSISTANCE PROGRAMS

DECLARATION OF POLICY

SEC. 501. The Congress declares that, in view of changing world conditions and the continued need to make United States foreign assistance programs an effective implement of United States foreign policy, there should be a comprehensive review and reorganization of all United States foreign assistance programs, including economic development and technical assistance programs, military assistance and sales programs, and programs involving contributions and payments by the United States to international lending institutions and other international organizations concerned with the development of friendly foreign countries and areas.

REAPPRAISAL BY THE PRESIDENT

SEC. 502 (a) In furtherance of the policy of this part, the President is requested to make a thorough and comprehensiive reappraisal of United States foreign assistance programs, as described in section 501, and to submit to the Congress, on or before March 31, 1970, his recommendations for achieving such reforms in and reorganization of future foreign assistance programs as he determines to be necessary and appropriate in the national interest in the light of such reappraisal. The President is requested to submit to the Congress, on or before July 1, 1969, an interim report presenting any preliminary recommendations formulated by him pursuant to this section.

(b) It is the sense of the Congress that the reappraisal provided for in subsection (a) should include, but not be limited to, an analysis and consideration of proposals concerning the establishment of a Government corporation or a federally chartered private corporation designed to mobilize and facilitate the use of United States private capital and skills in less developed friendly countries and area, including whether such corporations should be authorized to—

(1) utilize Government guarantees and funds as well as private funds;

(2) seek, develop, promote, and underwrite new investment projects;

(3) assist in transferring skills and technology to less developed friendly countries and areas; and

(4) invest in the securities of development financing institutions and assist in the securities of development financing institutions and assist in the formation and expansion of local capital markets.

NOTE.—Except for Part IV, which relates to amendments to other acts, and Part V, which relates to reappraisal of foreign assistance programs, the Foreign Assistance Act of 1968 consists of amendments to the Foreign Assistance Act of 1961, as amended.

Senator JAVITS. Regrettably, the pressure of other events has prevented the President from meeting the March 31 deadline. The White House has requested that the deadline be extended, and I have been assured that the report will be forthcoming at the earliest possible opportunity. The fact that the President's Report is not available does slightly handicap these hearings; however, in my view, this handicap is not insurmountable.

The President's Report and recommendations are likely to be drawn in large part from the report to the President from the Task Force on International Development entitled "U.S. Foreign Assistance in the 1970's: A New Approach." Rudolph A. Peterson, the then president of the Bank of America served as the chairman of this distinguished task force, and upon receiving the Peterson Report President Nixon stated: "I believe its ideas are fresh and exciting. They can provide new life and a new foundation for the U.S. role in this vitally important area of our relations with the developing countries."

I ask unanimous consent that the text of the Peterson Report and the statement of the President on the report be printed in the record at this time.

Chairman BOGGS. They will be made a part of the record.

(The documents referred to follow:)

U.S. Foreign Assistance In The 1970s: A New Approach

Report To The President

From The Task Force On International Development

March 4, 1970
Washington, D.C.

PREFACE

In his first message to the Congress on foreign assistance, the President announced that he would establish a task force of private citizens to provide him with comprehensive recommendations concerning the role of the United States in assistance to less developed countries in the 1970's.

The Presidential Task Force on International Development was appointed on September 24, 1969.

In preparing its report, the Task Force met with the Cabinet members most concerned with these problems, with the Administrator of the Agency for International Development, and with the heads of other government agencies. It benefited from extensive discussions with their advisers and from excellent papers prepared by their staffs. It had meetings with Members of Congress, business groups, university experts, journalists, and representatives of civic organizations, voluntary agencies, and foundations, around the country. It asked for, and received, carefully considered statements from labor and business and professional committees. It examined in detail the comprehensive report on this subject by the Commission of distinguished international experts headed by former Canadian Prime Minister Lester Pearson. It also studied reports by Governor Nelson Rockefeller, the Perkins Committee, the Committee for Economic Development, the National Planning Association, and other groups. And it commissioned studies on specific subjects from experts in the field.

The Task Force gratefully acknowledges this help.

The members of the Task Force are:

RUDOLPH A. PETERSON (*Chairman*), *president,* Bank of America

EARL L. BUTZ, *vice president,* Purdue Research Foundation

WILLIAM J. CASEY, *senior partner,* Hall, Casey, Dickler & Howley

TERENCE CARDINAL COOKE, Archbishop of New York

JOHN E. COUNTRYMAN, *chairman,* Del Monte Corporation

THOMAS B. CURTIS, *vice president,* Encyclopaedia Britannica

R. BURT GOOKIN, *president,* H. J. Heinz Company

WILLIAM T. GOSSETT, *last retiring president,* American Bar Association

WALTER A. HAAS, JR., *president,* Levi Strauss & Co.

GOTTFRIED HABERLER, *Galen L. Stone Professor of International Trade,* Harvard University

WILLIAM A. HEWITT, *chairman,* Deere & Company

SAMUEL P. HUNTINGTON, *professor of government,* Harvard University

EDWARD S. MASON, *professor emeritus,* Harvard University

DAVID ROCKEFELLER, *chairman,* Chase Manhattan Bank

ROBERT V. ROOSA, *partner,* Brown Brothers, Harriman & Company

GENERAL ROBERT J. WOOD, USA (Ret.), Research Analysis Corporation

Task Force Staff

EDWARD R. FRIED, *Executive Director*

DONALD S. GREEN, *Deputy Executive Director*

REUBEN STERNFELD

WILLIAM H. LEWIS

CHARLES J. SIEGMAN

THOMAS J. RAVESON

Assistants to Task Force Members

ROLAND PIEROTTI

Ambassador LELAND BARROWS

WILLIAM BUTLER

JOSEPH DAIN, JR.

RICHARD FISCHER

Msgr. WILLIAM J. MCCORMACK

DONALD C. MCVAY

AL H. NATHE

MICHAEL P. ROUDNEV

CONTENTS

March 4, 1970.

THE PRESIDENT OF THE UNITED STATES

Dear Mr. President:

You asked us to examine U.S. foreign economic and military assistance programs, our trade and investment relations with the developing countries, and the fundamental problems that the United States faces in this area of foreign policy. You instructed us to look carefully into the underlying rationale for these programs, to take nothing for granted, and to recommend policies that will serve the best interests of our Nation through the decade ahead.

Many with whom we consulted are deeply troubled by particular aspects of U.S. foreign assistance programs and by the apathy and misunderstanding that seem to surround the issues. Nevertheless, virtually all believe that the United States has a large stake and serious responsibilities in international development.

This feeling of commitment is natural in view of the distinguished role the United States has played for 25 years in this field. It has been a bipartisan endeavor. Many outstanding Americans have contributed direction, insight, and imagination to these programs in the past—and continue to do so today.

A Time for Change. We believe that the U.S. role in international development will be as important in the future as it has ever been in the past; and prospects for success, if looked at in the perspective of experience, are very favorable.

For the first time in history, it appears feasible to approach this world problem on a worldwide basis. International development can become a truly cooperative venture—with the countries that receive help eventually achieving the ability themselves to help others. The Marshall Plan countries and Japan, which join us today in providing assistance, were yesterday the recipients of assistance. And some of the developing countries of a decade ago, no longer needing assistance themselves, are beginning to help others.

This kind of cooperation in international development is not only possible but essential. Only a genuinely cooperative program can gain the necessary long-term public support in donor countries—the United States, as well as others. Only by being cooperative, furthermore, can international development succeed abroad.

What the United States does now through its policies and through its determination to persevere for the long haul will influence what others do—

the developing countries, the international organizations, and other industrial countries.

This, therefore, is a time for change, a time for reappraising our programs and designing them for the decade ahead. It is also a time to stake out in the most positive terms America's involvement in the way mankind manages its common problems. In time, U.S. international development policies may well prove to be the most important—and the most rewarding—determinant of America's role in the world.

Conclusions. With these considerations in mind we have reached the following conclusions:

1. The United States has a profound national interest in cooperating with developing countries in their efforts to improve conditions of life in their societies.

2. All peoples, rich and poor alike, have common interests in peace, in the eradication of poverty and disease, in a healthful environment, and in higher living standards. It should be a cardinal aim of U.S. foreign policy to help build an equitable political and economic order in which the world's people, their governments, and other institutions can effectively share resources and knowledge.

This country should not look for gratitude or votes, or any specific short-term foreign policy gains from our participation in international development. Nor should it expect to influence others to adopt U.S. cultural values or institutions. Neither can it assume that development will necessarily bring political stability. Development implies change—political and social, as well as economic—and such change, for a time, may be disruptive.

What the United States should expect from participation in international development is steady progress toward its long-term goals: the building of self-reliant and healthy societies in developing countries, an expanding world economy from which all will benefit, and improved prospects for world peace.

3. The United States should keep to a steady course in foreign assistance, providing its fair share of resources to encourage those countries that show a determination to advance. Foreign assistance is a difficult but not an endless undertaking. Some countries already have become self-reliant and are beginning to help others; U.S. policies should aim at hastening this process.

4. U.S. international development programs should be independent of U.S. military and economic programs that provide assistance for security purposes. Both types of programs are essential, but each serves a different purpose. Confusing them in concept and connecting them in administration detract from the effectiveness of both.

5. All types of security assistance—military assistance grants, use of surplus military stocks, military credits, economic assistance in support of

military and public safety programs, budget support for political purposes, and the Contingency Fund—should be covered in one legislative act. The State Department should exercise firm policy guidance over these programs.

6. Military and related economic assistance programs will strengthen military security only to the degree that they help move countries toward greater self-reliance. These U.S. programs should be geared to the resources that the receiving countries ultimately will be able to provide for their own security. In some cases, reduction of U.S. military forces overseas will require temporary offsetting increases in such assistance. The ultimate goal should be to phase out these grant programs.

7. The United States should help make development a truly international effort. A new environment exists: other industrial countries are now doing more, international organizations can take on greater responsibilities, trade and private investment are more active elements in development, and, most important, the developing countries have gained experience and competence. Recognizing these conditions, the United States should redesign its policies so that:

—the developing countries stand at the center of the international development effort, establishing their own priorities and receiving assistance in relation to the efforts they are making on their own behalf;

—the international lending institutions become the major channel for development assistance; and

—U.S. bilateral assistance is provided largely within a framework set by the international organizations.

8. U.S. international development policies should seek to widen the use of private initiative, private skills, and private resources in the developing countries. The experience of industrial countries and of the currently developing nations demonstrates that rapid growth is usually associated with a dynamic private sector.

Development is more than economic growth. Popular participation and the dispersion of the benefits of development among all groups in society are essential to the building of dynamic and healthy nations. U.S. development policies should contribute to this end.

9. While the Task Force shares the aspirations of many who have endorsed high targets for development assistance, we have deliberately decided against recommending any specific annual level of U.S. assistance or any formula for determining how much it should be. We do not believe that it is possible to forecast with any assurance what volume of external resources will be needed 5 to 10 years hence. No single formula can encompass all that must be done—in trade, in investment, and in the quality as well as the amount of assistance. Our recommendation is to establish a framework of principles. procedures, and institutions that will assure the effective use of assistance funds and the achievement of U.S. national interests.

10. The downward trend in U.S. development assistance appropriations should be reversed. Additional resources, primarily in support of international lending institutions, are needed now for a new approach to international development. We believe this, having fully in mind the current financial stringency and urgent domestic priorities in the United States, as well as this country's balance-of-payments position. Over the long term, U.S. assistance for development abroad will be small in relation to expenditures for development at home. Moreover, the two programs can prove to be mutually reinforcing.

11. The United States must be able to respond flexibly and effectively to changing requirements in the developing world, and, in association with other industrial countries, help make possible the progress that individual developing countries show themselves determined to achieve. As the United States cuts back its involvement in Vietnam, reduces its forces abroad, and seeks to scale down the arms race, it can more easily carry such a policy as far and as fast as the resolve and the purpose of the developing countries can take it.

12. To carry out these policies, the Task Force recommends a new focus for U.S. programs, a new emphasis on multilateral organizations, and a new institutional framework consisting of:

—**A U.S. International Development Bank,** responsible for making capital and related technical assistance loans in selected countries and for selected programs of special interest to the United States. Whenever it is feasible, U.S. lending should support cooperative programs worked out by developing countries and the international agencies. The Bank would have assured sources of financing, including authority to borrow in the public market, and a range of lending terms appropriate to the development requirements of each borrowing country. It would be run by a full-time chairman and a mixed public-private board of directors.

—**A U.S. International Development Institute** to seek new breakthroughs in the application of science and technology to resources and processes critical to the developing nations. The Institute would concentrate on research, training, population problems, and social and civic development. It would work largely through private organizations and would rely on highly skilled scientific and professional personnel. It would seek to multiply this corps of U.S. talent and experience by supporting local training and research institutions. The Institute would be managed by a full-time director and a mixed public-private board of trustees.

—**The Overseas Private Investment Corporation (OPIC),** as recently authorized by the Congress, to mobilize and facilitate the participation of U.S. private capital and business skills in international development.

—**A U.S. International Development Council** to assure that international development receives greater emphasis in U.S. trade, investment, financial, agricultural, and export-promotion policies. It also would be responsible for making sure that U.S. assistance policies are effectively directed toward long-term development purposes and are coordinated with the work of international organizations. The Chairman of the Council would be a full-time appointee of the President, responsible for coordinating all development activities under the broad foreign policy guidance of the Secretary of State, and would be located in the White House.

With this new institutional framework, the U.S. Government would need fewer advisers and other personnel abroad. It could assume a supporting rather than a directing role in international development.

In the sections that follow we discuss the considerations underlying these general conclusions and offer specific recommendations for reshaping U.S. policies, programs, and organization.

* * *

Foreign Assistance and National Purposes

At present, there is not one U.S. foreign assistance program but several. They serve different purposes and should be weighed on their individual merits.

They fall into three categories:

—security assistance,

—welfare and emergency relief, and

—international development assistance.

To clarify the present aims of U.S. foreign assistance, we analyzed the programs in terms of the functions they serve. As is shown in the table below, security programs accounted for 52 percent of U.S. foreign assistance in 1969; welfare and emergency relief programs, 6 percent; and international development programs, 42 percent. Of the appropriations for economic programs under the Foreign Assistance Act, 26 percent was actually for security purposes.

How is each program related to U.S. national interests?

U.S. Foreign Assistance, by Purpose, Fiscal Year 1969

	Millions of dollars	*Percent of total*
Security		
For Vietnam:		
Military equipment and supplies	2, 129	
Supporting assistance in Southeast Asia	394	
Military assistance grants	450	
Military equipment loans	281	
Grant surplus military stocks	92	
Budget support and other political programs	50	
Total	3, 396	52
Welfare and emergency relief (not including private assistance)		
Child and maternal feeding	240	
Emergency relief	88	
Refugees	40	
Total	368	6
International Development (not including private investment)		
Bilateral:		
Development loans	729	
Technical assistance grants	340	
Peace Corps	101	
Agricultural commodity credit sales	870	
Food for work grants	62	
Multilateral:		
For lending institutions	516	
For technical assistance	88	
Total	2, 706	42

Security assistance is an essential tool of U.S. foreign policy. Its goals are: to improve the military defenses of our allies and move them toward greater military self-reliance, to serve as a substitute for the deployment of U.S. forces abroad, to pay for U.S. base rights, and to deal with crisis situations. The size and specific objectives of these programs are subject to reassessment at any time. Their relation to national interests, however, is straightforward; they use resources for purposes essential to U.S. security.

Welfare and emergency relief activities reflect humanitarian values and international community interests. These programs are administered in large measure by private, nonprofit organizations, both national and international, and the U.S. Government funds expended on this kind of assistance are in addition to substantial resources that these organizations themselves provide. These programs follow a long-standing national tradition.

40-333 O - 70 - pt. 3 - 2

International development assistance serves long-term U.S. national interests. These interests should be redefined and brought into sharper focus.

In the past, the line of demarcation between security and development interests was blurred. The United States faced a divided world, in which foreign assistance was justified in terms of the conflict between East and West. Today all countries have a common interest in building and maintaining a global environment in which each can prosper.

Two reasons for an active U.S. role in international development are paramount.

First, the United States has an abiding interest in bringing nations together to serve common needs. It has consistently taken a position of leadership in creating institutions like the United Nations, the International Monetary Fund, and the World Bank, and in promoting cooperation in trade, investment, and arms control. The size and power of the United States gives us a special responsibility; if this country chooses not to play a major role, it necessarily endangers the success of such ventures.

Second, the developing countries contain two-thirds of the world's population. Their future success or failure will influence profoundly the kind of world we live in. The nations of the world are growing more interdependent—in trade, in finance, in technology, and in the critical area of political change. U.S. decisionmaking in such important areas as military expenditures will be influenced by the amounts of turbulence in the developing countries of the world, and U.S. prosperity will be influenced by their economic progress.

The United States shares with other nations concerns that call for common action. Problems related to population pressure, poverty, public health, nutrition, child development, literacy, natural resource exhaustion, rural backwardness, environmental pollution, and urban congestion exist in the United States as well as in the developing countries. Participation in both international development and domestic development can result in an exchange of useful experience. This has been demonstrated by government programs and by the work abroad of private organizations, such as universities, foundations, and voluntary agencies.

Participation in international development can promote progress toward the kind of world in which each country can enjoy the rewards of its own culture and the fruits of its own production in its own way, without impinging on the right of any other country to the same freedom for national fulfillment.

Finally, development can help make political and social change more orderly. There is at least a good prospect that more rapid development could facilitate more constructive social experiments, more open political procedures, and less disruptive international behavior.

Therefore, the United States has basic interests in intensifying its cooperation with other nations in a worldwide effort to accelerate international development. U.S. interests call for differing priorities among nations and programs. Insofar as U.S. contributions to international organizations are concerned, the uses of resources are determined on a multinational basis. In its bilateral programs, the uses of U.S. resources should depend on U.S. interests in particular countries or particular areas, on where other industrial countries are providing resources, and on where the international institutions are concentrating their efforts.

The Changing International Environment

The changes in international conditions that call for a new approach to U.S. foreign policy in general call for a new approach to foreign assistance as well.

The circumstances that shape U.S. security assistance programs today and are likely to shape them for the next decade differ markedly from those of the past. Most allies of the United States in Western Europe have been able for a long time to do without military assistance from the United States, although this country continues to share with them the costs of mutual defense. A growing number of developing countries now show a determination to assume greater responsibility for their own defense and to mobilize more resources for this purpose.

Threats to the peace will continue to exist. However, the security measures that once were needed in a sharply divided world of direct confrontation are not necessarily those that would be most effective in today's pluralistic world. All countries face the need to reexamine their national priorities in light of this new situation.

As for international development assistance policies and objectives, a number of significant new characteristics have emerged.

When the United States redesigned its international assistance activities in 1961, it dominated the field. Other industrial countries were doing relatively little, and mostly in areas of special interest to them. The World Bank was just beginning to lend to low-income countries on concessional terms, and regional financial institutions either did not yet exist or had not begun to operate. Many of the developing countries were newly independent, they lacked experts, and they were at a rudimentary stage in organizing national economic programs. There was an urgent need to coordinate internal and external investment resources.

Against this background, it seemed appropriate for the United States to assume a broad and active role in the development efforts of individual countries. The Agency for International Development (AID) formulated country programs to coordinate U.S. assistance with investment from other sources. These comprehensive programs were used to guide the developing countries toward more effective self-help and to monitor the use of U.S. funds to avoid waste. At the same time, the United States encouraged other industrial countries to provide more assistance and took the lead in supporting the growth of World Bank development activities and the establishment of regional lending institutions.

This ambitious U.S. role required a prominent U.S. presence in some countries; and friction with some governments resulted from attempts to influence sensitive areas of their national policy related to development.

U.S. policies, moreover, were heavily government-oriented and were based on the expectation that the transfer of U.S. resources and technology would bring immediate results as it had under the Marshall Plan.

These expectations proved to be unrealistic. Barriers in developing countries abound: Unresponsive social and political systems, severe deficiencies of technical skills, poorly organized markets impaired in many cases by ill-conceived public policies, and limited local savings in an environment of deep poverty. Modernization is a long-term and much more difficult and complex process than was the reconstruction of war-damaged industrial economies.

Taking these limitations into account, U.S. assistance programs were remarkably successful in a number of countries, most conspicuously where local policies stimulated private savings, investment, and exports; where new technologies were adapted to the local environment and effectively disseminated; and where assistance was sizable. U.S. policies and resources also helped lay the foundation for making international development a world-wide program.

As a result in part of these earlier U.S. efforts, a new environment for development has now come into being. Today's environment calls for a significantly different role for the United States. In this connection, five new elements are of special importance:

—**New capacities in the developing countries.** Many developing countries now have the capacity and the experience needed to establish their own development priorities and a strong and understandable determination to do so. They are mobilizing more investment resources themselves, and they have many more well-trained, competent professionals and technicians. The developing countries themselves, therefore, should be at the center of the international development effort. The policies they pursue will be the most important determinant of their success or failure. What the United States and other industrial countries do will have only a secondary, though essential, influence on the outcome.

—**Assistance efforts of other countries.** Other industrial countries have steadily expanded their development assistance in recent years. Today their combined official development assistance is about as large as that of the United States. This country works with them through consortia or consultative groups to provide assistance in many developing countries, under the auspices of international agencies.

—**The role of international institutions.** The international financial organizations, although they still provide a relatively small part of the total flow of resources to developing countries, now account for more than half of all development loans and are gaining greater influence in organizing development activities. The World Bank is now able to give development advice on a worldwide scale and to work with the developing countries in establishing guidelines for their national programs. The Bank is today a worldwide source of professional development experience.

—**The impact of new trade potentials.** Policies in international trade, investment, and finance can no longer be formulated without considering their consequences for development. Action to be taken in these areas calls for international cooperation.

In the future, the developing countries will have to export more manufactured goods. Their traditional exports of primary commodities have only limited growth possibilities, but the developing countries are becoming more competitive in manufactured goods. Whether they can capitalize on their new capabilities will depend on whether industrial countries open their markets to this competition; they are likely to do this only in concert.

The prospect of a stronger international monetary system in the 1970's should make it possible to reduce the restrictions that are imposed on the flow of development resources for balance-of-payments reasons.

—**The debt burden.** The debt burden of many developing countries is now an urgent problem. It was foreseen, but not faced, a decade ago. It stems from a combination of causes: excessive export credits on terms that the developing countries cannot meet; insufficient attention to exports; and in some cases, excessive military purchases or financial mismanagement. Whatever the causes, future export earnings of some countries are so heavily mortgaged as to endanger continuing imports, investment, and development. All countries will have to address this problem together.

*   *   *

PROGRAMS FOR THE 1970's

The United States should adopt a new approach to foreign assistance that takes into account the changes that have taken place in the international environment and the valid criticisms that have been made of its own current programs. In the sections that follow, recommendations are made for carrying out each of the three U.S. foreign assistance programs and for coordinating U.S. policies related to international development. Security assistance is discussed first, then welfare and emergency relief, and finally international development, which is the main focus of this report.

Security Assistance

Security assistance programs have been an integral part of U.S. foreign policy for more than two decades. In addition to military grant and sales activities, they include economic assistance in support of military and public safety programs, and budget support for political purposes.

Security assistance has strengthened the defenses of some 40 nations. It has also helped nations to cope with pressing internal security problems and to deal with crisis situations. In serving these purposes, such assistance has played an important role in helping the United States to pursue the goal of a world order in which each nation, large or small, aligned or unaligned, can develop in its own way.

Military assistance today is going in large measure to Vietnam, Laos, and Thailand in support of the Vietnam war effort. All military equipment and supplies for these countries at present are funded and administered by the Department of Defense.

The remainder of the military assistance program is funded in the Foreign Assistance Act, comes under the policy guidance of the Department of State, and is administered in the Department of Defense. It is provided on a grant basis and is concentrated largely in the Republics of Korea and China, Turkey, and Greece, where the United States has specific treaty obligations. Grants to these countries are designed to help U.S. allies maintain an adequate defense, and they serve as a substitute for the stationing of U.S. forces abroad. Small amounts are provided to 44 other countries for internal defense and training purposes and to a few countries as payment for U.S. base rights.

Sixteen countries receive credits for military items under the Foreign Military Sales Act.

Economic assistance for Vietnam, Laos, and Thailand is appropriated under the economic section of the Foreign Assistance Act (supporting assistance) and is administered by AID. It is used to contain inflationary pressures and to finance police, pacification, resettlement, and selected reconstruction programs.

Budget support for political purposes is another kind of economic assistance for security purposes administered by AID. It helps other governments in crisis situations—such as those that have occurred in the Dominican Republic and the Congo in recent years. It also has enabled the United States to give temporary help to governments while regular U.S. development assistance programs were being prepared; the assistance given to Indonesia in 1965 is an example.

Public safety programs also are in the category of security assistance administered by AID. Through these programs, the United States helps to train police, advises them in modern methods and organization, and provides modern police equipment and supplies. The purpose of this assistance is to strengthen the prospect of preserving internal order through greater reliance on civilian rather than military authority, and to develop the concept that the police function is to assist the people as much as it is to protect them against violators of the law.

How should the United States shape these security assistance programs over the decade ahead? Several questions are involved: goals, the design and conduct of the programs, and management.

1. Goals. A comprehensive analysis of U.S. security requirements in the world of the seventies is beyond the scope of this report, as are assessments of the U.S. worldwide defense systems and security interests in particular countries. The Task Force accepts the fact that the United States has security responsibilities in certain countries that make it necessary to help them maintain a more effective military defense than they could provide from their own resources. The questions then are: how much help should be given, in what way, and for how long?

Each sovereign nation must decide for itself what it is prepared to do—with the means at its disposal—to defend against the threat of external attack and to maintain internal order.

One clear goal of security assistance is to help countries move toward a greater degree of self-reliance in the area of security. To be fully effective, the principle of self-reliance must govern the behavior of both the United States and the developing countries. Decisions on U.S. military assistance should be based on the amount of resources that the receiving countries think proper and ultimately will be able to allocate for security. It is equally important that these countries themselves—not the United States—make the decisions on how to use their resources for security.

As the United States reduces its forces overseas, increased security assistance may be needed for a time to cushion the effect and to improve local security capabilities. The ultimate goal, however, should be to phase out these grant programs.

2. **Programing.** Military grants should be determined on a cost-benefit basis. The risks involved for the United States and the need for U.S. forces that would arise if funds were not provided should be specified.

The following factors should be considered in determining the amount, kind, and terms of security assistance:

First, assessments of force requirements in forward defense countries should be related to possible changes in the size of U.S. General Purpose Forces, to local financial capabilities, and to the availability of U.S. funds. Moreover, these assessments should be approved by the Secretaries of State and Defense, since they serve as the principal basis for estimating funding requirements for U.S. grants, as well as for evaluating the effectiveness of existing programs.

Second, the amount of military assistance allocated among countries should be related to a realistic assessment of needs, not to historical assistance levels. Furthermore, U.S. programs should assist receiving nations in adapting their military force structure, the risks permitting, to what ultimately will be within their own capacity to maintain.

Three-fourths of the grant assistance that the United States is giving (outside Southeast Asia) is used to finance the costs of operating and maintaining equipment and weapons already provided. In these circumstances, it does not seem possible that the receiving nation can both become self-reliant and modernize its forces. Unless these problems receive careful attention, the United States faces the prospect of continuing the programs indefinitely, without any assurance of improvement in local force capabilities.

This procedure could be pennywise and poundfoolish. It may make more sense in some countries, for example, to eliminate units that are only marginally effective and to provide modern equipment to the ones that are retained. The initial costs may be higher, but the long-term results could be more effective at a lower recurring cost.

Third, military assistance and related supporting assistance should be considered together in planning security programs. In a few countries, supporting assistance under the economic program is being terminated while military assistance grants continue. It is possible that U.S. interests might be served better in some cases by continuing supporting assistance while scaling down military assistance. This could be particularly useful as a transitional device to help countries assume the operating and maintenance costs now financed with military grant aid.

These three factors highlight the need to plan and coordinate the use of all available security assistance instruments. Special studies addressing these problems are underway within the National Security Council system, but firm policy guidance is needed. These issues probably will take on added importance in the adjustment from war to peace in Southeast Asia.

3. **Encouraging self-reliance.** The United States now makes the basic determination of the amount and kind of military equipment the receiving countries need, and U.S. military missions do most of the detailed logistical planning and costing for them. These decisions necessarily affect the size of their defense budgets. More should be done to enable these receiving countries to estimate their own requirements, to relate them to their budgetary priorities, and to make their military decisions in the light of available resources.

Service training programs in the United States can play an important role in strengthening planning skills and capabilities in the developing countries. Greater emphasis in training should be placed on force structure and logistics planning, and on fiscal and budget programing.

Moving military assistance from a grant to a credit basis also will serve this purpose. Unlike military grants, military credits are subject to the budgetary discipline of the receiving country. The current legislative ceiling on military credits is inconsistent with such a policy. As grants decline, more credits should be made available. Military credits, however, should be used only to finance the purchase of weapons that the developing countries need for their defense and that are within their financial capacity to maintain and operate.

To avoid both an unnecessary arms escalation and a waste of resources needed for development, it is U.S. policy to discourage developing countries from obtaining sophisticated military equipment. Legislative restrictions on the use of U.S. military and economic assistance designed to avoid these problems, however, have not proven effective. In many cases, as the Rockefeller Report points out, the military equipment is purchased elsewhere, while the restrictions leave a residue of ill-feeling toward the United States. Removing them would put the United States in a better position to work out with these countries, on a mature partnership basis, military equipment expenditure policies that are consistent with their means.

Finally, the Task Force believes that large military assistance advisory groups and missions are no longer necessary in many developing countries. In the past, these countries needed the close involvement of U.S. military advisers to ensure the effective integration of U.S. arms and equipment into their forces. By now, however, military officials in most of these countries have achieved adequate levels of professional competence and facility with modern arms. The United States now can reduce its supervision and advice to a minimum, thus encouraging progress toward self-reliance. U.S. military missions and advisory groups should be consolidated with other elements in our overseas missions as soon as possible.

4. **Organization and management.** Changes in the organization and management of U.S. security programs would contribute to their effectiveness, clarify their relationship to U.S. foreign policy, and make our objectives and rationale more understandable to the Congress and the American public.

The Task Force recommends:

—That security assistance programs be combined in one piece of legislation—an International Security Cooperation Act—separate from international development assistance. This act should cover foreign military sales and grants, surplus military stocks, supporting assistance, public safety programs, and the Contingency Fund;

—That responsibility be assigned to the Department of State for setting policy and for directing and coordinating security assistance programs. In carrying out this responsibility, the State Department should relate security programs to U.S. foreign policy, to global strategies, to changing military technologies, and to the financial capabilities of receiving countries. Administration of military grant and credit sales programs should remain with the Department of Defense; supporting assistance, public safety programs, and the Contingency Fund should be administered by the Department of State.

Welfare and Emergency Relief

The U.S. Government provided some $360 million in 1969, mostly in agricultural commodities, for programs to relieve human suffering and improve nutrition in over one hundred countries. The largest part of this assistance was for maternal and child feeding and school food programs, aimed at raising nutritional levels. Most of these programs are initiated and administered by U.S. voluntary agencies, and the widespread local facilities of these agencies are used as essential distribution centers.

Important potentialities exist in this area. Recent biological research indicates that protein deficiencies in the early years of life have a depressing effect on future physical and mental development. Continued research on food supplements should be actively supported, and new programs should be considered where research results reveal promising opportunities.

Disaster and emergency relief and refugee assistance comprise the second major category under this type of assistance. These programs have helped in emergency situations resulting from civil war and natural disasters, such as drought, floods, and earthquakes. They also have helped in resettling and feeding refugees. They will be a continuing part of U.S. foreign assistance as the United States participates with other nations in meeting emergency situations.

These welfare and emergency relief programs now are administered by AID and the Department of State in conjunction with the Department of

Agriculture. Most of the food programs are conducted by U.S. affiliates of international voluntary agencies under arrangements made with AID. The disaster relief and emergency programs are also the responsibility of AID. The refugee program is administered by the Department of State, largely through international organizations.

The Task Force recommends that administration of these programs be brought together under one office in the Department of State. This office could work effectively with the Advisory Committee on Voluntary Foreign Aid, which serves as a link between private organizations in this field and the U.S. government.

International Development

U.S. policies relating to international development go beyond foreign assistance programs. Factors relating to trade, investment, the private sector, international finance, and population growth intimately affect the prospects of developing countries. Furthermore, the way in which the United States organizes and carries out its programs and the way these programs relate to those of other industrial countries and the international organizations will profoundly influence the results. In the sections below, we deal with this wider range of policies and programs influencing international development.*

The Special Problem of Population

"No other phenomenon," the Pearson Commission said, "casts a darker shadow over the prospects for international development than the staggering growth of population." There is little dispute among experts as to the need to deal with this problem on an international basis. Countries cannot cope with the consequences for economic development, or social welfare, or political change of a doubling of the population every 15 or 20 years. Population change at that pace threatens to dissipate the benefit of much that can be contributed from outside a developing country and indeed to offset some of the gains from the country's entire development effort.

Family planning assistance is an integral and necessary part of total development assistance and not a substitute for other development assistance. More rapid development itself can create a favorable environment for constructive action in the area of population. The developing countries that

*We do not cover the work of: the Export-Import Bank, whose operations are designed to promote U.S. exports and only incidentally contribute to international development; the Peace Corps; and private, nonprofit organizations, which make a significant but largely nonquantifiable contribution to development. In making our recommendations, however, we have taken into account the possibilities for wider use of the private organizations.

have made the most rapid economic advance and are approaching self-sustaining development—for example, the Republics of China and Korea—also have successful family planning programs.

More nations than is generally realized have faced up to the population problem and are undertaking programs to encourage responsible parenthood and to provide the means to ensure successful family planning.

The initiative and primary responsibility for action in the population area clearly lie with each country. Programs need to be adapted to the traditions and mores of each society and carried on with respect for the dignity and conscience of the individual. This is a sensitive area, and much needs to be learned about it. Nevertheless, there is a great deal of accumulated knowledge, and there are wide opportunities for providing help, through both U.S. programs and international efforts.

The U.S. Government has allocated $75 million in 1970 for assistance to population programs and plans on $100 million next year. These funds are mainly to support the work of private organizations and international agencies. The Task Force believes that support for the development and implementation of acceptable programs addressing the population problem should have a high priority in the use of development resources.* The United States should be prepared to give more help abroad for this purpose when it is needed and requested, just as it is expanding similar programs at home.

The Task Force has received a number of careful studies, prepared by leading experts in this field, which outline new programs that the United States could support and which indicate a need for increased financial assistance. They recommend additional support for research on human reproduction and family attitudes, for training specialized personnel, for organizing and administering family planning programs, for mass communication facilities, and for related maternal and child health care.

There are no objective standards against which to measure the developing world's total requirements for assistance in the population field. This is an area in international development that could benefit greatly from strong international leadership. A worldwide study, prepared on a priority basis, could give the United States as well as other countries—industrial and developing nations alike—a professional and politically acceptable base for

*Terence Cardinal Cooke makes the following comment: "I am firmly convinced that the highest priority in our foreign assistance policy should be placed on those positive programs of economic and social development which are designed to improve the quality of life of those people presently living in conditions of extreme deprivation. I recognize that an accelerated population increase adds its own difficulties to the problem of human development. However, in this scientific age there seems little need to settle easily for a solely negative solution to this demographic problem. Major efforts in this area should be directed to research and the development of a sufficiently certain and morally acceptable solution to the problem. True economic and social progress can only be effected in an atmosphere that strengthens family life and preserves the dignity and freedom of man."

examining the resources needed and the ways in which each country could best contribute to this pressing world problem. The Task Force recommends that the United States propose that the U.N. Fund for Population Activities, in conjunction with the World Bank and other interested international agencies, prepare a careful and detailed study of world needs and potentialities in this area and of ways in which all elements of the international community can help.

Private Incentives and Market Forces

Rapid economic progress usually has taken place within a favorable environment for private initiative, such as that which existed in the Republics of Korea and China, Mexico, and the Ivory Coast in the 1960's. Checking the pace of inflation and introducing more realistic exchange rates helped achieve an economic turnaround in Brazil and Argentina, and an increased reliance on market incentives was essential to the success of the "Green Revolution" in India and Pakistan and to the diversification of Colombia's exports. Even Communist countries have, in their own way, been moving in the direction of allowing market forces more scope in allocating resources.

Both in the United States and abroad, there is misunderstanding about the contributions of the private sector, the role of profits, and the benefits of the price mechanism. In some developing countries, private foreign investment has been under attack, partly because of an anachronistic view of how foreign companies operate abroad. There are now encouraging signs of a change in attitudes, as exemplified by a recent report prepared for the United Nations Conference on Trade and Development (UNCTAD) on the role of private enterprise in development.

Each nation must fashion its own policies and institutions to meet its own needs. If the goal is economic development, the issue is one of efficiency, not ideology.

In the most successful countries, the value of encouraging private initiative has been amply demonstrated. It has made possible more employment opportunities, an upgrading of labor and management skills, a rise in living standards, and wider participation in the benefits of development. Furthermore, a dynamic private sector has resulted in greater internal savings, more effective use of domestic and foreign investment resources, and rapid economic growth, in which export industries have played an important role.

Trade. Expansion of trade enhances the scope of the private sector and stimulates private initiative and investment. Developing countries cannot be expected to reach the point of financing their own development unless they are given the opportunity to earn the means for doing so through an increase in their exports.

However, if a policy of promoting exports is prescribed for developing economies, accepting imports is one of the responsibilities of industrial countries. Providing better access for the products of developing countries offers both advantages and difficulties for industrial countries.

Unlike grants and loans, opening the markets of industrial economies to the products of developing countries does not lead to debt-servicing problems for developing nations or financial burdens for industrial countries. On the contrary, cheaper imports and a larger volume of trade would add to the real incomes of all participating countries and help to contain inflationary pressures. Of course, they also might result in adjustment problems. But, difficult as such adjustment problems sometimes are, they are temporary. They occur continually in our dynamic society as an essential element of a competitive economy. They highlight the need for effective adjustment assistance measures as a foundation for constructive U.S. trade policies. The adjustment assistance provisions of the trade bill now before the Congress would help to meet this need.

Enlightened trade policies toward developing countries are an essential element in achieving international development. The Task Force urges continued U.S. leadership in working for the reduction of tariffs and other obstacles to trade and in avoiding the imposition of new restrictions.

In addition:

—The Task Force strongly supports your proposal for an international agreement extending temporary tariff preferences to developing countries on a nondiscriminatory basis, with no quantitative limits and a minimum of exceptions. If the United States cannot reach agreement with other industrial countries on this nondiscriminatory approach, it should unilaterally extend such tariff preferences to all developing countries except those that choose to remain in existing preferential trade arrangements with industrial countries.

—The Task Force favors larger quotas for products important to developing countries and imported under mandatory or voluntary restrictive arrangements. Sugar, textiles, and meat are notable examples. These quantitative restrictions should be removed as soon as it is feasible.

—The Task Force favors continued U.S. support for the formation of regional markets among developing countries. Regional arrangements will increase competition, provide more opportunities for economies of scale, and promote a more efficient allocation of domestic resources among developing economies.

At present, most developing countries rely too heavily and for too long on protective import restrictions and subsidies for their industries. The result is high-cost production, which is a burden on the rest of the economy and retards development. Trade liberalization among developing countries through regional arrangements can be a desirable first step toward a general liberalization of import policies, which, over time, will be to the benefit of all countries.

Assistance to the Private Sector. Apart from trade, development of the private sector in developing countries can be encouraged by appropriate domestic policies, by foreign investment, and by an adequate infrastructure and public services. U.S. programs in the past have tended to concentrate too much either on public services or on stimulating foreign investment. Yet domestic industry and locally financed investment are the predominant elements in economic progress. The developing countries finance 85 percent of their investment from their own savings. Foreign private investment can stimulate and complement domestic investment, but its contribution must necessarily be secondary to that of local investment.

Some basic data provide useful perspective. Four-fifths of total production in developing countries comes from the private sector. Total self-financed private investment in these countries amounts to perhaps $30 billion a year. Net private foreign direct investment from all sources has recently averaged about $2.5 billion a year.

Internal policies that stimulate initiative and domestic investment should be a primary objective of international development efforts. They will also provide a favorable climate for the contribution of foreign investment.

The Task Force recommends that more be done to marshal local and private resources for productive use.

—The United States should invest more capital in local development banks. This is a tested way of getting a multiplier effect in the private sector from the use of public funds. These banks provide equity and loan capital for private firms and underwrite their security issues.

—The United States should encourage other governments and more private firms to support regional private investment companies, such as ADELA for Latin America and the Private Investment Corporation for Asia (PICA). Comparable organizations could be useful in the Middle East and Africa. These multinationally financed companies help to underwrite local investment in developing countries, taking up part of the equity with the expectation of future resale to local investors.

—The United States should contribute more actively to the evolution of capital and credit markets in developing countries. It is ironic that some countries that are sorely in need of investment resources have a capital outflow. Stabilization policies are essential to retain capital at home, but better financial markets are also needed.

—U.S. professional organizations and businesses should do more to exchange experience with their counterparts in developing countries. One form of cooperation is exemplified by the program of the International Executive Service Corps, under which highly qualified U.S. business experts work with individual foreign firms to solve specific problems.

International Organizations and Private Investment. The international organizations can help bridge the gap between attitudes in developing countries and those of private foreign investors, and between divergent views on the proper roles of the private and public sectors. Too much misunderstanding—and at times hostility—exists in this area.

—The Task Force recommends that the United States propose that the paid-in capital of the International Finance Corporation (IFC) be increased from $100 million to perhaps $400 million. The U.S. share of such an increase would be $100 million—paid in over several years. The increase in capital would enable the IFC to encourage joint ventures in developing countries by taking up equity for later sale to local investors.

In general, the IFC can play a leading role in developing the private sector. It brings together local and foreign firms in joint ventures and can serve as a referee of the terms of specific private foreign investment in these countries.

—The Task Force believes that establishing an international investment insurance program against the risks of expropriation would improve the climate for private foreign investment. The World Bank has proposed a program that might encourage more multinational investments and could reduce the degree of bilateral confrontation in disputes over investments. The Task Force recommends that the United States seek early completion of the negotiation of this proposal and obtain authority from the Congress for U.S. participation so that the agreement can go into effect as soon as the minimum required number of countries join.

U.S. Private Foreign Investment Policy. The policies of American firms operating abroad are an important determinant of the investment climate. In the past, the need to give more managerial responsibility to nationals of the host country and to establish good working conditions has been emphasized. Equally important to international development and good relations with the host country are active efforts by subsidiaries of U.S. companies and other foreign firms to export goods from developing countries, to build up local enterprise that can feed into their production, and to encourage widespread local participation in ownership. (However, we question the usefulness of rigid formulas for sharing ownership.) This approach will improve relations between U.S. firms and host countries. In the end it should make little difference to broadly based companies whether shareholders live in Mexico or Minnesota.

The new Overseas Private Investment Corporation (OPIC), recently authorized by the Congress, will be an effective instrument in encouraging U.S. private investment activities in developing countries—both through its guaranty programs and through advising American firms on how to make their investment more acceptable to the host country. The Task Force strongly supports establishment of this corporation.

In addition:

—The Task Force recommends elimination of the current restraints on U.S. direct private investment in developing countries. Although lifting this restriction would have a small short-run adverse effect on our balance of payments, it could remove an element of uncertainty that now discourages such investment.

—The Task Force recommends that OPIC make greater use of U.S. guaranty programs, in combination with those of other countries, to encourage international joint ventures. These multinational projects, open to investors in the host countries, help to reduce nationalist sensitivities to foreign investment.

—The worldwide housing guaranty program, now administered by AID, should be added to the other investment guaranty programs adminstered by OPIC.

—The Hickenlooper Amendment to the Foreign Assistance Act was introduced to deter foreign governments from expropriating U.S. property without prompt and adequate compensation. If private investment is to contribute to international development, a more effective means of discouraging such expropriations must be found. The United States, other lending countries, and the international institutions should take such acts into consideration in determining whether their development assistance would be used effectively. The Hickenlooper Amendment, however, has outlived its usefulness. It provides no room for flexibility in dealing with this difficult and politically sensitive problem. A more fruitful approach would be to seek positive ways of making foreign investment mutually attractive, such as we have outlined above, and to rely on an international forum when disputes arise.

—The Task Force urges that recommendations for facilitating an increase in the flow of private investment to the developing countries be considered in the examination of business taxation currently underway within the U.S. Government.

Reliance on International Organizations

The Task Force believes that more reliance on international organizations should be built into all U.S. policies relating to international development—whether they concern development assistance, debt rescheduling, tying, trade, investment, or population. This is basic to the new approach to foreign assistance we recommend. A predominantly bilateral U.S. program is no longer politically tenable in our relations with many developing countries, nor is it advisable in view of what other countries are doing in international development.

The issue for the present, however, is not whether U.S. development assistance should be bilateral or multilateral. The United States needs both, since it will be some time before the industrial nations are willing to provide all development assistance through multilateral channels and before the international organizations have the capacity to take on the entire responsibility. Even now, however, long-term development can be made essentially international in character.

Experience shows that an international organization such as the World Bank, with no political or commercial interests of its own, is able to obtain

40-333 O - 70 - pt. 3 - 3

good results from the investments it makes or encourages. Furthermore, bilateral assistance programs are themselves more effective when carried out under the leadership of these organizations and in a multilateral environment. Moving in this direction holds the promise of building better relations between borrowing and lending countries.

The Task Force recommends three actions on the part of the United States:

—It should rely heavily on international organizations to work out programs and performance standards with developing countries and should provide most of its assistance within that framework. This will mean a fundamental change in the conduct of U.S. bilateral programs.

—It should provide the necessary increase in resources, on a fair-share basis with other member countries, to permit the international development organizations to increase their current lending within the next few years as fast as their capabilities and the tested needs of the borrowing countries permit.

—It should join with other members to strengthen the capabilities of these international organizations and to build more coherence into their operations.

Operation of an International System. The World Bank Group and the regional lending institutions now account for more than half of total official development lending. This lending is only a part of the total resource flow to developing countries, but it is a key element. It gives international organizations a basis for taking primary responsibility for setting the strategy under which all donors provide assistance to developing countries.

Under an international system of development, international agencies would assume primary responsibility for analyzing conditions and policies in developing countries, for establishing close working relations with appropriate officials in these countries, and for determining total capital and technical assistance requirements and the policies necessary for effective use of investment resources. This would set the framework for the bilateral assistance programs of the United States and other industrialized countries.

To do this, the international organizations will have to take a less parochial view of their mission. They will need to have wider representation abroad and more flexible lending policies, without lowering standards. They will have to give increasing attention to the management, social, technical, scientific cooperation, and popular participation aspects of development. Finally, they will have to be diplomatic, flexible, sympathetic, and persuasive—but prepared to say no and to withstand political pressure from both the creditor and the borrowing countries.

The World Bank and the International Monetary Fund (IMF) are well along on this course. In Latin America, the Inter-American Development Bank and the OAS Inter-American Committee for the Alliance for Progress have begun to move in these directions. The other regional institutions too are beginning to gain some experience. The United Nations Development Program (UNDP) has been very active in preinvestment surveys and in a variety of technical assistance programs. It has missions on a worldwide scale and has recently reexamined its role and performance. With necessary reorganization, the UNDP would have the potential for exercising greater responsibility for technical assistance in an international system.

Furthermore, as these organizations expand their operations, they will have to prepare for a parallel buildup in their control procedures so as to assure continued high operating standards. Also member governments will have to become more fully involved in the work of these international agencies.

It will take time and sustained support from the member countries for the international organizations to assume the leadership role. It is not necessary that the same international organization assume primary responsibility in every country. The World Bank group can now exercise such leadership in the major developing countries, as well as in many others. Eventually, the regional organizations and the UNDP could assume this role in individual countries. A clear decision by the United States to rely on international organizations for this purpose, and action to support this decision, would spur the pace of the entire process.

Financing. The international organizations could roughly double their present rate of lending—from $2.5 billion a year to $5 billion a year—over the next several years while continuing to follow sound practices and maintain high standards. This judgment takes into account the capabilities of these organizations, the current international investment climate, the increasing availability of sound development projects, better planning and performance in both public and private sectors of the developing countries, and estimates of the level of foreign investment and bilateral assistance.

The actual rate of expansion would depend on demonstrated need and assurances on the effective use of funds.

This increase in lending would require an increase in U.S. funding from the current rate of $500 million a year to roughly $1 billion a year, assuming, as we should, no increase in the U.S. share in financing these organizations. In addition, there would be a need for the United States and other member countries to subscribe additional callable capital, enabling these organizations to increase their borrowings in the capital market. This callable capital would require U.S. budgetary outlays only in the event that these international organizations defaulted on their bonds.

An increase in International Development Association (IDA) lending is critical to establishing an international framework for development. In view of the debt-servicing problem in a number of the developing countries, concessional lending on IDA terms is badly needed. Furthermore, IDA lending is the foundation for international participation in some of the major development programs.

The current level of country contributions to IDA is $400 million annually. The Pearson Commission recommended that these contributions be increased to about $1 billion a year by 1972 and $1.5 billion by 1975. The Task Force recommends that the United States take the lead in supporting these suggested levels of financing. The U.S. share would be 40 percent of the total.

The Inter-American Development Bank (IDB) should be able to expand its rate of lending over the next few years by perhaps 50 percent—or, to indicate rough magnitudes, from $600 million a year to $900 million a year. The Task Force recommends that the United States support such an increase in line with the special consideration for Latin American development that is part of U.S. policy. This would involve an appropriate combination of contributions for concessional lending and subscriptions of paid-in and callable capital. In contrast to present practice, the IDB should reserve its concessional lending for its least developed member nations.

The Task Force also believes that the United States should support current initiatives to open membership in the IDB to other industrial nations. At present, the United States is the only industrial country member, and this makes for an awkward relationship. Since the Bank now borrows and obtains funds in Canada, Europe, and Japan, opening up its membership would both give it greater assurance of capital from these areas and make for more healthy relationships within the organization.

The Asian Development Bank is gaining experience and expanding its operations. It will be able to take on very large responsibilities in any postwar development effort in Southeast Asia.

The United States is not now a member of the African Development Bank, nor are other industrial countries. This country should work with other industrial countries to strengthen this Bank and eventually to provide it with financial support.

Four subregional lending institutions now exist: The Central American Bank for Economic Integration, the Caribbean Development Bank, the Andean Development Corporation, and the East African Development Bank. The United States is not now a member of any of these, but its policy, which the Task Force supports, is to assist such organizations through U.S. development loans.

The capabilities of the industrial countries for contributing to international development in general will be facilitated by the increase in international reserves made possible by the creation of Special Drawing Rights.*

*The Task Force discussed the possibility of using these new reserves as a source of international development finance. Some members believed such a move should be explored with other industrial nations once the SDR system has been tested. There was agreement that time should be allowed to establish the new international reserves before proposals relating them to development finance are acted on. All agreed that the amount of SDR's created must be determined solely on the basis of liquidity needs—any tie-in to development would have to be clearly subordinate to the responsible operation of the SDR mechanism.

However, other members believed that it is so important to the future of the world financial structure to establish firmly the SDR's as a new supplement to international reserves, absolutely independent of the balance of payments of any individual nation, or groups of nations, that no recommendation should be offered on the use of SDR's for international development finance.

Coordination. Bringing coherence to the work of international development organizations is essential to the success of the new approach to foreign assistance we recommend. The various international institutions do not now make up a system. A wide area of overlapping and sometimes competing responsibility exists. The same is true for the individual programs of the industrial countries. Furthermore, the work of other organizations, such as the IMF, the General Agreement on Tariffs and Trade (GATT), and the Organization for Economic Cooperation and Development (OECD), could be focused more effectively on international development.

This is a complex problem, involving a number of international agencies and many governments. Several proposals have been advanced to begin the process of creating an effective international system. What is important now, however, is to bring high-level attention to the problem. The Task Force, therefore, recommends that you, Mr. President, raise this issue with heads of selected governments—in both industrial and developing countries—and with heads of the major international organizations. Constructing an effective international system and establishing international development priorities in concert with others would do much to advance what must be a global enterprise.

Bilateral Development Lending: A U.S. International Development Bank

The Task Force sees a new role and a new organization for U.S. bilateral lending. If the international agencies are to carry expanded responsibilities for development, the U.S. program must assume a supporting role and not become involved in the entire range of country development policies and programs.

U.S. lending under such a system would be concentrated in selected countries, in selected programs—particularly in agriculture and education—and in multinational projects where long-term development is of special interest to the United States. This U.S. lending, however, would be made on the basis of development criteria. A bilateral lending program would put the United States in a better position to encourage countries demonstrating the ability to move rapidly toward self-reliance. It also would enable the United States to continue to take up its share, with other nations, of programs in India, Pakistan, Indonesia, and selected African countries and to support Latin American development, which is of special concern to the United States.

Whenever it is feasible, U.S. lending should support cooperative programs worked out by the developing countries and the international agencies. Current U.S. participation in World Bank consortia and consultative groups for India, Ghana, Indonesia, and Colombia are cases in point. The proposal in the Rockefeller Report to have the OAS Inter-American Committee for the Alliance for Progress assume larger responsibility for formulating programs and coordinating development assistance in Latin America is another example.

Method of Operations. The United States should manage its lending programs as a bank would, although the scope of lending necessarily would include all aspects of development.

Effective assistance for development requires that capital and related technical services be provided together. The U.S. lending agency should be able to finance preinvestment and feasibility studies. It also should finance training and expert advisors to strengthen the managerial and technical competence of the borrowing institutions. For example, a program for efficient water utilization might include funds for the purchase of equipment, for training workers, and for outside experts. A loan to finance fertilizer, seed, and pesticides could well include the provision of advice on agricultural marketing and distribution. In providing technical services related to its lending program, the lending agency would draw on its own staff or arrange for such services from outside sources.

In making loans for development purposes, the United States should recognize that development is more than an economic process. It should take into account not only the extent to which a loan will contribute to economic growth but also the extent to which it will encourage social and civic development and will result in a wide dispersion of benefits.

The U.S. program should emphasize loans in support of the local private sector and promote broad popular participation in development. It could include program loans, loans to development banks and regional private investment companies, and loans for infrastructure and other projects. The United States could also finance training institutes, such as vocational schools and scientific centers.

The United States should be able to provide a range of development lending facilities, with the terms of specific loans adjusted to individual country circumstances. Terms should range from the most concessional interest rates and repayment terms to near-market rates. The latter would be appropriate for countries that no longer need concessional lending but that do not yet have independent access to private capital markets. For these countries, the United States could provide, or join in providing, guaranty facilities that would enable them to borrow on international capital markets.

Financing. Funds for bilateral lending should be available on an assured basis and in ways that permit flexible use, and the characteristics of the sources of funds should correspond to the financing terms appropriate for each borrower. The Task Force recommends the following:

—Appropriations should cover loans requiring the most concessional terms.

—Borrowing from the public should be authorized for loans made on intermediate concessionary terms. The rate at which these funds are loaned would be lower than the rate at which they are borrowed.

—Interest payments and repayments of principal on outstanding loans of AID and predecessor agencies should be available automatically to cover the interest differential on loans made at intermediate terms or for relending on the most concessional terms.

—Guaranty of foreign official borrowing on international capital markets should be authorized as a transitional device to help countries become independent of U.S. concessional lending.

The Bank should have assured sources of financing. The Task Force recommends an initial capitalization of $2 billion through appropriations and authority to borrow $2 billion from the public as and when needed. In addition, the Bank should have available payments of interest and principal on existing loans. These payments are estimated at $200 million for 1970 and at about $300 million by 1975. As in the case of the Export-Import Bank, resources authorized should be available for the life of the Development Bank. This would relieve the pressure to make loans under fiscal-year limitations and thus encourage sound operations. The Bank should be in a position to go back to the Congress for additional resources when needed.

The level of Bank lending will depend on the rate at which the international institutions expand their programs and on a continuing assessment of the needs and performace of individual countries. In 1969, the U.S. bilateral lending program amounted to about $700 million.

Organization. The Task Force recommends the creation of a U.S. International Development Bank to carry out the bilateral lending program. The Bank should be an independent government corporation, with a full-time president serving also as chairman of a board of directors, which would be composed of government officials and private members. The Secretaries of State and Treasury should be *ex officio* members of the board.

With independent status and a new mission, the Bank could attract a highly qualified professional staff and operate with a minimum of field representatives.

U.S. bilateral loans should be made under the broad foreign policy guidance of the Secretary of State, but independently of short-term foreign policy considerations.

The recommendation to establish a U.S. International Development Bank is based on an evaluation of the strengths and weaknesses of the existing and predecessor U.S. development agencies. One of the major issues involved is whether it is wise to separate the administration of capital assistance and of technical assistance. This is not an all-or-nothing proposition. Where the two are necessarily related, they would be provided together by a U.S. International Development Bank. There is a wide range of technical assistance activities, however, which require separate professional and managerial attention and which should not be submerged in a capital lending agency.

Research and Technical Cooperation: A U.S. International Development Institute

The Task Force recommends a basic change in the composition, method of operation, and administration of the current technical assistance program. As was noted above, part would be integrated into the lending operations of the U.S. International Development Bank. A new U.S. institute would concentrate on four major areas:

—***Programs to deal with the population problem,*** which should be carefully designed and worked out with private groups, national authorities, and international agencies.

—***Research,*** both in the United States and abroad with a heavy emphasis on strengthening local institutions in the developing countries. New technologies are urgently needed to provide breakthroughs in a variety of fields essential to broad-based development. They must be adapted to the needs of the developing countries and related to programs and local institutions that can ensure practical applications and evaluation of results. The successful combination of the development of new seeds for rice and wheat, and the programs to apply them, are a model. The United States should strongly support similiar long-range efforts in agriculture, health, education, and other fields through national, regional, and international projects.

—***Training,*** both in the United States and in the developing countries. Strengthening local institutions for improving vocational, commercial, agricultural, industrial, scientific, and professional skills is of vital importance for modernizing societies.

—***Support of social development,*** designed to assure popular participation through organizations such as cooperatives, labor groups, trade associations, and civic associations and through community development programs.

Method of Operation. The United States should seek to operate these programs more as a private foundation would.

The current practice of employing large numbers of technicians and advisory personnel in many fields and in many countries should be changed. It has required high overhead and large field missions. Advisory personnel should be used far more selectively and only where a careful assessment indicates that they would be useful.

It would be more effective for the United States to concentrate on a limited number of specific problems, particularly those having regional or worldwide significance. In each program, it should seek agreement with the participating country or agency on specific goals, on cost-sharing arrangements, and on plans for the country to take over the program at some time in the future.

An increasing proportion of the work should be carried out largely through private channels—universities, scientific organizations, business firms, voluntary agencies, and special-purpose organizations in people-to-people and institution-to-institution programs. The program should rely heavily on scientific and professional experts from private institutions for specific assignments, rather than on permanent employees. This would permit the United States to draw on a broad range of talent around the country.

The Task Force believes that the United States should change the current practice of terminating technical assistance programs whenever concessional development loans end. Terminating both programs at the same time fails to take account of a possible continuing need for professional collaboration and training and of the mutual benefits of continuing such cooperation. Financing arrangements for technical assistance programs can always be adjusted to a nation's ability to pay.

The United States should continue to use funds for self-help community projects. These funds, in modest amounts, are available in a large number of countries on the approval of the U.S. Ambassador. They provide a useful element of flexibility in U.S. assistance programs.

Organization and Financing. The Task Force recommends creation of a U.S. International Development Institute to carry out the program described above. It should be an independent government agency with a full-time director, who would act as chairman of a board of trustees composed of public officials and private members. The Secretary of State should be an *ex officio* member of the board. The board could use specialized advisory groups to review particular projects, following the practice of the National Science Foundation in making research grants.

The institute, in consultation with the Department of State, should be responsible for providing guidance to U.S. representatives on the Governing Board of the U.N. Development Program.

The Task Force recommends authorization of $1 billion for the Institute. In 1969, U.S. technical assistance programs, including contributions to international technical assistance programs, amounted to about $400 million.

As in the case of the Bank, these funds should be available over the life of the Institute, so that it can enter into long-term programs and avoid the pressure to spend funds under fiscal year limitations. The Institute should have greater freedom in the use of funds than is now accorded to AID so that it can support innovative programs as the opportunity arises. It would go back to the Congress for additional funds when they are needed. At that time, the Congress could judge whether the flexibility in these arrangements was justified and should be continued.

The above guidelines would mean greater expenditures than under the present program for research, population programs, training, and support of local institutions and the U.N. Development Program, and considerably lower expenditures for American technicians and overhead services.

The Congress recently authorized an Inter-American Institute for Social Development to carry out various kinds of popular participation programs in Latin America. The Task Force suggests that these proposed functions be performed by the U.S. International Development Institute on a worldwide basis, with a separate division for Latin America.

Agricultural Commodity Development Assistance

Agricultural credit sales, Food-for-Work grants, and commodities provided for humanitarian purposes, all under the Public Law 480 program, are a significant part of U.S. foreign assistance. They also are an important element in our domestic agricultural policies. The cost to the U.S. taxpayer of this assistance is far less than its value to the recipient. More than half the budgetary cost would be required in any event to support farm incomes in the United States.

There is likely to be a continuing need for P.L. 480 development assistance for some time to come. This program now amounts to approximately $1 billion a year. There are no reliable forecasts of future needs; but the outlook is for a continued increase in agricultural production in the developing countries, combined with an increase in requirements arising out of population and income growth. The P.L. 480 program accounts for only a small fraction of total consumption in these countries. While needs vary from year to year, depending on production policies and on temporary factors, such as the weather, it is assumed that the program will continue at a level of about $1 billion a year on an average.

The Department of Agriculture now administers the sales programs under the foreign policy guidance of the Department of State and should continue to do so. First priority should be given to encouraging agricultural production in the developing countries and to self-help policies. In administering the sales programs, the United States should recognize the need for developing countries to export agricultural commodities that they can produce efficiently. Competition from this quarter may hurt this country in the short run, but over time, income growth in the developing countries will make them better markets for those agricultural products that the United States can produce most efficiently.

Changes in P.L. 480 have provided for shifting the terms of assistance from local currency sales to dollar repayable loans. The terms for agricultural commodity loans should be consistent with those for development loans in each country. Both should take into account the debt-service burdens of the developing nations.

The Food-for-Work program, in the form of grant commodity assistance, is now administered by AID, partly in conjunction with the voluntary agencies. It is used in part to promote community development. The Task Force believes that this program should be administered by the proposed Institute and effectively coordinated with other social development programs.

Part of the local currency proceeds of credit sales agreements is available to borrowing nations for development purposes. Their use is subject to agreements reached with the U.S. Government. These funds should be made available, as appropriate, to supplement the programs of the U.S. Development Bank and the Institute.

The Quality of Assistance

Over the past decade, most industrial countries have placed limitations on the use of their development assistance and have set terms for such assistance that have greatly reduced its value to developing countries. The most damaging of these practices are: the tying of development loans to procurement in the lending country, the promotion of exports by industrial countries on terms that lead to serious debt-servicing problems for developing countries, and the imposition of a wide range of cumbersome and costly administrative restrictions on lending.

If the United States were to act alone in changing many of these practices, it would yield trade and financial advantages to the other industrial countries, thus discouraging domestic political support for development assistance. Other industrial countries are in the same position. However, if all the lending countries acted together, they would minimize the cost to each of restoring more efficient procedures.

Untying Development Lending. Total bilateral development lending that is effectively tied to procurement in the lending countries is estimated at $2 billion—half from the United States and half from all the other industrial countries combined. This amount does not include agricultural commodity development assistance, or official export credits (which are necessarily tied), or technical assistance, supporting assistance, or budget subsidies. The restrictions in development lending are estimated to reduce the value to developing countries of these loans by about 15 percent—or $300 million a year.

The Task Force recommends that the United States propose that all industrial countries agree to untie their bilateral development lending—permitting the developing countries to use these loans for procurement from the cheapest source on a competitive-bid basis.

The balance-of-payments cost to the United States of this proposal is estimated to be relatively small. In any event, the full effect would not be felt until some years from now. It would be even smaller if the United States improved its competitive position in world trade. The creation of new international reserves, which improves worldwide liquidity and was designed to help countries remove restrictions on trade and payments, provides further support for actions to untie development lending on a multilateral basis.

Untying development lending would help to create a better international climate for development. It could stimulate investment, production, and trade in all developing countries.

The Task Force recommends two actions that the United States could take alone:

—Permit goods and services financed under U.S. development loans to be purchased in all developing countries as well as in the United States. Latin American countries have recently been authorized to compete in the sale of goods and services under all U.S. development loans made in Latin America.

—Remove the procurement restriction in the U.S. investment guarantee program. This restriction unfairly impinges on the flexibility of U.S. investors, discouraging such investment without providing significant balance-of-payments benefits to the United States.

Better Debt Rescheduling Arrangements. The current public and publicly guaranteed debt of developing countries is close to $50 billion—five times the level of a decade ago. The cost of servicing this debt has been increasing at the rate of 17 percent a year, or three times the rate at which the export earnings of these countries have risen. It is clear that these trends cannot continue.

The procedure up to now has been to reschedule the debt of countries about to default, usually as a result of extensive reliance on commercial credits or of financial mismanagement. The relief is short-term in nature and inadequate for dealing with the problem.

The debt situation for a number of developing countries, however, is long-term in nature and partly a consequence of loan terms the countries cannot handle. Keeping these countries on a short leash by emergency debt rescheduling operations does not show the necessary foresight. Countries with serious debt problems, in trying to avoid default, are likely to impose more internal and exchange restrictions and thereby intensify their future difficulties.

The Task Force recommends that the United States propose joint action—by the lending countries, the international lending institutions and the developing countries concerned—to devise a comprehensive strategy for dealing with this problem. This strategy should be put into effect to prevent an emergency—not to deal with one after it has arisen.

Over the decade ahead, joint action probably will be required to deal with the debt problems of perhaps five to ten countries. These countries now account for at least one-third of the outstanding debt. Such action should be initiated soon on a case-by-case basis. It should consist of an interrelated package that includes the following elements:

—The World Bank and the IMF should convene a meeting of representatives of the countries involved. These institutions should prepare debt-rescheduling proposals on the basis of the debtor country's long-term outlook—both for debt service and for export earnings.

—Each debtor country seeking debt renegotiation should demonstrate by its plans and policies that it is pursuing a coherent development program and appropriate fiscal and financial policies.

—Bilateral government and government-guaranteed credits should be rescheduled over a long term. The international lending institutions, however, should not be required to reschedule their outstanding loans. Rescheduling their loans would endanger the ability of international institutions to continue borrowing in capital markets.

—The IMF should be ready to provide standby credits as a part of this package. This would be useful for setting financial standards and for providing a transitional supplement to the countries' international reserves.

—Governments should agree on a ceiling for guaranteed commercial credits to a participating debtor country in any one year. Minimum maturities for these supplier credits should also be set by multilateral agreement.

—If agreement is reached on the above points, all bilateral lenders should agree to provide the most concessional terms on new lending to the participating debtor country. These countries should also be given priority in receiving IDA loans.

In addition to rescheduling the debts of countries that already have reached or exceeded the limits of serviceable indebtedness, the creditor countries should design their assistance policies to keep other developing countries from facing debt difficulties. The best way to do this is for all developed countries to improve the terms of their development assistance.

Administrative Flexibility. A large number of statutory and procedural requirements now make the administration of U.S. foreign assistance excessively cumbersome. An estimate prepared for the Task Force indicates that the equivalent of 700 full-time officials now is required to see that these regulations are followed.

Some of these restrictions reflect an attempt to use development assistance for foreign policy purposes that it never was designed to achieve. Others lead to an excessive multiplication of regulations. Often the complications arising out of these restrictions outweigh any intended benefits. However, some are designed to ensure good accounting practices.

A new approach to foreign assistance will provide an opportunity to make a fresh start. Procedural requirements and political limitations that are necessary for effective programs should be recast in forms that are manageable. Those that unnecessarily encumber the program and reduce its flexibility should not be carried forward.

In sum, the Task Force believes that legislation incorporating the proposals in this report should be based on the principle that administrators are accountable for achieving objectives. Restrictions on operations should be held to a minimum.

Coordination Issues: A U.S. International Development Council

Presidential interests in international development are not adequately served by existing decisionmaking machinery. International development does not receive enough emphasis in the determination of U.S. trade, investment, financial, agricultural, and export-promotion policies. A number of departments and agencies have competing interests and responsibilities in this general area, with the result that too many issues go to the President for resolution. Furthermore, opportunities to take initiatives in policies toward developing countries are sometimes lost.

The Task Force recommends creation of a U.S. International Development Council to coordinate U.S. international development activities and relate them to U.S. foreign policy. The Chairman of the Council should be a full-time official appointed by the President. He should be located in the White House and be served by a small high-level staff.

The Council should consist of the Secretaries of State, Treasury, and Agriculture, the President's Special Trade Representative, the President of the Export-Import Bank, the Director of the Peace Corps, the President of the U.S. International Development Bank, the Director of the U.S. International Development Institute, and the President of the Overseas Private Investment Corporation.

As a means of keeping the Congress and the American public fully informed, the Council should prepare for the President an annual report on international development activities, which he would submit to the Congress. Establishment of a joint committee of the Congress to review the President's report would contribute to a better understanding of international development goals, policies, and results.

Responsibilities in Washington. The mission of the Council would be to assure consistency among U.S. development programs, the positions taken in international agencies and forums, and the actions taken on trade and financial issues, relating to developing countries.

The President would look to the Chairman and the Council to:

—formulate basic international development strategy;

—relate assistance programs to this strategy;

—review, on a continuing basis, bilateral and multilateral assistance policies and programs;

—focus high-level attention on the consequences for international development of U.S. policy decisions in agriculture, trade, investment, and international finance;

—deal with coordination problems among U.S. Government agencies; and

—assure a consistent presentation of Administration views on international development to Congress and to international forums.

The Chairman of the Council would look to the Secretary of State for overall foreign policy guidance. The Secretary would continue to be responsible for assuring that U.S. programs in specific countries are consistent with U.S. foreign policy, and for conducting negotiations.

The Secretary of the Treasury would continue to have primary responsibility for dealing with international financial institutions. However, the Treasury Department, together with other agencies with responsibilities toward international organizations, would be guided on development aspects of policy by the U.S. International Development Council.

Responsibilities in the Field. The ambassador would continue to have responsibility for all U.S. activities in the country to which he is accredited.

The recommended program for reorganizing foreign assistance calls for much smaller field representation than now exists. The U.S. International Development Bank and the U.S. International Development Institute will need regional representatives and in some cases country representatives, but the principal operating decisions will be made in Washington. In countries where the United States has large bilateral programs or special development interests, foreign service officers trained in development problems should be assigned to the U.S. Embassy. Furthermore, the State Department should look to leading outside experts in the development field to undertake such assignments. These specialists could make a substantial contribution to development planning and be responsible for discussing development problems, development projects, and development assistance with host governments.

Budgetary Implications and the Level of U.S. Foreign Assistance

The appropriate level of U.S. foreign assistance must be examined in the context of national priorities and the means available to meet them. What the United States can afford now—given urgent domestic requirements, the cost of fighting the war, other high national security costs, the balance-of-payments position, and an overriding need to contain inflationary pressures—will differ from what would be appropriate under a more favorable environment.

Moreover, this is only one side of the coin. The other side is a convincing determination that these resources can, and will, be used effectively.

Foreign assistance, like domestic programs, cannot be changed drastically from year to year without either a sacrifice of the goals the United States seeks or damage to the means for achieving them. Foreign assistance involves continuing programs, the actions of many other nations, and a functioning international framework—for all of which the position of the United States is of the greatest importance. This highlights the need for timely approval of the 1971 foreign assistance budget. Disruption of the U.S. program could undermine the entire system of international cooperation in this field.

The downward trend in U.S. development assistance appropriations should be reversed. Additional U.S. resources could be used effectively now for international development. To underwrite a new approach to foreign assistance, additional financing for international lending institutions and assured capitalization for U.S. bilateral lending and technical assistance are needed.

To sum up the budgetry implications, we have recommended:

—an increase of $500 million in annual U.S. contributions to international financial institutions by 1972. Thereafter U.S. development assistance for international financial institutions should be increased as rapidly as is consistent with its effective use and with the willingness of other industral countries to increase their contributions to such institutions;

—an increase in U.S. subscriptions to the callable capital of these institutions, as needed;

—multiyear capitalization of $2 billion for a new U.S. International Development Bank through appropriations, and authority to borrow $2 billion from the public to be used as and when needed. In addition, the Bank would make use of payments of interest and principal on outstanding loans. These payments are about $200 million a year now and will be about $300 million by 1975; and

—multiyear authorization of $1 billion for a new U.S. International Development Institute.

The amount of development assistance the United States would provide in any one year would depend on a continuing assessment of needs and performance in individual developing countries.

The Task force has deliberately decided against recommending any specific annual level of foreign assistance. Assurance on how funds will be used and the establishment of organizations that can effectively further national interests should come first. We do believe, however, that the currently low level of economic development assistance must be raised substantially.

The Task Force shares the belief of the Pearson Commission that acceleration of international development is important to the well-being of the world and that over time a large increase in development assistance is necessary.

The Task Force has reservations, however, about the usefulness of any formula to determine how much assistance the industrial countries should provide. This approach puts the emphasis on the wrong side of the partnership. Instead, the starting point and the test should be the determination of developing countries to mobilize their own resources and to adopt policies that will ensure the effective use of funds. On evidence of good performance and of demonstrated need by the developing countries, the industrial countries should be prepared to make available the necessary amount of development assistance. In the end, this may mean greater or less assistance than would be called for by any predetermined formula.

These considerations aside, a uniform development assistance yardstick for all industrial countries would make no allowance for the international responsibilities the United States carries. The United States now devotes 7 percent of its GNP for defense expenditures. In part, these security responsibilities make it possible for our allies to spend less themselves on military security. As a group, their defense expenditures as a percentage of GNP are perhaps half those of the United States.

Other factors in burden sharing are worth noting. Despite a 10-year attempt in international forums to arrive at a uniform definition of development assistance, problems still exist. Each of the industrial countries in following its national interest emphasizes various kinds of resource flows. Development lending, however, should be the decisive element for all countries in burden sharing—not such special factors as loans to promote exports or political budget support of one kind or another.

Trade policy should also be taken into account—specifically, the value of preferential arrangements and measures taken to open markets to imports of manufactured and agricultural commodities from developing countries. Although they are difficult to measure, trade benefits have a multiplier effect on development.

In sum, the Task Force believes that the United States should keep to a steady course prepared to help finance development in those countries demonstrating the will to advance. As the world's largest industrial power, the United States should participate fully with all other industrial countries in such an effort.

This country now spends $6.5 billion on foreign assistance, 40 percent of which is related directly to the war in Vietnam. As the United States moves from war to peace, a change in the mix of these programs from military assistance to international development assistance could give us more leeway to support to the full the resolve and the purpose that developing countries demonstrate.

* * *

With this approach, Mr. President, the Task Force believes that this country can take up the challenge of international development in a way that adds a new dimension to U.S. foreign policy and creates a broad and hopeful vision of the world and its future. Americans, young and old, can then take renewed pride in playing a constructive world role and in meeting the obligations of global citizenship.

The United States in the future can act more in partnership with others—the developing nations and the industrial nations. All are increasingly capable of assuming responsibilities and of providing resources. All have growing stakes in the results. As you said, "forging a new structure of world stability in which the burden as well as the benefits are fairly shared" is a primary aim of U.S. policy.

* * *

40-333 O - 70 - pt. 3 - 4

The members of your task force have found this assigment to be interesting and important. We hope this report will be useful to you and to the Nation.

Respectfully submitted,

(Signed) RUDOLPH A. PETERSON, *Chairman*
EARL L. BUTZ
WILLIAM J. CASEY
TERENCE CARDINAL COOKE
JOHN E. COUNTRYMAN
THOMAS B. CURTIS
R. BURT GOOKIN
WILLIAM T. GOSSETT
WALTER A. HASS, JR.
GOTTFRIED HABERLER
WILLIAM A. HEWITT
SAMUEL P. HUNTINGTON
EDWARD S. MASON
DAVID ROCKEFELLER
ROBERT V. ROOSA
ROBERT J. WOOD

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

I have just received the report of my Task Force on International Development, chaired by Rudolph Peterson.

The Task Force has recommended sweeping charges in the foreign assistance programs of the United States: clarification of their fundamental objectives, changes in the over-all role of the United States in the international development process, changes in the organization of the U.S. Government to carry out its responsibilities in contributing to that process.

A new U.S. approach to foreign assistance, based on the proposals of the Task Force, will be one of our major foreign policy initiatives in the coming years. I will propose this new approach in responding to the requirement of the Foreign Assistance Act of 1967 that I reappraise our present assistance effort and recommend changes for the future. Taking into account the discussion which will follow my proposals, including close consultation with the Congress, I will submit legislation in January 1971 to carry out the new U.S. approach.

To contribute to the discussion of this important subject, I am making the Peterson Report public immediately. I believe its ideas are fresh and exciting. They can provide new life and a new foundation for the U.S. role in this vitally important area of our relations with the developing countries.

The Task Force intensively examined our assistance programs of the past and present. Looking to the future, it concluded that "The United States has a profound national interest in cooperating with development countries in their efforts to improve conditions of life in their societies." I agree. It is to enable the United States to best pursue that profound national interest that I will propose a new U.S. approach to foreign assistance for the 1970s.

Senator JAVITS. Mr. Chairman, the Peterson Report is fresh and exciting, and I think that it can be said that we in the Congress have finally received a Report that is not only sensitive to the mood of the Congress, but also sensitive to the mood of the country.

In my opinion, the report is based on three realistic pillars and the bridgebuilders among us can testify that upon a foundation of three pillars a very solid bridge can be built. The Peterson Report can serve as this bridge bringing the developmental assistance process closer to the American people and spanning the widening and dangerous gap between the have and the have-not nations.

The three pillars of the report in my opinion are the following recommendations:

1. That security assistance be divorced from development assistance;

2. That the developmental assistance programs of the U.S. Government be multilateralized and that U.S. bilateral assistance should largely be provided within a framework set by international organizations. In making this recommendation, it is explicitly recognized that international organizations must be strengthened before they can fulfill this role. This important policy decision sounds the death knell of bilateral assistance programs, as we know them—even though the expiration date may still be a ways down the road.

3. That the downward trend in U.S. developmental assistance appropriations should be reversed. Again, in the early years of the 1970's, the reversal could take the form of holding bilateral programs at a plateau level while increasing multilateral programs.

This second point clearly has been the expressed wish of many Members of the Senate Foreign Relations Committee in the continuing foreign aid debate over the past years. It is also clear, that the Congress and the people of this Nation—and particularly this Nation's youth—wish to see developmental assistance programs divorced from security programs. This was one of the explicit recommendations made by the Youth Task Force on International Development.

In closing, Mr. Chairman, in my opinion, the other recommendations contained in the report and the report's new organizational proposals logically flow from these three pillars of wisdom. They deserve the close and sympathetic consideration of the Congress and have my support. It takes courage and wisdom for a diverse group of individuals such as those who comprised the task force to recognize that the AID programs and AID structures of the 1960's are no longer relevant to the 1970's, and to make constructive recommendations for change.

They recognize that "the developing countries stand at the center of the international development effort, establishing their own priorities and receiving assistance in relation to the effort they are making on their own behalf" and to propose for the United States to carry its fair share as other industrialized countries are moving to shoulder a greater proportion of developmental assistance programs.

As these hearings convene and as the developmental assistance debate of the 1970's opens in a climate that could be more auspicious, we in the Congress and the people of this great and troubled Nation would do well to contemplate Cardinal Cooke's words contained in a statement before the Synod of Bishops in Rome last year. At that time Cardinal Cooke eloquently stated:

"However, if we truly live up to this commitment, it means that all of us in different nations must be willing to sacrifice some portion of our resources; we should support and become involved in the programs of international aid and development, for creating a more just world community, in keeping with the teachings of the gospel and the appropriate goals now being set forth by organizations acting through the United Nations. In this way, we can help the poor of the world to generate their own human development, in the context of their own culture and local environment."

That is the end of the quote from Cardinal Cooke.

And thank you very much.

Chairman BOGGS. Thank you very much, Senator. Before introducing Mr. Peterson to make his statement I would like to introduce the other members of the panel.

Mr. John M. Fox, president and chairman of the Board of the United Fruit Co., and chairman, Committee for Economic Development Subcommittee on Economic Aid to Low Income Countries was scheduled to appear, but he is unable to be here today because of pressing business problems. His statement will be read by Dr. Roy Blough, whom I know quite well from his days in the Treasury Department, and who is now Director of International Economic Studies for the Committee for Economic Development and Professor in the Graduate School of Business at Columbia University.

Then we have Mr. Daniel Parker, chairman of the board, Parker Pen Co., past chairman, National Association of Manufacturers, and cochairman, International Development Conference, which was held here in Washington, D.C., during February of this year.

And then Mr. Walter Sterling Surrey, attorney and chairman, National Planning Association of the Joint Subcommittee on U.S. Foreign Aid.

I would also like to welcome a group of midshipmen from the U.S. Naval Academy who are sittting in wih us today.

Now, Mr. Peterson, we would like very much to hear from you, sir.

STATEMENT OF RUDOLPH A. PETERSON, CHAIRMAN, PRESIDENTIAL TASK FORCE ON INTERNATIONAL DEVELOPMENT AND FORMER CHAIRMAN, BANK OF AMERICA

Mr. Peterson. Thank you.

I am grateful to you, Mr. Chairman, and to the Members of your Committee for making these discussions possible. A great deal of apathy, frustration, and misunderstanding surround our foreign assistance policies. This can lead to a separation between decision-making and public understanding, which is always unwise and which, in this case, can be dangerous to the Nation's long-term position.

I am sure these kinds of considerations were uppermost in the President's mind when he asked me to head a task force of private citizens to look into our foreign assistance programs, and particularly into whether and why they were important to us and how they could most effectively be carried out.

We came to this assignment for the most part as beginners—not experts. We read reports, listened to the views and asked questions of specialists and government officials and explored these questions with some Members of Congress. We also held meetings throughout the country with business groups, university experts, journalists and representatives of civic organizations. In fact, I think it is fair to say we consulted with every quarter of American society who would have an interest in foreign assistance.

On the basis of these discussions, I am convinced there is a very real consensus that the United States has important interests and responsibilities in foreign assistance.

The citizens of this country must be concerned about what the world will look like some 20 or 30 years from now. This concern extends to a number of fields, including arms control and the environment. It applies with particular force to the issues of international development. What happens to the two-thirds of the world's people that are less fortunate may well determine in considerable measure how habitable the world will be for us.

Our basic national interest in foreign assistance stems from the fact that the nations of the world now make up a closely linked system. How we and other industrial nations act will affect the poorest countries. Whether the less fortunate make progress in their standards of living and in building healthy societies will affect our own well-being. Partnership, integration, and the need for effective cooperation in the management of common problems are much used concepts these days, but that does not make them any less real.

Perhaps one reason for misunderstanding our interest in foreign assistance stems from the fact that we have three distinct kinds of foreign assistance programs but tend to treat them as one. These might well be classified as security programs, humanitarian assistance programs and economic development programs. Each serves important national interests; for the sake of candor and clarity each should be justified and explained on its own merits.

One set of programs we have chosen to call "security assistance." It includes military assistance, related economic supporting assistance, budgetary support, and assistance for police training. These activities are designed to help our allies become more self-reliant. They are essential tools in the conduct of our foreign relations and represent the use of resources for purposes of national security.

The second set of programs, which we call "welfare and emergency relief," include childfeeding and help to refugees and disaster victims. They reflect longstanding national traditions and humanitarian interests.

By contrast, assistance for international development is very much a long-term program. Success must be measured by steady progress, not dramatic results. The going will be hard, but over the long term the benefits can be large; greater wellbeing for the developing nations, increased opportunities for trade, a more dynamic world economy and, above all, improved prospects for world peace.

Separation of security programs from economic development programs is the first major recommendation of the task force as was indicated here earlier. We found widespread support for such a separation in our consultation. After studying the issue, we became convinced this separation would be right in principle, would help in the formulation of policy, and would contribute to greater efficiency in management.

While not the principal focus of our Report, we made a number of specific recommendations regarding security assistance. In general, these recommendations were designed to place more responsibility on the developing countries to determine their own security needs and to relate these needs more closely to their own budgetary priorities.

In regard to development assistance, the task force saw the need for a new approach stemming from the remarkable changes that have taken place in the international environment over the past 10 to 15 years. The facts are well known, but their implications for policy are perhaps not widely understood.

Most of the changes reflect progress and the success of past programs. Many developing countries have increased competence to marshal their own resources and to establish their own development priorities. Other industrial countries now share fully with the United States in the development assistance effort. And the international organizations have become an impressive source of development skills and a growing source of development capital.

These changes strongly suggest that international development can become an increasingly worldwide cooperative endeavor—among developing countries, industrial countries, and international organizations. The developing countries themselves must stand at the center of this effort—in determining needs and in justifying assistance on the basis of progress. The international organizations can come to play the primary role in establishing assistance requirements and providing a framework and guide for donor countries to use in carrying out their bilateral programs.

Politically, such an approach is less abrasive than confrontation between borrower and lender, and it can be more efficient in management terms as well. In such a process the United States bilateral program could play a strongly supporting, rather than a directing, role. Personally, I feel we have an interesting opportunity here with the increasing competence of multilateral organizations to consistently reduce the bilateral role, particularly in the lending area.

And I would like to add here that undoubtedly, as we crystallize it, it could well be that the bilateral role, temporarily, for the next 5 years, would increase. But we envisage an era in the course of the next 4 or 5 years as it would crest out then consistently over the ensuing 10 to 20 years it could gradually play a lesser and lesser role as the multilateral organizations take over.

The United States can help make this concept work by action in a number of fields. First, it is essential to provide greater financial resources for the major international lending institutions. The task force therefore recommended that the United States take the lead in urging funding for the International Development Association of $1 billion a year in 1972, and up to $1.5 billion a year by 1975, as recommended by the Pearson Commission; a substantial increase in financing for the Inter-American Development Bank; an increase in funding for the International Finance Corporation; more paid-in capital for the World Bank; and support for the Asian Development Bank. We would hope to see U.S. financial support for the African Development Bank as soon as this becomes feasible.

We also recommended multilateral action in a number of other areas: untying of all development loans, debt rescheduling, adoption of nondiscriminatory tariff preferences for developing countries, and a U.N. study in depth of requirements for dealing with the population problem.

Combined, these recommendations are intended to support a marked shift in emphasis toward providing development assistance within a multilateral framework and toward moving away from strictly bilateral programs. Such an approach raises important questions which should be frankly faced.

First, relying more heavily on multilateral organizations, both as a channel for development assistance and as a guide for U.S. bilateral programs, will mean less control over the use of U.S. funds for development. But this is the price of establishing a stronger international framework which will make for greater efficiency in our programs and greater effort by others.

Second, a great deal has to be done to improve coordination among the international organizations and with the bilateral programs of the industrial countries. A wide area of overlapping and sometimes competing responsibility still exists. Progress is being made to improve the functioning of the international development system, but a clear decision by the United States to move decisively in this direction would greatly accelerate the process.

Another major purpose of our recommendations for international development is to encourage a more dynamic and effective private sector in the developing countries. I need not go into the details, but it may be worth listing some of our specific proposals:

A liberal trade policy for the industrialized nations and avoidance of the imposition of new restrictions.

Adoption of a nondiscriminatory tariff preference scheme.

Increased quotas for U.S. imports of products important to the developing nations; e.g., textiles, meat, and sugar.

Support of regional markets among developing countries, including intraregional trade liberalization.

Support of improved local capital markets, local development banks and regional private investment companies.

Support for the Overseas Private Investment Corp. with the added function of guaranteeing U.S. investment in housing.

Ending the restrictive provisions of the Hickenlooper amendment.

Elimination of current balance of payments restraints on U.S. direct investment in developing countries.

Expansion of the facilities of the International Finance Corporation to promote local equity participation in foreign investment.

Early negotiation of the World Bank proposal to establish an international investment insurance agreement.

Combined, these measures would help to free the flow of goods and finance among nations in support of international development. They would provide more scope for the private sectors of both developing and industrial countries to contribute to international development. They would encourage greater reliance on market forces and private initiative to stimulate local savings and allocate investments.

A third area of development assistance recommendations concerns qualitative improvements that could reduce the cost and greatly increase the impact of U.S. programs.

The task force proposed that the United States offer to untie all development loans on a multilateral basis. Such action on a worldwide basis could increase the value of development loans from all countries by perhaps $300 million a year, with manageable balance of payments effects. I believe it is unnecessary to impose this cost on the developing countries. In my opinion, this provision has proven to be an irritant to developing countries out of all proportions to its benefits to the United States and other industrial nations. As an interim measure, we recommend that the United States permit goods financed under its development loans to be purchased in the developing nations—really an extension of the practice recently introduced for loans to Latin America.

We also recommend that the United States propose joint action—by the lending countries, the international lending institutions, and the developing nations—to deal with the debt problems of several nations. We envisage an interrelated package with the following elements: Long term debt rescheduling, appropriate fiscal and financial policies, ceilings and minimum maturities on guaranteed commercial credits, access to IMF standby credits, and concessional terms for new loans and priority in receiving IDA credits.

Adoption of this proposal could go far to resolve what has become a real threat to international development and would do so on the basis of forehanded, rather than emergency, action. The debt problem also underlines the urgency of moving toward lower interest rates and longer repayment periods for countries requiring concessional lending.

We should also seek to remove the statutory and procedural requirements that now make the administration of U.S. foreign assistance unnecessarily cumbersome. These restrictions should be held to a minimum. Why not operate on the proven management principle that implementation be left up to the administrators but, in turn, they be held strictly accountable for attaining the objectives laid down by Congress?

Our major organizational recommendations followed from these basic principles:

We recommended combining all forms of security assistance in one legislative proposal. Such assistance should be under the firm policy guidance of the Department of State and administered separately from development assistance.

Congress has already authorized a separate organization to administer the private investment insurance program.

This organization, we believe, has a unique opportunity to expedite and facilitate the major role to which the private sector can contribute so much.

We also recommend the establishment of a U.S. International Development Bank, with assured sources of financing, to carry out development lending and to finance related technical assistance activities. This bank, like any modern bank, should be staffed with the necessary expertise to provide the technical assistance related to any broad lending program. For the most part, the bank would make loans in support of programs and policies worked out between the developing countries and international lending institutions. It would aid those countries whose long term development is of special interest to the United States and which are demonstrating the ability to move rapidly toward self reliance.

It would give special emphasis to encouraging a dynamic local private sector through loans for development banks, regional investment companies, and infrastructure projects. It would support education, agriculture, and other programs designed to insure wide dispersion of the benefits of development throughout the society.

We further recommend establishment of a U.S. International Development Institute to seek new breakthroughs in the application of science and technology to problems that are critical to developing countries. More emphasis should be placed on developing the indigenous talent and resources in this area of research. Likewise, this Institute would also carry on the so-called training and technical assistance programs that have always been an important part of our bilateral assistance activities. The Institute would work largely through private organizations and would rely on highly skilled scientific and professional personnel.

We conceive operating this Institute as we have evidence a well managed foundation operates, with the multiplier effect of utilizing the indigenous resources, both human and material, to the maximum.

Finally, we recommend the establishment of a U.S. International Development Council to assure that international development receives greater emphasis than is now the case in the formulation of U.S. trade, investment, financial, and export promotion policies.

These organizational proposals would be consistent with greater U.S. reliance on multilateral organizations and with an appropriate sharing of responsibility in international development. We should and would, I believe, require fewer U.S. advisers and other personnel abroad than present bilateral aid.

I would like to close with a few words about the level of U.S. development assistance. The task force wrestled long and hard with this question. In the end, we concluded that it would be unwise to base the level of U.S. assistance on a predetermined formula, such as on percent of GNP. Instead, we support an approach focused on periodic assessments by international agencies of both the needs and progress in individual countries and commitments by industrial countries to provide assistance in this context.

Such an approach, we believe, could provide a strong foundation for development assistance. It could give confidence to both lenders and borrowers. In the end, it could mean less or more assistance than called for by 1 percent of GNP. The critical difference is that it would be based upon clear rationale, directly related to performance of both aid recipients and other donors.

The task force is convinced that the present level of U.S. economic development assistance should be raised substantially. As the world's largest industrial power, the United States should participate fully with other industrial countries in the international development effort. There is no justification for falling behind. But how far and how fast we move should depend on the level of effort by others.

I believe these proposals can provide the foundation for an effective U.S. foreign assistance program in the years ahead. Whatever their merit, international development is of critical importance to the future position of the United States. Full, careful, and active discussion of the issues is essential.

Thank you very much.

Chairman BOGGS. Thank you very much, Mr. Peterson.

Senator Javits, do you have any questions?

Senator JAVITS. Mr. Chairman, I think it would be desirable to hear the commentary.

Chairman BOGGS. I am informed that Mr. Peterson has to leave.

What time must you leave, Mr. Peterson?

Mr. PETERSON. I will leave that up to you. If I could leave by 11 o'clock or a little before, that would be fine.

Senator JAVITS. Mr. Chairman, I would like to ask a question.

I think the main criticism that has been leveled at this report is the organizational problem. And the first question that occurs to me is, what will be the position of the Department of State? If your whole plan should be put into effect organizationally, where does that leave the Department of State?

Mr. PETERSON. Well, as I believe we saw it, and as I see it, the Department of State still has complete direction of the so-called short-term program of assistance. In other words, that area in which we look for return and dividends on a month-to-month or year-to-year basis, the area of military assistance, of supporting assistance, and also, of course, the humanitarian side, is still completely under their direction. And we recommend that it be very definitely their responsibility.

On the other hand, when we go over to the other side and take a look at the long-term development assistance, then we believe the Department of State should be represented in the decisions that are made, that such decisions be consistent with our long-term foreign policy, but that on a day-to-day, month-to-month basis such decisions should be independent of short-term foreign policy considerations.

Senator JAVITS. If the policy direction of the United States respecting all foreign aid is to be vested in the International Development Council under your plan, and that Council will be in the White House, don't you contemplate that the primary influence upon that Council will be the President of the United States?

Mr. PETERSON. Yes. In other words, it is our concept that the chairman of that Council would, of course, be in the White House, and in the day-to-day decisionmaking process in this area would speak for the President.

Senator JAVITS. Now, wouldn't it be entirely feasible under those circumstances to recognize the role of the State Department as being the President's staff adviser on foreign policy, so that the input of the Secretary of State could be as effective as it is today?

In other words, would you agree that the staff officer, as it were, of the President in respect to the U.S. International Development Council should be not the chairman, but the Secretary of State, as the chairman has an autonomous operating duty, which does not necessarily lend itself to the staff function. The fact that he is in the White House does not necessarily mean that he should be the President's staff officer with relation to this program?

Mr. PETERSON. The only reservation I have there, Senator, is, as you will recognize, we felt that in this foreign assistance area particularly the private sector could play a very major role. And in many ways I believe that by having the chairman, someone whose job involves the work of the Export-Import Bank, the international organizations as such, and other departments and agencies, quite independent from the State, it seems to me you would have the direction likely to be in more balanced proportions and to be able to give greater emphasis to development considerations.

Senator JAVITS. Now, the same is true of the Congress. The Congress is anxious to have its input and to have the ability to exercise legislative oversight over this whole operation. Therefore I would like to ask you these questions. If it were possible to channel the distributions of funds or subscriptions to multilateral institutions through the U.S. International Development Bank, and if the various Governors representing the interest of the United States in the multilateral international organizations were headquartered in the U.S. International Development Bank, wouldn't that immediately—because of the reporting requirements for all U.S. corporations—give Congress oversight, effective oversight of what was being done with U.S. resources even though they might be channeled as they would under your plan, to and through multilateral national organizations. In other words by making the U.S. Development Bank the channel through which the United States would work—would this not then give the Congress an instrument over which it does have legislative oversight?

Mr. PETERSON. In other words, Senator, the way I understand the modus operandi here, in some way the appropriations would be channeled through the bilateral bank to these multilateral organizations?

Senator JAVITS. The U.S. International Development Bank would be the agency through which contributions were channeled and subscriptions made to international organizations, and the Governors who represent the United States on these various boards could be headquartered in the United States International Development Bank.

I am thinking of how you give the Congress a look-in on this whole process. It seems to me that this is a possibility that you can explore—I am not asking you your final opinion—that you can explore, whether you can establish an entity over which the Congress would have a legislative oversight. This bank could be the channel through which the various subscriptions moved, in addition to its normal bilateral loan functions.

The virtue of this proposal is that Congress would then have legislative oversight over one instrument which could give it a look-in, a window, as it were, upon everything which was being done with U.S. money and U.S. credit. And that does not in any way disturb or destroy your concept, but it does deal with these twin questions which I know have been raised in a very vexing way:

1. What happens to the Secretary of State?
2. What happens to congressional oversight of funds authorized and appropriated to multilateral organizations?

Mr. Peterson. I believe your proposal merits further thought and study.

I would like to comment now, however, on one as part of the question—the responsibility and accountability of these international financial institutions. It just seems to me that we have reached the point with some of these more sophisticated international lending organizations that they are prepared and have made regular reports as responsible international lending organizations in much the same way as domestic lending organizations do. And those reports rendered Congress on an annual basis should be sufficient to satisfy Congress that the funds are being reasonably spent.

In other words, Congress can expect that these institutions maintain effective internal as well as external audit controls. And it seems to me that we are moving into the area where these international development organizations are demonstrating responsibility, reporting fully, and those reports could be adequate to satisfy Congress as to the manner in which these funds are utilized.

An international financial organization, like a domestic financial organization, is somewhat different in this area. Its practice is normally to report in some detail sufficient to satisfy those concerned, whether they be stockholders or whatever, as to the manner in which they have utilized the funds. And it seems that something short of sending in your own auditors could properly account for it and meet this responsibility.

What would worry me is the step in between. If we go too far—asking for more than we in fact need, it seems to me that it would tend to impinge on the very nature and the authority and stature of these international organizations and their management. It is a step we would take that would be distinct from and go farther than other nations—who also are stockholders. And it puts in an additional step which always complicates, and possibly would make our participation somewhat less effective.

I think your overall proposal is worth a careful look. Clearly there are alternatives and certainly this is a very important area as far as Congress is concerned. But I have some reservations in that it might complicate the procedure and also set up some cross currents that might not be as——

Senator JAVITS. I would like you to look at it. And I think it is a necessary area to look at. But I do not think you have got my idea quite right, and I would like to phrase it in a word, because my time is up. And the word would be this. There is a difference between Congress being a stockholder, getting the annual reports, with the privilege of asking questions at annual meetings, and having a director on the board. That is what I think the Congress would like—figuratively to have a director on the board. That does not interfere with the international organization. But it does give the Congress a window on what is going on, what is really going on and why.

I submit that to you. It is not audit, it is not postaudit, it is not reaudit. I do not think that is what we are worrying about. I think we are worrying about policy. And I think that there are ways, and that is a way—not the only way but a way in which the Congress could be satisfied that it is not absolutely being sealed off from any access to the inside operation of the multilateral organization in which the United States interests would probably represent upward of 25 percent in any case, and probably closer to 30.

So we have a very appreciable interest in it. We are entitled to more than the annual reports.

Thank you, Mr. Chairman.

Chairman BOGGS. Thank you very much, Senator.

I just have one or two questions.

Mr. Peterson, if the other industrialized nations submit a plan, which has been rumored to the United Nations providing for a contribution that would roughly amount to 7 percent of GNP for these programs, would you recommend similar action by the United States?

Mr. PETERSON. I do not feel, and I do not think the task force felt, that it would necessarily follow that we take a decimal of our GNP and decide that that is necessarily the appropriate amount. I think there are many factors in the United States picture that should be taken into consideration. And what the percentage might come out as a result of that, or what would seem to be our appropriate share, might be some figure either greater or less than that.

I just am not enticed by the seven-tenths of 1 percent. I realize that the objective was to find some sort of a goal.

Chairman BOGGS. Let me ask you this question. As I understand it, both your report and the earlier Pearson report base many of your recommendations upon the cooperation of the rest of the industrialized world?

Mr. PETERSON. That is right.

Chairman BOGGS. This is the opposite of the question I just asked you. Suppose you do not get this type of cooperation, what do you see then?

Mr. PETERSON. I think we would have to stand on the condition—

naturally we have not and would not insist that the support be necessarily unanimous—but unless most of the other countries joined us—I think we would probably wind up giving less than hoped-for emphasis on the multilateral side.

I think this is something we have to look to others to share with us. And we have reason to believe that we are approaching that stage in a world cooperative movement. But I think we have got to look to the others to carry their share. And short of that, we will have to take a second look. Whether that means greater emphasis on the bilateral side would remain to be seen, in the judgment of Congress.

Chairman Boggs. You would expect that cooperation?

Mr. Peterson. Very much so.

Chairman Boggs. From countries like Japan, Germany, France, and the United Kingdom?

Mr. Peterson. Yes, sir. If this is to be a cooperative overall movement through our multilateral organizations it must have broad support. I think we are past the stage when we should attempt to carry it by ourselves. At the same time, it is clear that other countries, in fact, are consistently doing more.

Chairman Boggs. That is all that I have.

Mr. Reuss has just come in.

Do you have any questions, Mr. Reuss?

Representative Reuss. Thank you, Mr. Chairman. No questions.

But I have read carefully the report of you and your task force, Mr. Peterson. And I think it is an altogether admirable report. And I want to congratulate you for it.

Mr. Peterson. Thank you, sir.

Chairman Boggs. Thank you very much, Mr. Peterson. You have made a very fine statement here.

Mr. Blough, we would be very happy to hear from you at this time.

Mr. Peterson. May I be excused, Mr. Chairman.

Chairman Boggs. Yes.

Mr. Peterson. Thank you very much.

STATEMENT OF JOHN M. FOX, PRESIDENT AND CHAIRMAN OF THE BOARD, UNITED FRUIT CO., AND CHAIRMAN, COMMITTEE FOR ECONOMIC DEVELOPMENT, SUBCOMMITTEE ON ECONOMIC AID TO LOW INCOME COUNTRIES; PRESENTED BY ROY BLOUGH, PROFESSOR OF BANKING AND INTERNATIONAL FINANCE, GRADUATE SCHOOL OF BUSINESS, COLUMBIA UNIVERSITY, AND DIRECTOR OF CED'S INTERNATIONAL ECONOMIC STUDIES

Mr. Blough. Mr. John M. Fox, the chairman of the Subcommittee on Economic Aid to Low Income Countries was looking forward to meeting with your committee, and regrets very much his inability to do so today. The formal statement that I shall read is what Mr. Fox prepared for presentation. But I will be glad to respond to questions either during the reading of his paper or at its conclusion.

Chairman Boggs. Thank you, Mr. Blough. Please proceed, sir.

Mr. Blough. I appreciate the invitation to appear before your subcommittee to make a statement on behalf of the Research and Policy Committee of the Committee for Economic Development. The subject you are considering—U.S. policies toward developing countries—is in our view a very important one.

For many years CED has been concerned with the problems of economic development in the low-income countries. In a series of statements beginning in 1956, the committee has stressed the need for the United States to assist the development of the low-income countries of Asia, Africa, and Latin America through aid, trade, and private investment. Then in 1966 we issued a statement on "How Low Income Countries Can Advance Their Own Growth," which stressed the central importance of the policies pursued by the developing countries themselves.

Our two most recent statements in this area are: "Trade Policy Toward Low-Income Countries," published in 1967; and "Assisting Development in Low-Income Countries: Priorities for U.S. Government Policy," which was released in September 1969, only a few weeks before the Pearson Commission Report to the World Bank and a few months before the report to President Nixon of the Peterson Task Force on International Development.

The CED is interested in all aspects of policy affecting economic development in low-income countries—trade, investment, and local initiative. The testimony today is on U.S. foreign aid, based on the most recent CED policy statement.

I want to emphasize that the Research and Policy Committee is made up altogether of businessmen elected to that particular function in the CED.

In preparing its 1969 statement on Assisting Development in Low-Income Countries, CED followed its regular policy statement process of forming a subcommittee to study the subject with the assistance of a project director having the highest professional qualifications and a number of academic advisors with firsthand experience in the development field.

At a number of subcommittee meetings stretching over a period of months, our businessmen trustees and professional advisors worked together in a unique combination of the academic and business world to evaluate the facts, identify the issues, and arrive at recommendations. In this way we prepared a draft statement that met with the approval of the Research and Policy Committee.

CED's interest in economic development and support for development assistance has reflected a humanitarian concern for the welfare of people in the low-income countries and also a belief that more rapid economic progress and rising incomes in these countries would bring them into fuller participation in the world economy, thereby increasing the mutual benefits to all nations that come from expanding the free movement of goods and capital.

Moreover, the United States has a basic interest in a peaceful world environment which is hardly conceivable in the absence of a reasonable level of material welfare in the developing countries.

These countries, with the help of assistance from the advanced countries, have shown truly impressive economic progress as a group, reaching an average rate of growth of 5 percent in real GNP during the 1960's—the target set by the United Nations for the first decade of development. If the developing countries are to maintain recent rates of economic growth they will need increasing amounts of both official and private external resources in the 1970's.

CED's 1969 statement underlined the fact that in recent years political support for government development assistance has been declining in the United States with the result that appropriations have fallen substantially.

In this statement the committee considered a number of key policy issues related to the application of external resources—financial, managerial, and technological, including private as well as public—to the economic development of the low-income countries. In dealing with these issues, our primary focus was on the official development assistance policies of this nation as carried out through its own bilateral programs, through contributions to international organizations, and through government policies affecting private investments in developing countries.

We took the position that the United States should expand its development assistance from current levels and based our view on the proposition that external resources contribute significantly to development in these principal ways:

By providing additional resources for investment, including basic infrastructure. Such external resources have amounted on the average in the more important aid-receiving countries to 20 percent of total investment.

By helping to alleviate the shortage of foreign exchange, thereby providing a supplement to the export earnings of low-income countries.

By increasing the efficiency of resource use through technical assistance and through encouraging, by means of the aid relationship, improved domestic economic policy.

The application of external resources to the development process is, of course, a two-sided affair. Whether it "works" depends not only on the resources transferred from the advanced countries but on the actions taken by the recipients. We made this point succinctly but emphatically in the 1969 statement:

> A successful development effort requires appropriate policies in the low-income countries, including measures to slow down population growth; control of inflation; encouragement of domestic savings and investment; a favorable climate for local and foreign private enterprise; a balance between agriculture and industrial development; and expansion and improvement of general education and vocational training * * *. By lending support to governments determined to take these difficult steps, the relationship between the advanced country and the low-income country becomes one of partnership in which assistance is met by self-help measures.

CED was equally emphatic about the need for an early reversal of the downward trend of recent years in U.S. official assistance and the need to have larger flows of public assistance augmented by increased private investment in the developing countries.

We noted that while the net flow of official and private resources from developed to developing countries reached a record level of $12.9 billion in 1968, responsible estimates made in 1969 put the need for external resources during the early 1970's at somewhere between $15 billion and $20 billion a year.

We also noted that at its 1964 meeting in Geneva the UNCTAD set a target of 1 percent of national income for combined public and private flows from developed to developing countries and that

UNCTAD increased its target to 1 percent of gross national product at its 1968 meeting in Delhi.

Taking both the estimates and the targets into account, CED recommended that "a good basis for planning future annual flows of official and private assistance of the advanced countries including that of the United States would be 1 percent of national income initially, and ultimately 1 percent of GNP."

In supporting such a target, CED was setting is sights high, since total net flows of resources from the United States to developing countries in 1968 was 0.79 percent of national income with private investment accounting to close to 35 percent of the U.S. total. The Peterson Task Force, for its part, as you have just heard, did not recommend any annual level of official and private resource flows from the United States but stressed the need to substantially increase the currently low level of economic development assistance, thus taking much the same position as CED did in its 1969 statement.

To enhance the effectiveness of this country's official development assistance efforts, CED called for a number of important shifts in economic aid policies:

First, more flexible terms of lending (softer terms where necessary and harder where appropriate) including a reduction of prescribed minimum interest rates in order to relieve the growing debt-service burden of many developing countries; and U.S. encouragement for the World Bank in cooperation with the International Monetary Fund to play a central role in the process of establishing the criteria for debt renegotiation and of organizing the discussions between the debtor country and the various creditors, including the World Bank itself.

Second, separation of both grant military assistance and "supporting assistance," which are now included in the Foreign Assistance Act, from economic development assistance—with military assistance shifted to the Department of Defense budget and supporting assistance to either the Department of Defense or the Department of State.

Third, continuation at recent or higher levels of the U.S. bilateral lending programs of the concessional type, which amounted to approximately $1 billion annually in 1968–69. To provide increased continuity and greater freedom from fiscal year pressures, authorizations for this purpose should be for periods of at least 3 years and appropriations for a minimum of 2 years.

Fourth, channeling an increased proportion of U.S. assistance funds through international development organizations, including the World Bank's International Development Association (IDA), the United Nations Development Program (UNDP), and such regional financial institutions as the Inter-American Development Bank (IDB), and the Asian Development Bank (ADB). Among the advantages of such a shift from bilateral to multilateral channels, we believe, is the potentially stronger position of international agencies to induce better internal development performance on the part of the low-income countries.

Fifth, more emphasis in U.S. technical assistance programs on population control and the designing of organizations and management methods needed to implement development projects and programs, while continuing technical assistance programs on education, vocational-technical training, agriculture, and health. We also recommended longer-term funding for technical assistance and the concentration of key technical assistance responsibilities of the U.S. Government in a single bureau within the Agency for International Development. After carefully examining the idea of concentrating all forms of U.S. technical assistance in an independent Government agency, which the Peterson Task Force later recommended, CED concluded that this function could best be carried out within the department responsible for providing capital assistance.

Sixth, helping the low-income countries themselves to integrate their development programs more effectively and accept the responsibility of coordinating all forms of bilateral and multilateral assistance with their own domestic resources. It is in the developing countries that technical and capital assistance from the different sources converge, and it is there that the coordination job must be done.

In the 1969 statement, as well as in one of its earlier statements on U.S. development assistance, CED stressed the important role that can be played by private investment in helping accelerate the economic progress of the less-developed countries. This is not only because prospects for adequate expansion of official assistance are hardly encouraging in the short run, but also because private foreign investment—especially direct investment in production and marketing facilities—has its own strategic place in promoting development.

The principal measure of the direct contribution of foreign private investment to the development of the host country is the net increase in overall domestic output attributable to it that accrues to domestic factors in the form of increased incomes and to the local government in the form of larger tax revenues.

The increase arises not just from the simple addition of foreign capital to local capital but even more from the way in which foreign capital and organizing initiative provide the stimulating force of new enterprise with all its many benefits. These include new technology, managerial know-how, skills in marketing, and contracts with foreign markets.

In addition, foreign direct investments stimulate domestic saving and investment and thereby increase the use of local manpower, raw materials, and other resources that might otherwise have been underutilized or have been used less productively.

It must be recognized, of course, that private investment in production and marketing, whether local or foreign, flourishes only when the prevailing overall climate for private enterprise is favorable, and when the necessary infrastructure is provided by domestic and foreign financial resources normally through official channels.

In its 1969 statement, CED pointed out that a special effort must be exerted at this time to harness the vast potential of private foreign investment to the development process in the low-income countries. In order to accomplish this, we proposed that more be done here at home by business and government to encourage U.S. private investment, especially direct investment, to increase its role in the developing countries. Among our suggestions were these:

U.S. companies establishing operations in the low-income countries should act as good citizens in the host country by offering opportunities for employment of local nationals in management at all levels and by making use of locally produced materials, components, and supplies where economically feasible. The U.S. Government, for its part, should discourage rigid rules by the host government prescribing joint ventures or, where joint ventures are being negotiated by an American company, prescribing the form and extent of local participation.

Our Government should assist the low-income countries to establish codified laws and administrative procedures with respect to foreign investors and encourage these countries to adhere to the World Bank's Convention on settlement of investment disputes.

The United States should continue to provide extended-risk guarantees to U.S. companies prepared to invest in low-income countries, but this function as well as the general promotion of private investment should be taken over by a government corporation along the lines of OPIC, which has been established by Congress since this statement was issued.

U.S. investment in the developing countries should be granted blanket exemptions from the U.S. program of balance-of-payments restrictions on capital flows, thus removing the present contradiction between our Government's program of encouraging American investment in developing countries while at the same time restricting it.

In addition to providing official assistance to low-income countries and encouraging their governments to pursue policies which will increase the private investment resources used for development, the United States should join other industrial nations in further liberalizing the policies affecting trade with low-income countries. In this way we could foster expansion in the export earnings of these countries. Growth in their export earnings over the past decade has been slow relative to their needs for imports to support reasonable development programs. Their ability to finance imports also has been adversely affected on many occasions by sharp fluctuations in export prices and earnings.

CED's 1967 statement on "Trade Policy Toward Low-Income Countries," which was prepared jointly with CED counterpart organizations in Europe and Japan, proposed a broad program of trade liberalization on the part of industrial nations. In substance, this statement called on the developed countries to:

Decrease the level of their domestic subsidies on agricultural products, reduce their import and consumption taxes on tropical products, and eliminate tariffs and quotas on those raw materials and foodstuffs that are not subject to domestic managed markets.

Adopt a program of reducing barriers to the import of manufactures from low-income countries, concentrated on those products offering the best opportunities for development of exports from these countries.

Refrain from asking the low-income countries to reciprocate these trade liberalization policies by reducing their own protection until their industries have had sufficient time—in the judgment of a special GATT committee—to become internationally competitive.

In order to ease the adjustment necessitated in the United States and other industrial countries by this trade liberalization, CED took the position that the program should be carried out over a transitional period with provision for financial and other assistance to any firms and workers forced to redeploy as a result of the trade liberalization.

With respect to developed countries now granting preferences to low-income countries, we took the position that these preferences, since they are special for particular low-income countries, should be eliminated progressively over a transitional period, during which the low-income countries involved would have time to make the necessary adjustments.

As for the demands of low-income countries that the advanced nations grant generalized tariff preferences on manufactured exports from low-income countries, CED expressed the view that if such preferences are to be extended, they should be limited in scope and duration and that GATT should have a hand in working out any such arrangement.

At the same time, the committee confirmed a long-established position in favor of regional common markets or free trade areas that may be established among low-income countries, provided that such trade groups are approved by GATT.

To summarize, the Committee for Economic Develoment takes the position that the U.S. Government should substantially increase this country's official development assistance over the next few years, adopt more flexible terms of lending; channel an increased proportion of U.S. development funds through international development organizations; take the lead in getting other industrial nations to join in a special program of trade liberalization for goods exported by the developing countries; and separate both grant military assistance and "supporting assistance" from economic development aid.

Also, U.S. technical assistance programs should put more emphasis on population control and on helping the low-income countries to design organizations and management methods that will permit them to assume the basic responsibility for coordinating all forms of bilateral and multilateral assistance with their own domestic resources.

Moreover, it is essential that our Government encourage U.S. private investment, especially direct investment, to increase its role in the developing countries and thus contribute a large and vital supplement to the transfer of official resources. This will require advice to governments of the host countries to provide American investors with much the same business climate as is needed to promote local private investment, and to avoid rules with respect to joint ownership of local operations of U.S. companies which are prepared to behave as good citizens.

Finally, American investors in the developing countries should be granted a blanket exemption from our Government's program of balance-of-payments restrictions on capital outflows.

Thank you, Mr. Chairman.

Chairman BOGGS. Thank you very much.

Mr. Parker, we will be glad to hear from you at this time, sir.

STATEMENT OF DANIEL PARKER, CHAIRMAN OF THE BOARD, PARKER PEN CO., PAST CHAIRMAN, NATIONAL ASSOCIATION OF MANUFACTURERS, AND COCHAIRMAN, INTERNATIONAL DEVELOPMENT CONFERENCE, WASHINGTON, D.C., FEBRUARY 1970

Mr. PARKER. Thank you, Mr. Chairman.

As I noted in my prepared statement, Mr. Chairman, we have seen over the past year or so a substantial number of reports on development assistance. Many people, from many sectors of private and public life have been engaged in the "search for new directions."

Mr. Peterson's task force report analyzes especially well the changed and changing circumstances of development programs. It proposes both new policies and new institutions in recognition of the need for greater aid flexibility. I agree with this basic thrust—flexibility must in the future be the key word.

Some of the proposals seem to me to be crucial to an effective program: I would include here the establishment of a development bank with multiyear funding, so that there can be continuity in development assistance programs. Another crucial recommendation is the establishment of an International Development Institute to seek new breakthroughs in the application of science and technology to the problems of the developing nations.

I have said on a number of occasions in the past that we must make a major effort in government-industry cooperation to seek new technological breakthroughs tailored to the needs of the developing nations. The emphasis in the report on further utilization of, and improvement of multilateral institutions and processes for development assistance is another important and necessary move.

Finally, I do think it will be helpful to the gathering of American support for a sound development assistance program if the Peterson recommendation is followed on separation of true development programs from military assistance programs. At the present time, the mixing of these programs is harmful to the efficiency of both, and harmful to the efforts of those in American life who would like to step up our purely developmental assistance efforts.

Having said this, I want now to reach out beyond the short-term question of how to administer aid, to the long-term future of development. If our efforts, and the efforts of the developing countries, are to succeed in the long run, a strong economic foundation has to be built. To do this, we need a new creative relationship between industry and government. Aid alone cannot build flourishing economies. Our development assistance policies must be wide ranging and far reaching and not simply be concerned with aid flows.

In other words, I think we must gradually break from the past and devise a completely new approach to development. Our Nation grew in a step by step process of economic change. We are sometimes inclined to think of it as the right pattern for other nations, too. Yet, I am convinced that the developing nations are in a fundamentally different position. Many of them cannot afford the slow, orderly, historical phasing from primary products through agricultural change to labor intensive industry.

Many of them will have to bypass some or all of the steps of the past, and make the leap to high quality, high productivity production in order to join the modern world economy on a competitive basis.

To help bring this about, we must have public involvement on a broad scale in the United States. It may seem to you, bombarded as you must be by the proponents and opponents of aid, that every voter in your constituency is polarized. I submit to you, however, that this is not the case. Those of us who do support U.S. involvement in international development know why we do so—we know that the world is polluted with a despicable poverty; that this pollution is not only not in our country's own best interest, but that it is an affront to basic human dignity.

However, this kind of pollution—the pollution of poverty—is far less observable than other popular causes here. There is simply not enough awareness nor concern—to say nothing of commitment—by the vast majority of the American public, to this cause. I think many of us are at least somewhat unrealistic—perhaps even unfair to you—when we urge that you legislate ever greater sums for aid, when you lack sufficient support for even current levels within your voting constituencies.

The situation we cannot change quickly. In order to get the needed staying power, I believe third-world development must seek active support from, and participation by, those who have the combination of sincere altruism and enlightened self-interest; those who are committed to long-term efforts to eradicating the pollution of poverty.

While this description could fit people in many walks of life, I believe it particularly fits those in business, virtually all of whom manifest their concern by practicing the homely belief that "the customer is always right." No businessman can continue in operation if the customers do not buy from him, no matter whether they do not buy because of dissatisfaction, or because of their extreme poverty. Thus enlightened self-interest dictates a lasting, long-term commitment to world income growth.

Commitment is not, however, enough. We must now find new ways of enhancing the environment for the development of enterprise. The first requirement in this direction is to make a real link between aid, trade, and investment policies, and to develop in this context creative and new government-business relationships in the pursuit of global economic development.

I should add that these new relationships are needed at both ends of the rich-poor axis. In the developing countries, fundamental improvements are needed in the basic economic polices and government-industry relations if there is to be any hope of substantial progress in the next two or three decades.

There are other needs too. First in importance, I think, is the principle of regional integration.

Regional integration is the concept of mass marketing on an international scale. Why should regional integration be a concern of development aid people? Let me illustrate by pointing out some benefits of regional marketing—keeping in mind the overall goal of involving both business and Government in development.

The foremost benefit obtained from regional integration is economy of scale. A requisite precondition is, of course, a market of proportionate size.

As of now, virtually no developing country—individually—has the scale of market on which to base high volume, high efficiency production of high quality products (even if they could afford it). The consequent diseconomies of lesser scale penalize most those customers least able to pay more. They do so either directly in tariff-protected higher prices or indirectly in Government subsidies.

On the other hand, if full productive scale could be developed, such capacity would be more than the local market could absorb, and thus exports obviously would be required. Where they occur at all, these exports most often are directed at the developed nations, whose markets are big and whose currency is most sought as foreign exchange.

What I am prescribing, of course, is particularly a situation of cutthroat competition, in which only the developed nation benefits. Since our concern is with the smaller, developing nations principally, we must seek an alternative to having them displacing one another. This is why I commend the benefits of regional integration, through banding these smaller markets together for economic purposes.

I can, of course, see the broad economic logic of the advanced economies unilaterally opening their doors to developing nation products. I am not hopeful, however, for its political logic, and thus its chances for success. How much more logical it would be for such "exports" to be made, first, inside a mutually complementing regional group, wanting such products to state their own needs, and then to become true hard-currency-earning exports later, when they have reached the appropriate economies of scale and quality standards.

Another facet of the economy of scale problem is that to a great extent production quality is based on technologically intensive characteristics which can only be accomplished at high levels of volume due to either process or capital requirements. No matter how much low-cost labor might be available to be lavished upon industrial production, there are many products which simply cannot be made without costly equipment, in turn requiring highly trained and educated personnel. Larger markets through regional economic integration is one obvious way; another is the principle of specific complementation arrangements, whereby a number of countries can specialize in the production of components on a scale compatible with their collective market.

Still another approach is to develop the means by which local industry in the developing countries could import critical capital—and technology—intensive components, produced in advanced economies, to be combined with locally produced materials and components.

This concept of buying rather than making leads logically to a second broad area of benefit in regionalism, which I describe as the benefits of external economies.

Simply stated, there is a severe lack of viable competitive suppliers to industry in most developing countries. Specific attention to the identification of appropriate external economies and to the encouragement of such development could greatly enhance the environment for enterprise. In a sense, this might be called industrial infrastructure, which has been a major contributor to American industrial might.

These benefits can be gained by regional integration, and to reiterate, they become atttainable when business and Government work together—when trade, aid, and investment are clearly seen as being interrelated pieces of the same concern.

In order to make sure that I have not buried the thrust of my remarks in a blizzard of "shop talk," let me put it into the broader perspective of basic economic, social, and political values.

In a number of developing countries, impressive increases in Gross National Product have been attained—and are pointed to as glowing successes. But these successes were accompanied by sharp increases in unemployment. These cases, of desirable growth in Gross National Product and undesirable growth in unemployment, are not exceptions. Rather, I think these cases are endemic. Specifically, they are endemic where high scale modes of productivity are taken directly from the advanced countries, and are grafted without modification or buffer onto an essentially agrarian developing nation's economy.

The result is somewhat akin to an unsuccessful organ transplant—a sort of rejection process sets in—except that the symptom is unemployment. Male unemployment rates in urban industrial centers in developing countries frequently run as high as 20 percent. One man idle out of five is most certainly not a viable condition. It provides the potential for violent dissension.

We used to think that the third-world poverty program was one of feeding the world. I believe now it is more appropriate to phrase our concern as one of whether each worker will be able to pay for his share of an adequate world supply of food, a goal of quantity to which, I believe, we are quite close. The problem thus is now adequate employment—the means to earn the food. Providing the employment opportunities requires rapid industrialization, of course, but also the right kind of industrialization.

We can, I am sure, find ways to meet the problem of scale in the developing nations. Simplistically stated, we must make great efforts toward both enlarging the markets to be able to accept—attract—efficient industrial development and toward reducing the minimum requisite industrial scale. We must seek to learn how to "think big—in a small way."

The normal industrial management discipline in the advanced economies is to think big—in a big and ever bigger way. It is abnormal for us to expend our resources toward seeking ways to make our products just as well, just as economically, but in lesser amounts. This may seem easily attainable, but it is not; it demands very great effort, sophistication, and innovativeness.

We lack mainly the economic reasons to move this way. The development of regional markets and complementation arrangements might narrow the gap enough to attract some toward devising means to think big in a smaller way. More could be done, though, if further economic reasons were to be given American industry to do so. Here is possibly a warranted place where Government incentives might be a highly effective, efficient, and yet temporary means of stimulating industrial development in the developing world.

I must emphasize that I am only proposing that Government and business explore this approach. It can be accomplished effectively only as business and Government work together—not as adversaries, but as parties with a mutual interest.

There are other very sensitive and important subjects which must be considered in any discussion about encouraging the role of private enterprise in economic development. These concern national sovereignty, relations with host governments, and foreign economic domination.

When I speak of regional integration, of export-import policies, and certainly of unemployment rates, I am treading dangerously close to giving advice which violates the sanctity of sovereignty.

I want, first, to talk about these facets of sovereignty collectively, and then treat them individually. Economic development is the foundation for social development which, in turn, leads to political development. Political power without strong social and economic underpinnings, is at best tenuous, and usually precarious.

It is our quest to make those underpinnings strong by economic development. It is not our intent to prejudice any nation's sovereignty by encouraging regional economic integration. Certainly the EEC and EFTA are dynamic proof that economic integration is not tantamount to the subordination of a nation's individual character.

Perhaps a businessman's perspective of nationalism might be useful. While I cannot claim to represent anything but our own experience, the experience of the Parker Pen Co. has spanned production in 23 countries and some 50 years of successful international business. Thus we may hold a somewhat different perspective of nationalism.

As generally used, "nationalism" leaves a negative impression, one of inward, selfish orientation. But there is also a good face of nationalism; this is the side that takes pride in national character, in abilities and achievements. Making real the rewards of the good face of nationalism is of mutual economic benefits and as well of great international political benefit.

There is also subtle but significant relevancy in this to the consideration of the developing countries' fear of foreign economic domination. Certainly the nationals will have an intuitive and natural advantage in any industrial undertakings based upon national characteristics. Going even further, because they are more tuned into the local market than any foreigner could be, these nationals will certainly sense opportunities sooner and take advantage of them more adroitly.

If this natural advantage of birth can be combined with adequate market scale and suitable industrial infrastructure, then much can be done to rebalance the relationship between local and foreign interests. The sting can be removed from the charge of inevitable foreign economic dominance.

Continuing as in the past, however, without new approaches, will produce more of the same, more fear of the foreigner, and less chance to grow from experience.

While we are talking about the operation of American companies under the sufferance of other governments, let me offer this thought:

Industry would prefer an environment regulated by the presence of competition to one regulated because of its lack—by government.

This is a particularly complex and perplexing matter in the relations between an alien business and its host government. And yet it is, I think, somewhat easier to understand in the context of economy of scale we have been discussing. When there is no natural competition, then the Government must impose artificial restraints to replace it. The missing element is the natural constraint of market regulation—and it is missing because of the lack of economy of scale. Thus my final observation:

Industry would prefer natural competition. Such, of course, is its natural state, in which it did grow. The question before us is, can we hasten the process, can we leapfrog stages of that growth, can we synthesize natural constraints and natural inducements to development?

The policy conclusion I draw from this analysis is that Government and industry together must put far greater stress on market development through regional integration, and technological innovation tailored to the economies of the poor countries. This requires a much broader vision of economic development needs than has characterized our foreign aid efforts of the past.

I have tried to put into perspective some business views on the compelling reasons for government and business together to seek new approaches to global development. What we face, if we fail, and if population growth continues, is a shift from two-thirds of the world living in poverty to five-sixths of the world living in poverty. Neither is a viable world! Such is not in American industry's interest, to say nothing of its being inconsistent with our national ideals. It is in our collective power to bring about change, if we will recognize our commonality of purpose and our mutual and enlightened self-interest.

Thank you, Mr. Chairman.

Chairman Boggs. Thank you very much, Mr. Parker.

Your prepared statement will be placed in the record at this point.

(The prepared statement of Mr. Parker follows:)

PREPARED STATEMENT OF DANIEL PARKER

Creative Partnership for Development

In the opening section of the Pearson Commission Report it was said—"our travels and studies have convinced us that we have come to a turning point. On all sides we sense a weariness and a search for new directions."

The Pearson Commission words are indeed disquieting. But the search for new directions which they point out does now offer the chance to build new and better relationships between the rich countries and the poor. We have seen, over the past year or so, a substantial number of reports on development assistance. These reports, both private and public, domestic and international, have come from universities and research institutions, from governmental and international commissions. Business groups, leaders of nongovernmental organizations, youth, and others have been re-examining their fundamental assumptions and attitudes toward present government policies.

Mr. Peterson's Task Force report analyzes especially well the changed and changing circumstances of development programs. It proposes both new policies and new institutions in recognition of and in response to the need for greater aid flexibility.

This is particularly important because international development now has so many individually unique circumstances that flexibility must be the key-word. Furthermore, this is flexibility which is necessary in the recipient countries as much as in the donor countries.

However, in the interest of efficient time use, I will resist the temptation to praise Mr. Peterson's report at the length it deserves. Instead, I will try to add a further and more pointed private sector perspective to some key facets of this broad and complex subject.

FIRST PRIORITY: STRONG ECONOMIC FOUNDATION

The overriding point I want to make is this: No program of aid is worth anything unless it builds a strong economic foundation. It is my belief that political development is based on social development and that social development in turn cannot happen without that strong economic foundation. Therefore, economic development, which is overwhelmingly private, must involve business—the private sector—and this involvement must take place at both ends of the development axis—here as well as in the developing nations.

I have one particular reason for urging involvement on a broad scale in the United States. It may seem to you, bombarded as you must be by the proponents and opponents of aid, that every voter in your constituency has taken one of these firmly polarized positions. I submit to you, however, that this is not the case. Those of us who do support United States involvement in international development know why we do so—we know that the world is polluted with a despicable poverty; that it is not only not in our country's own best interest, but that it is an affront to basic human dignity. This kind of pollution—the pollution of poverty—is far less observable than other popular causes here.

There is simply not enough awareness nor concern—to say nothing of commitment—by the vast majority of the American public to lead to the needed and proper dimensions of public sector development assistance. I think many of us are at least somewhat unrealistic—perhaps even unfair to you—when we urge that you legislate ever greater sums for aid, when you lack sufficient support for even current levels within your voting constituencies.

The situation we cannot change quickly. Thus we must seek solutions which can be attained from within our realistic resources. Parenthetically, I honestly hope that public opinion does not adopt world poverty as its "cause celebre." While such causes reach very high crests of massive concern they wane too quickly and tend to be displaced by a successor cause before they get solved.

BUSINESS COMBINES ALTRUISM AND SELF-INTEREST

In order to get the needed staying power, I believe third-world development must seek active support from, and participation by, those who have the combination of sincere altruism and enlightened self-interest. Those who are committed to long-term efforts to eradicating the pollution of poverty. While this description could fit people in many walks of life, I believe it particularly fits those in business, virtually all of whom (excepting a few aberrations) manifest their concern by practicing the homely belief that "the customer is always right." In very brief explanation, no businessman can continue in operation if the customers do not buy from him. No matter whether they don't buy because of dissatisfaction, or because of their extreme poverty, the end result is the same—no business. Thus enlightened self-interest dictates a lasting, long-term commitment, the same viewpoint that says, "my customers come first."

The most important of these needs, after commitment, is to find a way to make a real link between aid, trade, and investment policies, and to develop in this context creative and new government-business relationships in the pursuit of global economic development.

These new relationships are needed at both ends of the rich-poor axis just as the new flexibility in program I spoke about. In the United States and the other advanced economies we must find ways to mobilize the resources of business, including agriculture, in a conscious effort to use the inherent commitment of the private sector to its "customers."

In the developing countries, fundamental improvements are needed in the basic economic policies and government-industry relations if there is to be any hope of substantial progress in the next two or three decades.

KEY FACTORS TO GROWTH

There are other already identified factors, factors which fall specifically into the terminology of the international business community, and into economist's jargon. Because they are such important concepts, I hope you will forgive my dwelling on them, but I do want to put them into the record as parts of the scheme of international development.

First in importance, I think, is the principle of Regional Integration.

Regional integration is the concept of mass marketing on an international scale. Why should regional integration be a concern of development aid people? Let me illustrate by pointing out some benefits of regional marketing—keeping in mind the overall goal of involving both business and government in development.

ECONOMY OF SCALE

The foremost benefit obtained from regional integration is Economy of Scale—the escalating productive efficiencies that can be gained as the quantity of production increases. A requisite pre-condition is, of course, a market of proportionate size. The advanced economies have such markets—they have the size and affluence. These market advantages are complemented by exports which they get because of the technical attractiveness and high value of their production. As of now, virtually no developing country—individually—has the scale of market on which to base high volume production of high efficiency (even if they could afford it). The consequences of this lack are profound. These consequences include accepting the diseconomies of lesser scale, which in turn penalize most of those customers least able to pay more—to do so either directly in tariff-protected high prices or indirectly in government subsidies. On the other hand, if full productive scale could be developed, such capacity would be more than the local market could absorb and thus exports obviously would be required. These exports most often are directed at the developed nations, whose markets are big and whose currency is most sought as foreign exchange—by all the smaller nations.

What I am describing, of course, is a situation of cut-throat competition, in which only the developed nation benefits. Since our concern is with the smaller, developing nations principally, we must seek an alternative to having them displacing one another. This is why I commend the benefits of economy of scale—which can be attained most directly through regional integration—through banding these smaller markets together for economic purposes.

I can, of course, see the board economic logic of the advanced economies opening their doors to developing nation products. I am not hopeful, however, for its political logic, and thus its chances for success. How much more logical it would be for such "exports" to be made first, inside a mutually complementing regional group, wanting such products to state their own needs, and then to become true hard-currency earning exports when they have reached the needed economy of scale in production, within the regional arrangement.

Another facet of the economy of scale problem is that to a great extent production quality is based on technologically-intensive characteristics which can only be accomplished at high levels of volume due to either process or capital requirements. No matter how much low-cost labor might be available to be lavished upon industrial production, there are many products which simply cannot be made without costly equipment, in turn requiring highly trained and educated personnel. We, business and government, must find new approaches to this perplexing problem, new joint approaches such as encouraging regionalism by both private sector and public sector means.

Larger markets through regional economic integration is one obvious way; another is the principle of specific complementation arrangements, whereby a number of countries can specialize in the production of components on a scale compatible with their collective markets. Still another approach is to develop the means by which local industry in the developing countries could import critical capital—and technology—intensive components—produced in advanced economies—to be combined with locally produced materials and components. This concept of buying rather than making leads logically to a second broad area of benefit in regionalism.

EXTERNAL ECONOMIES/INDUSTRIAL INFRASTRUCTURE

This concerns "External Economies." Simply stated, there is a severe lack of viable competitive suppliers to industry in most developing countries. Specific attention to the identification of appropriate external economies and to the encouragement of such development could greatly enhance the environment for enterprise.

In a sense, this might be called "industrial infrastructure," which has been a major contributor to American industrial might. Even the most massive of our producers is highly dependent upon the competitive dynamics of a system of specialized producers of goods and services. Just as the industrial sector is dependent upon a viable social and logistical infrastructure so is it also dependent upon an infrastructure of industrial external economies. Industrial infrastructure, the supplying of external economies, thus is most assuredly another benefit which can be gained by regional integration. And to reiterate, it becomes attainable when business and government work together—when trade, aid, and investment are clearly seen as being separate pieces of the same concern.

INCREASING GNP RISKS UNEMPLOYMENT

As I cautioned at the beginning, I have used extensively some terms of economics and industry in an effort at being concise. In order to make sure that I haven't buried the meaning I intended to get across in a blizzard of "shop talk," let me put it into its proper perspective in basic economic, social and political values. In a number of developing countries, impressive increases in Gross National Product have been attained—and are pointed out as glowing successes. What must be understood is that these successes were accompanied by sharp increases in unemployment. These cases, of desirable growth in Gross National Product and undesirable growth in unemployment, are not exceptions, rather, I think these cases are endemic to this sort of situation. Specifically, they are endemic where high scale modes of productivity are taken directly from the advanced countries, and are grafted without modification or buffer onto an essentially agrarian developing nation's economy. The result is somewhat akin to an unsuccessful organ transplant—a sort of rejection process sets in—except that the symptom is unemployment. Male unemployment rates in urban industrial centers in developing countries frequently run as high as 20%. One man idle out of five is most certainly not a viable condition—save one—the potential for violent dissension. We used to think that the third-world poverty problem was one of feeding the world. I believe now it is more appropriate to phrase our concern as one of whether each worker will be able to pay for his share of an adequate world supply of food, a goal of quantity to which I believe we are quite close. The problem thus is now adequate employment—the means to earn the food.

The point I intend here concerns undertakings requiring both government and business input. Undertakings which I believe business has not adequately explained to government—at either end of the development axis. I am deeply concerned that we must come to realistic understandings of these basic problems, to full appreciation of the consequences of our involvement, and only then to active programs seeking to solve the problems we address jointly. Economy of large scale is a fact; it is intensive in capital and technology. It is not compatible with small markets and with lesser human skills. On the other hand, diseconomy of lesser scale is also a fact; it is also generally non-competitive in the world market due to technological deficiencies.

THINK BIG—IN A SMALL WAY

We can, I am sure, find ways to reconcile this problem of scale in the developing nations. Simplistically stated, we must make great efforts toward both enlarging the markets to be able to accept—attract—efficient industrial development and toward reducing the minimum requisite industrial scale. We must seek to learn how to "think big—in a small way."

The normal industrial management discipline in the advanced economies is to think big—in a big and ever bigger way. It is abnormal for us to expend our resources toward seeking ways to make our products just as well, just as economically but in lesser amounts. This may seem easily attainable, but it is not; it demands very great effort, sophistication, and innovateness. I believe, though, that industry could accomplish a great deal in this direction.

We lack mainly the economic reasons to move this way. The development of regional markets and complementation arrangements might narrow the gap enough to attract some toward devising means to think big in a smaller way. More could be done, though, if further economic reason were to be given American industry to do so. Here is possibly a warranted place (a rarity in my philosophy) where government incentives might be a highly effective, efficient, and yet stop-able means of stimulating industrial development in the developing world. I must emphasize that I am only proposing that government and business explore this approach—it should be undertaken only if proper controls, including the ability to terminate it, can be devised. But, most importantly, it can be accomplished effectively only as business and government work together—not as adversaries, but as parties with a mutual interest.

TREADING ON SOVEREIGNTY

There are some very sensitive and important subjects which must be considered in any discussion about encouraging development. These concern national sovereignty, relations with host governments, and foreign economic domination.

When I speak of regional integration, of export-import policies, and certainly of unemployment rates, I am treading dangerously close to violating the sanctity of sovereignty.

I want, first, to talk about these facets of sovereignty collectively, and then treat them individually. Early in this statement I said that economic development is the foundation for social development which in turn leads to political development. Political power without strong social and economic underpinnings, is at best tenuous, and usually precarious. It is our quest to make those underpinnings strong by economic development. It is not our intent to prejudice any nation's sovereignty by encouraging regional economic integration. Certainly the EEC and EFTA are dynamic proof that economic integration is not tantamount to be subordination of a nation's individual character.

We, government and business, must work together to foster this understanding in the prideful developing nations. Business alone, of course, cannot do this; yet government alone may not have the perspective to see the enormous significance of regionalism as an economic—a development—factor adequately in this sensitive area of national pride of nationalism, per se.

THE TWO FACES OF NATIONALISM

Perhaps a businessman's perspective of nationalism might be useful. While I cannot claim to represent anything but our own experience, the experience of The Parker Pen Company has spanned some fifty years of successful international business. Thus we may hold a somewhat different perspective of nationalism.

As generally used, "nationalism" leaves a negative impression, one of inward, selfish, orientation. I believe, though, that there are actually two faces to nationalism; indeed, there is the negative, which looks at self not just first but only. It is the defensive rallying point against real or imagined opposition. But there is also a good face of nationalism; this is the side that takes pride in national character, in abilities and achievements. Now, in this era of fantastic improvements in logistics and communications there is enhanced opportunity for nations to put their prideful accomplishments before the whole world. Again, we, government and business, need to add this to our list of mutual efforts. Making real the rewards of the good face of nationalism is of mutual economic benefit and as well of great international political benefit.

There is also subtle but significant relevancy in this to the consideration of the developing countries' fear of foreign economic domination. Certainly the nationals will have an intuitive and natural advantage in any industrial undertakings based upon national characteristics. Going even further, because they are more tuned into the local market than any foreigner could be, these nationals will certainly sense opportunities sooner and take advantage of them more adroitly.

REMOVING THE STING FROM CHANGES OF FOREIGN ECONOMIC DOMINENCE

If this natural advantage of birth can be combined with adequate market scale and suitable industrial infrastructure, those external economies I spoke of, then much can be done to rebalance the relationship between local and foreign interests. The sting can be removed from the charge of inevitable foreign economic dominance.

Continuing as in the past, however, without new approaches will produce more of the same, more fear of the foreigner, and thus less chance to grow from experience.

I should qualify my comments parenthetically, in case you think my proposals give undue advantage to the locals. I have no fear that the American competitive industrial position will erode. It will not as long as we continue our vast and escalating private and public programs of technology research and development. Our high rate of productivity and as well the attractive value of that production, will assure a continuing major role to the United States industrial sector.

While we are talking about the operation of American companies under the sufferance of other governments, let me offer this thought:

> Industry would prefer an environment regulated by the presence of competition to one regulated because of its lack—by government.

This is a particularly complex matter in the relations between an alien business and its host government. And yet it is, I think, somewhat easier to understand in the context of economy of scale we have been discussing. When there is no natural competition, then the government must impose artificial restraints to replace it. The missing element is the natural constraint of market regulation—and it is missing because of the lack of economy of scale.

Thus my rubric: Industry would prefer natural competition. Such, of course, is its natural state, in which it did grow. The question before us is, can we hasten the process, can we leapfrog stages of that growth, can we synthesize natural constraints and natural inducements to development?

I am hopeful; hopeful that men and governments, moving together, recognizing mutual and enlightened self-interest and responding with altruistic fervor, will overcome.

IF WE FAIL . . .

I have tried to put into perspective some business views on the compelling reasons for government and business together seek new approaches to global development. What we face, if we fail, and if population growth continues, is a shift from two-thirds of the world living in poverty to five-sixths of the world living in poverty. Neither is a viable world! Such is not in American industry's interest, to say nothing of it being inconsistent with our national ideals. It is in our collective power to bring about change, if we will recognize our commonality of purpose and our mutual and enlightened self-interest.

Chairman BOGGS. Mr. Surrey, we will be very happy to hear from you.

STATEMENT OF WALTER STERLING SURREY, ATTORNEY AND CHAIRMAN, NATIONAL PLANNING ASSOCIATION, JOINT SUBCOMMITTEE ON U.S. FOREIGN AID

Mr. SURREY. Mr. Chairman. I have submitted a prepared statement for inclusion in the record.

I request permission that it be included.

And also I would like to request that there be included in the record the joint statement of the National Planning Association, entitled "A New Conception of U.S. Foreign Aid."

Chairman BOGGS. Without objection your prepared statement and the joint statement of the National Planning Association will be included in the record at the end of your oral statement.

Mr. SURREY. I would like now to summarize orally my prepared statement.

I would like to point out that the NPA Report was issued in March of 1969, and to the extent that the Peterson Report may follow that report I endorse the Peterson Report, and I suggest the similarity may not be coincidental.

I think when we discuss foreign aid we must first discuss why aid has become a whipping boy. And this it has. I think we have to recognize that people have expected too much. Aid is being challenged for not achieving stability in the less developed countries, for allegedly creating anti-American, and perhaps above all, for not being defined in precise terms of so much aid money over so many years being capable of achieving a stated level of development.

And it all seems very unsettling, imprecise, and unpredictable.

I think we have to recognize that the development process itself is a slow process. Development rocks the boat. As Adlai Stevenson said, it is development that gives rise to the "revolution of rising expectations." By its very nature the development process accelerates dissatisfaction. It fails to provide remedies to inequities in society at the same time that it highlights those inequities. And so one can expect that in the development process there necessarily will be created instability.

I think we must also look to the other side of the coin, and that is rising expectations on our part. I think we expect too much. The Rockefeller Report indicates that perhaps by increasing aid we will get stability, and we will get uniformity of policy consonant with our policy. I do not believe that this can be the case. But this is not to discredit foreign aid.

I think we have to look at it in the longer term.

I also think that we have to recognize that foreign aid more cogently than other sources of foreign exchange, because of its controls and its direction, contributes more to economic development, and it can have a favorable long range impact on social and political change.

Now, why do we continue foreign aid? First of all, we have already, I think, planted the seed of expectation and change, and we cannot leave them there. The real question is whether we are going to add fertilizer and water to speed up the process, or failing this, run the risk of increasing human suffering by economic stagnation and the building of frustrations in less developed countries that can result in internal changes that are inimical to development and adverse to our own interest.

Second, I think we give aid for humanitarian reasons, and this is ingrained in the nature of our people, and cannot be denied.

And third, the selfish reason that it has an impact on our own economy.

There is also a negative side to it. I think we have learned in recent years that social and political earthquakes in faraway places can rattle our own political institutions and social structure, and have an adverse impact on our own lives.

Now, the nature of development is importantly related to the availability of foreign exchange and its proper utilization. And this does not only mean foreign aid. Let us take the case of Libya, which received foreign aid from all sources in 1966 totaling two-tenths of 1 percent of its gross domestic product.

But its GNP grew from 14.2 percent from 1966 to 1968, and its per capita GNP, which describes the impact population growth, grew 10.3 percent.

Now, why did that happen? Because Libya had oil, and it properly allocated resources.

Contrast this to the Dominican Republic, which in 1966 received total foreign aid of 5.2 percent of GDP. And yet from 1966 to 1968 its GNP grew only 3.7 percent, and its per capita GNP grew four-tenths of 1 percent.

Clearly we cannot provide foreign aid in adequate and sufficient amounts commensurate with Libya's oil resources. So the issue really is a very tough issue. It is how to use limited resources of foreign aid to multiply its effect, how to make foreign aid promote social progress, minimize reaction against the donor, increase the planning and implementation capability of the recipient, provide export possibilities to earn foreign exchange, take into consideration the capability of the recipient to service the debt that is created by foreign aid, make technical assistance available on a rational basis without creating national antagonisms and being offensive to national pride, and stimulate development of the private sector.

Now, that is a large order, and we are not going to be able to accomplish it all quickly and immediately, and perhaps not all of it.

But what can we do?

First of all, I think that the amount of aid that we give has to be maximized, and therefore we must provide broad programs for development of local institutions in the recipient countries which will generate additional local capital.

A good example of this is the AID housing and urban development program. It started out as a program to provide models for housing development. But what has it done? In countries where there were no savings and loan institutions, the AID housing and urban development program has created savings and loan institutions structures. It has created capital formation within the local country. This, I think, must be preserved, encouraged, and expanded, and it should be done on a bilateral basis.

Second, and still talking about bilateral aid, I would like to say at this point that this committee, I think, has to consider first the objectives, our national objectives and our goals in foreign aid, before we consider, how do we administer it. The general way of approaching aid is to change the management, and somehow dress the girl up in a new costume and say, here we go again. I think we really have to look at the goals and what we want to achieve, and the bureaucratic processes will be a lot easier to determine if we have arrived at a basic agreement on these goals and objectives.

Now, considering bilateral aid, there is a significant way in which AID can help the less developed country help itself. And that is providing aid to a sector of the economy on a selected basis.

We should avoid the scattering of aid undertaking too much. You cannot improve an agricultural economy significantly with your AID money and at the same time try to industrialize it. You cannot create agronomists and steel workers simultaneously. There is some limit to what you must do in each country. And what you must do in each country must be based on what that country determines it best can do. The proposals must come from that country rather than from an AID programing team determining what is best for them. But if they decide that they can rationally improve an agricultural sector, or rationally improve a public health sector, or rationally improve an education sector, then I think this is a good basis for review of their proposals, and for the provision of assistance to maximize the development within that area.

This means, I believe, that we shift from project lending, except for limited cases where we find it useful as a part of a consortia project, where we may give aid together with the World Bank, together with the IFC, together with the Ex-Im Bank, and together with the lending institutions of other countries, such as creating a dam and all the infrastructure and all the corollary industrial activities that might result therefrom.

I also believe that program loans, which are based on balance of payments deficiencies, are often objectionable. They usually provide a shopping list for use in the United States shopping center on an uncoordinated basis, and in the long run do not provide significant development.

One of the major problems that we run into, and which the Peterson Report gives great stress to, is increasing our aid through multinational organizations. And here I have some area of respectful disagreement with the Peterson Report. I think you first have to decide that bilateral aid is not really the basic cause of political difficulties, if it is utilized properly. It is not because we are giving aid that we are unpopular in given areas. I think we are sometimes unpopular because of our foreign policy in a given area or because of our physical presence in that area, physical presence in the form of training programs, police programs, too many programs and too many technicians attached to the U.S. Mission.

And all of this is not necessary to a proper implementation of a bilateral program.

But let us consider what happens if we increase too much our aid through the multinational channel. Our share, the U.S. share of aid through multilateral organizations, is already disproportionate to that of others who can give. We already supply one-half or more of the resources available to international aid organizations. And a substantial increase could make these organizations appear to be vehicles of U.S. policy and foreign aid.

This, I think, would be undesirable.

Also we have to consider the capabilities of the international organizations. As the NPA report states, existing international organizations other than the World Bank have not yet for the most part adequately demonstrated the capacity for exercising effective influence for sound development policies, or even for allocating their resources on the basis of objective, substantive criteria.

Another problem that arises with multinational aid, and which the Peterson Report deals with one part of, is what is happening to the debt servicing problems that have been created on behalf of the borrower. The Peterson Report suggests the need for a conference of the World Bank, the International Monetary Fund, and the donor and donee countries, to see about rescheduling the debt, because debt is becoming a burden, and a serious burden, to a great number of the less developed countries.

Those who suffer it least are the least developed who have been the recipients of aid which has not created, by its terms, that kind of a debt problem.

But let us look what happens when you go through the World Bank itself, and I am not discrediting the World Bank; I think it has its proper role, but I am questioning how much more we should direct our assistance directly into that channel. The World Bank borrows in the United States and other capital exporting countries bond markets, and it lends at 7 percent interest.

It has a triple A credit rating. Why? Because it has a call on the contributing countries in the event that the debts go bad. And pretty soon these debts may well go bad in the next 5 to 7 years, in terms of the governments being unable to meet their government obligation to repay. And if that happens we are going to have, I think, a rather chaotic situation.

It could lead to the fact that within 5 years or so the call may be made on the United States in a significant amount of $5.2 billion, with a $20 billion to call on the United States and Western European and other countries available to meet this problem of debt servicing.

Now, how do we remedy this situation? I think that our aid to the multinational organizations should be highly concentrated in the IDA, which gives its aid on soft terms to those countries which have the smallest per capita income.

To increase aid to the IDA you cannot increase very much more the amount that the World Bank itself is already making available to the IDA, without having direct appropriations. These appropriations might be minimized in terms of our balance-of-payment problem, and I recommend the following only as an interim solution: We might adopt what was considered and recommended by Senator Javits in the midsixties, and that is, that the Congress authorize and appropriate on a credit basis the money that is required by the IDA, to be drawn down by the IDA only when required for actual expenditure, and secondly, that the expenditure of funds provided be made in the United States if the United States price is competitive with the price in other countries; if it is not competitive, then it can be used elsewhere.

I agree with the Peterson Report, that in the long run you have to get rid of tied loans, U.S. shipping requirements, and such, because they put an unfair economic burden on the recipient without any commensurate increase in the development process.

But at least recognizing the realities of the present potential political problems inherent in the balance of payments deficit position, these proposals which were made in the mid1960's, might well be adopted to soften the blow on U.S. balance-of-payments problems, and at the same time increase significantly the amount of money that is made available to the IDA.

When we come to the private sector of aid I think there are certain things that have to be done and recognized. First, dealing with the international organizations, the principal lender or participant in the private sector is the International Finance Corporation, which is a part of the World Bank complex. One problem with the participation of the IFC in the development process is that it costs too much—it takes a part of the equity, and its interest rates are high. I would propose that the IFC consider in any project, private project, in which it is lending its money, that it absorb a substantial interest differential in the early years of the loan which would be repaid in the later years when the project is capable of doing so. Otherwise you will find what has occurred frequently, and I will cover this also in connection with the extended risk guarantees of the United States—that a private business project which has borrowed money from an international agency, like the IFC, or has received an extended risk guarantee from AID, may well be a successful project in terms of the business showing a profit, but the cash flow will be inadequate to meet the debt burden in the first 5 to 10 years, and the project will go under.

And it will have been, nevertheless, basically a successful, viable project.

Now, this leads me to the other side of the coin on private aid, and that is the United States position. There has been recommended and in fact established, an Overseas Private Investment Corp. And my prediction is that it is not going to change things very much. I think OPIC has some sound ideas in it. But I think as developed it has really amounted to little more than the removal of the office of private resources from AID into a new agency with a new name, and with new but limited lending capacity. But it is still going to be controlled by the same bureaucratic system.

And when you consider that today the most significant aid for private foreign investment that can be given is the extended risk guarantee which covers up to 75 percent of the investment or loan against all risks, and that it can take up to one year or more to get this approval through the bureaucratic process, you are going to find in that process the interest rate has changed many times, the people who are on both sides have changed many times, and private business has become disenchanted.

I think what we need is a wholly owned private corporation with U.S. funding to begin with, and later sales in the United States market of its paper, and the United States full faith credit supporting the issuance of specific and extended risk guarantees. But one which does not have civil service requirements, and does not have responsibilities in the public foreign assistance field.

And maybe what we ought to do is have some surgery and take it physically out of the Department of State—remember, the Secretary of State can have an Under Secretary sit on the board, but the majority should be private business people.

As I have mentioned, I think the extended risk guarantees are one of the more important ways of aiding private business. But as of June 30, 1969, the cumulative amount of all extended risk guarantees totaled only $81.9 million. This is because it takes too long and it is too expensive.

I have mentioned the length of time. Now look at the cost of it. Today you pay a 9 percent interest rate, and another 1¾-percent for the guarantee, making for an effective interest rate of 10¾. Add to this the cost of a standby fee, and the expense of obtaining the guarantee, which I am pleased to say includes legal fees, and you have a potentially successful project incapable of meeting its debt burden.

To remedy this I would suggest that the guarantee fee be deferred until it can be paid out of earnings, after debt service but before dividends, and that in a limited number of cases, as with the IFC, a portion of the interest rate during the initial period be deferred until the project can bear the cost.

I would also suggest that the power of the United States Treasury to review each case be eliminated, since this can add 6 months or more to the process of obtaining the extended risk guarantee. The rates could be related to the fluctuating rates of U.S. Treasury securities as a matter of principle, and you would need no clearance with Treasury.

I would like to conclude with one statement, Mr. Chairman, I'm stating that Congress should concentrate on goals rather than procedures, I have said nothing, except with respect to OPIC, regarding the bureaucratic structure.

I would like to mention one thing which relates to Senator Javits' question to Mr. Peterson. In the NPA report we considered putting the coordination for aid in the White House, and decided against it for two reasons. First of all, the White House generally does not have an adequate staff, and I do not think should be staffed to do that kind of a job.

Secondly, I think the White House staff is likely to be less responsive to the Congress. We recommended that we go back to the good days of Bill Clayton when he was Under Secretary of State for Economic Affairs, and was the coordinator of all foreign economic aid. This was carried out, because he was given the power by the Secretary and the President, and was recognized by the others. And it made for a better coordination on staff policy.

But I think it is clear that whatever you do it is going to fracture AID; it is going to be broken up.

And before it is broken up I think a kind word ought to be said about it. AID has been the pioneer in the development process. It has too many people, it takes too long, it is too costly, but nevertheless the better experimentations that have been done in the development process by the lender countries have been done by AID. And I think that some of its people, its significant people, should be reserved to be placed in some of the splintered parts of the organization.

I would also like to say that I would hope that in the future the responsibility of both the Congress and the executive branch could change the nature of the aid hearings, both authorization and appropriation, so that they deal with goals and objectives and general organization and not details of what happened to what money that went into what country to build what road.

I think this leads only to a repetition of question after question on the same issue year after year, and creates a defensive obfuscating series of answers on the other side which rarely produces very useful hearings in my opinion. I, therefore, think the hearings of the type that this committee is holding can contribute significantly to our knowledge and to our guidelines for the future of the development process.

Thank you.

Chairman Boggs. Thank you, Mr. Surrey.

(The prepared statement of Mr. Surrey and the joint statement of the National Planning Association, entitled "A New Conception of U.S. Foreign Aid," follow:)

PREPARED STATEMENT OF WALTER STERLING SURREY

Mr. Chairman, members of the subcommittee; my name is Walter Sterling Surrey. I am privileged to appear before this committee in my general capacity as Counsel to and a Trustee of the National Planning Association, and in particular, in my now terminated role of Chairman of the NPA Joint Subcommittee which supervised the preparation of the NPA Statement "A New Conception of Foreign Aid." Since this study preceded the report to the President from the Task Force on International Development, I wish to make it clear that any similarity between the two reports is not purely coincidental. I am not representing the NPA here nor presenting their views. The NPA report has, however, stimulated and influenced my thinking in this area, as I believe it has stimulated and influenced the Peterson Task Force.

The U.S. has gained knowledge about and experience in the development business since it began its first massive aid program after World War II. Prior to the Marshall Plan, United States aid efforts had been small, mainly in the field of technical assistance and relief. The Marshall Plan was an effort to reconstruct—a very successful effort—and not an effort to build, and often to build from the very foundation. The recipients of our aid are no longer countries rebuilding their economies, but, generally, countries for the first time attempting to utilize often inadequate physical, economic and human resources to construct modern economies. The task is thus a far more complex and difficult process than that of reconstruction; it involves greater problems and frustrations—and greater patience. Perhaps in the long run it brings even greater rewards.

At this stage of our national rethinking of the relationship of our aid to the development process, there appears to be an ominous disenchantment with our continued allocation of any significant part of our GNP to the economies of the developing countries. Our overall aid program has been criticized for many things: for not achieving stability in the less developed countries, for allegedly creating anti-Americanism, and perhaps, above all, for not being defined in precise terms of so much aid money over so many years being capable of achieving a stated level of development. It all seems unsettling, imprecise, and unpredictable. These reactions must be tested against the lessons we have learned to date about the development process, and by a realistic appraisal of what can be gained by a continued significant contribution from our national resources.

We have learned that economic development in the less developed world is often far more profoundly influenced by local political developments than by large volumes of economic assistance; we have learned that natural phenomena—droughts, floods, discoveries of oil and mineral resources—often have a greater impact upon development than does aid; we have learned that national pride is a most far-reaching factor in development, that economic assistance, in the eyes of the recipient can be reduced to paternalistic imperialism.

While development assistance may, at least in some cases, be a necessary stimulant to economic growth, it can seldom be the entire or even the major stimulant. When Adlai Stevenson referred to the "revolution of rising expectations," he was talking about the expectations of the less developed world. However, we in the United States have not always evaluated carefully our own expectations and objectives in the area of foreign aid. The recent reports of the NPA, and of Messrs. Peterson and Rockefeller, are therefore certainly steps in the right direction for rethinking our objectives as well as our methods.

The temptation is and has been to regard the limited results of foreign assistance as consequences of mistaken organization and thus to propose solutions based on reorganization of existing bureaucratic structures. This, I believe, is both the easiest and the least fruitful approach. As we did in the preparation of the NPA study, it is essential to consider first the objectives and direction of our development assistance programs. The administrative structure can then be reorganized or left alone. In short, the issue is not so much our own administrative and organizational efficiency as it is our policy and commitment. Once we have settled upon the policy and commitment, we can then determine the bureaucratic structure required to carry out policy and meet commitment.

Development assistance has often been justified as being in the national interest of the United States since it will contribute to American security.

The argument is made in simplistic terms that foreign aid will contribute to economic progress and stability, which, in turn, will engender social and political stability, and thus revolution and communism will have been averted or repelled. In the words of the Rockefeller Report:

"Rising frustrations throughout the Western Hemisphere over poverty and political instability have led increasing numbers of people to pick the United States as a scapegoat and to seek out Marxist solutions to their socio-economic problems."

The implication is that foreign aid will stem the tide, or, at least help in a needed significant way to so do. This view overlooks two related factors: first, economic development is basically a process of "rocking the boat." It creates a national sense of rising expectations with a corollary national impatience. Development is inevitably a slow process and a process which by its very nature accelerates dissatisfaction. Second, the development process does not necessarily bring about a concurrent improvement in the lot of each individual. On the contrary, the initial results often further accentuate unequal distribution of wealth and unequal social status. Instability may follow U.S. or other foreign aid, but it is not the aid that may be responsible for this instability; it is the very fact of development, however fueled, that is responsible.

Thus I cannot agree with the implication of the Rockefeller report that a more substantial aid program will meaningfully improve our relations in the Western Hemisphere, although I do believe, it will accomplish this result in the long run. Likewise, I do not believe instability is the primary cause of our being a scapegoat. To the extent we are a scapegoat, it stems from our historical hole in Latin America, our overall foreign policy and our physical presence, as in the Dominican Republic.

This is not to say foreign aid does not contribute to economic development. Foreign aid, perhaps more cogently than other sources of foreign exchange, can contribute to economic development, and eventually, and sometimes sooner than later, economic development may have a favorable impact upon social and political change. But one should not expect development assistance to produce instant stability, nor to assure the forestalling of totalitarianism, nor to increase U.S. security. One can expect that over a period of years development assistance should assist in the establishment of viable economies capable of supporting satisfactory political and social institutions.

Realistically, therefore, one must view our major foreign aid policy objectives on a long-range basis as being motivated by three considerations:

First, the United States long ago committed itself to economic assistance. The seeds of expectation and change have been planted and have begun to germinate. Our choice is whether or not to add fertilizer and water to speed up the process; the risks we take in failing to do so are the increase of human suffering by economic stagnation and the building of frustrations in less developed countries that may result in internal changes inimical to their development or to the benefit of their people, as well as adverse to our own interests. I do not suggest that the risks are necessarily a turning to communism or aggressive international policies, but rather that the risks are not easily calculable nor controlled. I do suggest that we not be misled into the belief that foreign aid, whether bilateral or multilateral, will necessarily achieve tranquility in the seventies.

Second, as the Peterson Report states, "The United States has a profound national interest in cooperating with developing countries in their efforts to improve conditions of life in their societies." This humanitarian objective, as such, is closely tied to American social tradition and political philosophy.

Third, worldwide economic development is likely to have a favorable impact on our own economy and its development.

Conversely we have certainly been taught that social and political earthquakes in far away places rattle our own political institutions and social structure. The basic long-range reasons for continuing development assistance are not glamorous and do not bear immediate fruit. Moreover, the history of our development assistance policies in less developed countries is difficult to assess. The occasional dramatic failures are loudly publicized even though they are often "failures" only because of our own unrealistic expectations. They are often caused by internal social and political events over which we cannot exercise control without taking a considerable and usually unacceptable risk, or at the cost of an unwarranted national self-flagellation. In my opinion, these factors underscore the importance of Congressional responsibility in setting development aid at realistic levels and in exercising self-discipline by avoiding the temptation to use foreign aid as a political scapegoat.

The amount of foreign exchange available to a less developed country is one of the most significant requirements for economic growth. One need only compare the growth rates of countries having large exportable natural resources with those having no such resources—recognizing, of course, that the existence of such resources does not in and of itself assure an equitable distribution of the wealth.

Libya, for example, received foreign aid from all sources in 1966 totalling only 0.2% of its gross domestic product. Yet from 1966 through 1968, Libya's gross national product grew 14.2% and its per capita GNP grew 10.3%. Libya has oil. On the other hand, the Dominican Republic in 1966 received total foreign aid of 5.2% of its gross domestic product; yet from 1966 through 1968 its GNP grew 3.78% and its per capita GNP grew four tenths of one percent.[1]

It is, of course, impossible to supply the large majority of less developed countries which lack natural resources, with foreign exchange in amounts commensurate to the oil resources income of Libya. Therefore, the issue is how best to use the limited resource of foreign aid to multiply its effect. In addition, it must promote social progress, minimize reaction against the donor, increase the planning and implementation capabilities of the recipient, provide export possibilities to earn foreign exchange, take into consideration financial limitations of the recipient (for example, to service debt), make technical assistance available, provide for efficient utilization of the aid funds, be inoffensive to national pride, and stimulate development of the private sector. All this is obviously difficult to achieve; it is beset with potential conflict.

I believe our present development assistance programs and policies, apart from quantative measurements, have been moving in the direction of melding these objectives in a thoughtful manner. However, there are problems with which we have not adequately dealt, some of which may require new procedures and organizational changes.

The desire to maximize the effect of aid is a necessary product of the limited volume of aid available, but this objective contains conflicting aspects. On the one hand, obtaining a multiplier effect may require the application of programs developed by U.S. experts and forced (in some way or another) upon the recipient. This is the very thing which may adversely affect the national pride of the recipient, stifle the essential development ingredient of self-help and self-discipline, and produce anti-American feelings. We have learned, or we certainly should have learned through the incessant pounding of waves of repetitive frustrations, that we cannot dictate to a recipient country exactly how our aid is to be used, including the determination that the goods and services to be acquired with the aid must be procured in the U.S. and shipped on U.S. flag vessels, and still expect to incur no adverse reaction.

We can, however, provide broad programs for the development of local institutions which generate additional local capital. Perhaps the best example of this type of lending is the AID housing and urban development program for Latin America, which has succeeded in developing from scratch a savings and loan institution structure in Latin America. By providing seed money for savings and loan institutions, and by providing guarantees to U.S. institutional lenders for loans to Latin American housing banks, which in turn re-lend the funds to provide long-term financing for housing, AID has by this program both stimulated the creation of local institutions and increased the availability of decent housing in Latin America. AID is to be commended for its lending programs to intermediate credit institutions.

Equally important to assistance programs which establish local financial institutions is, I believe, the focusing of aid upon the sector of a country's economy which shows the most promise. I realize that this may run counter to the theory that less developed countries must seek to become manufacturers of finished products, and not just exporters of raw materials, in order to develop into viable economies. However, the attempt to conform aid policy with this theory spreads too thin the already scarce resources of development

[1] GDP figures are from the OECD; GNP figures are from AID.

assistance and local talent and expertise. For example, if a country has large areas of fertile soil and little or no heavy industry, the impact of assistance may be diluted considerably if we give aid both for agricultural development and for the creation of a basic steel industry; there is simply neither enough money nor enough local resources, both in personnel and infra-structure, to do both. It is often unrealistic to expect to train simultaneously a sufficient number of agronomists and a sufficient number of steel workers.

The focusing of assistance in one or only a few sectors of a country's economy at first blush may seem to conflict with the objectives of being inoffensive to national pride and minimizing adverse local reaction. But the conflict is only apparent. The latter two objectives do not require us to fulfill the every desire of the less developed country; they do require that we not condition our aid on the construction of a steel mill, built at a certain site in a certain manner and purchased in the U.S. Further, they suggest a major and initiating role in local government policy planning and implementation.

A shift in this direction has already taken place in our AID program—the shift from traditional "project" lending to "program" and "sector" lending. As I understand the AID terminology, a traditional "project" loan (not including loans to intermediate credit institutions) is for a specific project, such as an airport or a steel mill. A "program" loan is a loan to a country for general use for development purposes, but with balance of payment purposes in mind, with the use of the proceeds limited to imports, generally from the U.S. A "sector" loan is for use in a particular sector of the economy, such as for agriculture, education, or public health. We should, I believe, avoid project lending, with perhaps exceptions for a project which will have a foreseeable major multiplier impact upon the economy. An example would be a loan for a dam (or participation with others in such a loan), where the resulting electrical power will supply an existing requirement by light industry and thus stimulate its growth and productivity. The traditional project loan probably is the most visible and therefore the most dangerous form of U.S. assistance; an unused steel mill or a superhighway leading nowhere are dramatic evidence of failure. In addition, the World Bank and other multinational organizations are already active in project lending. Indeed, most of their experience is in that area, and they therefore can be expected to provide such aid so the steel mill does produce and the road does go somwhere.

I believe that program loans which constitute general balance of payment loans can be equally objectionable. They have often been proferred as an uncoordinated shopping list, for use in the U.S. shopping center, and often fail to provide constructive development achievements.

I suggest that our major development assistance thrust be in sector lending, concentrated in those sectors showing the most promise. I realize that our success depends upon our approach. We should be in a position of advisors and lenders, not owners. AID sector lending in Latin America is illustrative of both the potential success and potential problems of this type of development assistance. The initiative comes from the less developed country, which submits a plan, for example, for education reform or agricultural development, or certain types of public health programs. The local government plan indicates its needs and desires in detail: how a possible loan would be utilized, what impact it would have, what costs would be incurred, how the plan will be implemented and budgeted. The plan is reviewed by AID and discussed with the local government officials.

The loan, if approved, may take many different forms. It may be made to a government development bank, which, after its policies and procedures have been reviewed by AID and found satisfactory, will itself disburse the funds. It may be made directly to the government. AID attaches conditions to the loan to ensure its economic success, much as in the United States a commercial bank may attach conditions to its loan to a United States borrower. This is the area of greatest sensitivity; the desire of AID to ensure effective utilization of aid funds is at least potentially in conflict with factors of national pride and independence. So far the potential conflict has not resulted in significant political embarrassment to the U.S.

On the other hand, a sector loan without any conditions, while alleviating possible adverse political repercussions, could be viewed as a derogation of the lender's responsibility. I believe, however, that as with a commercial bank, if AID deals with the borrower as a valued client, the conditions imposed will derive from good lending practices rather than bad bureaucratic habits.

A major effort in assistance should be directed towards social reform, especially population control. All of the recent reports have mentioned this as the most vital area of concern. It is also one of the most sensitive areas. However, a strong U.S. effort in these areas in Latin America (as opposed to, for example, India, where significant progress has been made in family planning) may well engender an adverse reaction for religious, political, social, and historical reasons. Consequently, I believe that population control programs are best administered through an international organization, such as through the technical services of the United Nations.

Similarly, studies should be undertaken in the field of agrarian reform. Too often land reform programs have simply utilized a "grid" approach, by which land is sub-divided into plots, with thought given not to its commercial use and development, but to the political rewards of the in-government distributor. Perhaps we should think in terms of land utilization rather than land reform. Here again, however, these programs are uniquely sensitive and, therefore, also best left to the administration of an international organization.

This brings us to the issue of whether or not all or most U.S. assistance ought to be channeled through multi-national organizations. The Peterson report stated that "more reliance on international organizations should be built into all U.S. policies relating to international development. . . . This is basic to the new approach to foreign assistance we recommend."

To the extent that the Peterson report urges U.S. bilateral assistance participation in multinational consortia (including international agency participation), I concur in the recommendation. In fact, such mutual efforts can make large-scale sector aid feasible. But to the extent that the recommendation means the additional funneling of U.S. assistance away from bilateral assistance and into the multinational agencies, the implications deserve serious consideration.

The reason for the Peterson report recommendation is not analyzed in depth, but is merely implied in the statement that "a predominantly bilateral U.S. program is no longer politically tenable in our relations with many developing countries, nor is it advisable in view of what other countries are doing in international development."

I take the implication to mean that first, U.S. bilateral aid often creates an adverse political impact against the United States in recipient countries, and second, that by "internationalizing" development assistance we can stimulate other developed countries to contribute a larger share of assistance and can better coordinate development efforts.

Neither of these arguments is sufficiently convincing to call for a major change in our current assistance structure. First, bilateral aid is not necessarily politically unfavorable for the U.S. A shift to the kind of sector lending outlined previously could as well avoid many of the adverse political reactions. Further, as also mentioned previously, factors other than development assistance—military presence (including police training), historical domination, foreign political policy—are far more likely to create problems, and these will persist despite a swing to multilateralizing aid. Second, increased channeling of aid through multinational organizations by no means ensures greater participation by other developed countries. We can as easily suggest to such nations increased participation in existing organizations, such as in the World Bank group and the regional banks, in which the U.S. share is already disproportionate. Whether multinationalizing aid, apart from the consortia approach, will result in better coordination among donor countries is questionable; each donor country has favored recipients for historical and political reasons, and the competition within a multinational organization for assistance priorities could as easily have a disruptive effect. We could, and should, suggest greater coordination of bilateral aid, perhaps through the Development Assistance Committee of the OECD, or through coordinating groups centered in an international lending agency, such as the IBRD.

There are both advantages and disadvantages to increasing multilateral aid. On the plus side, the U.S. administrative burden might be reduced. In some cases the lack of direct U.S. presence may be desirable psychologically and politically. Multilateral aid may in the long run also have the advantage of eliminating tied procurement and shipping requirements, factors which are of substantial irritation to recipient countries, but which for domestic political reasons may be difficult to eliminate at this time from the U.S. bilateral program.

On the other hand, as pointed out in the NPA report, the U.S. already supplies one half or more of the resources available to international aid organizations, and a substantial increase could make these organizations seem mere vehicles of the U.S. Further, the NPA report averred that the existing international organizations, other than the World Bank group, "have not yet for the most part adequately demonstrated the capacity for exercising effective influence for sound development policies or even for allocating their resources on the basis of objective substantive criteria . . ."

I might add several other points. With the exception of the International Development Association, interest rates of current international organizations are, for reasons related to their need to raise money in the capital markets, too high for long range development lending, and may well exacerbate the problem of debt servicing and rescheduling. To the extent that a proper U.S. bilateral aid program is prepared to render assistance on concessionary terms, the debt burden problem can be alleviated.

Further, a significant shift by the U.S. away from bilateral programs could have two major deleterious effects first, removing effective U.S. control over the disposition of U.S. assistance funds, so that U.S.—proclaimed special historical and geographical interests in Latin America could not be served; and second, destroying the entire bilateral program by reducing the already relatively small amount of funds available for development lending to a meaningless level.

One more fact needs to be discussed with respect to multinationalizing aid. It would remove short-range U.S. political influence over development assistance. This result, as I have stated, is generally desirable. However, it could be accomplished without major surgery. I am not completely convinced that aid should never be given for political reasons. Therefore, perhaps a relatively small contingency loan fund could be created within the State Department, to be administered solely by the Department. On the other hand, State Department considerations should not be instrumental in initiating development assistance from AID. It may take the surgical removal of the AID agency from the State Department building to achieve the necessary psychological independence that AID administration requires. In the same vein I also support the Peterson report recommendation to move security assistance programs out of the AID programs.

My hesitancy over significantly increasing our multilateral aid at the expense of bilateral aid does not imply a reluctance to move in the direction of seeking to stimulate further international cooperation in development assistance and greater activity on the part of existing international institutions. The U.S. should encourage other developed countries to increase their levels of development assistance, and should encourage consortia lending. We should also re-examine the development assistance possibilities of existing multinational organizations. In recent years aid has too often been treated as a business, with grants and long-term, low interest loans giving way to harder term lending, often at close to commercial interest rates. This has at least in part been due to unrealistic expectations on the part of donor countries. The result has been the inability of many less developed countries to service their debt. The debt servicing burden of many of these countries has reached a point where development is disrupted and the only solution may be debt rescheduling—which, in turn, is only a deferment, and not a solution to the problem.

The international organizations continue to lend at near market rates. The World Bank, for example, which primarily uses the public bond market to raise lending funds, now lends at 7% annual interest. The exception is the International Development Corporation (IDA), which lends at very low interest rates for very long terms (up to 50 years).

The World Bank operates pursuant to an attractive philosophy in the eyes of those concerned with the conserving of developed countries' governmental resources, in that it seeks to secure the bulk of its financial resources from the private capital market. Its success in accomplishing this is evidenced by its triple A credit rating. This rating is based on two factors first, member country guaranties, in the form of calls by the Bank, exceeding twenty billion dollars. In excess of eleven billion of these guaranties are from the United States and Western Europe, with the United States' guaranty (call) set at 5.8 billion dollars. The second basis for the Bank's triple A rating is that its conservative operating procedures are clearly attractive to the potential institutional purchaser of its bonds.

The difficulty with this approach, however, is that very few of the developing countries can absorb twenty year terms at 7% interest. The least developed countries, including most African countries, by way of example, require IDA terms, or at the least a blend of World Bank and IDA terms. In fact, however, and notwithstanding periodic replenishments by the donor countries (though recently somewhat belatedly by the United States), IDA is woefully undercapitalized. Necessarily, the result has been too little and too late.

I suggest that the Bank's terms coupled with the relative scarcity of IDA and other long-term, low-interest rate funds is leading inevitably toward a general debt rescheduling for much of the less developed world. If this occurs within five to ten years, the result will be detrimental to the development process and obviously adverse to the credit standing of the Bank.

I believe that the major problem we will face in supporting the development process is this burden of the top-heavy foreign exchange debt structure borne by the less developed countries. We can restructure our U.S. aid organizations, we can alter the emphasis of the various types of assistance, we can take other steps designed to improve the effectiveness of our aid. I suggest, however, that this may prove to be akin to an intern rendering minimal assistance while anxiously awaiting the surgeon.

The problem of development aid is the need to funnel more funds through IDA terms so as to offset the burden of the Bank's terms. This means, simply, that the United States and other donor nations must be prepared to make substantial funds available now. To do otherwise will, in my view, mean that the U.S. $5.8 billion "guaranty" will be called in the not too distant future, with the corollary result that the Bank's credit worthiness and ability to obtain funds from private sources could be radically altered by a sudden need for foreign exchange debt financing by a significant number of the less developed countries.

If deemed necessary, the impact of this contribution on our balance of payments problem could be alleviated by two modifications to the present method of making contributions to IDA, both of which were essentially included by proposals of Senator Javits in the mid 1960s. The first is to provide that the funds be authorized and appropriated on a credit basis, that is, they will not be paid in until actually required. The related proposal would be that these additional funds, when utilized generally, be expended in the country of the donor, provided the price ranges are generally competitive. This would mean that, during the period of concern with our balance of payments, there would be no gap between appropriation and expenditure, and the U.S. contribution would be used for U.S. hardware and technical services. I offer this only as a temporary method of meeting balance of payment objectives. I would prefer direct appropriations to IDA with no strings attached.

I also urge that the International Finance Corporation, which makes loans at close to market interest rates, consider absorbing a substantial interest differential in the early years of its loans to less developed country projects, in a manner providing for the repayment of the interest differential in later years when and if the borrower is able to do so. For example, a $1 million loan with an 8% interest rate could be structured to provide that the borrower, in the first three or four years, will pay interest at a rate of 4% per annum. The 4% interest differential would be deferred, and would be paid in later years out of net earnings and before distribution of any dividends. This kind of temporary interest rate subsidy, by alleviating the debt servicing burden of a borrower in the early years of a project, might well mean the difference between a successful project and a failure.

The U.S. should continue to provide technical assistance to less developed countries, but with certain major changes. I support the recommendations of the NPA report for the establishment of an autonomous Technical Assistance and Development Research Institute. As outlined in the report, the Institute would not generally furnish technical assistance itself, but would act as a referral agency for those countries desiring technical assistance, who in turn would enter into commercial contracts with the technical experts. I believe that at least initially the Institute should concentrate on selected areas, such as certain types of engineering, agriculture, and selected public health activities, in order better to marshal its resources.

If we are to continue to expand our commitment to development assistance, we must do all we can to make available free markets for exports from less developed countries. It does little good to assist a country in the development of, for example, an agricultural product, when that product cannot be commercially exported and earn foreign exchange because of restrictive tariffs or quotas. Consequently, I believe the recommendations of the Peterson report concerning tariff and quota preferences for less developed countries should be adopted.

Earlier, I referred to the tendency to solve problems by reorganizing existing bureaucratic structures, while making no real substantive changes in policy. I regret that it appears this was the path taken in establishing the new Overseas Private Investment Corporation (OPIC). Essentially the OPIC legislation merely removed the Office of Private Resources and its functions from AID, placed them in a new government agency with a new name, and added a new but limited direct lending capacity.

U.S. private investment in less developed countries could have a significant impact on economic development. U.S. business has become increasingly sophisticated in the field of foreign investment; the trend has been towards realistic arrangements with foreign governments and joint venture projects with local businessmen. The result can often combine the advantages of U.S. and foreign expertise, the stimulation of the free enterprise system in developing countries, and economic development at no direct cost to the United States Government.

The NPA report recommended the creation of an OPIC wholly-owned by private investors, making private foreign investment a truly private venture. The intention was not only to fund the corporation privately (after an initial U.S. Government loan) and to offer U.S. Government full faith and credit supporting OPIC guarantees, but to attract highly competent, experienced businessmen oriented to private enterprise and freed of U.S. Government interpartmental bureaucratic goals and delays, civil service restrictions, and sometime self-defeating contracting procedures. It is, of course, our hope that OPIC will be able to attract a highly competent staff sensitive to private business considerations and unencumbered by bureaucratic procedures inherent in the public foreign assistance field.

Given the premise that OPIC is designed to stimulate private investment, the leadership becomes the most vital consideration. That leadership should not treat OPIC as an investment bank, applying strict banking criteria such as security, ability to repay, etc., to projects seeking guaranties. If overseas investment is to be encouraged, OPIC must be willing to take risks greater than the normal U.S. investment bank. That leadership should not fear the failure of a project; a perfect record of no guaranty pay-outs implies that risks are not being taken, and that therefore guaranties are being granted only to those investors who least need investment guaranty encouragement.

The reference above to investment guaranties is to what used to be called "extended risk" guaranties, whereby up to 75% of an American investor's debt or equity investment in a less developed country is guaranteed against all risks by the United States. This program—probably the most important tool of AID to encourage private investment in developing countries—has not been widely used. As of June 30, 1969, the cumulative amount of extended risk guaranties for investments totaled only $81.9 million. The extended risk guaranty program has not only been under-used and difficult to obtain (the time between the approach to AID and the signing of the guaranty often is about one year, thus discouraging the business community from seeking such guaranties), but is so expensive as to preclude many investments or endanger the success of an investment because of the heavy debt burden.

To illustrate, funds are obtained in the private market—let us say at 9% per annum interest. The AID guaranty fee is usually 1¾%. Thus the effective interest rate is 10¾%. Add to this a possible commitment fee and the expense of obtaining the guaranty and it becomes apparent why this investment incentive tool has not proved overly successful.

In order to encourage private U.S. investment in less developed countries—by small and medium-sized companies, and not merely the giants—I recommend the expansion of the extended risk guaranty program (which will be continued under OPIC) and a modification to reduce its cost. First, payment of the AID (or OPIC) guaranty fee should be deferred until it can be paid out of earnings (after debt servicing but before dividends). Second, in limited cases OPIC should be authorized to service a portion of the interest rate for a given initial period, with the borrower obligated to repay such amount to OPIC on a deferred basis.

OPIC should also have the authority to make equity investments of a limited percentage in projects in less developed countries in which U.S. investors have taken at least as large an equity position. This authority could be similar to that of the IFC, which can purchase up to 20% of the equity of a project.

Finally, I concur in the recommendations of the Peterson report to eliminate foreign direct investment restraints on investments in developing countries. In order to provide greater business flexibility and efficiency, investments covered by OPIC guaranties should not be tied to U.S. procurement. And to speed up the obtaining of guaranties, permissible interest rates should be related to fluctuating rates of U.S. Treasury securities, rather than requiring specific Treasury Department approval of each investment.

In conclusion I would like to add a personal observation, offered in a constructive spirit and not to be construed as assigning blame nor attacking motives. As a nation we should at this time focus our considerations on the objectives of aid to the less developed countries and arrive at basic national goals for the seventies.

Thus, I go back to the fundamental which I discussed at the beginning of this statement, and upon which the NPA report is based: let us first concentrate on the process of development, on the means of maximizing available assistance and of producing good results in geometric rather than arithmetic proportions. If we follow this procedure, the bureaucratic organization will of necessity become less the focus of our national attention, and more the means of achieving at least cost and most effectiveness a successful development assistance program. Moreover, I believe it is axiomatic in government that the clearer the national goal, the less bureaucratic red tap and duplication of personnel is required to achieve that goal. And as a happy corollary benefit, of not inconsiderable consequence, we then should be able to avoid engaging in the type of annual executive—congressional free for all in the authorization and appropriation hearings which have satisfied no one and produced unjustified confusions and doubts.

Aid hearings should not be an endurance test to resolve internal government jurisdictional conflicts; they should not be a process whereby the same questions are asked and reasked, producing the greatest variety of obfuscating answers.

To this end I would therefore like to say a kind word concerning the apparently about-to-be fractured Agency for International Development. True, it has too many people; true its bureaucratic procedures are often self-defeating, often the result of congressional efforts to write detailed. rigid aid procedures and conditions into authorization and appropriation legislation. But equally true, the meaningful and successful innovations introduced into the development process have been in large part the result of United States bilateral aid activities.

Times have changed, and new procedures are needed. But the imaginative creativity that produced a successful European recovery program, that assisted in bringing Taiwan, Iran, South Korea, and Israel into the club of developed countries, should not be destroyed. Nor should we seek to meet our responsibility by simply dressing the same girl in the latest fashion. This can be avoided if the legislative process is used constructively to determine how best to arrive at our agreed-upon national goals for development assistance. I therefore trust and hope that this distinguished committee will concentrate on the basic issues, and will deal with the decisions on bureaucratic process of implementation as of secondary importance.

A NEW CONCEPTION of U.S. FOREIGN AID

A Joint Statement by the
NPA Joint Subcommittee on U.S. Foreign Aid
and the
NPA Board of Trustees and Standing Committees

Special Report No. 64
March 1969

National Planning Association
Washington, D.C.

Preface

As authorized by the NPA Steering Committee, a Joint Subcommittee representing the various constituent groups of NPA was established last fall to reappraise the U.S. foreign aid program and seek to develop a Policy Statement of conclusions and recommendations for consideration by the members of the NPA's Board of Trustees and Standing Committees. Mr. Walter Surrey, a member of NPA's Board, Steering and International Committees, served as Chairman of this Joint Subcommittee. The other members of the Joint Subcommittee were: Robert E. Asher, Meyer Bernstein, Richard M. Bissell, Jr., H. van B. Cleveland, Alphonse de Rosso, J. K. Evans, Joseph S. Farland, Harry L. Graham, Samuel P. Hayes, Jay Lovestone, Arthur Moore, Ferris S. Owen, James G. Patton, Lauren K. Soth, and David J. Winton.

The result of the Subcommittee's deliberations, this Joint Statement on *A New Conception of U.S. Foreign Aid,* was submitted early in 1969 to the members of NPA's Board of Trustees and Standing Committees for signature by those who wished to take this action. The names of the signers follow this Preface.

In a Policy Statement of this length and complexity, there are bound to be some differences of opinion which cannot be reconciled. For the purpose of public education, NPA encourages those who are willing to sign a statement as a whole, but who disagree with specific parts of the analysis or recommendations, to express their differences in signed footnotes. The footnotes to this Policy Statement are printed at the end of the text.

John Miller

Executive Secretary

A New Conception of U.S. Foreign Aid

In a recent statement,* the National Planning Association explained the reasons for reaffirming its belief that the United States, as the world's wealthiest nation, whose citizens have traditionally been concerned for the welfare of others, should continue to commit a measure of its resources to further the development of societies in Asia, Africa and Latin America. We concluded that, without such a commitment, U.S. relations with the countries of those regions cannot reflect either America's national interests or the distinguishing values of its culture.

Also, it was our hope that the existing U.S. foreign aid program could be sustained at an adequate level while its organization and procedures were reexamined. We believed it essential to make improvements which would command the kind of popular, political and professional support that a continuing commitment must have. Unfortunately, the program has meantime lost so much support, particularly in the Congress, that action to implement the results of study and rethinking must now be taken urgently.

In part, declining support in the Congress and among opinion leaders reflects changing attitudes and focus of interest in the United States not directly related to the achievements and deficiencies of the foreign aid program. The cost, frustrations and disillusionments of the war in Vietnam have lessened support for foreign aid. The new realization of the importance of development here at home, in the cities and among minority groups, has diminished the sense of urgency for development abroad. The annual ordeal before the Congress, in which the program has to be authorized and funded anew each year in both Houses, has produced exasperation and impatience even among some of its friends on Capitol Hill. More-

* See the NPA Joint Statement "Constructively Resolving the Crisis in the U.S. Foreign Aid Program" in Robert E. Asher, *International Development and the U.S. National Interest* (Washington, D.C.: National Planning Association, July 1967).

40-333 O - 70 - pt. 3 - 7

over, there are deeper reasons for the dissatisfaction with the U.S. foreign aid effort. While continuing to support strongly the necessity for foreign aid, a growing number of professionals have begun to feel that, in the course of the 1960s, the existing approaches and procedures have become less relevant to the changing needs and capabilities of the recipient countries than they should and could be.

It is with meeting these criticisms constructively that this statement is primarily concerned. To this end, it presents a concept of development assistance which, we believe, is relevant to the 1970s, and explains the changes in the organization and procedures of the U.S. foreign aid effort that follow from it. Our purpose is to make U.S. foreign aid a more effective means of helping those willing and able to help themselves.

The Changing Requirements of the Development Assistance Relationship

When, early in the 1950s, the focus of U.S. foreign aid began to shift from Western Europe to Asia, Africa and Latin America, Americans were conscious of a need and an opportunity which they wanted to meet. The need and the opportunity were results of the dynamic impact of Western values and institutions on the traditional societies of Asia and Africa and the still largely agrarian societies of Latin America. Throughout these regions, the modernizing leadership groups became increasingly infused with the desire to obtain the fruits of accelerated economic growth—a desire that was intensified by the worldwide dislocations and the inspirational slogans of World War II, by the passing of European colonialism in the postwar years, and by the competing promises of the period of the cold war.

Yet few, if any, of the new nations of Asia and Africa and the older nations of Latin America were equipped either by their past histories or by their former colonial rulers with the attitudes and skills, the institutions and resources needed to motivate and manage the profound sociocultural changes involved in the complex processes of economic growth and political modernization. The United States was uniquely willing to respond to their need in consequence of its own impelling sense of mission and its conception of an effective cold war strategy. It was uniquely able to grasp the opportunity so provided because of its unparalleled wealth and the acceptability of its assistance in view of the fact that it had never been a major colonial power.

With the benefits of hindsight, we can understand how the characteristics of this situation determined the nature of the initial development assistance relationship between the United States, as the first and by far the largest donor of foreign aid, and the recipient countries in Asia, Africa and Latin America. During the 1950s, not only did the former have to provide the bulk of the capital and technicians required by the latter but, with a few notable exceptions, it also had to supply much of the sustained initiative, the substantive ideas, the organizational and administrative experience, and the techniques of program planning and project design without which the money and the experts could not have been put to work. And Americans, due to the values and norms of behavior of their own dynamic and achievement-oriented society, were eager to play so active and directive a role. The result during the 1950s and early 1960s was a foreign aid relationship in which Americans, serving in both governmental and private capacities, took the lead in promoting and organizing a host of initiatives at the *macro* level of broad development policies and at the *micro* level of individual capital investment and technical assistance projects.

This active and directive U.S. approach to development assistance has, however, become less necessary for most recipient countries in the course of the 1960s in consequence of the development progress that has so far been achieved. Thanks in part to the activities and the urging of American officials and development experts during the past 15 years, there are today increasing numbers of people in the governments and leadership groups of even the remotest and least developed countries who are aware that it is possible for them to accelerate and guide the processes of economic growth and sociocultural change. They know that, if they wish to speed their countries' transformation, they must agree upon practicable development objectives and adopt and carry out policies capable of achieving them. They understand that, if they expect to get financial and technical assistance from abroad, they have to prepare, or obtain help in preparing, programs and projects which are relevant to their development goals and meet the donors' minimum standards of utility and efficiency. In the smaller and still predominantly traditional societies, the leadership groups may not yet have adequate knowledge of the specific kinds of policies, programs and projects that would be most conducive to accelerated economic growth. But they do know that, if they wish it, they have to undertake measures—whatever they may be—specifically designed for this purpose. Thus, many people in the leadership groups of Asian, African and Latin American countries no longer expect, as they did in the earlier years, that economic growth and social progress would result either automatically from national independence or effortlessly from massive foreign aid.

The situation today is different. The leadership groups, both traditional and modernizing, still have difficulty in agreeing on development objectives and assigning a high enough priority to them compared with the other competing national, group and individual goals. This is a political problem and, while the ability to solve it can be improved by the availability of external assistance, the will to do so cannot be imported. Moreover, an effort to generate the necessary consensus and commitment from outside—particularly by officials of the most powerful nation in the world—tends to exacerbate rather than to lessen the problem.

Its severity varies from country to country. But, even in the few nations that have so far demonstrated an effective commitment to economic growth and the capacity to adopt and carry out the necessary policies and programs, there is as yet insufficient evidence to determine whether these prerequisites for economic advancement have become sufficiently institutionalized to survive the passing of the particular ruler, regime, or other special condition that made them possible. In these circumstances, the provision of effective development assistance by the United States is more difficult and its effects more ambivalent than in the earlier period. Skillful American support can strengthen those portions of the leadership groups that are seeking an effective consensus for development objectives, as has been the case in several countries during the mid-1960s. U.S. advice and financial assistance can also contribute to the formulation and implementation of the specific policies and programs required to achieve such goals. But, there is danger that an overly directive U.S. effort may be counterproductive not only for the recipient country but also for the United States.

There is an inherent difficulty in a development assistance relationship between the wealthiest, most powerful, and most achievement-driven society on the planet and new or newly awakened nations. Each recipient country is struggling in its own way to evolve a minimum sense of cultural identity and consensus on national purpose amid the incompatible modern and traditional elements of which it is composed and the conflicting interests and goals pursued by its various leadership groups. Such nations naturally resent being pressured by outsiders, even for their own good, and especially when the foreigners seeking to influence them are so much richer, more powerful, and more successful in the activities involved than they are. This always latent resentment becomes manifest if the pressure applied by the Americans is too overt, strong, or unskillful, regardless of how well-intentioned it may be. When it does, the recipient country carries out the advice given only half-heartedly or resorts to subterfuges, often blaming the United States for the subsequent failures.

In this way, the relationship between the United States and the recipient countries is embittered and their mutual purpose in promoting development is frustrated. Or, less likely today after the lesson of Vietnam but still within the range of the possible for the future, the consequence may be the unintended assumption by the U.S. government of more and more of the military, political and economic responsibilities of sovereign authority in the recipient country.[1] In the last few years, instances of resentment and other counterproductive effects can be found even in countries that have demonstrated the greatest capability for managing their own affairs and which, therefore, might have been less susceptible to such reactions.

These effects have not, however, been the result of unsound U.S. advice. Indeed, in the 1960s, American advice at the *macro* level of broad devel-

[1] For footnote by Arnold S. Zander see page 26.

opment strategy—that is, the allocation of investment among sectors, particularly for agriculture and education; fiscal and monetary policies; liberalization and incentive measures to stimulate private sector development and private foreign investment; etc.—has generally been excellent, reflecting steady improvement in understanding the economic growth process *per se*. Nonetheless, economic growth is not synonymous with political modernization and sociocultural change. It does not automatically bring about these other constituents of the highly complex phenomena subsumed under the misleadingly simple term "development." Nor, conversely, can a high rate of economic growth be sustained for very long without related political and sociocultural changes. Most U.S. officials—as well as many development experts—tend in operational practice, if not always in reflective discourse, to equate economic growth with development. This has meant that, in contrast to the clarity of their understanding of economic problems, they have often failed to grasp the importance of the modernization of political and social institutions, the inculcation of new attitudes and skills, and the adaptation of North American and West European agricultural and industrial technologies to the quite different cultural and physical conditions of Asian, African and Latin American countries.[2]

The consequences of this major disparity in understanding the other aspects of sociocultural change as compared with economic growth can be most clearly seen in that portion of the U.S. foreign aid effort consisting of technical assistance projects. In both the country missions and the Washington headquarters of the U.S. Agency for International Development (AID) and its predecessors, a substantial majority of the professional personnel is engaged in initiating, designing, negotiating, and staffing such projects, and they tend to be the most active and insistent American officials in pressing the recipient countries to undertake them. Moreover, lacking adequate knowledge of the noneconomic aspects of the development process, they have been prone to excessive enthusiasm for changing fashions in development panaceas. U.S. assistance for community development, public administration, economic planning, educational investment, agricultural extension services, the new seeds, etc.—all necessary components of an effective development strategy in most countries —has at one or another time been individually proclaimed to be the critical means to rapid and substantial progress. During the past two decades, these tendencies have contributed to the failure of many technical assistance and related investment projects to produce results of sufficient magnitude and long enough duration to justify their costs. Once again, the consequences have been frustration, disappointment and exasperation on both sides of the development assistance relationship.

It should also be stressed, however, that in the course of the 1960s,

[2] For footnote by Robert E. Asher see page 26.

substantial progress has been made in increasing the effectiveness of U.S. foreign aid. The notable improvements in AID's advice on economic growth policies have already been mentioned. Another major forward step has been AID's increasing emphasis on "self help" by the recipient countries. These and other advances in the U.S. foreign aid effort should now be followed by further adaptations that reflect the changes that have to be made in the development assistance relationship in consequence of the development progress achieved in recent years. In general terms, the necessary next step is to carry out the full implications of the self-help criterion. So far, it has been applied to the policies and activities of the recipient countries. But, to be fully effective, the logic of self help must also govern the behavior of the donor countries, particularly of the United States. It means not simply American insistence that, as a condition for obtaining U.S. aid, the recipient countries must allocate more of their own resources to development purposes and follow policies more conducive to economic growth. Equally important, self help also implies that the initiatives and decisions countries take about how to use their resources for development must be in the deepest sense their own, not those of Americans.

Thus, the major change that has to be made is to transfer resources and skills to the recipient countries in ways that more effectively evoke and sustain their own initiative and self responsibility. This means that, while continuing to provide sound advice to those leadership groups committed to development, the inhibiting effects of U.S. activism have to be substantially reduced, if not in all cases eliminated. Such a reconciliation is by no means easy, for American activism is not a superficial characteristic that can be quickly removed by adopting a new official policy. As already indicated, it has very deep roots in American culture; indeed, it is inseparable from the achievements and continued progress of American society itself. Hence, the U.S. foreign aid effort needs to be structured and administered in ways conducive to a more *reactive,* rather than *active,* posture on the part of the officials engaged in carrying it on.

Today, an increasingly popular prescription for easing this problem—as well as, it is believed, to obtain other benefits—is to multilateralize the provision of foreign aid.[3, 4] By this is meant transferring to international organizations the responsibility for allocating and dispensing all, or a substantial part, of the resources which the United States is willing to devote to development assistance. Certainly, sound policy advice, insistence on adequate performance standards, and direct involvement in proposing, designing and administering programs and projects are, at least initially, less resented and less inhibiting of self help and self responsibility when they come from an international agency, in which the recipient countries are

[3] For footnote by Joseph A. Beirne see page 26.

[4] For footnote by J. L. Locke see page 26.

also represented, than bilaterally from a large donor nation. For this reason, as explained below, we favor increased use of multilateral means. But, multilateralization is not a panacea nor could it be made the sole—or even the major—channel for U.S. foreign aid for some time to come.[5, 6, 7]

The first reason is that the national interests and world responsibilities of the United States require it to retain a substantial bilateral aid capability not only so that it can provide assistance rapidly in special situations but also because, when knowledgeably and skillfully applied, its influence for sound development objectives can be effective. Particularly for the latter reason, the United States needs to be able to participate with other donor nations and international agencies in aid-giving consortia, whose conditions for assistance and concerted advice to recipient countries it has been and should go on influencing in desirable ways.

The second reason is that the United States already supplies nearly half—in some cases even more—of the resources available to international financing and technical assistance organizations. Hence, additionally transferring to them all or the bulk of U.S. bilateral funds without corresponding increases in the contributions of other donors would seriously compromise the international character of these agencies—the very quality being sought.

Third, with the principal exceptions of the World Bank group (the International Bank for Reconstruction and Development, the International Development Association, and the International Finance Corporation) and the International Monetary Fund, the international financing and technical assistance agencies have not yet for the most part adequately demonstrated the capacity for exercising effective influence for sound development policies or even for allocating their resources on the basis of objective substantive criteria rather than of the expedient principle that every member is entitled to a "fair share." However, as explained below, we believe that the transfer of some additional U.S. bilateral funds to international organizations may be a useful means of strengthening their willingness and ability to overcome such deficiencies.

If complete or substantial multilateralization is not a practicable solution, the alternative is to build on the improvements already made in the U.S. bilateral aid effort so that it goes further toward meeting the new requirements for an effective development assistance relationship. In the pages that follow, we discuss briefly the main types of U.S. development assistance and AID's organization and procedures and suggest various ways in which they might be restructured and financed to accomplish this objective.[8]

---

[5] For footnote by Robert E. Asher see page 26.
[6] For footnote by Meyer Bernstein see page 27.
[7] For footnote by Eugene W. Burgess see page 27.
[8] For footnote by Solomon Barkin see page 27.

Development Loans

In financial terms, the largest category of development assistance provided by the United States consists of loans to purchase imported equipment and services for capital investment projects (called "project lending") and to pay for the imports needed to implement a comprehensive national or sectoral program (called "program lending"). During the last few years, three-quarters of project and program lending has been directed to seven countries (Brazil, Chile, Colombia, India, Indonesia, Pakistan, Turkey).

Development loans are intended to foster the achievement and maintenance of a rate of economic growth sufficiently in excess of the rate of population increase to raise per capita income significantly. These loans are not supposed to be used for emergency purposes, although, as in the case of Indonesia in recent years, it may not always be possible to distinguish sharply between developmental and emergency uses.

- Because the effects of development assistance are manifested only over the long term and many recipient countries are already overburdened with external debt, U.S. development lending has been and *we recommend should continue to be on concessionary terms, involving low—preferably nominal—interest rates, very long maturities, and initial grace periods of at least a decade before debt servicing begins.*

The concentration of development loans on seven recipients has been in part necessitated by the scarcity of funds appropriated to AID, and in part reflects the conviction of U.S. officials that these countries have the best prospects for rapid and substantial development and are politically important to the United States. We can only deplore the first reason.

- *We recommend that greater and more assured resources be made available to the U.S. foreign aid agency to help finance sound development strategies in a larger number of countries.*

With respect to the second reason, however, we are concerned that the assessment of favorable development prospects tends to be based too narrowly on size or current performance. While other criteria of development progress are included in AID's decision making, their role is usually nominal owing to the difficulty, if not the impossibility, of quantitatively measuring them and to the tendency to disregard the interdependencies among economic growth, political modernization, and sociocultural change.

• Therefore, *we urge that, in the allocation of U.S. development assistance, a determined effort be made to base it on a broader and longer-term conception of the nature of the development process.*

This means paying greater attention to countries whose economic systems may not be as large, diversified or advanced as those of the presently favored seven but which are also beginning to manifest growing willingness and ability to accord development (in the fullest sense of the term) a high enough priority and to adopt policies conducive to achieving it. For, in the last analysis, *sustained* development progress results only from institutionalization of the necessary motivations, attitudes and skills and not from concentrating available foreign aid resources on helping a few selected countries to achieve some target rate of economic growth. There have been too many countries hailed as examples of notable economic performance whose satisfactory rates of growth have proved to be temporary.

In recent years, program lending has been increasing while loans to finance particular capital investment projects (for example, roads, bridges, dams and irrigation facilities, school construction, etc.) have been declining as proportions of total American development assistance. In addition to its direct benefits in financing imports, program lending is believed to provide a favorable opportunity for U.S. officials to persuade the recipient countries to adopt economic policies more conducive to growth. As noted in the preceding section, U.S. influence has in fact been more effectively used in the last few years to induce recipient countries to follow sound development strategies. But, the opportunity to do so made possible by program lending also increases the danger that excessively active and directive American initiatives in the policy making of the recipient countries will contribute to the counterproductive tendency described above.

• To lessen this tendency, *we recommend that the practice of providing U.S. development lending through consortia including other donor nations and the World Bank group be continued and expanded to the maximum possible extent, and that greater use be made of the international financing institutions as agents for allocating and administering U.S. foreign aid funds.*

Consortia of donors are already operating for several countries, and this practice should be extended to all of the larger recipients. Although a consortium may appear to be a "ganging up" of wealthy donors on a poor recipient, this has not been the case in practice. In fact, the advice given to recipient countries by a group of donors is as acceptable as, and sometimes more acceptable than, that provided directly by the United States. A consortium usually has the additional advantage of increasing and making more calculable the total aid available to them.

Further, a continuing authorization should be given to the U.S. foreign aid agency permitting it, at discretion, to transfer up to one-third of its development assistance funds to appropriate international institutions. To date, only the World Bank group has been following sufficiently objective criteria and has been adequately staffed to influence the recipient countries effectively toward sound development objectives and policies.[9] Accordingly, we favor transferring a significant amount of U.S. development aid funds to the World Bank group—which means largely to the International Development Association (IDA)—in addition to the U.S. contributions for the periodic replenishments of IDA's regular funds.

- In this connection, *we urge that the overdue U.S. contribution to the current IDA replenishment be appropriated as rapidly as possible.*

With respect to the other international financing agencies—notably the regional development banks for Latin America and Central America and those not yet fully in operation for Asia and Africa—we believe that the prospect of obtaining such additional American contributions should be used as a means for inducing and helping them to increase the size and improve the professional and managerial qualifications of their staffs, and to make their decision criteria and operating procedures more substantive and objective.

U.S. funds, in addition to the regular American contributions, that are transferred to IDA—and hopefully soon to the regional development banks—would, as explained above, significantly increase the share of their resources derived from the United States, unless other donors increased their contributions, which they should in any event be urged to do. However, this tendency to impair their international character could be partly restrained in two ways. First, such transfers would be limited to not more than a third of the funds available to the U.S. foreign aid agency for development lending. Second, the U.S. capital so obtained could be segregated in a special fund, as has been the case with the Social Progress Trust Fund of the Inter-American Development Bank. Moreover, use of a special fund account would make possible the tying of this additional aid to procurement in the United States, for as long as the U.S. balance-of-payments deficit continued to be of international concern, without seriously breaching the World Bank's principle of requiring its own funds to be used for procurement on the basis of competitive international bidding.

The ability of the U.S. foreign aid agency to carry out a broader and longer-term conception of the development process is severely handicapped by the uncertainties inherent in its dependence on annual authorizations and appropriations. We believe that an essential prerequisite for

[9] For footnote by Robert E. Asher see page 28.

a more effective U.S. development assistance effort is continuity of authorization and greater calculability of funding. In our judgment, the best way to achieve this result would be to revive the Development Loan Fund concept as an integral part of the U.S. foreign aid agency, preferably with an indefinitely continuing authorization or, if not, with authority to operate for a specified time period of not less than five years. The necessary funds can be provided in three ways:

- *Our strong preference would be for an authorization empowering the U.S. foreign aid agency to call upon the Treasury Department to issue appropriate U.S. government securities to a substantial total —say $7 billion—during a five-year period.*

- *Our second choice would be an arrangement similar to that of the Export-Import Bank, under which the foreign aid agency would be empowered to issue the same amount of its own securities, guaranteed by the U.S. government, during a five-year period.*

The disadvantage of this arrangement compared to the first is that specific appropriations would be required to provide funds for the payment of interest. The third and least desirable method is the existing arrangement requiring annual appropriations to fund development lending.

Supporting Assistance

The second type of foreign aid is supporting assistance—that is, the provision of economic resources to enable countries to deal with the nonmilitary aspects of emergency problems, such as external aggression and internal subversion, post-emergency reconstruction, natural disasters, etc. In the last few years, almost all U.S. supporting assistance has been going to five countries—the Dominican Republic, Laos, South Korea, South Vietnam, and Thailand. Supporting assistance is not supposed to serve long-term developmental purposes but, again, the distinction is not sharp, and such aid has fostered development, as in the case of South Korea. Nonetheless, because it primarily helps to restore or maintain economic capabilities, rather than to increase them, and the recipient countries involved are usually too weak or too poor to assume substantial repayment obligations even on concessionary terms, supporting assistance should continue to be on a grant basis.

Essentially, this form of foreign aid is provided for immediate or short-term foreign policy reasons rather than for long-term developmental purposes. As such, the effectiveness of supporting assistance is not unduly impaired by dependence upon annual appropriations. Therefore, even if, as recommended above, the U.S. foreign aid agency is authorized to obtain funds for development lending for five-year periods, we believe that no compelling reason exists for abandoning annual appropriations in the case of supporting assistance. Indeed, since an unconscious tendency inevitably operates for such subsidies to persist indefinitely, it may be desirable to subject them to an annual review by the Congress.

Food Aid [10]

That the United States should help feed those stricken by famine is universally acknowledged. For reasons both of national interest and of humanitarian concern, Americans will want to continue providing emergency relief, whenever needed, on a generous scale.

The establishment of a large food aid program in the 1950s was in part a response to these humanitarian motives, as well as to the American desire to encourage development abroad. But, the program was also a response to the accumulation in the United States of vast stocks of surplus agricultural commodities. The practice of using these resources at once to feed hungry people, foster their development, and relieve the burden of surpluses appealed to Americans not only for its humaneness but also for the practical mutuality of its benefits.

Over the past decade, much more food has moved abroad to recipient countries in an effort to help them accelerate their development than has been shipped for humanitarian emergency purposes. The impact of this food on individual lives has sometimes been dramatic. Now, however, the changing environment in which development is proceeding calls for a careful reassessment of the relationship of food aid to agricultural growth in recipient countries.

For one thing, surpluses no longer overhang the American farmer; future food aid will directly increase U.S. government expenditures instead of merely digging into surplus stocks. Moreover, and more important, there is now underway a profound change in the prospects for agricultural development which calls for new emphases and new cautions in U.S. food aid. In 1954 when P.L. 480 was passed, the population-food outlook seemed dismal indeed. The population aspect of the problem still is far from resolved, but new elements of hope have begun to emerge affecting the food aspect. The most significant is the development through intensive adaptive research of new responsive varieties of wheat and rice suitable for such countries as India, Indonesia, Mexico, and the Philippines. Another auspicious development is the increasing realization, supported by considerable empirical research, that—despite the persistence of traditional attitudes—farmers *do* respond to price differentials if the economic conditions facing them are favorable and they are able to obtain a substantial share of the benefits of their increased productivity.

These two changes combine to have major implications for the pros-

[10] For footnote by James G. Patton see page 28.

pects for agricultural development over the next decade. Only when farmers *can afford* to produce more, can and will they supply the growing food requirements of their nations. The new seed varieties require increased purchases by farmers of fertilizers, pesticides, and other inputs. They will necessitate new investments in irrigation, water control, and other types of infrastructure. This means that prices must be sufficiently remunerative and stable so that farmers can afford to run the risk of producing for the market in a modernizing economy. In the past, however, the availability of U.S. food aid has frequently enabled recipient governments to temporize about undertaking new agricultural incentive policies and to hold down food prices for the urban population. In consequence, prices have often been too low to enable farmers to meet the financial obligations incurred for fertilizer and water use. Thus, the very food aid supposed to help a nation develop can stifle the initiative of its farmers, the only source from which its new growth in agriculture can come.[11]

This situation imposes a heavy responsibility on those who administer the U.S. food aid program. Because the new developments in agriculture are so promising, it is now more important than ever to ensure that American food aid does not drive down agricultural prices in the recipient countries and prevent their farmers from responding to rising food needs. The argument that food aid must always be good because it increases total resources requires modification. Instead, food aid has to be used selectively if it is to further agricultural development. There are, for example, some cases where worthwhile "food-for-work" programs have been devised. Research reveals another relevant area where food aid has been successful—that of market stabilization. With the assurance of food aid stocks to fall back on, governments can risk the food supply and price fluctuations inherent in the transition from a scarcity-oriented direct control policy to a new market-oriented policy with emphasis on incentives and market stabilization. Other uses of food aid are, however, more problematical.

- Hence, *we recommend that there should be a periodic reexamination of the food aid program to make certain that it is not inhibiting farmer initiative or postponing adoption by the recipient governments of modern agricultural development policies.*[12, 13]

Furthermore, under recent Congressional authorizations for P.L. 480, the level of food aid will begin to decline and this trend ought to be con-

[11] For footnote by Isador Lubin see page 28.

[12] For footnote by Robert E. Asher see page 29.

[13] For footnote by J. L. Locke see page 29.

tinued as the new possibilities for agricultural progress in the recipient countries are realized.

We believe that the level, country allocations, and terms and conditions of food aid should be determined by the U.S. foreign aid agency, although operating responsibilities should continue to be delegated to the Department of Agriculture.[14] Having overriding responsibility for the welfare of the U.S. farmer, the Department of Agriculture should not be put in a position where it is required to make policy decisions that might conflict with its primary obligation.

Technical Assistance [15] and Development Research [16]

Nothing is more important than to keep open and expand the channels for adapting and transferring technical knowledge and skills from the United States to the transitional societies of Asia, Africa and Latin America.

Technical assistance has been at once the least controversial part of the U.S. foreign aid effort and the most difficult to administer effectively. By far the largest group of professional personnel hired by or under contract to AID are technical assistance experts. Although no systematic, comprehensive evaluation has yet been made of the effectiveness of their work, such evidence as is available appears to indicate that much technical assistance has been unsuited to the particular conditions in which it was applied and, in consequence, its effects have been transitory. These deficiencies are all the more regrettable in view of the fact that the benefits of successful technical assistance projects are greater compared with their costs than those of other forms of aid.

The successful transfer of technical knowledge and skills requires much more than the techniques themselves. The *Report of the President's Science Advisory Committee on The World Food Problem,* issued in May 1967, put the matter in perspective when it stated:

> Through some almost inexplicable twist in communications, there is a persistent impression that agricultural science already has the answers to problems of increasing food production [overseas]. This misunderstanding has given rise to the 'know-how-show-how' fallacy, the idea that practices responsible for our own outstanding agricultural success can be applied with equal effectiveness in far different climes and cultures. This view is as erroneous as it is entrenched. . . . *The ability to find answers* through basic and adaptive research and through technological innovation within a country is distinctly different from *already knowing the answers.*

As in agriculture, so in all the other fields of technical assistance, not

[14] For footnote by J. L. Locke see page 29.

[15] For footnote by Walter H. Wheeler, Jr., see page 29.

[16] For footnote by James G. Patton see page 30.

only are "basic and adaptive research" needed, but it is also essential to have systematic empirical evaluation of past and ongoing activities if significant and enduring transfers are to occur on a substantial scale.

The shortcomings of the technical assistance part of the U.S. foreign aid effort reinforce, and are in turn exacerbated by, the counterproductive effects in the recipient countries of excessive U.S. activism. In our judgment, a radical change in the basic approach and organization of U.S. technical assistance is needed. Essentially, two objectives must be accomplished: substantial improvement in understanding the complexities of sociocultural change in Asia, Africa and Latin America on the part of those responsible for allocating technical assistance funds; and reorganization of the administration of the U.S. technical assistance effort so as to reduce the role of U.S. government officials and stimulate the initiative and self responsibility of the recipient countries. We believe that these objectives can best be achieved by separating technical assistance from the other types of U.S. aid and removing direct responsibility for it from the U.S. government.

- *Accordingly, we recommend the establishment of an autonomous Technical Assistance and Development Research Institute to be located in Washington and financed jointly by the U.S. government and by contributions from private organizations, especially foundations.*

The Institute would have four major functions: [17]

a) To act as a facilitating and referral agency for those overseas seeking technical assistance from appropriate institutions and individuals in the United States;

b) To encourage the formation of special organizations in the United States to provide technical assistance under contract to recipient countries; [18]

c) To conduct "in house" research and to make grants for research projects to be undertaken by universities and private research organizations, nonprofit and profit, both in the United States and in the recipient countries; and

d) To finance technical assistance at the request of the governments and appropriate private institutions of the recipient countries.

As a general rule, we believe that the great majority of technical assistance experts who provide advice, training, instruction and demonstration—as distinct from conducting surveys—should be the "hired hands" of those

[17] For footnote by James G. Maddox see page 30.
[18] For footnote by Meyer Bernstein see page 31.

utilizing their services. This means that as much technical assistance as possible should be provided under straightforward commercial contracts between American organizations and recipient governments and private institutions. Hence, the Institute should consider itself primarily a facilitating and referral agency for those from overseas who desire to obtain technical assistance. On the initiative and at the request of governments and other appropriate organizations in the recipient countries, the Institute would help clarify and formulate the need for technical assistance, would advise on the sources from which the requisite knowledge and skills could be obtained, and would facilitate contacts between those seeking and those capable of furnishing the services involved. *But, the Institute should not itself provide the services requested.* The exception to this principle would be making surveys to determine the need for and the methods of undertaking requested technical assistance projects. To assure objectivity and to provide the information needed for its own decision making, such surveys should be done by the Institute itself or under contract to it.

The second major function of the Institute would be to encourage the formation and maintenance of special kinds of organizations in the United States to supply technical assistance services abroad. As yet, only a few organizations specifically intended to provide some or all of the services required exist in the United States. A most useful function of the Institute would be to stimulate and assist the establishment of additional organizations or companies either as independent profit or nonprofit entities or as affiliates of universities on the model of the Harvard Development Advisory Service. By doing so, the Institute would be helping to create a vitally needed career environment for people with the professional training and the motivation to spend their lives working in transitional societies as project technicians, instructors and advisors.

The sponsorship and financing of research on the development process and on technological adaptation should be another major function of the Institute. As organizations conducting operations, AID and its predecessor agencies have never been able to devote adequate attention and resources to social science and technological research nor, with a few notable and recent exceptions (e.g., the new wheat and rice varieties), have they been able to draw upon and utilize effectively such research done by others. As an autonomous, professionally staffed organization without major operating responsibilities, the Institute would be in a much better position to undertake and sponsor the kind of research needed to increase understanding of how new attitudes and skills can be effectively and durably inculcated in transitional societies, and how the technologies of North America and Western Europe can be successfully adapted to the different sociocultural and physical environments of Asia, Africa and Latin America. Such understanding is essential for improving the effectiveness of government officials and of experts concerned with development both in the United States and in the recipient countries.

The Institute should have its own "in house" capability to conduct necessary social science and technological research, as well as the power to make grants for these purposes to nonprofit and profit institutions not only in the United States but also in the recipient countries. The Institute needs an "in house" research capability to provide the data and insights necessary for its own operations and to attract to its staff the kind of first-rate, well-trained professionals in the social sciences and technologies it will require if it is to carry out its responsibilities effectively. Stimulating the interest in research and the ability to undertake it of the recipient countries would also be among the Institute's most important contributions.[19] The Institute should disseminate the results of its own and others' relevant research both directly to the U.S. government agencies concerned with development and through appropriate publications, whose distribution in the recipient countries it should subsidize, if necessary.

The final function of the Institute would be to finance technical assistance projects at the request of governments and appropriate organizations in the recipient countries if other sources of financing are not available. The Institute's financial assistance should be provided on either a grant or a loan basis depending on the nature of the project and the repayment capabilities of the recipient country. To the maximum possible extent, the funds should be made available to the government agencies and other organizations of the recipient countries so that they themselves can hire the American experts required. However, there may be a limited number of situations—for example, a project covering several countries—in which the Institute would directly contract for the needed technical services. Requests to AID and other U.S. government agencies for technical assistance should be referred to the Institute for judgment as well as finance.

The Institute should be chartered by act of Congress as an autonomous nonprofit tax-free institution, like the National Academy of Sciences, for an initial period of 10 years, after which its charter could be renewed, if desirable. To facilitate the use of professionals from private institutions for a year or two and to attract high calibre staff, the Institute should not be subject to Civil Service regulations. Its negotiating, contracting and auditing procedures should be modelled on those of the large private foundations and not of AID. The Institute's directors would be appointed by the President for staggered terms, and should include the administrator of the U.S. foreign aid agency and other appropriate government officials; persons from foundations, corporations and other private contributors; and professionals from the various social science and technological disciplines pertinent to the development process. Directors in the latter category should constitute a majority. The board of directors would

[19] For footnote by William H. Yaw see page 31.

40-333 O - 70 - pt. 3 - 8

appoint the Institute's executive officers, approve the annual budget, review proposed grants and loans, and determine general policies.

With respect to financing, it is clear that the bulk of the Institute's resources would have to be provided by the U.S. government.

• *The preferred method of financing the Institute's activities would be for the U.S. government to endow it with sufficient U.S. government securities, held in trust for it by the Treasury Department, to yield an income of approximately $300 million a year.*

Our second preference would be a substantial U.S. government contribution—say $1 billion—to cover the Institute's expenditures for several years; and such contributions would be repeated every few years, as is done for IDA and other non-U.S. government institutions, both international and domestic. The least satisfactory arrangement would be to make the Institute dependent on annual appropriations.[20]

Aid For Private Enterprise Development[21, 22]

We believe that a more successful effort to foster greater U.S. private investment in the development of the private sectors in Asian, African and Latin American nations can be achieved only by means of a corporation actively managed by representatives of U.S. private enterprise. Efforts in the past to stimulate private sector development have met with limited success in part because, as official arms of the U.S. government, AID and its predecessor agencies have been dealing primarily with other governments and perforce have been more concerned with the development of their public sectors. One consequence of this limited ability to encourage investment in the private sector and to secure sufficient personnel with extensive and high-level business experience has been that, except for commodity sales and guarantees, American business tends to regard involvement with the U.S. foreign aid program as too often inefficient and generally unsatisfactory.

• *Our decided preference, therefore, would be to charter by act of Congress a Private Enterprise Development Corporation which would be wholly owned by private investors but with a minority of the directors appointed by the President,*

among whom should be the Administrator of AID and other appropriate government officials.

---

[20] For footnote by A. M. Lederer see page 31.

[21] For footnote by Otis Brubaker see page 32.

[22] For footnote by Alphonse de Rosso see page 32.

The Corporation would assume the function of carrying on the existing guaranty, Cooley loan, and investment survey programs. It should receive a substantial initial loan from the U.S. government on liberal terms, as well as an undertaking by the U.S. government to guarantee the Corportation's public bond issues so as to assure the availability of additional resources when needed. Its major activity would be to make equity and loan investments in Asian, African and Latin American countries in new or expanded private sector projects undertaken and managed by U.S. private investors, by indigenous private investors, and by the two together. The Corporation's loan and equity investments should be entitled to the same guaranty coverage and premiums as those of other private investors. A full faith and credit guaranty of the United States should support the guaranties issued by the Corporation, with the latter serving as the administrator of this program and the conduit for payment of claims. The existing investment survey program should be continued, funded, if possible, from the guaranty premiums to the extent they exceed payments on claims or by a U.S. government contribution that would be sufficient for several years.

We recommend this wholly privately owned arrangement because it places private enterprise activities in the hands of the private community, freed from the delays and limitations imposed by U.S. government intra-agency clearances and interdepartmental reviews of individual loans and business risk guaranties, by Civil Service restrictions and salary scales, and by the existing cumbersome negotiating and contracting procedures. In addition, the establishment of the Corporation would place responsibility for stimulating private enterprise development in an organization whose exclusive purpose would be to deal with such matters, and where the attitude toward increased private investment, both indigenous and foreign, would be positive. A substantial additional benefit of a wholly private corporation would be that, unlike a government agency, it would be able to make equity investments and, therefore, would diminish the harmful tendency of many projects in the recipient countries to be light on equity and overburdened with debt.

If, despite the government guaranty, the risks inherent in Asian, African and Latin American countries deter the U.S. private community from investing in such a corporation, or if political or policy objections prevent the Congress from making funds available on liberal terms to a wholly private company, our second choice would be a COMSAT-type of arrangement, with the U.S. government holding up to 50 percent of the shares, and perhaps providing a 50 percent business risk guaranty on the shares acquired by American private investors. This form of corporation would enjoy many of the benefits of the wholly private institution, including a single purpose, a private industry salary scale, and exemption from other Civil Service requirements. However, it might be difficult to exempt it also from interdepartmental project reviews. Moreover, even if the U.S. government's participation in the Corporation were limited to a minority equity position, recipient countries might nevertheless object to its making substantial equity investments in their industrial, mining and other important sectors. This consideration, plus the greater U.S. government involvement, might in turn reduce the usefulness of the Corporation's activities in the recipient countries, as well as its ability to attract experienced talent from the private community. If the COMSAT approach is adopted, therefore, we urge that a formula be devised at the outset looking toward the transfer of the U.S. government's shares to private investors when the Corporation reaches a point of profitability and, therefore, is more attractive as a commercial investment.

As a third possibility, although we believe it to be the least desirable, the Corporation might, at the outset, be wholly government-owned and wholly government-financed. It would still obtain the benefits of single purpose. However, in these circumstances, an exemption from Civil Service requirements, and salaries comparable to those of the private community may be more difficult to secure. The existing cumbersome interdepartmental approval procedure for each individual project would probably be continued. Not only to avoid these limitations but also to obtain the benefits of private management, we believe that, if this approach is adopted as a practical first step, it should be with the unmistakable purpose of moving as rapidly as possible to the COMSAT-type formula and then to complete private ownership.

To stress as we do the desirability of freeing the Corporation from time-consuming and burdensome reviewing and contracting procedures does not mean that it would or should be without supervision by appropriate branches of the U.S. government. The minority of directors appointed by and responsible to the President in the wholly private version that we prefer would be privy to all of the Corporation's activities and should certainly be charged with representing the public interest.[23] In addition, the relevant committees of the Congress would at any time be able to review the Corporation's operations and query its officers on its policies and procedures. Finally, the Corporation would be required to publish full reports on its operations. In these ways, the Corporation would be under continual public supervision without impairing its effectiveness.

Regardless of which of the three forms may be adopted, the Corporation should also be charged with the function of fostering private sector development in the recipient countries by means additional to increased U.S. private investment. This would consist essentially of stimulating private indigenous entrepreneurship through technical assistance, training programs, informational services, etc., as well as research into the nature

[23] For footnote by Otis Brubaker see page 32.

of the difficulties involved and how they might be overcome. The Corporation should receive periodic contributions from the U.S. government for this purpose.

While we believe each of the approaches suggested above would provide distinct advantages over the existing system insofar as private sector development is concerned, we are convinced that a full measure of success will not be achieved until the Corporation is both administered and owned by the private sector.[24]

Restructuring the U.S. Foreign Aid Effort

The changes we have suggested in the various types of foreign aid provided by the United States would go far toward transforming AID from a large institution extensively engaged in overseas operations into a much smaller organization primarily concerned with policy making and the allocation of funds, part of which would be administered by other agencies. The major structural alterations we propose are the shift of technical assistance and private enterprise development to autonomous institutions; and the transfer of up to a third of the funds available for development lending to the World Bank group and, when and as they qualify, to other international financing agencies. These structural modifications, and the analysis of the changing requirements for an effective development assistance relationship, on which they are based, have two further implications for AID's method of operating and organization.

The first relates to the practice of country programming, which is the major conceptual means of providing substantive content to the American desire to influence the development policies and plans of the recipient countries. A country program aims to present a comprehensive and detailed quantitative model of the economy concerned, but it usually contains considerably less information depending on the availability of data and the professional skills of the U.S. personnel involved. Based on it, U.S. aid officials decide upon the particular development policies, sectoral programs, and investment and technical assistance projects that each recipient country should have and the kinds and amount of U.S. and other external assistance that it should obtain for carrying them out. Country programming is certainly a necessary procedure for rationally allocating U.S. aid but, as generally practiced, it contains an important weakness and a serious potential danger. Paradoxically, the more that the former is overcome, the greater the latter will be.

The weakness of country programming reflects the practice of equating economic growth with development. Country programs tend, in consequence, to be mono-dimensional, focused on quantitative economic relationships and their projections, and do not take adequately into account

[24] For footnote by A. M. Lederer see page 32.

the other dimensions—political, social, cultural—that distinguish a real-life functioning economy from an econometric model. The potential danger is the growing temptation, as increased economic data become available and as country programs incorporate more and more of the non-economic factors significant in the development process, for U.S. officials to act upon their improved knowledge. At a certain point, which varies from country to country, the expanding range and greater detail of U.S. efforts to influence the recipients' policies and programs are bound to generate the counterproductive effects we described at the beginning of this statement. The danger from this source of excessive U.S. activism can be lessened, we believe, by deliberately limiting country programming to analysis of the broad development strategy and related general policies appropriate for each recipient country in the light of its past history; its existing social structure, cultural characteristics, and economic capabilities; and its political prospects for achieving and maintaining the consensus needed to adopt and carry out effective development measures. Country programming should serve as a multi-dimensional intellectual framework for making U.S. aid more relevant to the complexities of the development process, and not as a guide and stimulus to detailed economic and social engineering.

The second implication relates to AID's country missions, which are the main operating instruments for exercising American influence in the recipient countries. In close proximity to, if not always in continuous contact with, their counterparts in the recipient government ministries, the U.S. officials and technical assistance experts on the staffs of the missions naturally tend to be the most active and insistent of U.S. foreign aid personnel in pressing the countries to adopt the policies and programs they believe desirable. Hence, inhibiting the counterproductive effects of excessive American activism means, among other measures, reducing the size and responsibilities of the country missions—a step that would be made possible by the changes in the various forms of U.S. aid proposed above.

Although, in the last few years, some country missions have been abolished and others reduced in size, these developments have resulted primarily from the shortage of funds and the concentration of U.S. aid on the few countries believed to have the best economic growth prospects, and not from recognition of the changing requirements for an effective development assistance relationship. With the removal from AID of technical assistance, which employs the bulk of the agency's substantive personnel, the country missions would be *ipso facto* greatly reduced, and further cuts in their size could be made if country programming were limited to concern with broad development strategy and related policies. Indeed, if these and the other changes recommended above were to be adopted, it ought to be possible—and it certainly would be desirable—to limit the resident substantive staffs of U.S. missions in even the largest aid-receiving countries to a small number of first-rate economists, and to remedy the existing deficiency of other social science skills by adding to them a perceptive political scientist and a broadly trained sociologist or anthropologist.

For the same reasons, the staff of the Washington headquarters of AID could and should be considerably reduced. No technical assistance and private enterprise personnel would be needed, and the ancillary personnel concerned with contracting procedures and accounting and auditing, as well as the staffs of the country desks, functional divisions, and food aid program, could be cut substantially below their existing levels. The aim should be to staff AID/Washington and the country missions with a smaller number of more highly qualified people than the averages in these respects that obtain today. However, the need to maintain continuity until completion of existing projects and programming activities and to avoid the personal hardship and injustice of sudden dismissals will make a rapid reduction of AID's size inadvisable.

If our preferred recommendations for reorganizing and funding the various forms of U.S. assistance are adopted, it would mean that the Congress would not have to authorize foreign aid anew each year and appropriate all of the money required for it, as must now be done. The present procedure is an abuse of the legislative process. It is unrealistic, we believe, for already burdened legislators to be expected to review seriously a whole complex of foreign aid activities each year and, moreover, to do so in a way that makes them appear to sit in judgment on the foreign and domestic policies of a host of sovereign nations. Even with the best will in the world, the present procedure invites a kind of rhetorical activism from the Congress that has encumbered the U.S. foreign aid effort with a multitude of often unrelated legislative restrictions, and that can and sometimes does seriously impede the conduct of effective diplomacy, as well as defeating the long-range development purposes that most of U.S. aid is intended to serve.

The restructuring of the U.S. foreign aid effort we propose will permit the Congress to exercise a more effective control on a function by function basis. Although the main types of U.S. development assistance would be financed for periods of several years, their replenishments could be so scheduled that the Congress would have the opportunity periodically to make a thorough review of each separately. This would permit a much more substantive and rational reexamination by the Congress of the constituent parts of the U.S. foreign aid effort than now occurs.

We believe that the removal of technical assistance and private enterprise responsibilities from AID would not seriously impair coordination of the different types of aid. Located as they must be in Washington, both the Technical Assistance and Development Research Institute and the Private Enterprise Development Corporation would be able to maintain continuous liaison at the operating level with AID and other U.S. government agencies concerned with development. The presence on their boards of directors of the administrator of AID would provide a formal channel through which inconsistencies in policies could be resolved and disagreements settled through top-level negotiations. The fact that sectoral programs and capital investment projects financed by AID would often require a technical assistance component and, conversely, that technical services financed by the Institute would often make some capital investment desirable would help to produce cooperation between the two organizations without impairing the effectiveness of the former or the independence of the latter.

However, there are three other respects in which better coordination is needed and would be feasible under the arrangements we propose. These are: (a) between the U.S. foreign aid effort and the foreign policy and international security interests of the United States; (b) between foreign aid and the other aspects of U.S. foreign economic policy (e.g., trade policy, investment policy, international monetary policy, etc.); and (c) between U.S. development assistance efforts and those of other nations and of international organizations. To bring about these different kinds of coordination, we believe that it would be desirable to revive the position of Under Secretary of State for Economic Affairs, with responsibility for supervising all aspects of U.S. foreign economic policy, including foreign aid; for handling the relationships between U.S. foreign economic activities and the international political and security interests of the United States; and for maintaining effective liaison with the development assistance activities of other donor countries and international agencies.

With AID substantially reduced in size and largely transformed into a policy making and funding agency, further steps could be taken in the process, initiated early in the 1960s, of better integrating it with the Department of State. By involving foreign aid officials and regular foreign service officers in Washington and the country missions closely with one another on a day-to-day basis, the former would learn to relate their own work more realistically to international constraints, and the latter would benefit from the much deeper understanding of the complexities of the development process and the more up-to-date social science training that a properly staffed AID would have.

Finally, the changes in the U.S. foreign aid effort we propose take into account an unfortunate fact of life concerning the prospects for continued Congressional support of this activity. It has become clear in the course of the 1960s that the Congress is willing to appropriate adequate funds for foreign aid only in years when the President is willing personally to apply direct and strong pressure for this objective. Granted the urgency of other international problems confronting the United States and the mounting pressures of domestic difficulties, will the new Administration be any more willing or able than the old Administration to place foreign aid sufficiently high on the list of important issues for the President to use his personal prestige and influence on its behalf? If not, in the absence of such Presidential leadership, there is no prospect of a substantial increase in appropriations nor may it even be possible to arrest the downward trend of the past three years in the event that the existing foreign aid arrangements are unchanged. The first year of a new Administration, when both the President's influence with the Congress and the latter's good will toward him are at their greatest, provides the best—in this case, perhaps the only remaining—chance of restructuring the U.S. foreign aid effort in a way that will ensure continuity, adequate funding, and greater responsiveness to the changing needs of an effective development assistance relationship with the recipient countries.

In sum, our recommendations are designed to evoke initiatives from those in the transitional societies whom the United States is trying to help and to inhibit the temptation to press American initiatives on them. They are intended to enable Americans to participate in the challenging work of development assistance in ways that restrain well-motivated impulses to do for others rather than to help others do for themselves. Our proposals, we believe, will make the U.S. foreign aid effort more relevant to the changing requirements, at home and abroad, of the 1970s.[25]

[25] For footnote by Robert E. Asher see page 32.

Footnotes

[1] *Arnold S. Zander:* It seems to me this reference to Vietnam, this brief judgment, is an unfortunate gratuity which adds nothing to the disquisition but rather infers that our involvement in Vietnam sprang from something other than our commitment to help resist attempted Communist subversion and conquest.

[2] *Robert E. Asher:* I prefer to believe that they have been unable to offer equally relevant advice on these aspects of the development process, not that they have failed to grasp their importance.

[3] *Joseph A. Beirne:* I do not sympathize with the suggestions made to multinationalize certain elements of the aid program as a means of reducing "the inhibiting effects of U.S. activism." The political realities of this world have always dictated that the leading nations either exercise power or lose it. I refuse to subscribe to the neo-isolationist attitude that there is something inherently evil in attaching a U.S. label to overseas development assistance programs rather than masking our efforts under the guise of a variety of international agencies which, for the most part, are just as inefficient and bureaucratic, if not more so, as our own. In fact, most of the other leading nations of the world, some of which are opposed to our democratic political philosophy, are in effect continuing multivaried developmental activities under their own flag.

The only way we can avoid the concept that we are the big brother to the world's less fortunate nations, or as some would prefer, the world's policeman, is always to insist—unlike the colonial and imperial powers, both past and present—that we work in those countries where we have been genuinely invited from a sense of mutual respect and friendship. If both our public and our private institutions working in the overseas developmental fields can demonstrate that their services rendered are based upon the legitimate desires of the host country, we need not fear a misunderstanding of our motives.

[4] *J. L. Locke:* I am heartily in accord with this program, provided that the ultimate control is based upon the financial participation, in the same way that control of a corporation is based on the ownership of the stock. We have seen too many programs mismanaged locally in the developing countries. The same thing, in my opinion, applies to the World Bank group and IDA, when foreign participation is present.

[5] *Robert E. Asher:* I agree that multilateralization is no panacea, but I believe multilateral agencies can and should become the major channel within a five-seven year period.

[6] *Meyer Bernstein* (I. W. Abel concurs with this footnote): While I agree that there may be some advantages in the multilateralization of foreign aid, the reason given in the first part of the report is not one of them. Developing countries can and in fact have become just as incensed over advice offered by, say, the IMF, as by the AID. Besides, even international agencies must be staffed by experts who are nationals of one country or another. And certainly a fair share will be Americans.

An objective balance must be established between assistance administered multilaterally and assistance controlled by the U.S.A. Multilateralization *per se* should not be the goal.

[7] *Eugene W. Burgess:* I favor more use by the United States of international agencies in channeling "money" into the underdeveloped countries. However, the "make-up" of the various commissions and study groups that these agencies put into the field poses real problems. Where social and economic assistance is involved, members of a study team coming from widely different cultural environments usually spend more time trying to compose their own differences than they do studying the environment in which the aid funds are to be spent. These multinational groups also present difficult political problems to the aid-receiving country. Solid management should go along with foreign aid, and appropriate staffing of these international agencies at headquarters and in the field should be a condition of our using them as channels for our financial assistance.

[8] *Solomon Barkin:* I join the supporters of the Statement in their endorsement of more liberal appropriations for foreign aid.

My dissent is directed at those sections which recommend the substantial transfer of American governmental responsibility for the allocation and administration of funds and technical assistance to international agencies and for technical assistance and the stimulation of private enterprise in developing countries to nongovernmental bodies. Congress is unlikely to be more generous because of the new structures, and the recipient countries will be no less aware of American influence and power if this country acts through international agencies. This nation is already shouldering too many political responsibilities thrust upon it by the initiative and behavior of private capital and enterprise abroad for it deliberately to arrange and finance for the enlargement of this area of initiative through a semi-governmental body. We must keep in mind our government's difficulties in controlling American foreign investments in advanced countries to effect a better balance in international payments before we embark with official support on this adventure in developing countries.

The Statement recognizes the great advances made in American aid policy and practice and the expertise acquired by our practitioners and policy makers. No reason is presented why it cannot be expected that considerations of a socio-economic nature or the needs for the modernization of political structures might not be absorbed within the administrative framework. Certainly, such a broadening of perspective can be more significantly achieved within our governmental structure than outside of it. Nevertheless, the Statement follows the current fashion of endowing greater competence and effectiveness to private bodies financed by direct taxes, tax exemptions (foundations), and high profits (from government contracts or oligopolistic pricing practices). No evidence is presented in defense of this position. Certainly, there is no effort made to consider the dangers and limitations of this course of action. Might not these proposed agencies follow a narrower approach as they will be more market-oriented? Whatever merits there may be in the current trend of preference respecting domestic matters, the area of foreign policy is particularly sensitive and such transfers of authority should not be proposed lightly. We must be further aware of the intense concentration of economic, political and social private power within this country effected during the last decade through military contracts, investments abroad, and conglomerates and be wary of abetting this process through public stimulation. Do the drafters of this Statement really believe in the power of the regulators to control or direct the regulated?

The Statement concedes that only one international body currently matches the competence of American officialdom. The other agencies will have to be upgraded and we shall have to induce them to abandon their logrolling practices. American funds will have to become the primary leverage for this purpose.

The Statement does not appraise the value of further experience with governmental programs in improving American know-how and expertise in this field. The sense of despair about the possibilities of remedying American government practice which is the recurrent mood of the document is hardly the reason for abandoning the organization. Our nation and others will in the long run benefit from improvements in our administrative practices and policies both in this and other fields. The main weight of reform should be addressed to internal changes rather than to formal transfers to outside bodies over which the public will have less control. The price of overzealous promotion of private interest in foreign countries may well be higher than that paid for the directive promotion of public generosity.

Few countries stress the distinction we draw between the actions of the private and public sectors and fewer recognize it as respects foreign groups. It is certainly realistic, therefore, as relates to developing countries, that we subordinate this issue.

The Statement overlooks the simple judgment that "givers" usually exert influence, however shrewdly it is exercised, and the receivers tend to resent the donors however pure or well camouflaged their appearance may be.

[9] *Robert.E. Asher:* Objectivity, like beauty, may lie in the eye of the beholder. I am not prepared to subscribe to so negative a view of the policies and staffs of other multilateral agencies.

[10] *James G. Patton* (Reuben Johnson concurs with this footnote): The United States should take the leadership in creating a worldwide raw materials reserve to stabilize agricultural and other raw material prices. Providing stable prices could encourage a selective increase in food, fiber and other raw material production which may now be needed or may be needed in the future. Monoculture is seldom good for the vast majority of people on the land in the developing countries.

Orderly marketing and stable world prices can go far to stabilize the dollar and the pound sterling. I would much prefer paper gold based upon a wide range of commodity production and price indexes than to try to patch up the gold and sterling standard.

[11] *Isador Lubin:* In my opinion, too much stress is given to the function of prices in affecting agricultural output in developing countries. Too frequently, the lack of output is the result of the cultural environment which places agriculture and those engaged in agriculture in a relatively low category, particularly as compared with industry. Too frequently, the public policy of developing countries glorifies industrial development and pays little attention to potential improvements that could be made in agriculture. A change in this attitude on the part of developing countries could be a factor which would influence agricultural output in a manner comparable in degree to remunerative and stable agriculture prices.

[12] *Robert E. Asher:* When food aid is made available, the terms should be at least as generous as for other commodities. The latest hardening of credit terms under P.L. 480 seems to me a step in the wrong direction.

[13] *J. L. Locke:* I do not fear the weakening of the local farmers' initiative, as a result of an abundant supply of imported food. In our experience, this has rarely become a problem. There are areas, however, where importation of wheat, wheat flour and Bulgur has made it possible for the recipient country to export rice at prices substantially higher than they were paying under Title I, P.L. 480, for the better product, wheat. The consideration of supplying food which can be produced in the U.S. better and cheaper than a comparable food in a developing country requires more than superficial examination. Production of wheat in the United States does not deplete our resources as does the exportation of oil, coal or even timber. It strengthens the economy and reduces the reliance of the farmer on subsidies and grants. It develops trade for us and trade for the rice-producing countries. Examples of this are Taiwan, Korea and certain areas of Southeast Asia.

[14] *J. L. Locke:* I had hoped that the study would indicate a consolidation of existing agencies, many of which duplicate and overlap in the foreign aid program.

[15] *Walter H. Wheeler, Jr.:* As a whole, I think the report is excellent. I approve particularly the accent on more multilateral aid. I regret, however, that, while the report deals primarily with "investment" aid, it does not comment on or encourage the United Nations Development Program. While there are, of course, other technical aid programs, it seems to me that the UNDP is the most significant in its supply of pre-investment assistance. This, of course, includes the identifying of natural and physical resources, planning for their exploitation, establishing training institutes within the various countries, as well as establishing private research laboratories.

It seems to me that the UNDP is the best multilateral technical organization which can be found. It is certainly the largest. The paper says, "the international financing and technical assistance agencies have not yet for the most part adequately demonstrated the capacity for exercising effective influence for sound development policies or even for allocating their resources on the basis of objective substantive criteria rather than of the expedient principle that every member is entitled to a 'fair share'." This certainly does not apply to the UNDP with its implication that the program is essentially a pool of funds donated by the rich countries and doled out in fair shares to poor countries.

On the contrary, the UNDP is a genuinely cooperative undertaking based on the conception that every nation, rich or poor, has an equal stake in the success of global development and, consequently, the responsibility for speeding development progress rests with equal weight on all countries. The countries receiving aid from the UNDP bear by themselves more than half the costs involved in the aided projects.

UNDP, strictly speaking, has no development project of its own. Its function is to provide assistance marginally, but hopefully decisively, to projects in which the initiative and responsibility and commitment of resources depend more heavily upon those countries helped than they do on the UNDP.

Including the value of counterpart support by the recipient governments, contributions to UNDP have grown from $10 million in 1950 to $467 million in 1968. The U.S. contribution to the UNDP is substantially under 40 percent of UNDP's total contributions, without taking into account contributions from recipient countries; taking into account these contrib..ions, the percentage is substantially below 20 percent. Sixty-one countries increased their contributions to UNDP for 1969. Only one country decreased, and that was the U.S.A. It seems to me very clear that we should back the UNDP considerably more strongly.

[16] *James G. Patton* (Reuben Johnson concurs with this footnote): The Statement does not emphasize sufficiently my conviction that private or public technical and economic assistance granted by the United States should be limited to areas of the world where policies of the government include the following:

A continuing agrarian reform: Such reform must include:

a. Modern land taxation—effective enforcement of taxation.
b. Modern taxation and enforcement on water use coupled with a substantial payment or fee for the depletion of natural resources.

The great movement of people to the cities is worldwide. The poorer the country and the more disadvantaged the people living in rural areas are, the more the poor and the landless surge to the cities. Therefore, the first element of self-help "aid" is social and economic reform. The problems of the cities are worldwide. They arise basically in almost all countries because of a lack of people-oriented land-space use policy.

In most of the less developed countries, the large land-holders are the beneficiaries of negative taxation. It is seldom that large landowners put any capital back into land or into the improvement of the living and working conditions of the people who do the work on the land. They buy more land—farm more extensively, not intensively—and if they want more income, they raise the rents.

A privately operated U.S. development corporation will not do an adequate job in providing assistance in self-help or in meeting the challenges of political conflicts arising out of "colonialism" unless its basic objective in each joint venture or single-owner undertaking is to phase out American personnel and capital and to vest in private or public interests of the country where people are being self-helped, the control of each project in terms of management, capital and all other aspects.

I suggest the possibility of establishing a quasi-public corporation of several billions of dollars which would be able to accept land, timber, minerals and other resources from the less developed countries as equity capital in a joint private or quasi-public venture.

It may be possible to set up an international corporate structure composed of multi-national regional corporations which are private in character, but which receive a substantial portion of their capital from the nation states and individuals in terms of land, water, mineral and forest resources.

A regional TVA-type of multi-nation corporation in the Middle East, in the La Plata River Basin, in Central America, in Black Africa, and in Asia, if given sufficient capital, could find ways to capitalize land and other resources in the less developed area to match the "hard capital" coming from the United States, the World Bank, and multi-national private banks and insurance companies.

[17] *James G. Maddox:* I agree with the recommendation to establish an autonomous Technical Assistance and Development Research Institute. It appears, however, functions of the proposed Institute, as listed and described in the following paragraphs of this section, are based on the assumption that the major weakness of U.S. technical assistance activities stems from the form of organization of AID. This, I believe, is an erroneous assumption. There has been, and will continue to be, serious personnel problems if the Institute is limited to the functions described

in this Statement. The Institute should be staffed by scientists—physical, biological and social—who are among the best in the U.S. Moreover, they should have an opportunity in their work with the Institute to maintain and improve their professional standing within their respective disciplines. Such a staff cannot be recruited and maintained if its individual members are to act mainly as "brokers" between foreign countries and technical assistance agencies in this country. Institute staff members should be given long-term appointments, professional status, and important research and educational responsibilities both at home and abroad. They should advise foreign countries on making requests for assistance, evaluate requests that are received by the Institute, and in many cases assist in providing on-the-ground assistance to the recipient country. The major challenge of the Institute will be to recruit and maintain a high-quality staff. The proposed autonomy and long-term financing provide an opportunity for the Institute to meet this challenge in a manner that AID and its predecessors have been unable to do. It should not forgo this opportunity by limiting its functions to types of activities that will not be attractive to some of the best scientists in the nation.

[18] *Meyer Bernstein* (I. W. Abel concurs with this footnote): The functions of the autonomous Technical Assistance and Development Research Institute should be spelled out a little more fully. One of its purposes would be "To encourage the formation of special organizations in the United States to provide technical assistance under contract to recipient countries."

The AFL-CIO has already embarked on such a program with respect to labor abroad. There has been established an American Institute for Free Labor Development for Latin America and the Caribbean Area, and an African-American Labor Center for Africa. Both of these are financed primarily under contract with AID, with additional funds coming from American labor unions and other private sources.

Technical training consists not only of educational courses for democratic labor union administration, but also for mutual self-help such as consumers' cooperatives, housing cooperatives, and similar social projects.

But these organizations do not limit themselves to training. They help establish the social projects for which workers are being trained. This consists largely of seed money, the bulk of the financing being made under loans from union trust funds, such as pensions, and guaranteed by the American government.

The functions of the Technical Assistance and Development Research Institute should be expanded clearly to permit the continuation of such useful foreign aid programs.

[19] *William H. Yaw:* Considering the contributions which other nations are well able to make to technical assistance and the need for adapting technical aid and research to local conditions, internationally staffed sub-institutes should be established overseas. These might be located in India, at several places in Latin America, and in Africa.

[20] *A. M. Lederer:* One of the primary functions of the Institute should be to concentrate in a practical and imaginative way on the development of small enterprises in industrially less developed countries, an area of development largely neglected by international and other development institutions. The various elements for a successful program to accelerate the growth of badly needed small enterprises are in existence. What is needed is an institutional effort to bind these elements together into a viable program promptly executed.

[21]*Otis Brubaker:* I have grave reservations on the wholly privately owned arrangement here advocated. As a public policy matter, public funds without public responsibility for their expenditures should not be used to further such a privately owned venture as here proposed.

[22]*Alphonse de Rosso:* I seriously question the notion that a corporation established by the U.S. government would, in fact, foster greater U.S. private investment in the developing countries. The record, at least in the last ten years, would indicate that much of the foreign investment in developing countries has been made by American enterprises already involved abroad. Moreover, careful examination of this record would show that these same enterprises represent the bulk of firms with the financial and other resources required to contribute significantly to an increased flow of new investment. If they are not doing so currently, it is because environmental conditions do not warrant it.

However, I would support the proposal of establishing a government corporation if it is confined to the administration of the existing guaranty, Cooley loan, and investment survey programs.

[23]*Otis Brubaker:* I would seriously question the efficacy of the minority representation by the Presidentially appointed directors here proposed. Why should we assume that an important public purpose here involved can be adequately supervised and controlled by a minority public representation on a private Board of Directors? It is not reasonable to assume that what is good for the private interest will also represent appropriate policy designed for the furtherance of the public interest.

[24]*A. M. Lederer:* Large industrial, commercial or infra-structure projects usually attract their own international financial and technical sponsors or participants. However, the development of small enterprises in industrially less developed countries does not as a rule. Therefore, this Corporation, in cooperation with the aforementioned Institute, should address itself to a large extent to providing new and imaginative financial and technical assistance in cooperation with international agencies that will accelerate the much needed creation of small enterprises.

[25] *Robert E. Asher:* The recommendations in this NPA Statement differ in various respects from the recommendations I make in a forthcoming publication tentatively entitled *A Forward Look at Foreign Aid.* Nevertheless, I consider the thrust so similar that I sign cheerfully and hope to dismiss as pedants those who may someday charge me with inconsistency.

Chairman BOGGS. Mr. Reuss, questions?

Representative REUSS. Thank you, Mr. Chairman.

Mr. Surrey, in your prepared statement you mention what you call a dangerous and very visible form of U.S. assistance projects, and you specify a superhighway leading nowhere. What would you say to a superhighway such as we have built under the project AID program in Cambodia a number of years ago which for the last 6 years has been the principal highway for the introduction of war materiels by our opponents in Southeast Asia, the so-called peace highway from Phnom Penh to Sihanoukville?

Mr. SURREY. I know the highway. And I would like to avoid some of the political implications of that question by not getting into Laos, Cambodia, and Vietnam.

I would say this, sir, that in any AID lending that you make you necessarily run the risk that the country to which you lend the money, or provide it, may not necessarily be with you 10 years hence or five years hence, and that what you have done, then may be used against you. This is a risk, I fear, that is inherent in the aid process.

However, where most of our aid is being given in Latin America I think this risk can generally be avoided. You have the risk there, of course, of internal subversion. But obviously in a given situation if it is determined that the political risks are such that the economy of the country, not just the road, but the economy of the country and the physical geography of the country are going to be used against you, I would hope that we would have enough advanced political and intelligence information to avoid it. But I cannot expect our administrators to be prognosticators too far into the future.

Representative REUSS. Yes, but don't we minimize the risk of boomerang by not building things like military highways as far as the AID program is concerned?

Mr. SURREY. I certainly agree with you, sir. That was brought out in the NPA report, that, one, military aid would be unconnected, I agree with the Peterson report on that, and two, minimized. And I think this is true in countries in Latin America and other areas where you are not really creating anything when you create a larger military force. Where you decide to render military aid, then you do so knowingly, and you do so with knowledge.

But just to render it in order that a country can have the status of what it considers an inherent right of sovereignty, I think is erroneous.

Representative REUSS. Mr. Parker, in your excellent presentation you made the point that almost no developing country has a domestic market sufficient to bring about the economies of scale which are necessary for development. Surely that is true in general. However, there are countries, are there not, like India, Brazil, and Indonesia, which do have enough people so that if their economies were ever properly organized they would have a domestic market capable of bringing about economies of scale? That, I repeat, is not to say that regional integration is not an excellent idea.

Mr. PARKER. I think, Mr. Reuss, that scale in this sense, in terms of the market, is both population and economic dynamics. If there is not such an influence within a mass of people, there is not the market scale.

Representative REUSS. Why would putting together a group of markets make the economies of scale any more realizable? It seems to me that both in regional integration and in individual countries of the size of those I have mentioned you need a new deal—like social and economic arrangements so that you develop a domestic market.

Mr. PARKER. Yes, I agree with you, Mr. Reuss, we do have to seek that economic development and the social development. And you correctly point out that large countries such as India, Indonesia, do have the potential that the other smaller individual nations do not.

Representative REUSS. Mr. Blough, in the CED's presentation you did not, I think, take a position on the recommendation of the Peterson report that AID be abolished and that an International Development Bank be set up in its place.

Mr. SURREY. I believe, said no, that that really would not be a meaningful reform and would not be worth doing.

Is that a fair statement, Mr. Surrey?

Mr. SURREY. That is a correct summary.

Representative REUSS. Do you or the CED have a position on that?

Mr. BLOUGH. The CED report came first, and the committee was not in a position to consider the specific recommendations. They did, however, consider the problem of splitting off technical assistance from financial aid, and of removing financial aid from the AID organization. It was recognized that at times there may be "cosmetic" value in making what looks like a fresh start with a new administering agency, and undoubtedly this idea has been significant in the history of the aid program. However, the committee concluded that it would be sounder to have the operation carried on within the existing structure, somewhat reorganized. One of the changes that was recommended was that instead of the control of technical assistance being scattered over the various regions, there should be in AID an office in charge of all technical assistance, and this office should be closely related to the financial side of aid.

While I do not recall that there was any extensive discussion of establishing a bank, the idea of taking the financing function away and putting it in a separate organization was considered and turned down.

Representative REUSS. Mr. Surrey, you in your testimony gave, I thought—correct me if I am wrong—rather poor marks to the Inter-American Development Bank and the Asian Development Bank. You did that indirectly by saying that the World Bank and IDA are good, but that you cannot say as much about some of the others. Is this a fair statement?

Mr. SURREY. That is a fair statement.

Representative REUSS. Would you spell that out a little better?

Mr. SURREY. In the case of the Inter-American Development Bank, I think one of the problems is that in effect you have one donor and all recipients. And when it comes to the allocation of its funds or lending, this can lead, and I think there is implied in the process, to a political solution sometimes unrelated to proper development standards.

This could be improved by putting within the bank, as is now being proposed, other capital exporting countries, if they would donate their money—they have some bond sales to the bank, and then you are allowed to buy in their country. But if they absolutely contributed to it I think you might get a better balance within the Inter-American Development Bank than you have within the World Bank structure.

So that there is a better review and a more balanced review.

With respect to the Asian Development Bank, the experience there, I think, is that there has been too much caution. If you look at the amount of money—and I do not have the exact figures here, but I would be glad to supply them for the record—that has been spent on surveys and feasibility studies as compared to the amount of money that has been spent on actual projects, I think that the bank has started with too little and too slowly. There again I think, however, that there is a little better balance among the donor and donee—the givers and the recipients than there is in the Inter-American Bank, with considerably too much staff, too cumbersome, and too much study.

Representative REUSS. You are certainly right in saying that in the Inter-American Development Bank the United States is almost a total donor. I have heard the criticism you have made before that the IADB loans have been, some of them, ill-conceived. But despite my best efforts to track down cases of improvident lending I really have not been able to, nor have I been able to make a judgment that if you look at the World Bank portfolio, let us say, it is markedly superior to the Inter-American Development Bank.

Would you perhaps furnish for the record, if you are able to, any evidence that you may have to back up your instinct that the best standards have not been applied through the IADB?

Mr. SURREY. I will certainly attempt to do that. Of course, my instinct may represent its lending functions insofar as I have appeared before it. I might say that to make that study one must look not only to the loans that they have made, but to the loans that were before them, and why certain loans were chosen against others, and then find out if the political implications did play a significant part in the decisionmaking. I will see what I can do for you, sir. I cannot expect too much cooperation, I suppose.

Representative REUSS. Maybe Jack Anderson can assist you.

Chairman BOGGS. Did you have a comment, Mr. Blough?

Mr. BLOUGH. It seems to me it is too early to reach negative conclusions about the Asian Development Bank. It is quite possible that the kinds of problems which Mr. Surrey has mentioned will arise. But from what I have seen of the Bank and its operations, it seems to be starting prudently. The Bank is to serve a region where investment opportunities are not as easily identified and measured as they are in some other parts of the world. And I believe the kinds of studies they have been making will be very useful as the basis for loan projects in the future.

Representative REUSS. Thank you, Mr. Chairman.

Chairman BOGGS. Thank you, Mr. Reuss.

Gentlemen, you have all been very cooperative. We appreciate your coming.

If you have any further material that you would like to furnish for the record we would be very happy to receive it from you.

Thank you very much, gentlemen.

The subcommittee will now adjourn until 10 o'clock tomorrow morning.

(Whereupon, at 12:10 p.m., the subcommittee recessed, to reconvene the following day, at 10 a.m., Thursday, May 14, 1970.)

A FOREIGN ECONOMIC POLICY FOR THE 1970'S

THURSDAY, MAY 14, 1970

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The Subcommittee on Foreign Economic Policy met, pursuant to recess, at 10:10 a.m., in room S-407, the Capitol Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representatives Boggs, Reuss, and Conable; and Senator Javits.

Also present: John R. Stark, executive director; John R. Karlik, economist; Myer Rashish, consultant; and George D. Krumbhaar, economist for the minority.

Chairman BOGGS. The subcommittee will come to order.

We expect Governor Harriman momentarily.

This is the second day in the current hearings of the Subcommittee on Foreign Economic Policy to examine U.S. policies toward developing countries.

Yesterday we heard from Mr. Rudolph A. Peterson and other individuals who have participated in the drafting of reports suggesting reorientation of U.S. aid policies and reforms to make our economic development assistance more effective. Today's panel of witnesses has been asked to evaluate U.S. policies toward developing countries within the context of our global foreign policy objectives.

Our first witness this morning is an extremely distinguished public servant who has excelled in a variety of responsibilities over a long and most productive career, W. Averell Harriman. Mr. Harriman is former U.S. Ambassador to the Soviet Union and Great Britain. He has also been Secretary of Commerce, Director of the Mutual Security Agency, Governor of the State of New York, and Under Secretary of State.

We expected that Mr. Robert R. Bowie of the Harvard University Center for International Affairs would testify today, but student reaction to events in Indochina have prevented Mr. Bowie from coming to Washington. Most graciously, Mr. James P. Grant, president of the Overseas Development Council, has agreed on extremely short notice to fill out the panel of witnesses testifying today. Mr. Grant is the former Assistant Administrator of AID and former Director of the AID program in Turkey. He has also served as Deputy Assistant Secretary of State for Near East and South Asian Affairs.

Next we have Professor Hans J. Morgenthau, who holds distinguished chairs in political science at both the University of Chicago and the city university, New York.

The final witness this morning is Paul C. Warnke, presently a practicing attorney and former Assistant Secretary of Defense for International Security Affairs.

Governor Harriman has come in.

Good morning, Governor. You are our first witness this morning. We shall be happy to hear from you at this time.

Senator JAVITS. So that the Governor may catch his breath, let me say that speaking for the minority I welcome Governor Harriman here. He is one of our most stimulating, outstanding statesmen. I had the honor of being his lawyer on a given occasion when I was attorney general of New York and he was Governor.

Governor, I have had the privilege of reading an advance copy of your statement which opens with a policy statement on the Indochina situation. In introduction let me say that what is rocking the economy of our country, and will immediately and very seriously affect everything we do, and perhaps even most particularly, will determine what we can do for overseas development, is inherent in the policy we develop and lay out and implement respecting the Vietnam war, and now the new Cambodia complication.

I welcome you on behalf of the minority and look forward with very great interest to your testimony, particularly on this relationship. Thank you.

Chairman BOGGS. We would be very happy to hear from you.

STATEMENT OF W. AVERELL HARRIMAN, FORMER AMBASSADOR TO THE SOVIET UNION AND GREAT BRITAIN, FORMER SECRETARY OF COMMERCE, DIRECTOR, MUTUAL SECURITY AGENCY, GOVERNOR OF NEW YORK, AND UNDER SECRETARY OF STATE

Mr. HARRIMAN. Thank you, Senator. I did not know whether it was appropriate for me to raise the question, but I felt it so deeply that I asked the privilege.

Mr. Chairman, decisions on questions of national priority affect the economic policies of our Nation, both at home and abroad. With your permission I would like to comment on one matter which is of overpowering importance, as it affects our ability to deal with other pressing problems. I refer to the war in Vietnam.

I wish to record my concern about the policies of our country in continuing military operations there at a high level. The program of Vietnamization of the war is not in my opinion a program for peace but is a program for the perpetuation of the war. At best we can only hope for a reduction of less than half of our forces in South Vietnam 2½ years after this administration took office. And after that there is no assurance whether or when the balance of our forces will be withdrawn.

The South Vietnamese troops are able to take on more of the load of our combat troops, but there is no indication that they can continue to operate successfully without American air, artillery, and logistic support. The Vietnamization of the war is dependent on an unpopular and repressive military government.

With all of the military influence, President Thieu and Vice President Ky got less than 35 percent of the votes cast in 1967, whereas over 60 percent of the votes were cast for civilian candidates who had some kind of peace plank in their platform. This election confirms the judgment that the people of South Vietnam want peace and not a continuation of the war.

The present military operation in Cambodia may result in a substantial disruption in the organization and supply of the enemy. But the effect will be only temporary unless we permanently expand the war into Cambodia.

Mr. Chairman, I believe we should, as soon as our troops are withdrawn from Cambodia, undertake a new initiative for negotiations for a peaceful settlement. It would be a mistake to consider that the temporary setback of the enemy in Cambodia would greatly change the ultimate terms.

Such an initiative will require a decision on the part of the administration to compel President Thieu to bring into his government political elements who wish a negotiated settlement and dispatch to Paris a team that is willing and capable of negotiating with the NLF for a compromise settlement.

Of course, the President also must appoint a high-level negotiator. If these actions are taken on our side, I believe the other side will join in serious negotiations. If these actions are not taken, the war will continue at a high, though perhaps reduced, cost in American lives and money.

The simple true is that there is no way of achieving political victory in Vietnam through military action. That is not the fault of the United States but the nature of the problem that exists there.

Adequate action on vital programs at home and abroad will be crippled until the waste of resources in Vietnam is ended.

I urge that the Congress as well as the administration take action in the weeks immediately ahead for the withdrawal of all of our troops from Vietnam on a fixed schedule. This will compel the Thieu Government to undertake serious negotiations for a responsible settlement. I am convinced that the other side will agree to one point at least—that there will be no reprisals by either side, with supervision by an international body. Other issues must be subject to negotiation among the South Vietnamese themselves on the basis, as the President indicated in his April 20 statement, of "the existing relationship of political forces within South Vietnam."

Senator JAVITS. Would the witness mind a question now? He is now through with his Vietnam statement.

Chairman BOGGS. Gentlemen, I have to go to a Democratic caucus. Would you be good enough to preside, Senator?

Senator JAVITS (now presiding). Mr. Ambassador, the fixed point that interests me enormously in your testimony is this question which you refer to as "our timetable for withdrawal" on a fixed schedule as you call it.

Do you feel now—you and I have discussed and debated this before—do you feel now that that is the most effective factor in getting what we want done in Vietnam, to wit, the speed with which we withdraw our own forces?

Mr. HARRIMAN. I did not think so a year and a half ago. I believe so now, because of the critical forces in the United States and in South Vietnam. It is perfectly clear that President Thieu has no intention of negotiating. He doublecrossed President Johnson at the end of October 1968. If you want to know the details of that I refer you to the Secretary of Defense's press conference of November 12, 1968. But people do not seem to realize that he pulled the rug out from under President Nixon's negotiations in January 1969. We had arranged, all four of us, to sit down in private, but he announced that he would not sit down with the NLF; 2 months later he graciously—and I put that in quotes—agreed to sit down privately with the NLF. But by that time he had already announced that he would not compromise on some of the basic issues, and the other side would not sit down with him.

That is the reason we have made no progress with the negotiations since January 1969.

With that situation existing, as it does, with the long time that has elapsed, I think the only answer to the situation is to have a fixed rate of withdrawal which will compel both the Thieu Government and our own government to face up to the face that we have to have a withdrawal and a negotiated settlement.

Senator JAVITS (presiding). The Ambassador will remember that that was the point that I was pushing so hard. And I must say that I feel deeply gratified.

Mr. HARRIMAN. I think you were of that opinion, Senator, before I was.

Senator JAVITS (presiding). You are very kind. But what is most important is that a man of your distinction and experience in this field should have come to that conclusion. That is infinitely more important than we thought at first. But I think this is a most important, significant finding by a man who probably ranks with anyone else in our country in the knowledge of what ought to be done about this situation. And I think the country, Ambassador Harriman, should be very grateful to you. Because personally I have thought for a long time it was the only way—I think more and more we are zeroing into it as the only way we can come to that conclusion I consider most important.

Mr. HARRIMAN. Senator, can I say that I do not think that the choice is between the present policy and a bloodbath. That I reject completely. I think the American public should understand that. That is not the choice. The choice is responsible withdrawal, with arrangements made so that the people in South Vietnam can live in peace together.

As I have indicated, at least we should insist at the time of our withdrawal, that there should be an agreement that there will be no reprisals, and that there should be an international body to inspect it. I think this is vital, because the American public is very much confused on this subject.

Senator JAVITS (presiding). The resolution which Senator Pell and I introduced and which has now resulted in the report of the Gulf of Tonkin termination did contain—it was the only one that did—provisions respecting the need for protecting innocent people in the event of a settlement, or whatever was the result there, against political persecution. And I am again very gratified that the Ambassador also endorses the approach.

Congressman Reuss?

Representative REUSS. As do I endorse it. And I think the sentence in your statement, Mr. Harriman, which Senator Javits has just pointed out, is tremendously important. And I quote it:

I am convinced that the other side will agree to one point at least, that there will be no reprisals by either side, with supervision by an international body.

Am I correct in thinking that this is the first occasion on which you have publicly stated that conviction?

Mr. HARRIMAN. I think I have said it a number of times, but in smaller groups. And I find that very little attention is given to details.

Representative REUSS. I hope a great deal of attention will be given to this, because it seems to me——

Mr. HARRIMAN. I may say that I do regard it as a subject for such an august and distinguished a group as this.

Representative REUSS. It seems to me tremendously important, for this reason. The current position of our government seems to be that we are in Cambodia and heating up the fighting because, among other things, we want to avoid a bloodbath when all is over. If you are right, and I believe you are right, and I have some intelligence I have received to back it up—that the other side would agree to one point, namely, no reprisals, internationally supervised—if you are right in that sense, then it is extremely shortsighted of us, is it not, to put the negotiations in Paris into cold storage, to fail to send a high-level negotiator, because if it is true that we could now obtain in all likelihood a no-reprisal agreement, to the extent that in the months ahead we follow the announced timetable and reduce our troops by 150,000 we are going to lose bargaining power, and we are going to make a blood bath more likely than it would be if we vigorously negotiated for that which seems to be negotiable now. Would you agree with that?

Mr. HARRIMAN. Yes; I think you are right, sir. But it is basically that I am satisfied that the other side does not want a blood bath any more than we do. This is their country, you know. I don't know if you read Mr. Tom Wicker's article in the Times about the past history. I do not go along with that as an objective. We must come out not for cut-and-run. We helped start these fires, and we have responsibility to see that the flame is at least checked, and we ought to have a responsible withdrawal.

And I think we ought to have a responsible withdrawal just as far as we can, not a cut-and-run withdrawal. I do not know if that expression is correct. It is not a question of our negotiating pressures so much as it is the time that it takes to do these things.

And therefore, Congressman Reuss, I fully agree that we ought to get out fast.

But I want to underline not only the importance of the American negotiator, a man of high level who has the President's confidence, and international prestige, but also President Thieu must have someone in Paris that wants to negotiate. There has never been anyone in Paris representing the South Vietnamese Government that has wanted to negotiate. And this I know. And I believe, Mr. Chairman, that it is very important that these matters be settled among the South Vietnamese themselves. And this means that we must have the South Vietnamese.

I know many of the critical leaders, past military men in South

Vietnam that want to negotiate, want to remain in the country, that have not got their tickets bought to Paris. These are the people that we must get there, and get there rapidly.

Senator JAVITS (presiding). Congressman Conable?

Representative CONABLE. Governor Harriman, I would like to know, if you, as a shrewd observer of the political scene, do not feel that the President has every intention of continuing the withdrawal of troops. I would like you to comment also, in view of the statements that have been made here about the building up of bargaining power, whether our bargaining power is not likely to be reduced if we eliminate any Presidential discretion with respect to the manner in which these troops are withdrawn. I am sure you, as a longstanding adviser of Presidents would not advocate tieing his hands in advance, would you, if he is to maintain maximum bargaining power with both sides in Vietnam?

Mr. HARRIMAN. Mr. Conable, I believe very strongly in giving the President as free a hand as possible in negotiating questions. I think this administration has shown that they have not got the intention to negotiate. And therefore I believe that it is quite correct for the Congress to step in and share the responsibilities with the President.

Now, this is a very hard thing for me to say. But it is perfectly true, the President has indicated that he is ready to withdraw his combat forces, but he has given no schedule whatever of the supporting forces, and by his own statement he will have less than half of our troops out after two and a half years, and no indication as to when the rest of it will go. And he has also given us an indication that he believes President Thieu's government should remain imposed on the people of South Vietnam. They are a repressive military government that does not represent the majority of the people. And I think as long as that policy is pursued we are not going to get anywhere in terms of any political settlement.

So I am so convinced that the President's policies are incorrect that I support the moves that are being made in the Congress, including those that Senator Javits has suggested, for congressional intervention. What will eventually come out of this I do not know. But pressure must come from the Congress. Every argument has been used by everyone that I know of to get the administration to change. And therefore I think that a move in the direction Senator Javits indicates is called for.

Representative CONABLE. But, Governor Harriman, how can his bargaining power be increased by the establishment by Congress or by the President himself of a predetermined course?

Mr. HARRIMAN. Bargaining power—it is a question of who is blocking the negotiations. I believe that President Thieu is the one that is blocking the negotiations.

Representative CONABLE. That is all, Mr. Chairman.

Mr. HARRIMAN. As the No. 1. I do not want to tell you that it is very easy to negotiate with the North Vietnamese, it is not. But the one that is primarily responsible for the disruption of the negotiations which were ready to move ahead in January 1969 is President Thieu.

Senator JAVITS (presiding). Mr. Ambassador, we could undertake to debate it ourselves. But that is not the purpose of this exercise. So would you be kind enough to proceed.

Mr. HARRIMAN. Forgive me for getting off onto that, but I feel it so deeply.

Mr. Chairman, with your approval, I would like to review the extraordinary success that the United States has had since the end of the war in the field of foreign assistance and to draw conclusions and recommendations for the future from our previous experiences. Obviously, mistakes have been made, and we should learn from them, too.

Perhaps the most constructive and imaginative period in our foreign policy was the immediate postwar years. First, we supported UNRRA to help feed the hungry—friend and foe alike—in the wake of war.

The United Nations was created, and its charter ratified by the Senate. Its affiliated agencies have been at work in a variety of fields and have contributed to the improvement of conditions of the less fortunate peoples of the world. The U.N. members have joined to give relief in emergencies as well as in longer range problems.

Perhaps the most successful of the U.N. affiliates has been the World Health Organization (WHO). Scientific and medical knowledge have been applied worldwide to battle epidemic and chronic diseases, with extraordinary results. The Food and Agriculture Organization (FAO) has made a marked contribution in the development and application of technical knowledge in the field of food production.

The U.N. development program, under the guidance of a dedicated American, Paul Hoffman, has assisted developing nations to plan their own projects. I only mention a few of the activities.

We can take pride in our participation in all of these programs, and certainly we should strongly support them in the future by providing our fair share of funds. Their remarkable achievements have too often been underestimated when we assess the accomplishments and effectiveness of the United Nations.

In 1947, a crisis developed in Greece and Turkey and we undertook a program of assistance. This was rapidly followed by the extraordinary and ambitious Marshall plan. Under this plan, the United States gave assistance to 16 Western European nations who undertook to work together for their common recovery from the destruction and dislocation of the war. And I want to underline the fact that that was a bipartisan plan. Senator Vandenberg of Michigan, Chairman of the Foreign Relations Committee of the Senate, played a very major role both in planning the details and in helping to get congressional approval to that program. I think he deserves parallel credit in history to that of President Truman.

Now, "self-help and mutual aid"—and I am underlining that because in all these matters bipartisanship is perhaps one of the most important ingredients in any of our foreign activities—"self-help and mutual aid" were the guiding principles.

The participating countries accepted as a basis of their recovery economic integration as proposed by Congress, which stated in the legislation:

> Mindful of the advantages which the United States has enjoyed through the existence of a large domestic market with no internal trade barriers, and believing that similar advantages can accrue to the countries of Europe, it is declared * * * to be the policy of the people of the United States to encourage the unification of Europe.

I think it is very important for us to remember that we were the inspiration for the programs that were adopted in Europe. Some people would want us to believe that we have been against them.

It is important to understand that the Marshall plan could not even have been undertaken unless the Congress had accepted in principle that it would be a 4-year program with an estimated contribution by the United States of some $17 billion. Congress continued to support the program over the 4-year period, but the United States was called upon for a contribution substantially less than originally estimated—about $13 billion.

The influence of the program has continued and resulted in an extraordinary era of expansion and prosperity in stark contrast with the economic stagnation and built-in unemployment of the period between two world wars. Western Europe, including Western Germany, is more vigorous and dynamic than ever. From a GNP of $105 billion in 1948—first year of the Marshall plan, Western European output reached $685 billion in 1969. I think that is in fixed dollar value.

In accordance with the objectives expressed by Congress, programs of economic integration have been adopted and further plans are under consideration. Economic recovery was achieved through the energies of the countries themselves. Although it was our policy to minimize publicly the U.S. participation, our contribution was an essential ingredient of the success—not only the funds made available, but also our influence in furthering economic integration and the abandonment of restrictive business and labor practices.

An expanding economy with increased labor productivity and management efficiency—a principle which Europe never understood—was accepted as the common goal.

I doubt whether any country in history has ever made a better investment. Today the Western European countries are our strong partners not only for our mutual security but also in assisting economic development and stability among the developing nations.

The recovery and economic growth of the Western European countries, and also Japan, have had direct economic benefits for us as well. Our trade—not financed by aid—with them has increased tenfold and in 1968 totaled about $10 billion each way.

In 1949, the year after Congress approved the Marshall plan, President Truman proposed the point 4 program. He pointed out that since science and technology had progressed to such a point that the old enemies of mankind—hunger, misery, poverty, and disease—could be overcome, it was the obligation of the United States and the other more industrialized nations to help with technical assistance and with capital.

That announcement was heralded throughout the world and gave new hope to many areas of the world that had never had it before.

Ever since President Truman's initiative we have been pursuing these objectives. There have been some extraordinary successes in some ways in some countries and some discouraging disappointments in others. The developing nations have achieved a growth rate of 5 percent in recent years, but the per-capita increase in GNP has been only 2½ percent because of population growth.

Unfortunately, the disappointments and the failure to achieve overoptimistic aspirations have tended to discourage confidence in the programs. Unhappily, developing assistance is in a low state today—another casualty of Vietnam. I am heartened by the interest of this committee in the problem. And I earnestly hope that as a result of your hearings and deliberations you will encourage Congress and the administration to take more comprehensive action.

In the early days the United States carried the major load but more recently other industrial nations have contributed their share. Now we have fallen behind in terms of our capability. In 1968 we ranked eighth among the 16 principal Western donor countries in percentage of GNP devoted to assistance.

Recognizing the problem, President Nixon appointed a Presidential Task Force on International Development in September 1969. Your committee has received testimony from Mr. Rudolph A. Peterson, Chairman of the Task Force, and I need not review its report. I wish, however, to strongly endorse the basic findings of this group. I am sure that your committee will also give attention to the United Nations Commission on International Development, chairmaned by the Honorable Lester Pearson.

Many of its recommendations deserve serious consideration in our national interest. Since the Peterson report deals with our own policies, I will direct my comments to some of its recommendations, as well as add some observations based on our own experience and my views on our national interests.

I strongly endorse the principle of multilateralism—that our program should be carried forward through international institutions or in cooperation with other countries. The World Bank has been an effective agency in providing capital, its disbursements totaling in 1968 $1 billion.

Its affiliate, the International Development Association (IDA), has supplemented the Bank's activities, providing capital on a long-term, low-interest basis. So far, its activities have been limited to a few hundred million dollars a year. Plans are under consideration to at least double its available funds, in order that between eight hundred million and one billion dollars can be available annually in the next 3 years. Mr. Chairman, I strongly urge that your committee endorse this proposal for appropriate action by Congress.

One of the difficulties of developing nations is that debt service is growing and absorbing a large and larger percentage of their exports. This burden has nearly doubled during the past decade (from $2.3 billion in 1961 it had risen to over $4 billion by 1968). There is increasing need for the IDA type of soft loans with low interest, a grace period and long terms of repayment. We should also be prepared to cooperate with other industrial countries in renegotiation of debt service where the burden is too great.

Furthermore, we should participate where appropriate in supporting the regional banks that are beginning to play an increasingly valuable role. A recent example is the Asian Development Bank in which Japan is making a contribution equal to our own. Plans for the expansion of this type of bank deserve strong support of Congress. In mentioning the Asian Bank, I use it as a case in point only and urge support for the other regional institutions as well.

As I indicated earlier, the affiliates of the United Nations require continuing support, and the United States should take a lead in contributing to these activities on the basis that other nations do their share. The newest of these activities is in the field of population control. This work is gaining worldwide acceptance.

It is of such importance that its activities should be further emphasized. It is hard to see how human beings will be able to maintain a satisfactory life on this planet unless the recent rates of population increase are curtailed.

Multilateralism can be achieved not only through the international agencies but also through intergovernmental cooperation. The Development Advisory Committee (DAC), an affiliate of the Organization for Economic Cooperation and Development (OECD), is active in bringing together the industrialized nations, including Japan and Australia, for common development objectives.

Consortia and consultative groups for individual recipient countries have had marked success in coordinating mutual efforts. A number of them have been formed under the aegis of the World Bank and others on an ad hoc basis, such as Indonesia.

I recommend that as much as possible our activities be channeled through international agencies and other cooperation mechanisms. However, these cannot fully take care of all situations that exist in the world. For one reason or another, other countries prefer to continue bilateral arrangements. For example, France feels a special obligation toward her former colonies. Countries like Western Germany have special political and commercial objectives which they feel can only be achieved by bilateral understandings with the countries concerned. Our aid programs for technical assistance and capital cannot, therefore, be limited entirely to multilateral procedures.

In helping economic development, aid is only one facet. International efforts should be directed towards assisting and encouraging the exports of the developing nations. Of prime importance is cooperation among the importing countries for greater stability in price and volume of primary products. Feast and famine in the exports of these products cause economic disaster in the supplying countries. Surely it is in the interest of both supplier and user to seek more stabilized markets in these products. A start has been made, but more progress is needed.

In addition, to achieve sound economies with more jobs and growth, the developing countries must expand their exports of manufactured products. It is essential that they have access to expanding markets in the industrialized states.

The people are moving from the farms into the cities, and employment must be given, in addition to which exports are needed in order to be able to continue development.

These imports may cause some dislocation in our own industrial production, and that is true of other industrialized countries. And other industrialized countries have been willing to accept a reduction in their imports in these general areas. Wherever this dislocation occurs, our Government should give assistance. Not only should the displaced workers be assisted by retraining, but the companies involved should be encouraged and assisted in developing new products and the communities stimulated to attract new industries.

I understand that legislation is before Congress in this field. And I heartily endorse the principle.

We should bear in mind that the industries affected usually are low-wage industries, and the net effect can well lead to the expansion of our higher pay industries. We have seen this sort of thing develop in New York States where low-wage textile industries have gone to the South. Communities that had initiative have attracted new industries with higher wage rates and thereby have prospered. The same principle is applicable in connection with our trade policies.

Another vital element along with trade and aid is private investment, both domestic and foreign. The Congress has recently enacted legislation creating the Overseas Private Investment Corporation (OPIC) to provide a new means of protecting the American investor against the political risks and uncertainties of investing in a developing country. The existence of OPIC should encourage such investment. Of course, to be successful, U.S. investors must have an understanding of local attitudes and consideration of national interest in connection with their undertakings. Particularly important in this regard are partnerships with local capital and the training of local personnel for employment in skilled and managerial positions. Foreign investors should give more consideration to manufacturing and distributing activities rather than concentrating, as had been the case in the past, in extractive industries.

It is unfortunately true that the people of the developing countries feel that extractive industries take away their wealth and leave nothing behind, whereas industry that is productive and distribution industries they see as having value to their way of life.

Finally, among the wise recommendations of the Peterson report is the proposal that the military and economic assistance programs be dealt with in separate legislation and be considered separately by the Congress. I have long thought this a sound approach.

In conclusion, some of the basic reasons why we must continue our concern for and our assistance to the developing nations are, first of all, our moral obligation. We have been endowed with resources which have made it possible for us to achieve a prosperity unheard of in history, and surely we have an obligation to give a helping hand to the less fortunate.

Secondly, our own economic life can be strengthened and expanded as other nations develop. I have pointed that out in connection with the extraordinary progress in Europe, and it is true with every nation that expands its economy. Expanding trade and markets will add greatly to our own continuing prosperity.

Lastly, the very survival of our civilization is at stake. It is not conceivable that a few countries can live indefinitely as islands of luxury in a sea of poverty. The Pearson report points out that 34 percent of the population of the world in the developed nations has 87½ percent of the world's gross national product, where the 66 percent in the less developed nations have only 12½ percent.

For these and other reasons, the United States as the richest and most productive nation in the world must take the lead in rallying the other industrial nations to give a helping hand to those countries that are willing and able to carry on development. This is in our own enlightened self-interest.

Representative Reuss (now presiding). Thank you, Mr. Harriman.

You have said in your conclusions just now that the very survival of civilization is at stake in this question of assisting the developing areas. In your judgment is it possible for the United States to refurbish and reorient its economic development policies toward the poorer half of the world unless and until the war in Southeast Asia comes to an end?

Mr. HARRIMAN. I do not think we are limited entirely by the war. But so much of our attention is given to it and our resources that it is very difficult to expand it. And our reputation in the world is very much reduced. This idea that we are going to gain repute in the world by winning something through military action in Southeast Asia is not true.

I visited 50 countries between 1964 and 1968, and I saw the heads of the governments, and I got a feel for what they thought. There are very few heads of government that will support our policy in Southeast Asia. And most will be overjoyed if we find a way to end this conflict. They do not understand what our policies are. And our influence will be much greater in the world if the war were over.

Our foreign aid is such a small percentage of our GNP that I do not think we need to be crippled by going forward. And I think we should go forward. But it is very hard to get enthusiasm for the program and understanding of the program abroad unless the war is ended.

Of course, there are other aspects. I think the people of the country and some of the Members of Congress have had some rather strange ideas of what our objectives should be. We are not going to buy friends. That has never been possible. And we are not going to buy allies. But we are going to be able to contribute to stability in the world, and I think, as the Peterson report indicates, contribute to the peace of the world.

My feeling, Mr. Congressman, is that just because we are bogged down in the mud in Vietnam should not divert us from a very critical responsibility in the world. But I must confess that I do not think we can do it fully and effectively without ending the war.

Forgive me for being so long-winded in the answer. I think in the same way we should not neglect programs at home because we are bogged down. But we all know that it is very difficult to expand the programs at home as long as we are engaged in the war.

Representative REUSS (presiding). Mr. Conable?

Representative CONABLE. Governor Harriman, I note your comments here about trade with developing nations. And I note also your support of adjustment assistance for industries that are damaged by imports from developing nations. I wonder if you would comment on the idea of a quota system with respect to the labor intensive types of products which are being imported from developing nations. I would like to tell you, sir, that I am extremely skeptical about the effectiveness of a quota system, particularly in terms of the enforceability of such a system. I am concerned also about the implications in terms of our own economy at this point when we are still fighting the forces of a ravaging inflation.

Mr. HARRIMAN. I also have been opposed to quota systems. And when the subject comes up again I hope the Congress will give the Administration the right to work out an agreement of restraint. I do not object to any understanding that can be mutually negotiated with the foreign countries on restraint on their part, because there would be too much dislocation if there was not something of that kind done.

But that is quite different from a rigid quota system, an agreement as to restraint. And to some extent we get advantages in getting other countries to remove their restrictions on our products. So it can result in a mutually desirable reduction in obstacles to trade and investment.

Representative CONABLE. In social terms do you see any reason to be concerned about the possibility of very substantial low-cost imports in the labor intensive type of product resulting in the United States becoming some sort of a Westchester County of the world where we produce only computers and the developing countries produce only things like textiles and shoes. Do you see any possible problem for the future if we allow this kind of economic stratification to happen, or do you think it will not happen if free trade is given its chance to work?

Mr. HARRIMAN. I think you have asked a very general question. So that I cannot answer it fully. I referred to the fact that in New York State the movement of the lower wage textile industries out looked like disaster to a number of communities. But certain communities have been able to attract newer industries, electronics and otherwise, which require greater skill. And the net result is that they have greater prosperity both on the part of the employees as well as the community.

Now, there is no reason why we should not import, in my opinion, the low-wage high-labor content products from other countries. That will not seriously affect us. You will probably notice in Britain they have materially changed, from one of the largest textile exporting countries in the world. They have become a relatively smaller textile exporting country. They even import for their own use. The adjustment that has been made there is satisfactory.

I do not think we can go to the extreme of Westchester County. But I think relatively speaking it would not be a bad thing to do. There are many products which we are producing which can be better imported from other countries. A number of handmade products which have more esthetic value can be imported, because we no longer can have such things as hand-painted products.

And we are depriving ourselves of a certain enrichment of our own lives by denying these. On the other hand, if we allow these products in, it will affect relatively little domestic production.

It is said that if the community is a one industry town, that community is devastated by these imports. This is nothing new to me, because when I was Secretary of Commerce twenty or more years ago I started to try to get something worked out at that time. And it is very interesting for me to see how the very communities which may have been affected by imports have improved their position because, though they have not gone to the extreme of Westchester, they have attracted high wage industry by initiative.

And I believe that we are better off if we do not take such a rigid position of protecting all of our employment.

There is a lot of political pressure in this, I realize. But I think as a nation we would be better off to let the developing countries sell to us those products with high labor content, and then we would be able to sell more to them of the highly technical equipment which we can produce ourselves and they cannot.

Representative CONABLE. In summary, Governor Harriman, wouldn't you say that our relationship to the developing world is as likely to be as dependent on our trade policy as our foreign aid policy in the future?

Mr. HARRIMAN. May I say that I think it will require both. Unless we do both I think they go hand in hand. But I am very glad to hear your point of view. And I hope the whole Congress will take that point of view. It is not an easy one to deal with.

Representative CONABLE (now presiding). We have serious problems.

Governor Harriman, I would like to leave you with the option of staying with us—I think many of my colleagues will be back, there are several caucuses—or of leaving now if you prefer. We are very grateful for your testimony.

Mr. HARRIMAN. I have discovered that you do not learn while you are talking, and I hope to be able to learn while some of the others testify.

Representative CONABLE (presiding). I would like to recognize Dr. Hans J. Morgenthau of the University of Chicago and City University of New York.

Dr. Morgenthau, your reputation is a pervasive one. We are delighted to have you with us further to enrich this fine panel this morning.

STATEMENT OF HANS J. MORGENTHAU, ALBERT A. MICHELSON DISTINGUISHED SERVICE PROFESSOR OF POLITICAL SCIENCE AND MODERN HISTORY, UNIVERSITY OF CHICAGO, AND LEONARD DAVIS DISTINGUISHED PROFESSOR OF POLITICAL SCIENCE, CITY UNIVERSITY OF NEW YORK

Mr. MORGENTHAU. Thank you, Mr. Chairman.

Let me say first that the sickness of our foreign aid policy by far antedates the Vietnam war. It may have been increased by the Vietnam war, but the basic issues which have given rise to that sickness are inherent in our philosophy of foreign aid itself.

I have taken the liberty at the beginning of my prepared statement to reprint a letter to The New York Times which was printed more than 12 years ago; for I found that the issues which were raised then are still worth raising today.

First of all, there is, of course, no doubt that the Marshall Plan has been an eminent success. But I would say that it is this success and the false analogies which we have drawn from it that have become the curse of our foreign aid policy. For the problem which we were facing in the immediate aftermath of the Second World War in Western Europe can be described as a number of highly developed industrial nations being temporarily in disarray because of the consequences of the Second World War. What was needed then was an economic blood transfusion which would restore those economies to health. What we are facing in the so-called developing, or what was formerly called less politely the underdeveloped, third of the world, is something entirely different. We are facing here conditions, from our point of view, of economic backwardness which cannot be remedied primarily by the outside infusion of money or technological know-how.

I see two such basic obstacles to economic development, one cultural and the other political.

We should not forget that the economic development of the Western World creating the industrial and technological society in which we live has been the result of a number of profound resolutions of a moral and rational character.

Take the revolution of Protestantism, particularly Calvinism which led to the secularization of our outlook toward the world. Without this basic revolution you could not have had industrial and technological development. A culture and there are such cultures today—which believes that progress in this world is not only irrelevant but a handicap to progress in the other world, which is the only progress that counts, obviously has no incentive for economic development.

Take the issue of saving, which to us is almost a law of nature, saving for a future emergency or for profitable investment. There are hundreds of millions of people in the world today who have no conception of saving, who live in a static world, and who not only do not believe in saving but also do not believe in the possibility of progress.

The infusion of capital and of technological know-how from the outside is not going to change those cultural patterns. It may disturb them at best, but it will not create the intellectual and moral preconditions for economic development.

Let me turn, then, to the other issue, the political one. We assume that millions of people live in misery because the country in which they live is so poor that it cannot be otherwise. But many countries which are underdeveloped are blessed with natural resources which are not used for the benefit of large masses of the population for political reasons.

We have insisted, for instance, on land reform in Vietnam, and we have pleaded on its behalf with a succession of governments of South Vietnam since 1954. A number of statutes concerning land reform have been promulgated, which read as beautifully as, say, the Bill of Rights or the Soviet constitution. But nothing has ever happened by way of land reform, for the very simple reason that a succession of South Vietnamese governments have had a vested interest, not in land reform, but in the preservation of the status quo, because their main political support comes from the upper middle classes in the cities and from the absentee landowners whose economic and political status would be greatly diminished through land reform.

So the idea that you can promote land reform from the outside with regard to a government which has a vested interest in the avoidance of land reform seems to me to be utopian.

This basic issue, it seems to me, is also the source of the failure of The Alliance for Progress. What we have been trying to do in The Alliance for Progress is to stimulate radical reform through the instrumentality of governments most of which have a vested interest in the avoidance of radical reform, for the same reason which explains the avoidance of land reform in South Vietnam.

Take a country such as Brazil, which in territory and natural resources is comparable to the United States. Why is it underdeveloped? Not because of any natural poverty, but because of social and political arrangements which make economic development impossible.

Take the United States itself. Why is it that, according to the Bureau of the Census, about 25 million Americans are classified as poor? Not because the United States is poor. The United States certainly does not need foreign aid to relieve its poverty. It is because of certain social and political arrangements, which stand in the way of the relief of poverty in the United States.

So I think it is good-natured, but also naive, to assume that the United States can relieve the misery of great masses of populations in the underdeveloped parts of the world, insofar as that misery is not the result of actual poverty, but of political and social arrangement which are impervious to outside influence.

Take another example which seems to be simplicity itself, the example of illiteracy. We assume that hundreds of millions of people in the underdeveloped world are illiterate because those countries do not have sufficient resources to build schools, to hire teachers, to buy books, and so forth. Give them some money so the argument runs, for those purposes and illiteracy will be abolished.

But illiteracy is also a political weapon. Illiteracy to a considerable extent is artificially and on purpose maintained by the powers that be because illiterate peasants are more easily governed than peasants who can read and thereby absorb dangerous ideas, and who can write and thereby disseminate dangerous ideas.

It is not by accident that in many States of the Confederacy criminal statutes prohibited the teaching of reading and writing to the slaves, for reasons very similar to those which are in good measure responsible for illiteracy today in the underdeveloped world.

So let me say in conclusion that foreign aid within the framework of American foreign policy is an infinitely more complex issue than we are led to believe, especially through the false analogy with the success of the Marshall plan. I am all in favor of foreign aid to an undeveloped nation which is on the road to development, because it has developed out of itself the moral and rational and political preconditions for development. But where those preconditions do not exist, I am convinced that no amount of foreign aid can create them. And I think the disrepute into which foreign aid has fallen in our country within Congress and the population at large is in good measure the result of those exaggerated and naive expectations and the indiscriminate use of foreign aid in situations where its success is simply impossible.

Thank you very much.

(The prepared statement of Mr. Morgenthau follows:)

PREPARED STATEMENT OF HANS J. MORGENTHAU

INTRODUCTION

It is instructive, and also disquieting, that the following letter I wrote to the editor of the *New York Times* and which was published on March 7, 1958, can still serve as introduction to the statement I have the honor of making 12 years later:

"Every year when spring approaches the nation engages in a debate on foreign aid.

"The Administration tries, as it were, to sell a certain amount of foreign aid to Congress, and Congress refuses to buy that amount. If Congress appropriates much less than the $3.9 billion requested, the President has just told us, we will have 'a beleaguered America, her freedoms limited by mounting defense costs and almost alone in a world dominated by international Communism.'

"Congress, unimpressed by such hyberbolic statements, has in the past not been deterred from slashing appropriations for foreign aid. There is little doubt that Congress will not be impressed this time, either.

"Responsibility for this sad and dangerous state of affairs lies primarily with the Administration, which has not been able to convince the American people that it must have $3.9 billion because it has not presented to the people a rational and intelligible program for foreign aid, because no such program exists.

"In the absence of a well-thought-out and coherent aid policy, oriented toward and subordinated to the political objectives of our foreign policy, the Administration asks the people to buy a package whose contents they must take on faith.

"The question before the Administration, Congress and the American people is not whether or not we ought to have a policy of foreign aid. To ask that question is as senseless as to ask whether or not we ought to have a foreign or military policy. Nor does it make sense to limit the inquiry to asking how much money we ought to spend for foreign aid.

"The really vital question, which hardly anybody bothers to raise, concerns the kind of policy of foreign aid we ought to have. As it has developed in recent years our policy is fundamentally weak. It has been conceived as a self-sufficient technical enterprise, covering a multitude of disparate objectives and activities, responding haphazardly to all kinds of demands sound and unsound, unrelated or only by accident related to the political purposes of our foreign policy.

"Whenever an Administration has been able to demonstrate the existence of that relationship, as it did in the cases of the Marshall plan and of aid to Greece and Turkey, the people have supported its policy and they did not ask how much it might cost. If the Administration knew what it wanted in terms of foreign aid, it would get from Congress what it wants in terms of money.

"But by mistaking the methods of the medicine man for those of the statesman it defeats its own policy. For political medicinemanship may work, at least for the time being, in a totalitarian country. But it is the very measure of the vitality of the democratic spirit in America that it does not work, even on a bipartisan basis, with the American people.

"The American people, at least in the long run, seem to prefer statesmanship, however partisan, to medicinemanship, however bipartisan. Their assertion of their critical faculties is a heartening experience. And it renders the more inexcusable the failure of the Administration to think hard about foreign aid and to develop a policy which makes sense in terms of the political objectives of the United States, putting such a program before the American people as it is, without frills or tricks. If this were done, the country would support, as in the past, what it is convinced it needs for survival.

"The danger is great that if the Administration does not change its approach quickly and drastically, foreign aid will share the fate of the League of Nations and for similar reasons: a sound purpose faultily conceived and inadequately presented and hence rejected by the American people. Yet while we had time to recover from the failure to commit our political and military strength to our interests in the inter-war period, it is not likely that history will allow us to retrace our steps if we should now fail to support our political objectives throughout the world with our economic strength."

The burden of my argument is twofold. First, one must distinguish sharply between foreign aid for political purposes and foreign aid for economic development. Second, foreign aid for economic development has a chance to be successful only within relatively narrow limits which are raised by cultural and political conditions impervious to direct outside influence.

Foreign Aid for Political Purposes

Foreign aid for political purposes is about as old as foreign policy itself. Bribes proffered by one government to another for political advantage were, until the beginning of the nineteenth century, an integral part of the armory of diplomacy. It was proper and common for a government to pay the foreign minister or ambassador of another country a pension. Nor was it regarded less proper or less usual for a government to compensate foreign statesmen for their cooperation in the conclusion of treaties. The Prussian Ambassador in Paris summed up well the main rule of this game when he reported to his government in 1802: "Experience has taught everybody who is here on diplomatic business that one ought never to give anything before the deal is definitely closed, but it has only proved that the allurement of gain will often work wonders."

Much of what goes by the name of foreign aid today is in the nature of bribes. The transfer of money and services from one government to another performs here the function of a price paid for political services rendered or to be rendered by the recipient. These bribes differ from the traditional ones in two respects: They are justified primarily in terms of foreign aid for economic development, and money and services are transferred through elaborate machinery fashioned for genuine economic aid. In consequence, these bribes are a less effective means for the purpose of purchasing political favors than were the traditional ones.

The compulsion to substitute for the traditional businesslike transmission of bribes the pretense and elaborate machinery of foreign aid for economic results from a climate of opinion which accepts as universally valid the proposition that the highly developed industrial nations have an obligation to transfer money and services to underdeveloped nations to foster economic development. Thus, aside from humanitarian and military foreign aid, the only kind of transfer of money and services that seems to be legitimate is the one made for the purpose of economic development. Economic development has become an ideology by which the transfer of money and services from one government to another is rationalized and justified.

However, the present climate of opinion assumes not only that affluent industrial nations have an obligation to extend foreign aid for economic development to nations of the third world. It also assumes as a universally valid proposition that economic development can actually be promoted through such transfer of money and services. Thus economic development as an ideology requires machinery that makes plausible the assumption of the efficacy of the transfer of money and services for the purpose of economic growth. The government of Nation A, trying to buy political advantage from the government of Nation B for, say, the price of $20 million, not only must pretend, but also must act out in elaborate fashion the pretense, that what it is actually doing is giving aid for economic development to the government of Nation B.

The practice of giving bribes as though they were contributions to economic development necessarily creates expectations, in the donor and the recipient, which are bound to be disappointed. Old-fashioned bribery is a straightforward transaction: Services are to be rendered at a price, and both sides know what to expect. Bribery disguised as foreign aid for economic development makes of donor and recipient actors in a play which in the end they can no longer distinguish from reality. In consequence, both expect results in economic development which, in the nature of things, could not have been forthcoming. Thus both are bound to be disappointed, the donor blaming the recipient for his inefficiency and the recipient accusing the donor of stinginess.

Foreign aid for military purposes is a traditional means for nations to buttress their alliances. Rome used to receive tribute from its allies for the military protection it provided. The seventeenth and eighteenth centuries were the classic period of military subsidies, by which especially Great Britain endeavored to increase the military strength of her continental allies. This traditional military aid can be understood as a division of labor between two allies who pool their resources, one supplying money, material, and training, the other providing primarily manpower.

In contrast to traditional practice, military aid is today extended not only to allies but also to certain uncommitted nations. The purpose here is not so much military as political, for political advantage is sought in exchange for military aid. This kind of aid obligates the recipient to the donor. The latter expects the former to abstain from a political course that might put in jeopardy the continuation of military aid, which is thus really in the nature of a bribe.

What appears as military aid may also be actually in the nature of prestige aid, to be discussed below. The provision of jet fighters and other modern weapons for certain underdeveloped nations can obviously perform no genuine military function. It increases the prestige of the recipient nation both at home and abroad. Being in the possession of some of the more spectacular instruments of modern warfare, a nation can at least enjoy the illusion that it has become a modern military power.

As bribery appears today in the guise of aid for economic development, so does aid for economic development appear in the guise of military assistance. In the session of 1967, Congress, for instance, appropriated $600 million for economic aid to strategic areas, and it is likely that in the total appropriations for military aid in excess of $1 billion other items of economic aid were hidden. This mode of operation results from the reluctance of Congress to vote large amounts for economic aid in contrast to its readiness to vote for military purposes. Yet the purpose of aid for economic development are likely to suffer when they are disguised as military assistance, as we saw the purposes of bribery suffer when disguised as aid for economic development. The military context within such aid is bound to operate, even though its direct administration may be in the hands of the civilian authorities, is likely to deflect such aid from its genuine purposes. More particularly, it strengthens the ever-present tendency to subordinate the requirements of aid for economic development to military considerations.

Prestige aid has in common with modern bribes that its true purpose, too, is concealed by the ostensible purpose of economic development. The unprofitable or idle steel mill, the highway without traffic and leading nowhere, the airline operating with foreign personnel and at a loss but under the flag of the recipient country—they ostensibly serve the purposes of economic development and under different circumstances could do so. Actually, however, they perform no positive economic function. They owe their existence to the penchant, prevalent in many underdeveloped nations, for what might be called "conspicuous industrialization," and industrialization that produces symbols of, and monuments to, industrial advancement rather than satisfying the objective economic needs of the country.

For many of the underdeveloped nations the steel mill, the highway, the airline, the modern weapons perform a function that is not primarily economic or military but psychological and political. They are sought as symbols and monuments of modernity and power. Nehru is reported to have said, when he showed Chou En-lai a new dam: "It is in these temples that I worship."

The advantage for the donor of prestige aid is threefold. He may receive specific political advantages in return for the provision of aid, very much after the model of the advantage received in return for a bribe. The spectacular character of prestige aid establishes a patent relationship between the generosity of the giver and the increased prestige of the recipient: the donor's prestige is enhanced, as it were, by the increase of the recipient's prestige. Finally, prestige aid comes relatively cheap. A limited commitment of resources in the form of a spectacular but economically useless symbol of, or monument to, modernity may bring disproportionate political dividends.

It is in the nature of prestige aid that it is justified by the prospective recipient in terms of genuine economic development. The prospective donor, unaware of the distinction, is likely to fall into one of two errors. By mistaking prestige aid for aid for economic development, he will either waste human and material resources in support of the latter, while the purpose of prestige aid could have been achieved much more simply and cheaply. Or else he will reject out of hand a request for prestige aid because it cannot be justified in terms of economic development, and may thereby forego political advantages he could have gained from the provision of the aid requested.

Foreign Aid for Economic Development

These different types of foreign aid require the same kind of political judgment as do the other, more obvious methods of foreign policy, such as diplomatic inducements or military pressure. When we try to develop a sensible foreign-aid policy for economic development, we must take into account two other factors: The cultural and political conditions in the recipient country.

Since Western economic development, from the first Industrial Revolution onward, has been the result of the formation of capital and the accumulation of technical knowledge, we have tended to assume that these two factors would by themselves provide the impetus for the economic development of the underdeveloped nations of Asia, Africa, and Latin America. This tendency has been powerfully supported by the spectacular success of the Marshall Plan, conceived and executed as a strictly economic measure for the provision of capital and technological know-how. Yet it is not always recognized that this success was made possible only by the fact that, in contrast to the underdeveloped nations of Asia, Africa, and Latin America, the recipients of Marshall aid were among the leading industrial nations of the world, whose economic systems were only temporarily in disarray.

By contrast, many of the underdeveloped nations suffer from cultural and political disabilities which stand in the way of economic development and which cannot be removed by foreign aid. A civilization, for instance, which depreciates success in this world because it stands in the way of success in the other world, which is the only success that counts, puts a cultural obstacle in the path of industrial development which foreign aid by itself cannot overcome. Saving—that is, the accumulation of capital or goods for future use—has become so integral a part of our economic thought and action that it is hard for us to realize that there are hundreds of millions of people in the underdeveloped areas of the world who are oblivious to this mode of operation, indispensable to economic development. We have come to consider the productive enterprise as a continuum in which the individual owner or manager has a personal stake. Yet in many underdeveloped areas the productive enterprise is regarded primarily as an object for financial exploitation, to be discarded when it has performed its function of bringing the temporary owner a large financial return in the shortest possible time. Foreign aid poured into such a precapitalistic and even prerational mold is not likely to transform the mold, but rather it will be forced by it into channels serving the interests of a precapitalistic or prerational society.

The economic interests that stand in the way of foreign aid being used for economic development are typically tied in with the distribution of political power in underdeveloped societies. The ruling groups in these societies derive their political power in good measure from the economic status quo. The ownership and control of arable land, in particular, is in many of the underdeveloped societies the foundation of political power. Land reform and industrialization are therefore an attack upon the political status quo. In the measure that they are successful, they are bound to affect drastically the distribution of economic and political power. According to the *New York Times* of March 11, 1970, the head of the Indian Affairs Department of Salta Province in Argentina was dismissed because "I stepped on the toes of too many landholders and others who benefit from Indian poverty." Even illiteracy which we tend to attribute to poverty, is frequently a weapon in defense of the status quo. It is perpetuated on purpose, for illiterates are more likely to be quiescent than people who are able to absorb ideas by reading and disseminate them by writing.

Yet the beneficiaries of both the economic and political status quo are the typical recipients of foreign aid given for the purpose of changing the status quo! Their use of foreign aid for this purpose requires a readiness for self-sacrifice and a sense of social responsibility that few ruling groups have shown throughout history. Foreign aid proffered under such circumstances is likely to fail in its purpose of economic development and, as a bribe to the ruling group, rather will strengthen the economic and political status quo. It is likely to accentuate unsolved social and political problems rather than bring them closer to solution. A team of efficiency experts and public accountants might well have improved the operations of the Al Capone gang; yet, by doing so, it would have aggravated the social and political evils that the operations of that gang brought forth.

Given this likely resistance of the ruling group to economic development, foreign aid requires drastic political change as a precondition for its success. Foreign aid must go hand in hand with political change, either voluntarily induced from within or brought about through pressure from without. The latter alternative faces the donor nation with a dual dilemma. On the one hand, to give foreign aid for economic development without stipulating conditions that maximize the chances for success maximizes the chances for failure. On the other hand, to give aid "with strings" arouses xenophobic suspicions and nationalistic resentments, to be exploited both by the defenders of the status quo and by the promoters of revolution.

The promotion of drastic social change on the part of the donor nation creates the precondition for economic development, but it also conjures up the specter of uncontrollable revolution. In many of the underdeveloped nations, peace and order are maintained only through the ruthless use of the monopoly of violence by the ruling group. Determined and skillful foreign intervention may not find it hard to weaken the power of the ruling group or to remove it from power altogether. While it may be able to control events up to this point—that is, to instigate drastic reform and revolution—it may well be unable to control the course of the revolution itself.

Successful foreign aid for economic development may have similar unsettling political results. Economic development, especially by way of industrialization, is likely to disrupt the social fabric of the underdeveloped nation. By creating an urban industrial proletariat, it loosens and destroys the social nexus of family, village, and tribe, in which the individual had found himself secure. And it will not be able, at least not right away, to provide a substitute for this lost social world. The vacuum thus created will be filled by social unrest and political agitation. Furthermore, it is not the downtrodden masses living in a static world of unrelieved misery who are the likely protagonists of revolution, but rather those groups that have begun to rise in the social and economic scale but not enough to satisfy their aroused expectations. Thus, economic development is bound to disturb not only the economic status quo but, through it, the political status quo as well. If the change is drastic enough, the social and political effects of economic development may well amount to a prerevolutionary or revolutionary situation. And while the United States may have started the revolutionary process, it has no control over the auspices under which it will be ended.

Thus we arrive at the disconcerting conclusion that successful foreign aid for economic development can be counterproductive if the donor nation's goal is the recipient's social and political stability. In some cases at least, the failure of American aid for economic development may have been a blessing in disguise in that it did not disturb a status quo whose continuing stability was our main interest.

Foreign aid for economic development, then, has a very much smaller range of potentially successful operation than is generally believed, and its success depends in good measure not so much upon its soundness in strictly economic terms as upon intellectual, moral, and political preconditions, which are not susceptible to economic manipulation, if they are susceptible to manipulation from the outside at all. Furthermore, the political results of successful foreign aid for economic development may be either unpredictable or counterproductive in terms of the goals of the donor nation. In any event, they are in large measure uncontrollable. Foreign aid proffered and accepted for purposes of economic development may turn out to be something different from what it was intended to be, if it is not oriented toward the political conditions within which it must operate. Most likely, it will turn out to be a bribe or prestige aid, or else a total waste. To do too much may here be as great a risk as to do too little, and "masterly inactivity" may sometimes be the better part of wisdom.

Representative Reuss (now presiding). Thank you, sir.

Mr. Harriman. May I make this comment to show that I am not in variance with anything he said on agreement. It was not just the infusion of money that made the Marshall plan a success. There were certain principles that led to it—regional common markets, the principle of self-help and mutual aid, a multiyear program, U.S. influence in helping to eliminate damaging economic and social customs, et cetera. I did not want Mr. Morgenthau to think that I was not fully alert and alive to the differences between the two situations. But there are certain principles which were essential to making the Marshall plan a success. Just money would not have done it, sir. These principles can be applied to the developing countries.

I think, Mr. Chairman, you had something to do with it. And I think you understand what I am talking about.

Representative Reuss (presiding). I am very proud of having been your lawyer some years ago. I would say, trying to be objective about it, that things were done about right in 1948, and we have been going downhill ever since.

Representative CONABLE. Mr. Chairman, I wonder if it would be possible to have all the statements before we go on with the questioning. I am concerned about the possibility of an early termination because of a meeting of the House.

Representative REUSS (presiding). If you will withhold your questioning, then, we will ask Mr. Warnke to proceed.

STATEMENT OF PAUL C. WARNKE, ATTORNEY AND FORMER ASSISTANT SECRETARY OF DEFENSE FOR INTERNATIONAL SECURITY AFFAIRS

Mr. WARNKE. With your permission, Mr. Chairman, I will not read my prepared statement, with the expectation it will be printed in the record. I will try to conserve time by just highlighting it.

Representative REUSS (presiding). Under the rules your prepared statement will be printed in the record.

You may proceed, and do not stint yourself on time.

Mr. WARNKE. As I have indicated in my prepared statement, the question is obviously too big to be dealt with in any sort of a short-written statement, and certainly not in my testimony. The question of U.S. foreign policy toward developing countries is obviously going to differ from country to country and from time to time, and also depending upon the objectives.

What I have endeavored to do, since I cannot pose as an expert on economic aid, is to try and isolate the security component insofar as that influences a foreign assistance program.

I feel slightly more confident in doing that because I had for a brief period of time some responsibility for the military assistance program.

I think that in concentrating on the problem from the standpoint of isolating the security component you can break that down into two large groups. One is the factor of global security, or a global survival problem. We obviously have a security interest in the fate of any developing nation—and in particular we have a definite interest in the fate of the very large nations which remain tragically underdeveloped—from the standpoint of the degradation of the environment and the kind of world in which we, and even more particularly our children and grandchildren, will live.

This may be the overriding security consideration in the larger, non-national sense.

But in my prepared statement I have endeavored to separate out our foreign policy toward the developing countries, with respect to our own national security interest. I think it is important to do so not only for the somewhat simplistic reasons that I have suggested in my prepared statement, but also because of the larger reason to which Professor Morgenthau has adverted.

Quite frequently you can find that American aid has the effect of preserving the status quo. It has the effect of preventing the needed changes in the political and social institutions which in fact are responsible for keeping the masses of the people in impoverished conditions.

Under some circumstances we may have a predominant national security interest which makes it necessary for us for at least a short period of them to be more interested in stability within a particular nation than we are interested in growth. I think that these circumstances are mercifully few, and over a period of the next few years they should become fewer.

For example, in breaking down the developing countries for the purposes of security analysis I have suggested that there might be three groups. I have also suggested that one of those groups might become an anachronism within what I would hope would be a very short span of time. That of course is mainland Southeast Asia.

At the present time we have to be concerned with respect to the developing countries of Southeast Asia primarily from the security standpoint because we are still engaged in a major shooting war there. Accordingly, we have found ourselves in the position of supporting a narrowly based military government in South Vietnam. At such time as we are able to disengage, then it will no longer be necessary for us, for any continuing security interest, to support any particular status quo. We could look at the countries of mainland Southeast Asia at that point from the standpoint of our ability to contribute to their own economic and social growth.

At the present time, however, we are not in that objective and highly-to-be-desired position.

Secondly, I have suggested that there is a group of countries in which we will have a continuing national security interest. Obviously these include the NATO nations that are still to some extent in the developing category. We have, as you all know, a military assistance program still with countries such as Turkey and Greece. Now, Greece, I think, illustrates the dichotomy that exists, and it illustrates the problem that is created if you fail to separate out your own national security interest from the overriding interest in the development of an underdeveloped country.

In considering, for example, the question of the resumption of arms assistance to Greece, I think that we cannot look at that, regrettably, solely from the standpoint of whether or not we feel that Greece is developing in a fashion which will fulfill the aspirations of its people.

We have instead to consider the fact that Greece remains a member of NATO. And accordingly, in connection with our decision with respect to arms assistance to Greece, we have to determine whether resuming arms assistance will help NATO, or whether on the other ehand it might harm NATO. My own personal view is that resumption of heavy arms assistance would not be in our interest, certainly not from the standpoint of the overriding interest in the healthy development of developing countries, and also not in our own national security interest.

In my opinion it would be more disruptive of the unity which is required in NATO than it would be productive in terms of shoring up one part of the total NATO alliance.

Now, similarly, when you get to the situation in Asia outside of mainland Southeast Asia, we cannot be indifferent to the national security considerations which still exist. We have to take a look at aid to Korea, for example, not only from the standpoint of our interest in the further economic development of South Korea, but also from the standpoint of the stability which that economic development contributes to the Asian area, which involves our own security interests because of the fact that we have in excess of 50,000 American troops there.

We are tied to South Korea by a security alliance, and an outbreak of widespread hostilities would again present us with the problem of becoming engaged in a major war.

So that in this instance too, just as in Western Europe, we have continuing a national security interest which at least for the time being has to override the overall interest in effective economic assistance.

Now, a third area—and I have discussed it very briefly because I have practically nothing constructive to say about it—is the Middle East. There, too, we have not only an interest in the development of the underdeveloped countries, but also a national security interest. Not the same kind as we have in Western Europe, because it is not as essential to us from the strategic standpoint, but nonetheless we have deep emotional ties to the area which make any continuation or escalation of the violence a matter of the gravest security concern to the United States.

In addition to that, of course, it does present the greatest present risk of the ultimate confrontation between the United States and the Soviet Union.

I have suggested in my prepared statement that despite our inability on any kind of a four-power basis to try and workout some sort of a solution to the continuing festering hostility between the Arabs and the Israelis, perhaps some degree of cooperation over a period of time can be achieved with the Soviet Union, with Britain, and with France, to try and do what we can to encourage development in the Arab nations. And with that development they may have less of a preoccupation with the continuing existence of the state of Israel.

Now, those in my opinion, Mr. Chairman, are the instances in which our foreign policy toward developing nations is necessarily affiliated with our own national security considerations. And I think that these are the only instances. When it comes to the rest of the developing world our primary concern quite rightly can be directed toward the way in which they develop and the way in which this will contribute to a livable world for the 1970's, and on into the 21st century.

Involved in that balance, the countries in which our primary interest does not have to be our national security is most of the population of the world. It involves such countries as India and Indonesia. It involves the Western Hemisphere.

I have suggested that we have to consider central Asia and the African Continent in a somewhat separate category than we do the Western Hemisphere because of obvious considerations of history and geography. We have certain responsibilities toward the Western Hemisphere which may be greater and certainly are more unique and more particular to us than those which exist when it comes to the Asian subcontinent, or even sub-Saharan Africa.

But our emphasis with respect to our development programs and our development interest in these categories of countries can and in my opinion should be separated out from any consideration of our own territorial integrity or narrow national security.

The way in which these countries develop is not going to bring us any closer to external aggression. It is not going to increase any overt danger that we as an individual people may encounter in the world of the future.

And therefore I would suggest that, in considering our programs with respect to these countries, we can consider them on an objective basis and consider whether the kind of aid we are giving is helpful from the standpoint of increasing the standard of living of the people of the country, or whether in fact these programs may contribute only to the preservation of the status quo, and thus in the longrun be counterproductive.

If I can give one final illustration in an effort to show the kind of distinction that I am endeavoring to make, I would like to talk about the question of military assistance to Latin America which, as the chairman knows, is a matter on which I was rendered fairly bloody by a number of committees during my stay in the Government.

Now, the problem of military assistance to the Latin American countries is that we have not really separated out in our own minds whether we are concerned with aiding the countries or aiding ourselves. In determining the size of the military groups, or the necessity for a continuation of a military training program, two justifications basically have been given. One of them is the importance of maintaining this sort of military nexus for purposes of hemisphere defense.

Quite frankly, I consider the possibilities of having to engage with Brazil and Argentina in a hemisphere defense program in order to keep the sea lanes open because of a protracted war at sea are just about so remote as to be in my opinion disregarded.

So accordingly we are thrown back on the other justification for military assistance, which is the question of the maintenance of American influence.

Now, the suggestion has been made that the class in these Latin American countries that is going to come into leadership is by and large the military leaders, and that accordingly it is important for us to maintain a significant military advisory presence and military advisory programs, so that we have the opportunity to mold their minds toward democratic ideals.

As an objective I think it is highly commendable. The question I would raise, however, is whether there are not perhaps more efficient means of doing what we can to shape the direction of developments in South America toward the kind of societies that we feel should constitute and help make up the kind of world in which we want to live.

Thank you very much.

Chairman BOGGS. Thank you, Mr. Warnke.

We will place your prepared statement in the record at this point.

(The prepared statement of Mr. Warnke follows:)

PREPARED STATEMENT OF PAUL C. WARNKE

U.S. FOREIGN POLICY AND THE DEVELOPING COUNTRIES

Mr. Chairman: The complexity of the topic impels a high degree of modesty in asserting my views. This is compounded by the far greater qualification of the others appearing today to provide the Committee with meaningful comment. The interests of the United States in the developing countries of the world are at least as varied as the countries themselves. Moreover, our interests in any individual country vary from time to time and, at any one time, encompass both over-all considerations of global application and special considerations arising from the particular relations between that country and the United States.

As one who for a brief period had responsibility for the military assistance program, I believe that this U.S. national security-related assistance to developing countries should be considered and administered entire apart from non-security-related aid to these countries. Accordingly, I agree with the approach set forth both in the report of the Pearson Commission on International Development and the report issued by the White House Task Force chaired by Rudolph Peterson.

In the past, at a time when we felt our security gravely threatened by Communist expansionism, we could view assistance to the less developed countries of the world primarily as a means of securing their affiliation with our side in a bitterly bipolar world. I doubt whether today this is a useful way to perceive our major foreign policy interests in the less developed countries. Certainly it is not a way to secure the support of the developing generation, either in this country or elsewhere in the world. My strong impression is that young Americans tend to view our policy of aid for the developing countries as an adjunct of an outmoded cold war policy. They appear, or at least profess, to see in it little but a selfish concern for keeping as many countries as possible dependent upon and thus controlled by the United States rather than the Soviet Union or Communist China.

As I see it, we cannot totally ignore security considerations in taking a look at our foreign economic policy for the 1970's. But these security considerations, I believe, deserve to be dealt with separately from the general question of development assistance and we ought to recognize that, in the great majority of instances, our interest in and concern for the developing countries is unrelated to our own national security.

In making this last statement, I should point out that I am using the term national security in the narrow sense of our own territorial integrity. The way in which the less-favored nations of the world develop or fail to develop can, in my opinion, have little or no impact on our vulnerability to external attack. The ideological make-up of a government of a small and weak country should very rarely if ever be of any major security concern to the United States alone. To the extent that events in the less developed countries have any security impact on us, the same impact is experienced proportionately by all the other nations of the world. As a member of the world community, we have to be concerned with global survival. The concern is both humanitarian and pragmatic. We cannot disregard the impact on us, and even more acutely that on our children and grandchildren, of the continued degradation of the world environment. We cannot view with equanimity the prospect of a world population which within the next few decades will be many times the current total. We have to recognize that even imperfectly controlled population growth threatens to overtax world resources. Unchecked growth will render our world, in any meaningful sense, unlivable. Our basic security is gravely threatened by the continued inability of emerging societies to engage the talents of their people in useful and rewarding employment. We can hardly look with optimism to a future which, unless changed, would see the per capita income of the United States by the year 2000 at a level of $10,000 while that of Brazil, the largest country in the southern half of our own hemisphere, would be only about $500.

The security challenge of the developing nations of the world will not depend primarily upon their choice of economic systems or between competition ideologies. It will rest instead in the ability of the advanced nations, working with them, to solve the grievous problems of economic and social development while their populations threaten to double and triple and further strain their fragile social institutions. Our genuine security interest will turn not on whether an emerging country can be turned into a bastion of anti-Communism but on whether it can become an effective and functioning member of the world community.

For this purpose, we need a foreign policy structure that can deal with development assistance in terms basically unrelated to defense alliances or mutual security pacts. Such assistance increasingly will be channeled through international groups. Our specific defense interest will usually prove, I believe, to be so remote as to be insubstantial. Moreover, separating out the security interest in development may serve to allay the apprehensions of some who fear that even the first effort toward economic assistance can put us on the slippery slope to "more Vietnams."

In addition to the common interest that we all share in the developing nations, each of the richer countries of the world obviously has special individual interests which are bound to be reflected in its foreign policy. As the world's richest nation, moreover, we have more—and more varied—special interests perhaps than any other. For purposes of foreign policy analysis, it may be helpful to try and group the less advanced countries of the world into five categories. At the outset, I would have to admit that these categories are not mutually exclusive and that they are necessarily over-simplified and even may disregard some of the subtleties that exist in any bilateral relationship between nations. For my own purposes, however, I find the classification useful. I hope that you may.

The five categories I would like to discuss are, first, our foreign policy toward Mainland Southeast Asia; second, our foreign policy toward developing countries with an appreciable relationship to our direct national security; third, foreign policy in the infinitely troubled and troubling area of the Middle East; fourth, our foreign policy with respect to developing countries in Africa and the Asian subcontinent; fifth, our foreign policy insofar as it relates to the developing countries of Latin America.

The first category is one that I acknowledge to be separate, but only with considerable regret. Our assistance to South Vietnam, to Laos, to Thailand is inescapably affected by our security interests because we remain engaged in a major shooting war in that area. The immensity of our military effort, at a cost which dwarfs our economic aid world-wide, obviously precludes any present effort to view our relations with Southeast Asia with a fresh perspective. Hopefully, despite the present apparent reversal in direction, our military involvement can be ended in the foreseeable future. Thereafter, I think we might well consider whether our security interests require that we pursue a foreign policy that would seek to ring China on the Asian mainland with hostile small states dependent on us for military capability. Instead, we might conclude that our relations with these countries can become one of pure development assistance rather than, as at present, military aid with a secondary and derivative effort at economic assistance. Instead our concentration on their economic health and social development can contribute substantially to a policy of global survival. We will probably find that a combination of the national strength that comes from healthy social and economic growth, together with a genuine neutrality, is the best insurance against externally supported insurgency.

While the war continues, however, the dominating influence in our relations with Southeast Asia is of a security rather than a developmental nature. As I have previously suggested, I would hope that this separate category can shortly be regarded as obsolete. In its place, we should be able to substitute a cooperative program of regional development under auspices such as the Mekong Committee of the United Nations.

The second group of developing countries includes those in which we have a continuing, direct national security interest. Our programs of economic assistance started, of course, with our successful effort to restore the shattered strength of Western Europe and prevent further extension of Soviet power in the post-World War II era. Our foreign policy toward such countries as Turkey, Iran and Greece retains today a significant security component. Their economic or social collapse inevitably would create temptations for the Soviet Union and serious apprehensions for our allies in Western Europe.

Similarly, our foreign policy toward Korea and the island nations of the Pacific retains a security cast and must do so until it becomes possible to develop productive relations with China. Under present world circumstances, we must be pleased with the considerable economic progress of South Korea not only for itself but because the resultant stability helps deter an outbreak of widespread hostilities on that peninsula. The spectacular phenomenon of post-war Japan similarly is not only a good in itself but holds the greatest promise for regional cooperation and development. Countries such as Indonesia, Malaysia and the Philippines stand to benefit most from our stepped-up efforts to work with the Japanese, and with Australia and New Zealand in multilateral efforts.

These efforts obviously contribute to our security insofar as they bring greater stability to the area and hence less opportunity for Chinese-sponsored "wars of liberation." In the long run, however, our foreign policy should be, not to confront China, but to bring that immense aggregate of wasted talent into meaningful participation in regional progress. Opening this vast reservoir of unfilled wants can be a major spur to the immense productive potential of Australia and New Zealand as well as that of Japan.

As a third group, I think we must deal separately with the developing countries of the Middle East. From the standpoint of our national security, the area is of limited strategic significance. But despite geography and our lack of dependence on Arab oil, the security considerations for us are obvious and grave. They derive from our concern for the survival of Israel as well as from our traditional relationships with several of the Arab nations. The inability of the Arab countries and Israel even to begin any meaningful dialog means that the war begun in June of 1967 has never really ended. It continues to present the greatest risk of confrontation between the United States and the Soviet Union. In addition to the complex political issues that must somehow be faced, the unrest in the area is greatly compounded by the parlous condition of the Arab masses. We must somehow find a way in which we can reach some understandings with the Soviet Union that will permit multi-national efforts to ameliorate this condition. Four-power efforts with the Soviets, Britain and France have made little progress on the political front. Perhaps such efforts could be more successful if directed toward cooperation in economic development.

The fourth category includes central Asia and the African continent. The Asian subcontinent is of major concern because it contains too many people to be ignored. From the standpoint of a policy of global survival, India can be crucial to the preservation and improvement of the quality of life over the next few decades. In my opinion, our policy toward India and Pakistan, as well as our policy toward the sub-Saharan African nations, has little to do with our individual security. In determining policy toward India and Pakistan, we should, I believe, forget completely any idea of their use for close-in containment of Communist China. The threat to world security is not that the Chinese or the Soviet Union may embark on the folly of overrunning and occupying India. The risk is that by allowing a major segment of the total world population to fester in misery, we may tolerate a continued degradation of the world environment. With respect to the African nations, our interest similarly can be focussed in realistic development terms. From the standpoint of American security, they are almost irrelevant. But their special interest for the American people makes their welfare a matter of major importance.

Finally, as a separate category because of both geography and history, I would put our relations with the States of Latin America. In this instance, my personal view is that we have given security considerations undue prominence in our policy toward our southern neighbors. As a consequence, we have tended to be regarded as supporters of an inequitable status quo. There is increasing reason to believe that without substantial change there can be no stability in these countries. The process of change in the social and political institutions of Latin America is thus not only inevitable but is in our long-run interest. If in fact the beginning of the Twenty-First Century finds the largest and richest country of South America with a per capita income 1/20th of our own, we can expect neither stability nor the kind of a hemisphere in which our own society can thrive or even survive.

In the past decade, we have had reason to learn that the real risk in our hemisphere derives not from possible Communist insurgency or the export of revolutionists from Castro's Cuba, but from the inability of the political and social institutions of these countries to meet growing needs and problems of their people.

This breakdown is, I recognize, overly simplistic. I am sure it is overly derivative. I hope, however, that it demonstrates the necessity for a flexible and continuously re-examined set of policies toward the developing nations of the world. Our experience in the past decade has given us reason to learn the limits of U.S. military force in shaping the developing areas. This recognition, however, should not lead us to adopt a policy of isolation and indifference. The kind of nation we are and want to be cannot survive as an oasis of plenty surrounded by countries that are hungry and resentful.

Chairman BOGGS. We will withhold questions and ask Mr. Grant to present his contribution at this time.

STATEMENT OF JAMES P. GRANT,[1] PRESIDENT, OVERSEAS DEVELOPMENT COUNCIL AND FORMER ASSISTANT ADMINISTRATOR, AID

Mr. GRANT. Thank you, Mr. Chairman.

Others here today have spoken effectively to the more traditionally defined foreign policy concerns of the United States with the developing countries. As can be seen from my title, I have chosen to focus on the shifting nature of the relationship of Americans to the peoples of the developing countries. Our interest in them is increasingly that of fellow citizens on a rapidly shrinking, much more crowded, and vastly more fragile planet. The cold war interest which dominated our relationship with the developing countries in the 1950's and the early 1960's is declining relatively.

CROSS CURRENTS TODAY

U.S. attitudes and relationships with the developing countries in 1970 reflect the fact that the United States is coming to the end of one era with respect to our relationships with the majority of the Nations of Latin America, Africa, and Asia, and that we are at the beginning of a new era, still only faintly defined.

The cross currents are many. Thus, we are far more intimately involved with the developing countries in our daily concerns than, say, 10 years ago. East Asia has become our fastest growing trading partner by far. Asia, despite the almost unbelievable increases in cereal production resulting from the "Green Revolution," is now the United States' largest market for agricultural products. International tourism has soared many fold, with millions now visiting our Latin American neighbors and hundreds of thousands visiting Asia each year.

But in contrast to these trends, the last several years have witnessed the United States reducing its foreign policy interest and aid involvement in the progress of these countries. For example, a community meeting or university seminar which focuses on the problems of some particular nation, like India or Colombia, tends to attract fewer participants and much less general interest than at the beginning of the 1960's. Numerous centers in the United States for study and research on the developing countries report declining support from private or public funds, or foundation grants.

Additionally our development assistance has been dwindling, both in relative and in absolute terms, 7 years ago we provided about $3.6 billion in foreign aid, which was roughly six-tenths of 1 percent of our GNP. In 1970 our aid contribution will be only about $3 billion, or only three-tenths of 1 percent of a much richer economy. In 1971 and 1972, the actual flow of U.S. aid should decline further on the basis of decisions already taken. Our aid to that most populous of developing countries, India, has declined by half since the mid-1960's.

This U.S. cutback in aid is taking place as the economic growth

[1] Mr. Grant is testifying in his personal capacity only, and the views and opinions he expresses do not represent those of the Overseas Development Council, its directors, officers, or staff.

objectives of the developing nations, in terms of growth of GNP, are being achieved to a far greater extent than even the optimists of 1960-61 dared to expect. In the 1960's, the 1½ billion people of the developing countries of the non-Communist world increased their output by an average of 5 percent annually for a decade, the fastest decade of growth they have ever known. This is a much faster growth rate than that experienced by Europe or North America during comparable periods of their development. Even more important, an American-assisted agricultural breakthrough of massive proportions has begun to sweep across the vast population mass of Asia, in what has been aptly described as a "Green Revolution." This year the annual increase in grain production, resulting solely from use of the new seed varieties introduced in the past 5 years, should begin to approach the total annual wheat crop of the United States. Despite this reassuring progress, our assistance is lessening.

In still another contrasting trend, however, there is a new growing area of concern with the developing countries, but not in the traditional terms of foreign policy questions. Instead, there is an extraordinarly rapid increase of concern in the global problems of overpopulation, hunger and environmental pollution. These topics attract thousands of intensely interested and energetic participants to meetings throughout the Nation.

THE NEW GLOBAL POLICY NEED

This new trend of concern reflects the new dimension of U.S. interests which is beginning to emerge from the growing interdependence of the world, the full extent of which is still not fully perceived, and may not be for another decade. These new interests currently are not encompassed under our present definitions of either foreign or domestic policy. A new term, possibly "global policy" or "global interdependence policy" may be required to encompass this new category of national interests.

By a new era of "interdependence" I do not intend to suggest that traditional power politics have disappeared, nor that there will cease to be conflicts between nation States.

What I am suggesting is that there is a new dimension to international relations of the future. We lack precise terminology for this new dimension, but it is related to recent technological advances and to that view of our planet which we have seen with our moon explorers, the view of "spaceship earth" with its fragile "precious envelope" of air and water which sustains all life.

What we must face up to and reckon with now is the fact, not the hypothesis, of an increasingly interrelated global system wherein we all depend on one another—not merely for security or prestige or wealth as in the past, but interdepending one with the other for life itself.

A forward-looking policy will take this new dimension into account.

Not surprisingly, the widest acceptance so far of this new dimension is to be found among those who will be affected most fully by the consequences of our rapidly changing world environment, our youth. But senior groups comprehend it too. For example, the Pearson Commission report defines this interrelatedness in terms of the "global village." The report of the President's Commission on International Development in the 1970's, chaired by Rudolph Peterson, speaks of the "common interest in building and maintaining a global environment in which each can prosper."

We know, of course, that the U.S. interest in the developing countries in the early part of this century was primarily inspired by humanitarianism and the potential for trade. This was best evidenced by our approach to China, involving thousands of missionaries and the famous "Open Door Policy." In the post-war era, our massive development efforts in Asia, Africa, and Latin America were motivated by a combination of humanitarian interests and cold war competition, with heavy emphasis on the latter. But as the confrontation with the Communists has waned in the developing countries, we have maintained the full vigor of our economic effort only in that region where the cold war has remained intense: Southeast Asia.

The new version of U.S. interest in the world around us is emerging as a byproduct of the technological explosion which has swept the world in recent years. Communication satellites are bringing vastly improved intercontinental telecommunications. At the same time technology is bringing us physically closer, as world travel times were halved in the 1960's and will be halved again within 10 years, with the advent of the SST.

Meanwhile, the increasingly visible gap between the per capita incomes of the rich nations and the poor nations is widening rather than narrowing, both relatively and absolutely. In the somewhat misleading terms of GNP, the incomes of the poorest third of the world are still less than $100 per capita and may not reach $200 before the year 2000. At the same time, the United States has increased its GNP per capita from $2,000 to more than $4,000 in the past 20 years, and may reach close to $10,000 by the end of this century.

Concurrently, the world population explosion is making this planet more crowded on an increasingly rapid basis. The present world population of 3½ billion people will almost certainly exceed 6 billion in another generation, and will quite possibly double again to 12 billion or more, even with a "successful" population control effort. Not generally recognized is the fact that in countries with a pyramidal population structure in which the young out number the old, such as in the United States and even more so in the developing countries, the population continues to grow long after families begin to reproduce themselves on a one-to-one basis. Thus, if the United States were to go to a one-to-one basis today, with two children per family to express it differently, our 205 million population would still increase to nearly 300 million before it stabilized.

Most developing countries, if they were to reach one-to-one basis in the year 2000, would more than double their population thereafter before stabilization took place. Growing awareness of the threat to planetary ecology posed by uncontrolled human fertility may cause us to attack the global population problem with more vigor and urgency, to reassess existing policies and programs in light of new information.

The population explosion has enormous implications for the task of global development, which looks far bigger, and more complex politically and socially, than we thought a few years ago. We appear to be faced with technological and economic adjustment problems on a global scale never envisaged in human history.

Let me explain what I mean by "global adjustment." We have for many years become accustomed to thinking of the population problem primarily as a problem of food supply—"how can we feed all these people?" But the spectre of world famine has been pushed back by recent progress in agricultural production, both in the developed and developing countries.

Today, the population problem appears more likely to threaten society in two different aspects: By aggravating the world's environment, and by unprecedented levels of unemployment in many areas of the developing countries, and in most of their major cities in particular.

The question of the food supply is no longer, "Can we produce enough food?" but "What are environmental consequences of doing so?" and "Are there enough jobs so that people can earn the money needed to buy food?"

The ever-increasing amounts of fertilizer, pesticides, and DDT required to provide food for the developing countries, with their rising incomes and exploding populations, can ultimately affect the rich countries just as surely as the fallout from a nuclear explosion. The DDT flowing into the rivers of India can affect fish eaten in the United States, and vice-versa.

With respect to unemployment in poor countries, there has been until recently a tendency to regard this merely as symptomatic of under-development. However, despite the rapid growth of GNP in a number of developing countries in the last decade, there has been a rise rather than decline in unemployment. At the present time, about one-fifth of the entire male labor force in developing countries is unemployed, and in many urban areas the population appears to be growing twice as fast as the number of urban jobs.

Recent assessments by David Morse, the Director General of the International Labor Organization, by Robert McNamara of the World Bank, and by Raul Prebisch of the Inter-American Development Bank, conclude that unemployment promises to become far worse in the 1970's, as the children of the population explosion of the 1950's and 1960's swell the labor force of the 1970's. New entrants to the labor force in the 1970's will be some 50 percent greater than in the 1960's. In some areas, notably Latin America, the increase will be well above the average for the developing countries.

The developing countries face a far more serious employment problem than did the presently developed countries during their comparable period of industrialization. Not only did the work forces of the latter grow by only 0.5 percent or so, as compared to the increase of 2.5 to 3 percent now facing the developing countries, but the technology of 50 and 75 years ago was far more labor-intensive than that being introduced into developing nations today.

These environmental and unemployment problems, if they continue to increase at current rates, will have profoundly serious implications. The United States today consumes some 40 percent of the world's production of nonreplenishable resources alone, and depending on the yardstick used, may contribute to the world pollution problem correspondingly. While, as is sometimes said, one American pollutes the biosphere more than 25 people in India, there is no question but that as the developing world becomes more populous, with rising incomes, it will make it become even more necessary that we face up to that threat of impossible demands upon the biosphere if all the world's people achieve their desire for a more affluent life.

The unemployment problem can further distort the already wide gap between rich and poor within developing countries. While the earth's food supply may be sufficient, there will be many people without the incomes to pay for a share of the world's food. The cities will become politically explosive, with idle hands reaching out to tear down the systems which leave them without opportunity to make their own lives liveable.

The answer to the latter problem must lie in bringing these people into productive jobs in farming and industry. However, the recent successes in agriculture, exemplified by the "Green Revolution," could bring about increased mechanization and result in serious labor displacement. In industry, these countries must look to expansion of labor-intensive industries. However, expansion of industry requires expansion of exports, too. Industry has to be brought up to a sufficient size to employ economies of scale, and this requires larger markets.

However, as these countries diversify their exports and begin to move labor-intensive products into world markets, we have seen political forces in the developed countries attempt to impose import restrictions on these so-called cheap labor products, which potentially displace American and European unskilled, low-wage workers. This direct interaction of development needs abroad and at home means that our domestic economic adjustments are increasingly a function of global economic adjustments.

Protection of inefficient producers in the developed countries has reached such a scale that Japan now pays her farmers three times the world price for rice at a time when rice surpluses and unemployment exist in Southeast Asia.

The labor short Common Market is not only self-sufficient in beet sugar, at several times the price of sugar produced in developing countries, but is dumping tens of millions of dollars of excess beet sugar production on the world market at the expense of exports from the developing countries. Also, there are formal or informal import restrictions on manufactures in each of the developed countries, with the worst trade barriers of each country frequently setting the example for others.

It is becoming very clear that mankind must address the pressing problems outlined above on a collective basis. Equally clear, the solutions to many of these problems are interdependent. Unless we can stabilize global population growth, we will not be able to preserve our life sustaining ecosystems. The prospects of stabilizing population growth and of achieving a more equitable distribution of wealth within developing countries will be virtually impossible if their unemployment levels continue to rise, and the solution of this latter problem is in part dependent not only on more labor intensive systems and technology, but on greatly increased access to the markets of developed countries. This in turn can realistically take place only through multilateral negotiations for improved access and for international principles of trade protection.

In short, technology is reshaping the world in which we live, much more rapidly than the policies of the developed countries yet reflect. Unless we can become more responsive to the changed circumstances in which we find ourselves, we shall surely suffer.

CONSEQUENCES OF FAILING TO MEET NEEDS

How we might suffer is conjectural, just as it was conjectural with respect to the problems of our cities in the early 1960's. However, we do know that the frustration and violence borne out of despair is harder to cope with than disorders arising from the changes accompanying progress. The international cooperation required to limit nuclear proliferation and to cope with the new threats to our ecosystem will be far less likely if the poor nations are in embittered confrontation with the rich.

We can now foresee a time when the largest cities in the world will be located in the developing countries, and the prospect is great, unless countermeasures are soon initiated, that they will suffer enormous rates of unemployment. These politically explosive cities will be a potential for political upheaval everywhere. Certainly, increased chaos in developing countries raises the prospects of wars into which we ultimately become drawn, as was the case in World War I, World War II, and the more recent conflicts in Southeast Asia.

The results of an embittered confrontation between the poor countries and the rich would certainly jeopardize much of the private investments in the developing countries, the $50 billion of publicly guaranteed outstanding debts now due the rich countries by the developing nations, and, far more importantly, our trade relationships with these countries from which come a large share of the energy, fuels, and raw materials on which our affluence is based.

Furthermore, just as there are no governmental protections against environmental pollution once it has occurred, there is little protection that can be had once there are large numbers of embittered dissidents such as those who have recently taken to hijacking airplanes and to kidnapping diplomats, and who could extend this practice to other foreigners.

In addition, there are the intangible but possibly even more heavy costs on our conscience in the developed countries if we, in our constantly increasing affluence, ignore the problems of the two-thirds of the world now poor, which is due to become five-sixths of the world by the turn of the century.

Increasingly, we need to ask not only whether a proposed action is in the U.S. interest, but is it in the global interest as well? As one considers world affairs in these terms, it becomes clear that the distinction between U.S. interests on the one hand and global interests on the other is narrowing, under the impact of the very technology which has brought us affluence. It is no longer a matter of just "us" and "them," but increasingly a matter of "all of us together."

RECOMMENDATION OF PETERSON TASK FORCE

It is in this context that the Peterson task force report takes on particular importance. Many of its principal recommendations, if implemented, would represent a sizeable forward step toward meeting the problems described above.

The report recognizes that our long-term interests require that management of development assistance should be separated from security assistance. It recognizes that as a result of the successes of the past 20 years there is now not only the opportunity, but a pressing need to shift toward a more internationally cooperative development framework. This involves not only stronger multilateral financing institutions, but also greater international decisionmaking with respect to bilateral programs, to lessen the dangers of bilateral intervention in the affairs of the developing countries. Its proposal for long-term funding for the development institutions will permit more efficient use of funds and better participation in the international development framework. The expanded program of research is indispensable to most of the problems already described. Through its recommendation for the U.S. International Development Council, it recognizes the need for coordinating the U.S. development tools of trade, aid, and investment with respect to the international community and the developing countries.

Notably missing from the Peterson task force report is the lack of goals for a cooperative effort. Unlike the Pearson Commission Report, which sets the target for the 1960's of an accelerated growth of at least 6 percent in order to help meet the problem of rising unemployment, and of self-sustaining growth for a majority of the developing countries by the end of the century, the task force sets no goals or time framework for accomplishment for the development effort.

Nor does the task force, unlike the Pearson Commission with its target of 0.7 percent of GNP for official development assistance by, preferably, 1975 and in any event no later than 1980, set any target for the level of U.S. assistance effort. The task force talks about the United States doing its "fair share" but does not go on to define it.

A majority of the other industrialized nations, including Germany, Britain, and France probably will support in the U.N. General Assembly this fall either the Pearson Commission target for official development assistance or one which is very similar. If the United States does not support such a burden sharing formula, which, incidentally, bears proportionately more heavily on the other industrialized countries with only half our per capita wealth, it could jeopardize the cooperative development assistance effort required for the future.

NEED FOR EARLY RENEWAL OF U.S. DEVELOPMENT EFFORT

There are three unique opportunities which may be missed and never recovered if the United States does not return soon to the development effort with a better and expanded program of trade, aid, and investment adapted to the needs of an increasingly interdependent global community.

First, there is currently a willingness of other developed countries to play a much larger role in a cooperative development effort. Their aid contributions have risen from $2.3 billion in the early 1960's to an estimated $3.7 billion this year, some $700 million more than the declining U.S. effort, and the gap is scheduled to increase further over the next several years as they continue to increase their contributions rapidly. But this cannot be expected to continue for more than a few years if the United States, the richest developed country, does not do its share.

Second, the poor countries at this time are willing to actively cooperate in a global development effort. But if a confrontation develops in the context of a declining development effort, it undoubtedly will be far more difficult later to reestablish a cooperative framework. We have seen this in our own cities.

Finally, there is a momentum now in the progress of developing countries. If this momentum is lost, the problems of unemployment, population control, and food production will become vastly more difficult to solve in the future.

DEFENSE, PUBLIC EXPENDITURES, AND DEVELOPMENT

Although this subject cannot be pursued here today, our discussion of development must also be related to the subject of spiraling expenditures, and our willingness to support expenditures for public, as distinguished from private, purposes.

Until we—both the developed and developing countries—find some ways of imposing restraints on military expenditures, which now total nearly $200 billion per year, we shall never find the level of resources that is required for economic and social development needs.

Parenthetically, it also should be noted that the United States is devoting proportionately more to private consumption, 70 percent, than many other industrialized countries, with some 30 percent of its GNP allocated to public uses including both defense and welfare. The United Kingdom, with a per capita income half that of the United States, devotes nearly 40 percent of its GNP to comparable public purposes, and, despite this burden, has recently announced an increase of more than a third in its already substantial program of development assistance.

CONCLUSION

The United States, the richest and most powerful country in the world, has options in approaching the problems of the developing countries. However, noninvolvement is only a limited option as we see in looking back as our efforts to remain isolationist before World Wars I and II. There is much to be said for engaging in efforts which offer a significant prospect of lessening the likelihood of chaos and wars which are not only incredibly costly but which threaten the survival of civilization itself.

Today most of the developing countries and the other industrial nations are prepared to travel down the road of a major expansion of the cooperative approach to international development which the United States initiated 20 years ago. No longer is the push and shove of unilateral U.S. leadership required, or even acceptable, but the success of the effort does require that the United States provide its fair share of cooperative participation and leadership. It is this that is at issue at the present time.

Reflecting on my own foreign policy experiences in the State Department and AID, my view is that the nature of our relationship to other nations is changing and requires both a new perception of our interests and a new response. Political and social crises which have occurred in some developing countries did in the past often require an American policy response, a response most frequently dictated by cold war considerations.

In the future, with political and social upheavel threatening in more places, and the actions of others in both developed and developing nations increasingly affecting our ecological and economic systems, we shall, I believe, find more of our daily energies spent on other countries, with our own domestic environmental and economic fortunes tied inextricably to the viability of the other nations.

In the 1950's and 1960's, emerging nations occupied much of our concern and required new policies. In the 1970's and 1980's it will be a new world that emerges, an interdependent and fragile world of both rich and poor nations, needing more than ever global systems and institutions to survive. Our new challenge is to focus our concern and creativity on this new world, to transform our policies in order that we can rise to these new global problems and opportunities.

Thank you, Mr. Chairman.

Representative Reuss (now presiding.) Thank you, Mr. Grant.

I am particularly grateful for your willingness to substitute on rather short notice for Mr. Bowie today.

What you have just said, Mr. Grant, on military expenditures by the developing countries, and what Mr. Warnke said particularly about Latin America, leads to a question which I would like to ask initially of Mr. Warnke.

I have been disturbed, as I think you know, at the proliferation of armaments in Latin America. Argentina and Chile have their perennial border disputes, and Brazil has a military government which is busy oppressing and torturing its people. In Colombia you have got hideous poverty side by side in the city of Cali, for example—I saw it when I was down there—with a very elaborate Air Force Academy establishment. And in all of these countries, of course, you have the competing needs pointed out by Mr. Grant for development capital. And to the extent to which expenditures are made on the military, this goes in the opposite direction.

What would you say if you were told that the Government of the United States is about to send jet fighter planes to Argentina, Brazil, Chile, and Colombia? Would that seem to you wise or not wise?

Mr. Warnke. It would seem to me not to be wise, Mr. Chairman. I recognize that it is a complex question. Unfortunately we cannot control the way in which these countries are going to expend their very limited resources.

The argument has been made, and I am sure it is being made at the present time, that if we do not supply the jets they will be supplied by France or by Sweden or by some other country. That may very well be the case.

The argument is also made that as long as we retain our position as the primary arms supplier we are in a better position to limit the amounts of money that they expend on these weapons systems.

I have never found those arguments to be particularly persuasive. It seems to me that we should not put ourselves in a position in which we sell unneeded equipment to preempt the French or the Swedes or anybody else who may be misguided enough to become the arms supplier to Latin America. The fact is that these jet fighters are not needed for any sort of national purpose. They fit the category of what Dr. Morgenthau has referred to in his statement of "prestige" aid. And even though they are in a position in which they pay us for them, nonetheless it constitutes a diversion of resources, and hence in the long run a drain on the development funds that we have available, in lamentably limited quantities, for the developing nations.

Representative REUSS (presiding). Thank you.

Let me ask the same question of the other panelists.

Would you consider a decision to send American jet fighter planes to Argentina, Brazil, Chile, and Colombia as wise or foolish?

Mr. MORGENTHAU. I do not think one can give a categorical yes or no answer to your question. It depends very much upon the circumstances of the situation. I could imagine that under certain conditions, if there are political circumstances which would be directly influenced by the supply of jet planes to one or the other of those Latin American countries, it would be wise to do so.

Representative REUSS (presiding). I am talking about now, today, the situation that exists, which is known to us all, wise or unwise?

Mr. MORGENTHAU. If this question were to come up this morning in a concrete fashion I would say no. But I could imagine circumstances in which I would give a different answer, because it would be in the political interest of the United States to give such aid.

Let me say, for instance, we are in competition with the Soviet Union for the supply of such planes. Let me say that if we do not supply them the Soviet Union would, and would thereby gain a political foothold in those countries.

I would then seriously consider the delivery of such planes.

Representative REUSS (presiding). Mr. Grant, would you consider a decision to send jet fighters to those four countries today wise or unwise?

Mr. GRANT. I would say it would be unwise for us to encourage it in any way, and that we should seek to discourage it.

Having said that, there is always the problem of how much one can do to oppose one of these things if the countries elect to buy them from some other country like many of the other things that a country does that we may not be particularly enthusiastic about. It then becomes a relative question, it seems to me, of how many things a country does do that are, in our judgment, senseless. And this ultimately affects our relationship to them.

Representative REUSS (presiding). But should we send American jet fighter planes to those four countries?

Mr. GRANT. No, sir.

Representative REUSS (presiding). Mr. Harriman?

Mr. HARRIMAN. I fully agree with what Mr. Warnke says. It should not be a policy to give fighter planes to Latin America. But I think we all agree that exceptions honor the rule. And I am impressed by what Professor Morgenthau says about this. I do not like any rigid rules. The principle that Mr. Warnke sets is the right one for us to follow. But there can be exceptions, not only the one that Professor Morgenthau mentions, but other exceptions.

I think it is very dangerous for Congress to put the administration into a straitjacket, but I think it is very important for Congress to lay down the principles. And I would lay down the principle for the Congress to act as Mr. Warnke has suggested. There are cases in which the President would have the right to make exceptions, or to consult with the Congress, not just inform Congress, but consult with the Congress.

I can think of other cases which I would not take your time with when the rule should not be quite as definite as Mr. Warnke says, but more in line with what Professor Morgenthau says.

Representative REUSS (presiding). I was talking about the here and now. And I was consulted about this, to me, very unwise decision in which the Soviet Union does not appear, none of these exceptions appears. And I told the administration people that I thought it was extremely unwise. And I gather you would agree that for us to send military jet aircraft to the four countries mentioned now is unwise?

Mr. HARRIMAN. I agree, it is fully unwise. I do not think that Professor Morgenthau has mentioned the only conceivable exceptions. There are other exceptions which I cannot take time here to really define. But I thoroughly agree with everything that Mr. Warnke says. That, as he outlined it, should be the principle which we adopt. But that principle, as any other principle, has to be honored at times by unusual exceptions.

I think we have contributed to the arms' race in Latin America by being willing to give in when we should not have given in to the desire of the military for modern weapons which they do not need. And I cannot contribute more than what Mr. Warnke said in explaining that.

Representative REUSS (presiding). Mr. Conable?

Representative CONABLE. I think the chairman has established a very interesting pattern of questioning here, and I would like to go through somewhat the same exercise with respect to something Mr. Warnke said.

You seem to say in your statement, sir, that although the central Asian and African continents are altogether irrelevant from the standpoint of American security, we should open up our hearts to these countries because they contain some poor and hungry citizens. Altruism has its place in the conduct of human affairs.

Do you feel that it should be, however, the prime motive force in our foreign aid policy? In asking that question I wonder if you discount completely the argument that failure to aid these people in the long run will alter the world balance of power?

Mr. WARNKE. I do not think, Mr. Congressman, that I can speculate as to what may or may not alter the world balance of power in the next decade or decades. I would say, however, that in considering what it is important for us to consider, in our efforts to aid such countries as India and the African nations, we have two components. We have obviously the humanitarian component. We have also the component of global interdependence, which relates to our survival in the world. And that is a very pragmatic one as far as the long-range situation is concerned.

I do not believe, however that our programs of economic aid to such countries as India and Pakistan ought to be directed primarily or even significantly toward trying to keep them oriented toward us rather than to some other major world power. I do not believe so because I do not think it matters and because I do not think it works.

One of the illustrations that has always impressed me is the situation vis-a-vis Pakistan, where for a period of time we regarded Pakistan as being important as part of the policy of close-in containment of Communist China. And as a consequence we were the significant arms supplier to Pakistan over a period of years.

As a result of the Indian-Pakistan war in 1965 it no longer was politically feasible for us to supply major arms to either country. Pakistan as a consequence turned to China as a principal arms supplier. So we now have the anomaly of China containing itself, which is sort of a self-help policy. But I think we are no worse off because of the fact that China is an arms supplier to Pakistan.

I do not think that that matters in terms of our national security.

Representative CONABLE. I am interested in the public relations of selling the foreign aid program also to the American people. Unfortunately it has been mistakenly sold on the theory that we are buying friends. I wonder what you would have to say on this, Dr. Morgenthau?

Mr. MORGENTHAU. I think we have bought friends from time to time. And this is a practice which goes far back in history. In former times, it was not called foreign aid, it was called bribes. And you have only to read, for instance, the diplomatic documents of the French monarchy which were published by the French revolutionary Government after 1789 to see to what extent gifts and pensions were given to foreign ministers and diplomats of other countries in order to enlist their services.

To buy friends and influence people that way is an old practice, I guess not only in foreign policy, but even in domestic politics sometimes.

There is nothing extraordinary about this. If it works, and if the prospects are good for its working, I see no reason to object to it.

I fully agree with what Mr. Warnke has said about the Pakistan business. When I went first to Pakistan in 1955 I wrote an article saying that our alliance with Pakistan was a kind of an act against nature, because we supported Pakistan militarily, allegedly against communism, but actually against India. And then India had to divert scarce resources for meeting our military support of Pakistan. Since we have, of course, a very great interest in the survival of India as a democratic, unitary nation, we had to make up the scarce resources which India had to spend for military purposes.

So we were engaged in an armaments race with ourselves, which I submit is not a strictly rational foreign policy.

Representative CONABLE. I wonder, Dr. Morgenthau, if you would give us some examples of some underdeveloped countries in which you consider the preconditions for development to exist? You stated this as the major condition of our continuing support.

Mr. MORGENTHAU. India is probably a prime example. I am not an expert in the technicalities of economic development. I can lay down principles, but I cannot really exemplify them very well. But India is, I think, the prime example of a country which in certain respects at least fulfills the preconditions for economic development, but by no means in all respects. India is an extremely complex case.

But take agriculture, for instance, where at least in certain regions of India the results of foreign aid have been spectacular, and it would be foolish to suggest that we should not continue that effort.

Representative CONABLE. Mr. Grant, would you care to comment on the role of altruism in foreign aid and how we avoid the unfortunate implications for the American people, when we have serious problems of our own, to be accepting responsibilities in other areas in which we have no direct national security interest?

Mr. GRANT. Yes, sir. I am well familiar with this concept that charity begins at home, which is what one meets on the altruism argument so frequently. And frankly, this is what in my prepared statement I tried to address, in the sense that even though we do not have to weigh India and Pakistan against a national security interest in a cold war sense now, it is very clear that if things go awry in those countries over a period of years it can have a very real, adverse effect on us.

India and Pakistan both have the capacity to become nuclear nations when they make the decision to go that route. If they became balkanized—as a result of frustration, overdevelopment, rapidly rising unemployment rates—we could have 25 or 30 countries in the subcontinent. And if, as could very well happen, progress does not take place, the prospect of chaos, into which we could ultimately be drawn, is quite likely down the road.

And finally, we do have a whole series of new problems that we have got to work on with these countries that come out of ecological considerations. If the United States is not prepared to work with these countries on their great needs, the prospect diminishes greatly of our getting the kind of cooperation on the environmental and ecological problems that are going to affect us all.

Representative CONABLE. Thank you.

I think we have probably explored this business of altruism. Unless Governor Harriman has something he would like to say, I would like to ask him specifically how we are going to achieve the mandate that I think the American people are imposing on us in government at this point, partly as a result of Vietnam, and partly as a result of many disillusionments in foreign affairs, of reducing our commitments abroad without in fact turning over these commitments into some sort of a collective security arrangement which itself constitutes a major commitment, and one over which we have less control than we might through the many, many bilateral arrangements that are now such a subject of objection.

Mr. HARRIMAN. You are asking me how we can get the American people, induce the American people to undertake to do it—which I agree with you it is in our interest to do. I must confess that I would not attempt to answer how we can induce the American people to do it. But I do feel that the American people are much more alert and alive to their responsibilities at home and abroad.

I would just say one thing about this question of altruism. Altruism should play exactly the same role in international affairs as it does here at home. We have a very nice feeling when we give people charity. But we know that people are not willing to live in squalor any more, and we know that we cannot have a stable society in which it is worthwhile for anybody to live in unless we take care of it. That is true internationally as well. We can afford to have a pleasant feeling that we give to countries that have suffered an earthquake or a particular disaster of some kind, but unless we tackle the world problems as we do—and I think the American people can understand that. I do think that the American people have every right to be disturbed because mistakes have been made.

My own belief is that it is very apt to be true that a good policy ends up very frequently in disaster. A good policy of helping the countries that wanted to resist aggression abroad was excellent and worked well, but it ended in disaster in Vietnam. Now, we haven't got a chance to analyze just why it happened, but I still remember that President Roosevelt had no intention of letting the French go back into Indochina. Letting the French back was the beginning of the mistake in Indochina. But I cannot say that it was a mistake to stop Stalin's intention of getting to the Atlantic, which I know was his ambition at the end of the War.

So that because we have been wrong in Vietnam in the manner in which we have attempted to assume obligation does not mean that we have been wrong before. And I believe the American people are intelligent enough to pursue policies that are reasonably wise. The important thing is to get the leaders of America, the leaders of both parties, those that are in the administration, and those that are in the Congress, to understand what our national interest is. And if we can do that I am inclined to think that the American people will follow them.

I think the students will follow them too. I am thrilled by the interest that this present generation of students are taking. I do not like some of their methods. But I think it is the best generation of students that we have ever had.

It is very interesting that almost everything that happened in our life—that we begin to do sensible things when we face a disaster. The Roosevelt revolution came as the result of the great depression. And I am not sure that a sound foreign policy will not come out of the disaster of Vietnam. And in the same way the disaster of our civil rights may come out into a sound policy.

That is rather an odd way to look at things, but if you review our history you will find that to be true.

So just because we are in a disastrous position today in Vietnam—I am still optimistic—just because we have students that are doing things we do not like does not make me at all worried about the new generation that is coming up—I am concerned, but it does not make me basically worried.

Representative CONABLE. In other words, you are not advocating any substantial withdrawal from major commitments abroad?

Mr. HARRIMAN. I am advocating that we adjust our commitments abroad to the changing situation.

Now, I know that Stalin had intentions, at least I am convinced tha he had intentions of moving his influence to the Atlantic. But the Communist danger to us today is entirely different. When you find that the Italian and French Communist Parties refused to support the Soviet Union in what they did in Czechoslovakia, you see that we have got a different situation. And we must adjust our international commitments to the changing scene.

I am just as concerned about what I called the old cold war warriors who do not realize that there has been a major change in the world situation since 1947 and 1948—as I am with those people who believe that the only difference between us and the Soviet Union is our difference of economic system. We have to adjust ourselves to the change in the world situation, and our interest must be so.

So we are trying to do something impossible in Vietnam. We cannot win this war, it can be expanded but we cannot win. We might just as well stop talking about winning it. We are trying to use military might to achieve a political objective. We cannot influence the people of Vietnam to establish the kind of stable government which we would like to have established and which is friendly to us. These are things which are not in our power to do. And yet we are trying to do them. For us to hold those up as objectives to foreign policy—those young people are too intelligent to accept that, and that is why they are revolting.

Forgive me for bursting out this way, but you asked me a question, and I felt constrained to answer it.

I must confess that I see in your question a very wise point of view, Mr. Congressman.

Representative REUSS (presiding). Gentlemen, thank you for a most impressive presentation. We are grateful to you.

The subcommittee will now stand in adjournment until Monday morning at 10 o'clock in this hearing room.

(Whereupon, at 12:15 p.m., the subcommittee recessed, to reconvene, at 10 a.m., Monday, May 18, 1970.)

A FOREIGN ECONOMIC POLICY FOR THE 1970'S

MONDAY, MAY 18, 1970

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The Subcommittee on Foreign Economic Policy met, pursuant to recess, at 10 a.m., in room S-407, the Capitol Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representatives Boggs and Conable.

Also present: John R. Stark, executive director; John R. Karlik, economist; Myer Rashish, consultant; and George D. Krumbhaar, economist for the minority.

Chairman BOGGS. The committee will come to order.

Today we hold the third session in the current hearings of the Subcommittee on Foreign Economic Policy to examine U.S. policies toward developing countries. Last week we heard from Mr. Rudolph A. Peterson and other Americans who have suggested reforms to improve U.S. policies. Several experts in foreign affairs will help place our relations with the developing countries within the context of U.S. global interests.

Today we are concentrating somewhat more specifically on explicit changes in economic assistance efforts that are needed to accelerate the rate of development in poor countries.

We are most fortunate to have a truly distinguished panel of witnesses this morning. I welcome all of you gentlemen.

Appearing in alphabetical order we hear first from Mr. David E. Bell, executive vice president of the Ford Foundation, and former Administrator of the Agency for International Development and Director of the Bureau of the Budget.

Next is Professor Harry G. Johnson an outstanding economist teaching both at the University of Chicago and the London School of Economics.

Third is Raúl Prebisch, now Director General of the Latin American Institute for Economic and Social Planning and former Secretary General, United Nations Conference on Trade and Development.

The fourth member of the panel is Jan Tinbergen, Professor of Developing Planning at the Netherlands Economic Institute and Chairman of the United Nations Committee for Development Planning.

I am sure that I need not remind the audience that Professor Tinbergen shared the first Nobel Prize in Economics.

We are very proud to have you here, gentlemen. And we will hear first from Mr. Bell.

40-333—70—pt. 3——12

STATEMENT OF DAVID E. BELL, EXECUTIVE VICE PRESIDENT, FORD FOUNDATION, FORMER ADMINISTRATOR OF THE AGENCY FOR INTERNATIONAL DEVELOPMENT AND DIRECTOR OF THE BUREAU OF THE BUDGET

Mr. BELL. Thank you very much, Mr. Chairman. I am honored to be asked to appear before this committee and especially to be asked to appear in such distinguished company.

You have asked us to address a very broad subject. None of us in the time you have given us could hope to cover this subject thoroughly. I would like to offer a relatively few ideas that seem to me of importance, any of which I would be glad to followup if you wish in the question period.

First of all, as to the objectives of development. Economists see those objectives in terms of rises in production and income. There is no question that developing countries want a sustained rapid rise in per capita income, and therefore they need to address the questions of how to increase income and how to limit the rate of growth in population. But in any developing country the objectives are broader than simply increases in income.

Secondly, the people of those countries, like those in advanced countries, are interested in a distribution of income which meets standards of equity. People in developing countries are also interested in, and in my opinion will need to be increasingly interested in—questions of employment opportunities, the number of job openings which the economy offers for their growing labor force.

And finally, and very important from the point of view of policies of development assistance, developing countries are interested in achieving self-sustaining growth, that is to say, a process in which per capita income can reliably be expected to rise in a cumulative and self-reinforcing manner, and the resources required to sustain the process can be expected to be found within the country and through normal processes of external trade, borrowing, and investment without substantial concessional foreign assistance.

Now, these are four different objectives. And in many cases there will be conflicts among them.

Currently on the agenda of development economists are issues of how much these different objectives are in conflict. But to achieve any of these objectives requires sustained rapid increases in production and in incomes in the developing countries.

Therefore my own sense of the strategy of development in any country centers on the notion that the essential point is to introduce steadily greater production through more advanced technology, and in this way to achieve steady, rapid and sustained increases in per capita income.

Now, it is very complicated and difficult to introduce modern technology in developing countries. It requires more than simply normal economic measures; it requires transformation of the production system and of the social structure.

And much of what we are seeing in developing countries stems from that fact.

There is much that is unclear about the process of change in traditional society, much that is very uncertain about the methods, the timing, the sequence of policies which can achieve the changes that are needed.

There is also, however, encouraging evidence of some real success in the developing countries. I am sure this committee has heard in these hearings the evidence that overall growth in output, not per capita but total, has risen in the developing countries something over 5 percent a year during the last decade, which is an extremely impressive record.

This committee has undoubtedly heard also about the success in the field of agriculture in introducing the new varieties of wheat and rice—this success being not only an evidence of rapid change in technology but also of the rapid response of farmers who have often been thought of as the most convervative and tradition-bound elements in developing countries. The farmers in India and Pakistan and the Philippines and other developing countries have responded extremely rapidly to the opportunity to increase their own output and income when the new varieties of wheat and rice and other crops have been available to them, when they could buy the fertilizer they need, and when there was a decent price incentive for them if they did introduce the new varieties.

So that one should not think of developing societies as impossible to change. The evidence is quite the contrary. People in those societies are ready and eager to change when they have opportunities to do so.

When you look at the basic requirement for change in any society I think you reach the conclusion that the first and most important requirement is the purposeful mobilization and application of the resources of the country itself. And that requires steady commitment and energy from the political leaders in that country.

One looks first, that is to say, to what the country does with its own resources. And this is why developing countries have emphasized so much, and in my opinion properly, the need to develop strategies of their own which start each with their own situation and resources and historical and cultural background and develop a program or plan of change and progress which will promise to achieve higher output and income.

The development strategy for each country will have to be different, because each country starts from a different place. It is an interesting question and an unanswered question as to whether all developing countries can in fact achieve self-sustaining economic growth. The evidence is pretty strong that some unlikely cases have done very well so far. Korea is a country without oil, and without minerals which are easily sold on the international market, and yet the Korean growth process is going very well. Other countries with difficult resource situations have been doing fine in recent years.

So that while there may be countries in which we will find in the future that it is impossible to have a strong growth process, so far we have not, I think, any reason to be despairing about any of the developing countries.

I have suggested in my prepared statement two or three generalizations about development strategies. These are obvious, I think, and need little emphasis. Until recent years most developing countries gave too little attention to agriculture and put too much attention on industry. This is by now pretty much a truism. Almost everyone agrees that this was wrong. Changes in policies have been made and are still being made, although a number of countries do not yet have adequate agricultural growth policies.

Secondly, until recent years the difficulties created for the development process by rapid rates of population growth were not sufficiently appreciated. This situation is changing. We are, one might say, about halfway toward the full understanding and acceptance of population growth as a major difficulty. In some countries this is still not accepted by the governmental leaders. In others, of course, it is by now solid doctrine. I would expect that this situation will change the rest of the way within the next few years.

I think a third point that is interesting is that most developing countries today are beginning to sense that their educational systems are too imitative of those in Western Europe and the United States. And we will see, I believe, very strong efforts over the next few years to try to develop educational systems more accurately adapted to the needs of the developing countries themselves.

Finally, as I have already said, the developing countries are beginning to be aware of the very large numbers of young people who are entering the labor market. They are beginning to see great concern about employment opportunities.

Finally, Mr. Chairman, may I draw two or three inferences about U.S. Government policy from these brief remarks.

First, I believe the most appropriate objective for development assistance—both capital assistance and technical assistance—is to help each developing country in turn to achieve conditions of self-sustaining economic growth. As indicated above, I believe this requires first of all the sustained effort and commitment of the developing country itself, but where those are forthcoming, I would measure the volume of assistance which should be made available by the United States and other donors by the requirements for rapid growth and not by a percentage of the donor countries' gross national product or any other arbitrary standard.

Second, the guiding principle of any kind of external assistance must be to build local competence in the developing country. This means training people from that country, it means helping to establish institutions in that country where trained people can apply themselves effectively to their country's problems, and it means establishing firm networks of communications and understanding between people and institutions in developing countries and in advanced countries, so that the continuous advances of modern science can be brought quickly to bear all over the world. These are difficult tasks requiring steady effort over many years but they will yield tremendous dividends when successful.

Third and last, I believe we must find ways to invest far more resources in research on development problems. I am influenced in this view, of course, by the success of the high-yielding varieties of wheat, corn, and rice which have come out of the international agricultural research institutes founded by the Rockefeller and Ford Foundations. These new varieties are now planted on millions of acres in developing countries and are producing double or treble the output per acre of older varieties.

These results of purposeful research have sharply changed the outlook for food production in developing countries. In my opinion, we need far more resources invested in research in agriculture, population, education, urbanization, and other fields if we are to speed up the processes of development.

Let me make one concluding observation. Development assistance activities are normally thought of as acts of charity, in which we provide assistance for the benefit of others. I suggest that this is becoming an obsolete conception. As the development of low income countries proceeds, the problems encountered are increasingly similar to those we face in our own country—problems of urban growth and decay, of family planning, of education and housing for disadvantaged groups, of maintaining the quality of the environment.

Assistance which helps tackle these problems in India, or Brazil, or Nigeria—above all, assistance which increases the number of talented Indians, Brazilians, Nigerians, and others who are striving to solve problems of this type—will yield results of great benefit to advanced countries. So we should not think of development assistance activities simply as a way of sharing our advanced technology with developing countries, but increasingly as a means of cooperatively attacking problems in whose solution we ourselves have a considerable stake.

That completes my statement, Mr. Chairman.

Chairman BOGGS. Thank you very much, Mr. Bell.

Your prepared statement will be placed in the record at this point.

(The prepared statement of Mr. Bell follows:)

PREPARED STATEMENT OF DAVID E. BELL

I am greatly honored to be invited to appear before this Committee, in such distinguished company, in the course of your consideration of United States' policies to assist developing countries. You have asked me and the others appearing this morning to address a very broad subject: "Objectives and Strategies for Development." In an attempt to be as useful to the Committee as possible, I shall set forth very briefly a series of propositions stating what seem to me some key ideas on this general subject. I shall offer these propositions largely without qualification or documentation, and would be glad to enlarge on any of them in the discussion period if the Committee wishes.

1. At least four different objectives can be stated by economists for a country's development effort. Traditionally, the objective has been thought of as the most rapid possible growth in per capita income. More recently, a second objective has come to prominence, namely, distributing the benefits of economic growth in accord with some stated concept of equity. A third objective which is beginning to emerge is to provide employment opportunities to most persons who desire work.

These three objectives for economic development are not different in less developed countries from what they are in advanced countries. A fourth objective, however, can be stated for those less developed countries which are dependent on concessional foreign assistance: in those cases, an objective of the country's development efforts is to establish a process of "self-sustaining economic growth." Such a process exists in any country when per capita income can reliably be expected to rise in a cumulative and self-reinforcing manner, and the resources required to sustain the process can be expected to be found within the country and through normal processes of external trade, borrowing and investment, without substantial concessional foreign assistance.

Much argument can be heard among students of development as to how much conflict there is, if any, among the four objectives of higher average income, better income distribution, enough opportunities for employment, and the achievement of self-sustaining growth. Very important political issues turn on these questions, for example the issue of how much income growth should be sacrificed in the interest of a more equitable income distribution. It is important to everyone that the scholars analyze these matters as quickly as possible.

In the meantime, I hope we can all pursue a pragmatic policy: I think there are very important issues of equity and employment which need greater analysis and action than they have had to date, but I hope in focussing on these newer problems we do not lose sight of the fundamental need to achieve rapidly growing production and income in developing countries.

2. Strategies to achieve rapid growth in production and income in developing countries are necessarily highly complex, since they involve the transformation of traditional production systems and social structures. Moreover, while a surprising amount of progress has occurred in developing countries over the past two decades, we still have a very imperfect understanding of the development process. This is perhaps not surprising in view of the enormous diversity of cultural backgrounds in which modernization is occurring, and the relatively brief period in which serious research has been underway to attempt to understand what happens in developing situations and how to affect those situations in desired ways. We must be modest, therefore, in suggesting what strategies would be appropriate in any given case.

3. From an operational viewpoint, perhaps the most important generalizations which can be drawn from the experience of these recent decades are, first, that the most crucial requirement for development in any low income country is the purposeful mobilization and application of the country's own resources, and second, that this in turn depends on the steady commitment and energy of the country's political leaders. Even in countries with large volumes of foreign trade, the process of achieving cumulative economic growth is essentially an internal process, involving patterns of saving and investment, production and consumption, private and public action which are mutually interrelated in such a way that production and income can be expected consistently to rise year after year.

Accordingly, the first focus of attention in designing a strategy of development in any country must be to assess the resources of that country and to lay out programs for mobilizing and applying those resources. This is a process which must rest on technical analysis of the nature of resources available, of potential markets, and of appropriate production methods for the country in question. But it is also a process which must rest on an understanding of the sociological framework for economic action. And it is a process which is arid and meaningless unless it is given strong political leadership and involves a wide-reaching political process of understanding and commitment.

For these reasons, to devise an appropriate strategy of development for any country inevitably taxes the competence of the best minds in that country and of any outside advisers who are invited to participate. The results are normally written down in the form of a development plan or program for a period of years, often five years, but experience supports the view that any strategy of development requires continuous adaption to changing circumstances, and its effectiveness rests more on the quality of political leadership it is given than the precision of the technical planning which underlies it.

4. The appropriate development strategy for each country will be different from that of all other countries. A development strategy (or plan or program), necessarily incorporates ideas about agricultural change, industrial change, educational change, the urbanization process, alterations in the transportation network, plans for taxation and other means of mobilizing resources both in the public and private sectors, polices toward foreign trade, and many other elements. All these elements must fit the historical and cultural background of the country in question, and its particular mix of human and natural resources. There is therefore no single pattern or blueprint which would be appropriate for all countries. Indeed the contrary is true. Every country differs in so many ways from every other country that any development strategy which is properly tailored to the individual circumstances of one country must inevitably differ in significant ways from the development strategy for its neighbor.

5. Despite this necessary diversity, one may offer a few pragmatic generalizations which seem to apply to a good many situations.

(*a*) Until recent years, most developing countries gave too little attention to agricultural modernization and too much emphasis to industrial growth. It is widely accepted now among students of the subject that this attitude was in error and resulted in major misallocations of resources. Changes in policies have been made in many countries, although quite a few still have not made as strong commitments to the agricultural sector as the nature of their economic opportunities would suggest.

(*b*) Until recent years, the extraordinary difficulties created for the development process by rapid rates of population growth were not sufficiently appreciated. Even now, few centers of teaching and research on development economics give sufficient weight to population issues, and even fewer planning agencies in developing countries are satisfactorily staffed to deal with the population aspects of the development problem. This situation is changing rapidly, and with continued attention one can hope that in a few years population issues will be given appropriate attention both in research and in application.

(*c*) One of the major elements of the development process which is currently receiving much attention is how to devise an appropriate pattern of education in different countries. Most developing countries have educational systems loosely adapted from Western models, either European or American. Increasingly, leaders in developing countries—quite properly in my opinion—have come to feel that these systems are not as usefully related to the problems of their countries as they should be, and moreover that resources are not in sight by which to expand their present educational systems to serve all the young people who need to be served. We are therefore beginning to see major reassessments of educational priorities and plans in many countries, although it is too soon to predict what the results will be.

(*d*) Another area of growing concern—also quite properly in my opinion—is the lack of sufficient employment opportunities for young people entering the labor market. The problem is acute in a great many of the developing countries, and we are beginning to see major unrest stemming largely from this cause—as witness the recent disturbances in Trinidad and Tobago. The nature and speed of the development processes in recent years in most developing countries have not provided sufficient job opportunities for young people reaching working age. There are very serious problems here for those who are trying to understand the development process. There are, of course, also extremely urgent political problems stemming from this situation.

6. What I have said thus far points to the great complexity and difficulty of the development process, especially in countries which begin from a position of very low income, as do many of the countries of Asia and Africa. At the same time, I believe we should take note of the very considerable progress which has been made in many developing countries. The case of Japan, where we have grown accustomed to a continuous growth rate of 10 percent a year, is perhaps to be discounted but Taiwan and more recently Korea also show very high rates of growth.

I suggest that these cases and others which could be cited such as Israel and Mexico, indicate the potential effectiveness of sensible development strategies which capture the power of modern science and technology for the benefit of developing countries. The problems of developing countries are indeed enormous, but we should not underestimate the very powerful resources available to deal with those problems.

7. I should like to suggest certain inferences for U.S. government policies of development assistance which I think can be drawn from the observations I have made above.

(*a*) First, I believe the most appropriate objective for development assistance—both capital assistance and technical assistance—is to help each developing country in turn to achieve conditions of self-sustaining economic growth. As indicated above, I believe this requires first of all the sustained effort and commitment of the developing country itself, but where those are forthcoming, I would measure the volume of assistance which should be made available by the United States and other donors by the requirements for rapid growth and not by a percentage of the donor countries' gross national product or any other arbitrary standard. As each developing country achieves a condition of self-sustaining growth, concessional assistance can be brought to an end, although further capital and technical resources from outside will, of course, be needed which can thereafter be obtained principally on normal commercial terms.

(*b*) Second, the guiding principle of any kind of external assistance must be to build local competence in the developing country. This means training people from that country, it means helping to establish institutions in that country where trained people can apply themselves effectively to their country's problems, and it means establishing firm networks of communication and understanding between people and institutions in developing countries and in advanced countries, so that the continuous advances of modern science can be brought quickly to bear all over the world. These are difficult tasks requiring steady effort over many years but they will yield tremendous dividends when successful.

(c) Third and last, I believe we must find ways to invest far more resources in research on development problems. I am influenced in this view of course by the success of the high-yielding varieties of wheat, corn, and rice which have come out of the international agricultural research institutes founded by the Rockefeller and Ford Foundations. These new varieties are now planted on millions of acres in developing countries and are producing double or treble the output per acre of older varieties. These results of purposeful research have sharply changed the outlook for food production in developing countries. In my opinion, we need far more resources invested in research in agriculture, population, education, urbanization, and other fields .if we are to speed up the processes of development.

8. Let me make one concluding observation. Development assistance activities are normally thought of as acts of charity, in which we provide assistance for the benefit of others. I suggest that this is becoming an obsolete conception. As the development of low income countries proceeds, the problems encountered are increasingly similar to those we face in our own country—problems of urban growth and decay, of family planning, of education and housing for disadvantaged groups, of maintaining the quality of the environment. Assistance which helps tackle these problems in India, or Brazil, or Nigeria—about all, assistance which increases the number of talented Indians, Brazilians, Nigerians, and other who are striving to solve problems of this type—will yield results of great benefit to advanced countries. So we should not think of development assistance activities simply as a way of sharing our advanced technology with developing countries, but increasingly as a means of cooperatively attacking problems in whose solution we ourselves have a considerable stake.

Chairman Boggs. And now Professor Johnson.

We are now ready to hear from you, sir.

STATEMENT OF HARRY G. JOHNSON, PROFESSOR OF ECONOMICS, UNIVERSITY OF CHICAGO AND THE LONDON SCHOOL OF ECONOMICS

Mr. Johnson. Mr. Chairman, unlike my three distinguished colleagues this morning, I am not a professional in AID business, rather an amateur whose interest arises partly from personal experience in many of these countries and partly from a study I did some years ago for the Brookings Institution on "U.S. Economic Policies Toward Less Developed Countries." So what I have to offer is not a seasoned, experienced view but rather some general considerations which occur to me in this connection.

I begin with the so-called crisis of aid with which the Pearson report was concerned. And here it seems to me that what the problem is, is one which arises whenever you have transfers from rich people to poor people. There are two different principles in which such transfers can be made, one being the principle of philanthropy, and the other being the principle of the right of human beings to enjoy a decent standard of living.

Now, the philanthropic principle points toward the self-help principle and to the idea that assistance should be limited in time and should seem to have a reasonable payoff in terms of success of those who are receiving assistance.

The human rights concept, on the other hand, stresses the obligation of the rich to give so long as there remains a problem.

Now, within the individual national state we have resolved this conflict of principle by institutionalizing the transfer of income from the rich to the poor. In place of private philanthropy we now have social security which transfers income through a tax system to members of the poor who are in clearly defined circumstances deserving of these transfers.

There are some residual problems which are taken care of by private philanthropy. But in general we have resolved the things by a political process and political institutionalization.

In the international sphere, we do not have an international government and we do not have a way by which political demands for transfers of resources can be reconciled with people's willingness to give philanthropically. And consequently we have a real problem outstanding.

Those concerned with aid have attempted to resolve this problem by developing the notion of a moral obligation of the rich to give to the poor, and a moral right of the poor to receive from the rich. But the fact that it is a moral resolution of the problem and not a political one is disguised by the use of statistics such as the famous 1 percent of gross national product on the one hand as a definition of obligation and the use of target rates of economic growth on the other as definitions of need.

This way of resolving the problem is fictitious, and its weaknesses are responsible for the crisis of aid. On the other hand the notion that aid is philanthropy clears the way sooner or later for the decision that the amount of aid to be provided should be decided after every other claim has been decided, and that it should be a residual category to be cut down if this is thought necessary.

I do not think myself that the case should rest on pure philanthropy. I think there is an ultramoral claim on the part of the residents of poor countries for assistance from developed countries on the ground that the nation state itself is a very strong instrument of discrimination against those who are not fortunate enough to live in it.

Through immigration policy, through tariff policy, through our own redistributive policies by which we build up the productive capacity of our poor people, we are making life more and more difficult for the people who are not fortunate enough to live in a country such as this one.

From the standpoint of the point of view I am developing, the recommendations of the Pearson report, which are followed by the Peterson report, that aid should be multilateralized is, I think, a step in the right direction toward the recognition that this is a world problem, and that the citizens of the rich countries have obligations, and not simply the possibility of giving when the spirit moves them.

But the multilaterization of aid is only part of the recommendations of the Pearson report. The other part is its obligation on the part of the rich to transfer a certain part of their income to the poor.

And in this respect the Peterson report refuses to follow the Pearson report, and instead it seems to me retrogresses into the charity approach, and furthermore attempts to disguise what is essentially a charitable operation as a business proposition.

Now, it is true, I think, that the present temper of the American public is quite skeptical of aid, and that the Peterson recommendations are an attempt in effect to salvage something from the wreckage. But I feel that it is likely to be very dangerous for the United States to turn inward on itself in this context, and to retrogress into the charitable approach toward the giving of aid.

I do agree with the Peterson report—and this is a matter of personal observation—that in the past of aid policies the American presence has been far too obvious, and very often very obnoxious, and that the multilateralization of aid is a way of giving the aid without having to be there yourself and figuring largely in the politics of the receiving countries.

On the other side of the aid picture, the practice of formulating the moral claim for assistance in terms of private rates of growth seems to me to be far too aggregative, and to be highly misleading. No statistics of this kind can epitomize the moral claim that the poor countries would like to lay on the rich countries for help and development. More important, statistics of growth rates of GNP, and particularly the statistics of the growth rate of GNP in total and not per capita, seem to me to fail to capture the essence of the development process, which is a process of social transformation. It is the kind of social transformation which can only be effected by a myriad of microeconomic changes in the way people use resources, the way they plan their lives, and so forth. And those changes have to be effected mostly by the private citizens of these countries with their governments, if possible, assisting by improving the framework in which private decisions are taken.

If one looks at development in this fashion there is a great deal to be said for the so-called self-help principle, particularly if it is administered on a multilateral basis, so that strictures passed on the policies of particular countries appear as a collective international judgment and not simply as a U.S. view. And I think that the emphasis in aid policy should be placed on efforts to promote private enterprise—and I define the term very broadly to mean the question of incentives for farmers, and all sorts of other things that David Bell has mentioned—that it should be based on providing a framework within which individual initiative can get to work, and that where government policies of intervention are considered desirable these policies should be general policies which establish a code of laws and framework within which private enterprise could not break, rather than efforts to intervene by administrative methods within the functioning of the competitive system.

I also feel that considerable emphasis should be placed on direct private foreign investment, which, I think, has an important demonstration effect and which is frequently complementary with the development of use of local resources, and which, incidentally, provides considerable tax revenue to governments which typically have a problem of raising taxes.

If the self-help principle and reliance on private enterprise are to be the basis of the objectives of development assistance policies in the future, it is incumbent on the developed countries to do the best they can to provide rapidly expanding export markets for these countries, so that they can pay for their imports and for the service of their developmental debts.

The policy proposals here tend to concentrate on the proposal for a preference system for manufactures from these countries in the market of developed countries. I think that scheme should be implemented as fast and as rapidly as possible.

In addition, there are extensive quotas which have been imposed on goods in which these countries have a comparative advantage, which quotas should be removed as soon as possible.

But, I think, to do that one has to recognize that we need to improve the functioning of our own economy. What we need to go for is policies promoting flexibility, capacity to respond to economic change. And these should not be considered purely as trade-related policies but as policies in our own interest in improving our own economy.

The interest is centered on the proposal for trade in manufactures, but it must be remembered that the bulk of these countries' exports are primarily products, and that their export potential here is very severely limited by barriers to agricultural imports imposed as a social policy in the developed countries designed to transfer income to farmers.

Now, I think that considerable improvement could be made for the developing countries by eliminating these barriers which, according to all the economic evidence, do very little to achieve the objective they are aiming at, namely, improving the welfare of farmworkers as contrasted with improving the value of farmland.

But I recognize that this is a very difficult problem and it is one which will take some time to resolve.

If we were to establish a more liberal world trade environment and to emphasize the principles of self-help and reliance on private enterprise, I think that this would provide a powerful stimulus to the development of these countries, at least to the economic growth of these countries.

But here we run into what I think is the crux of the development problem, namely, that you can grow by producing more and more people without actually developing in the sense of transforming your society into a modern, competitive-maximizing, efficient technology-using, and productivity-raising society. In fact, growth in the aggregate through growth of population may make the problems which David Bell and others have called attention to, the problems of unemployment, the problems of lack of employment for youth, the problems of development not communicating itself to the masses, development in the form of accumulation of capital, it may make these problems worse.

In his recent report on the Latin American situation to the Inter-American Development Bank, Dr. Prebisch has argued that the central problems of Latin America is that development is not communicating itself to the mass of the people, and that to solve it we need a great acceleration of industrialization.

My fear is that accelerating industrialization may provide no solution at all, that it may increase the problems of inequality by confining development to a small proportion of the population in industry, and keeping the mass of the population growing as a result of a natural increase in population, in the same sort of situation as they are now.

I also think this is one of the major problems for people in developed countries. If development assistance simply increases the world population, increases the absolute number of poor people in the world, the question arises whether this is a beneficial activity to be engaged in.

It would seem to me far simpler, rather than try to beat population by industrialization, to try to control the population. And if you do that, then the processes of accumulation of capital, increasing education, and so forth, would gradually cure these problems of mass poverty of these countries by increasing the scarcity of labor and providing opportunities for these people to get into the industrial system.

If, on the other hand, population grows unchecked, then you are likely to have a two-sector economy, one sector the advanced modern, educated technology, using sector, and the other the mass of the population.

More effective population control is in my judgment a top priority for development policy. And it needs a great deal of research, not just on the medical and biological technology of birth control, but on the social and psychological factors which may or may not make a family planning program a viable one.

But there are many other areas where research and development expenditures could pay big dividends. Given the magnitude of the development problem, and given the amount of aid even at the highest levels that it has reached in the past, it has really been a drop in the bucket compared with the amount of capital in all sorts of forms needed for development. And given that the general public is not willing to increase aid substantially, it seems to me that research and development is the best way by and large to which to spend development assistance.

The average returns on capital investment in industry are at most about 20 percent. If we deduct from that the servicing charges, and so forth, on development capital, the actual contribution to the welfare of these countries is going to be fairly small in percentage terms. We know, as David Bell has mentioned, that some research projects have paid off fantastic rates of return, and given the limitation of funds, these may well be the best investments to make. Not only that, but research and development has the great advantage that once you have got the new knowledge it is available to everybody. Sometimes the products in which knowledge is embodied are not available without substantial cost, but the knowledge is there, and it is a permanent contribution, and it contributes something which any country can take up and use without further cost to the donor of aid.

Let me finish by making a few remarks on conventional approaches to development. I have always been in favor of untying aid, and any international agreement that could be reached to that effect would have substantial benefits to the recipient countries without increasing the cost to the donor countries.

There are a lot of detailed questions on concessionary lending which the experts have taken up. And the Pearson report is full of them. The main point I would make here is that we really create the problem for ourselves by insisting on giving aid in what looks like a commercial form, a private enterprise form, namely, loans on concessionary terms. We do not necessarily have the assurance that the use to which these funds are put is capable of paying off that kind of return even though it is concessionary. And so we find ourselves with the problem of having given the aid in the form of loans, and then finding that the debt service charges prove a source of considerable difficulties to the country paying them.

I would much prefer myself to give aid in the form of outright grants. In that case you do not have to worry about debt financing and refinancing, and so forth. And you do not store up problems for the future the way that past aid policy has done.

I would like to put in a final word on the so-called "link" proposal, which is the proposal to distribute some proportion of the new special drawing rights at the International Monetary Fund to the developing countries, and then for the developed countries to earn them back. I know Dr. Prebisch is very much in favor of that proposal, and I am equally strongly against it. The first reason I am against it is that I think that the special drawing rights will have enough trouble getting started without being saddled with a concealed development assistance function.

Secondly, the "link" proposal is essentially a proposal for inflation financing of development assistance, and as one concerned about inflation, I would rather be taxed in some way which legislators can control.

Thank you, sir.

Chairman BOGGS. Thank you very much, Professor Johnson.

Your prepared statement will be placed in the record at this point.

Mr. JOHNSON. Thank you, Mr. Chairman.

(The prepared statement of Mr. Johnson follows:)

PREPARED STATEMENT OF HARRY G. JOHNSON

OBJECTIVES AND STRATEGIES FOR DEVELOPMENT

Though I have published a major study of U.S. *Economic Policies Toward Less Developed Countries* (The Brookings Institution, 1967), and have maintained a continuing interest in the foreign aid process, I am not—in contrast to my three colleagues present this morning—in any sense an expert on the objectives and especially the methods of official aid-giving. Therefore, what I have to say will take the form of general observations on what I consider to be some of the major issues.

At the heart of the aid problem as it now stands—a situation which the Pearson Report has termed "the crisis of aid"—is a conflict that arises with respect to any transfer from rich to poor, namely the conflict between the two concepts of charity and of human rights as the basis for the transaction. With the charity concept go the notions of deservingness of the recipient as a qualification for charity (the "self-help" principle), and of the transaction as one that will terminate within a reasonable time. With the human rights concept goes the notion of the obligation of the rich to give without question so long as serious inequality persists. Within the individual national state, at least in the advanced countries, the political process has to some extent resolved this conflict by the institution of public social-security systems in which the richer are automatically taxed for the benefit of the poor, who receive transfers as of right in clearly defined circumstances. Residual problems of poverty are taken care of by essentially charitable agencies, both public and private, which apply to varying degrees the principles of self-help and of limitation of commitment. In the world of nation-states, however, there is no central government capable of institutionalizing a regular transfer of resources from rich to poor on grounds of obligation and right. In default of such a political solution to the conflict, those concerned with the official aid process have attempted to develop an equivalent in terms of moral obligations on the rich to make, and moral rights of the poor to receive, transfers of development assistance. The fact that it is a moral construction is, however, disguised by the official practice of harping on the magic figure of one per cent of G.N.P. as defining the moral obligations of the rich, and of using target rates of economic growth to define the developing countries' "needs" for (rights to) external assistance.

The weakness and fictitiousness of this construction is ultimately responsible for the crisis of aid. On the one hand, the notion of charity on the part of donors encourages the belief that donations should be limited to what can be afforded in the light of other demands on resources, and the application of the self-help principle as an excuse for reducing donations. There is, in my view, an ultra-charitable moral claim of the poor nations on the rich nations for development assistance, a claim deriving from the many ways in which the policies of the rich countries—beginning with restrictive immigration policies, and including tariff and farm-support policies, but perhaps most important being the heavy investments made in education and income redistribution generally—discriminate directly or indirectly against people in poor countries. From this point of view, the recommendation made by the Pearson Report and followed by the Peterson Report, that aid should be increasingly channeled through multilateral agencies, represents an important step forward towards the institutionalization at the world level of the redistribution of income from rich to poor already institutionalized intra-nationally. But multilateralization is only the formal institutional side of a movement towards a world redistribution program. The more important aspect is the commitment of the rich to make continuing transfers to the poor, as of obligation and right, respectively; and in this respect the Peterson Report refuses to follow the Pearson Report, and instead retrogresses into the charity approach, in addition recommending changes in the structure of the aid program designed to give it the appearance (and perhaps, in the event, the reality) of a strictly business operation. These recommendations indisputably suit the present temper of American public opinion. Nevertheless, I believe there are longer-run dangers in reducing the commitment of American resources to the development of the poor countries—though the reduction of the direct American presence in these countries recommended by the Peterson Report is in my judgment highly desirable.

On the other side of the aid picture, the official approach to development assistance needs in terms of target rates of growth—and particularly in terms of an average rate of growth for the developing countries as a group—is excessively aggregative and misleading. No such statistic can epitomize the moral claim that the poor countries believe they are entitled to lay on the rich countries. More important, the growth rate of gross national product captures only imperfectly, if at all, the essence of the development process. This is a process of social transformation which can only be effected by a myriad of micro-economic changes, not simply by macro-economic additions of domestic and foreign resources. These changes have to be effected largely—almost exclusively—by the governments and citizens of the developing countries themselves, and primarily by the private enterprise (in a very broad sense) of private citizens—operating of course in an environment set by governmental policies.

On this view of the development process, there is a great deal to be said for the self-help principle, particularly if it is administered through multilateral agencies whose judgments will be accepted as a collective and objective view of the individual country's circumstances and policies. Emphasis should in particular be placed on the pursuit by governments in developing countries of policies that actively promote private enterprise, and the modification or elimination of policies that arbitrarily intervene in and obstruct competition. Policies of regulation of competition should be codified, and policies designed to intervene in competition for social reasons should be implemented so far as possible by taxes and subsidies rather than by administrative controls. Direct foreign investment should be encouraged for its demonstration effect on and frequent complementarity with local enterprise—as well as for the tax revenue it contributes to the development program.

If the self-help principle and reliance on private enterprise are to be emphasized in development assistance policy, however, it is incumbent on the developed countries to do everything they can to provide rapidly expanding export markets for these countries, so that they may pay for their imports and the service on their developmental debts and be able to allow foreign corporations to repatriate their profits. Policy proposals here tend to concentrate on exports of manufactures, and on the scheme for preferences for such goods in the markets of the developed countries. The preference scheme should certainly be implemented as soon and on as liberal a basis as possible, though one would hope that it would eventually be absorbed in another major move towards multilateral freedom of trade. In addition, existing quotas, notably on cotton textiles, should be eliminated as speedily as possible. Both approaches to trade liberalization would require a substantial improvement in techniques of adjustment assistance) ideally, adjustment assistance should not be tied to trade disturbances but should be part of a set of general policies designed to improve the flexibility and efficiency of the domestic economy in face of economic changes of all kinds.

While interest has come to center on new arrangements for developing country trade in manufactures, and there is some justification for this in the relatively slow growth of traditional exports of primary products, the latter are quantitatively far more important in the foreign exchange earnings of developing countries and likely to remain so for some time to come; and substantially larger and more rapidly growing markets for them could be created by a reduction of existing barriers to imports of them by the developed countries. The barriers in question, however, are the result of farm-support policies in the developed countries adopted for social reasons, and politically difficult to tackle, despite their manifold deficiencies in achieving the socially intended results. There are some grounds for thinking, also, that the observed slow growth of primary-product exports is partly attributable to policies in the developed countries which in effect tax such exports for the benefit of the development program and the urban workers.

In a more liberal world-trading environment created by such changes in the commercial and agricultural policies of the developed countries. self-help and private enterprise would probably provide a powerful stimulus to the acceleration of economic growth in the developing countries, in spite of the prospective relative decline in the volume of official aid. But economic growth is not necessarily economic development: it may be, and in many cases is, simply an expansion of the population at the same or very slowly rising average standards of living. Worse, growth in the aggregate may result in no improvement in the lot of the mass of the population, and so exacerbate inequalities and social tensions. In his recent report on the Latin-American situation to the Inter-American Development Bank, Dr. Prebisch has argued that this is the central problem of that region, and that to solve it a great acceleration of industrialization is needed. This solution may be no solution, but only the start of a rat-race; and it is not a solution likely to appeal to potential donors of assistance. Rather than attempt to outrun the population explosion by accelerating industrialization, it would seem simpler and better from many points of view to attempt to damp down the explosion and decelerate the rate of population growth. Success in so doing would probably reduce measured rates of overall growth; but more rapidly rising per capita incomes, besides corresponding more closely to what most people would regard as genuine economic development, would set economic forces to work (notably a growing scarcity of labor) that would tend to dissolve the social problems that worry both Dr. Prebisch and the Pearson Report.

More effective population control is indeed a top priority in development policy, if international co-operation in development is to ameliorate the problem of world-wide poverty and not exacerbate it in quantitative terms. To this end, intensive research on the medical technical, and above all the psychological and social aspects of devising effective family planning programs is necessary.

Population control is, however, only one of the areas in which research and development could prove enormously valuable to the promotion of development. Given the magnitude of the problem of development, and the continuing pressures in the United States for a reduction in the scale of the aid effort, there are strong arguments for emphasizing development assistance in the form of research and development expenditure on the specific problems of the developing countries. One is that, whereas average returns on capital investment typically run well under twenty per cent, so that after allowance for interest and amortization, development loans will make a substantially smaller percentage contribution to increasing the incomes of the recipient countries, estimated realized rates of social return on research and development typically run substantially higher, sometimes fantastically higher. Another, related, reason is that the new knowledge produced by such research and development expenditure becomes freely available for use everywhere. It (though not necessarily the products it may be embodied in) can therefore be acquired and applied by the developing countries and their citizens without further contributions from the country giving aid in this form, and thus may have a very large "multiplier effect" by comparison with loans or gifts for investment in material capital.

To turn to conventional assistance lending, there is no doubt that a collective agreement by donors to untie aid would both increase its real value to recipients and eliminate a great deal of friction between donors and recipients. On the detailed questions raised by concessionary lending for development and the so-called burden of debt-service, I have no comments to make, though I would point out that most of the problems arise from the practice of giving aid in the form of an apparently commercial instrument (the loan), which fictitiously exaggerates and obscures the true amount of aid both given and received. Straight cash gifts, on the lines of Australian policy, would avoid these problems.

One final word on the so-called "link" proposal, that is, the proposal to distribute some proportion of the new Special Drawing Rights at the International Monetary Fund to the developing countries, to be earned back by the developed countries through unrequited exports to them. I know from past occasions that Dr. Prebisch is strongly in favor of that proposal; I am equally strongly against it, in spite of the fact that I would like to see the developed countries transfer far more real resources to the developing countries. I am opposed to it for two reasons. First, I think the Special Drawing Rights will have a difficult enough time establishing themselves as an integral part of a strengthened international monetary system without being saddled with an irrelevant and possibly mischievous development-assistance function. Second, this use of the Special Drawing Rights would impose an "inflation tax" on the developed countries for the benefit of the less developed, and I would prefer such redistributive taxation to be properly legislated, rather than imposed by monetary chicanery.

Chairman Boggs. And now we come to our third witness this morning.

Dr. Prebisch, we will be glad to hear from you at this time, sir.

STATEMENT OF RAÚL PREBISCH, DIRECTOR GENERAL, LATIN AMERICAN INSTITUTE FOR ECONOMIC AND SOCIAL PLANNING, AND FORMER SECRETARY GENERAL, UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Mr. Prebisch. Thank you, Mr. Chairman.

If you will allow me, I will start by referring to the last words of Professor Johnson. I have great admiration for him, and I hope that he will be converted to the idea of the link.

A few days ago at a meeting in the International Monetary Fund, I heard with much satisfaction that many important people in that institution are in favor, not only of using special drawing rights for development purposes, but doing so through the link and an organic link at that.

So I hope that Professor Johnson may change his mind regarding this matter.

Well, Mr. Chairman, why are we speaking about strategy for development. In my view because what we need in the world is a series of convergent—well concerted—measures to be taken at the same time both by developed and developing countries. And I think that this has been the central idea of professor Tinbergen's efforts for years.

I have been dealing, in a recent report presented to the Inter-American Bank, with the problems of development from the point of view of the developing countries, mainly the countries of Latin America. And naturally we cannot consider this problem in isolation which is the reason why we must speak about convergent measures.

So in this exposition of mine I will rather explain the connection between internal measures and policies of international cooperation, in order to see the very close interrelationship between the two, putting emphasis today on measures of international cooperation.

In my report, as Professor Johnson has mentioned, I considered that from the point of view of Latin America—and I think that this reflects a general fact in developing countries—the most important, the central problem that we have to attack is the fact that the economic system as it is functioning now has proven its lack of ability to absorb the increment of manpower that agriculture does not need any more. In Latin America, Mr. Chairman, during the last 20 years the whole of the labor force which has been leaving agriculture, instead of being productively absorbed by industry, construction and mining, has gone into services if not being unemployed. Naturally services are in a certain degree productive activities. But the indications are in Latin America that this expansion of the labor force into services is rather the expression of the lack of dynamism of the economy. It is an expression of super-abundance of labor where labor is not needed, an under-employment or an unemployment of labor which is a characteristic of what has been markedly evident in Latin America for the last 20 years as well as before.

I fully recognize, sir, that the main factor in this phenomenon is the fact that population has been increasing since the 1930's at a very high rate in Latin America, more than 3 percent annually and in some of the countries, 3.5 percent. We have to deal with this problem. And there are many obstacles. But in my report I put emphasis on the need of a Latin American population policy, not as such, but as a part of a general strategy of economic and social development.

But it so happens that those that will enter into the labor force in the next 20 years are already born. You cannot check them any more. So this is the problem that we have to solve in Latin America. And this is why I am preaching, not as an isolated aspect of strategy but as one of the main elements, the acceleration of industrialization in Latin America. The more we introduce modern techniques in agriculture—and this is badly needed, a technological or as it's called a green revolution in Latin America is unavoidable and should proceed as soon as possible—but the more we introduce modern technology into agriculture, the less we need manpower. So if in the past manpower there has been growing only at the rate of 1.5 percent, if we introduce modern technology, this rate will increase instead of decreasing. So that the need to absorb manpower would be greater than in the past.

So we have two things to do. First of all, to correct what has been going on, and second to be prepared for an ever-increasing productivity in agriculture. That is the only way, the only permanent way of improving the situation of the agricultural masses in Latin America.

May I say in passing that the rural masses in general have not improved their situation in the last 20 years in a parallel way to the general situation of the economy of Latin America. The gap between these rural masses and the marginal population of the cities on the one hand, and the intermediate and upper income sectors of the community on the other, has been widening instead of decreasing, to such an extent that 60 percent of the population in Latin America now consumes only 20 percent of the total amount of goods and services.

That gives you an idea of the disparity, the great disparity in the distribution of incomes.

We cannot solve this problem without increasing productivity in agriculture. And the increasing productivity in agriculture means less absorption of people in agriculture and hence the need for creating new sources of employable activities.

Industry in my view is the main source, directly and indirectly: first, because industry will absorb manpower, and second, because if industry increases productivity, this increasing productivity will generate demand for services, so that there will be real instead of a spurious absorption of people in services as at present.

Now, what is the minimum rate of economic growth that will be needed in Latin America in say the next 10 or 20 years to correct this problem of this dynamic insufficiency of the economy?

A rate of growth of 8 percent should be attained within 10 years, and continued another 10 years.

That rate is higher than the Tinbergen rate, but even so I feel sure that Professor Tinbergen would support mine.

Well, sir, I would next like to emphasize to this committee the external requirements for attaining a rate of growth of 8 percent. I fully agree with Mr. Bell that one of the main objectives should be a self-sustaining economy. And this is a basic principle in what I have been writing.

But in order to arrive at this situation we need an enlightened policy of economic international cooperation. A rate of overall economic growth of 8 percent for Latin America would need at least an 8 percent increase in the regions imports every year.

And in order to face this fact, several measures should be taken.

First, an increase both in traditional and new manufactured-goods exports of Latin America.

Second, a very vigorous policy of increasing trade between Latin American countries.

The Latin American common market in my view is an unavoidable prerequisite for the acceleration of development. And I have to confess my disappointment as a Latin American, Mr. Chairman, by the very slow progress of the common market. Not one agreement has been signed on basic industries, such as iron and steel, petrochemicals, chemicals, and some capital goods industries; not a single such arrangement has been made in the past 10 years of existence of the Latin American free trade area. This is very serious indeed.

We are trying to persuade you people from the Northern Hemisphere to follow a liberal trade policy for the goods of Latin America and other developing countries, and yet we are not doing what we should do in this matter.

Here again I speak of convergent measures. A policy of increasing our exports to the big industrial centers of the world will not be enough if Latin America does not take seriously the problem of the Latin American common market.

Now, sir, the experience in the past in relation to exports has been disappointing. In the last 20 years the annual rate of growth of exports from Latin America to the rest of the world, was 4.5 percent. It seems satisfactory, but the purchasing power of those exports grew by only 2.7 percent per year due to the deterioration of the terms of trade. If therefore, we are to attain a rate of economic growth of 8 percent, a powerful movement to increase traditional as well as new exports has to be vigorously applied. Certainly a rate of growth of less than 5 percent annually in exports of Latin America over the next 20 years will fall far short of achieving this objective.

In addition to that there is a vigorous policy of import substitution—not on national lines, because it is very costly—but in combination one country with the rest, through the gradual formation of a Latin American common market.

As to international financial cooperation, Mr. Chairman, the picture has been very unsatisfactory. I do not know if really we can speak about a policy of international financial cooperation in the past. Why? One of the objectives of such a policy would be to contribute to a process of self-sustaining growth. And this has not happened. In my report I present a series of charts to show that the coefficient of mobilization of internal resources for investment purposes in Latin America, instead of increasing in order to arrive at the self-sustaining situation, has been decreasing over the last 20 years, with very few exceptions. This is due to a combination of both internal and external factors; external factors because the amount of lending, and the conditions of lending as you know very well, were quite unsatisfactory. The amount was less than it should have been. And the requirements for the payment of amortization and interest were so heavy that these service payments together with the unfavorable effects of the deterioration of terms of trade, actually depressed not increased the amount of resources that could be devoted to internal investment in Latin America.

Simultaneously, we have to recognize that in general Latin American countries have not taken vigorous measures to increase the amount of domestic savings.

Thus the convergence of bad policies on both sides has been responsible for the fact that instead of approaching self-sustaining growth, we have gone further and further away from it, Mr. Chairman.

Another important objective of a policy of international cooperation therefore should be to help developing countries increase their exports in such a way that they could pay their remittances of financial services, both interest and profits, and amortization, without undue strain on the balance of payments.

Well, if we look at the figures in Latin America and we establish a relationship between the remittances paid to foreign countries on the one hand and the increase in exports plus the savings through import substitution on the other, the relationship, instead of declining, has been increasing at a very high rate. This is very serious, because exports plus import substitution are not only needed to pay for these remittances, but also to pay for the increasing amounts of imports of capital goods, intermediate goods, and to a minor extent consumption goods, which are requirements of development.

So in short we have to recognize that the policy of international cooperation has been far from perfect. On the other hand, as I said before, Latin America has also not been sufficiently serious in dealing with this problem to the extent of bringing countries towards a more consistent policy of import substitution.

Nor have they taken advantage of all the opportunities to increase their exports. I can quote many cases where a country, through bad policy, has not taken advantage of possibilities in world markets. And I would like to emphasize this as a Latin American, sir.

I am not coming here to protest against the lack of a policy of international cooperation, but mainly to underline our main responsibility of not having been able to follow a consistent and systematic policy of internal development.

Then what to do? I fully recognize the objection that is raised in this country as well as in other donors as to how to increase the amount of lending or grants to the developing countries if there is no assurance that this money will be properly used. I fully sympathize with this position.

What is the solution? Well, I fully agree with Professor Johnson that multilateralism introduced into to the financial sphere is the best way to deal with this problem. Why? Because if this flow of financial resources is to be properly used in developing countries—and I speak from the Latin American point of view in this matter—it is necessary that countries receiving these funds should use them on the basis of a good development plan for 4, 5, or 6 years. And I see with great interest the new attitude of the World Bank on this matter.

They are now suggesting and helping countries establish development plans. But—and here is the importance of multilateralism—if these development plans are to be evaluated by another country, especially by a big country, political problems are bound to emerge. And this has happened in the past. So if instead of this kind of evaluation, wherein both the nature and the performance of the plan are put into the hands of a single country, a big country, it is put in the hands of a multilateral organization that has not the pressure of immediate political problems or immediate economic and financial interest, the chances that a developing country will be subject to an objective analysis of its plan are much greater. This is why I am very stimulated by the fact that the present current favoring multilateralism has been increasing in the last few years. And what I speak about lending institutions I have in mind not only the World Bank, but also the Inter-American Development Bank, and some other distinctive regional mechanisms. I think that CIAP, the Inter-American Committee for the Alliance for Progress, has been accumulating great experience and should be better used in this process for evaluation, perhaps with the cooperation of independent experts from government as well as from financial institutions.

I think, Mr. Chairman, that even if for obvious reasons some governments would not like to abandon the system of bilateral assistance, financial assistance, it is important to recognize the need to insert the bilateral activities of a particular government into the international framework.

I attach great importance to the recommendation of the Peterson Report in this matter. He recognized the fact of life, that it is not possible for the time being to have a radical change of policy. But at the same time he points out the need of integrating this bilateral activity into a multilateral framework.

This is all that I have to say for the time being, Mr. Chairman. But I would like to underline the need for a strategy with convergent measures. The best policy, the best internal development policy will not achieve important results without a clear and systematic policy of international cooperation. And the best policy of international cooperation will fail unless vigorous measures are taken in developing countries. And I think that in the next few years, even if the amount of resources to be transferred is not what it should be, we should take advantage of past experience to establish proper machinery to deal with this problem in a satisfactory way to both sides.

Thank you, Mr. Chairman.

Chairman BOGGS. Thank you very much.

Your prepared statement will be included at this point in the record.

Mr. PREBISCH. Thank you, sir.

(The prepared statement of Mr. Prebisch follows:)

PREPARED STATEMENT OF RAUL PREBISCH

INTRODUCTION: THE OVERALL SCHEMA

It was very kind of the Subcommittee and yourself, Mr. Chairman, to have invited me to participate in these Hearings. In addition to the honor involved, I am particularly aware of the unique responsibility accruing to me, as the only member of the Hearings who comes from a developing country.

Originally, while trying to conceive of a framework within which I could present my views today, I was tempted to make a summary of a report[1] I submitted to the President of the Interamerican Development Bank at the meeting of its Board of Governors in Punta del Este, Uruguay in April 1970. After much consideration however, I decided not to do so for two reasons. One was because my report largely concerned itself with an examination of Latin American domestic policies, and suggestions on how to remedy the shortcomings of those policies. Today however I do not want to give the same emphasis to internal Latin American matters because I understood, from the letter sent to me by Chairman Hale Boggs, that these Hearings are intended explicitly to assist in a re-examination of United States policies towards the developing world, with particular emphasis on how that matter looks from someone from a developing country. Secondly, in any case, my report will be translated into English early next month and there, in great detail, anyone will be able to read why I feel that Latin America bears a major onus of responsibility for

[1] *Transformación y Desarrollo: La Gran Tarea de América Latina.*

its own future destiny, and what I believe Latin Americans can and should do about this.

I very much welcome this unique opportunity to speak on U.S. policies towards the Third World, for this powerful nation is so clearly destined to play a major role in future relationships between developed and developing countries. I have long been aware of this matter, and as the years pass I have become progressively more seized with the important fact that—from now through the end of this century—relationships between developing and developed countries are bound to determine the shape of things to come. For many years in the past, and continuing today, other circumstances have combined to mask the central role of development in the Third World. Such other circumstances have included international political and military crises, and the spasms of social tension occurring inside the developed as well as the developing nations of the world. I try to understand such realities, but I believe it is essential to look further ahead than this year or next. We must try and conceive how this planet should look during the next 10, 20 or 30 years. I am presenting this broad perspective because the heading for the testimony, as stated today in the press release given to me by Chairman Boggs' staff, is that I am to speak on "Objectives and Strategies for Development." What I should like to do then is to present a rationale for and some essential elements of a long-term strategy for development that not only provides an organic framework for the conception of policy, but does so in a way that allows short-term measures to be introduced and implemented with varying degrees of urgency and priority while still fitting into a long-term scheme of things.

CONVERGENT MEASURES

Over the years I have consistently devoted much time and emphasis to the importance of applying the concept of convergent measures to any international strategy designed to foment the economic and social development of the developing world. Perhaps some of those present do not know what I mean by the words "convergent measures"? Yet it is not an arcane nor complex concept. On the contrary it undoubtedly would have both pragmatic and intellectual appeal to the Congress of the United States, for fundamentally it posits that development of the Third World depends upon the simultaneous application of a series of joint actions by developing countries as well as by developed countries. They all have common responsibilities and hence all must adopt and apply a series of joint measures if a global strategy of development is to be truly effective.

My views on all this were expounded at some length in the report I presented to the last UNCTAD Conference in New Delhi during 1968 entitled *Towards a Global Strategy of Development* and in particular to the final chapter where I have a section called "Converging Measures Within the Global Strategy." Today however I believe it is sufficient to synthesize what I have in mind by pointing out the obvious, namely that the soundest and most liberal policies of international commercial and financial collaboration by the U.S. and other *developed* countries will be of little avail if domestic policies are inadequately prepared and promulgated by *developing* countries. And, a point to which I will give much emphasis today, that the most organically conceived and effectively articulated set of internal policies by any *developing* country will fail if a sizeable *external* constraint exists.

THE PRIMACY OF DOMESTIC MEASURES

Having made the point that development is a two-sided coin—wherein both internal and external measures must be applied in a convergent manner—I do not want you to believe that I feel this necessarily implies a simple one-to-one relationship. Far from it. If I were to try and quantify the relative importance of internal as compared with international developmental effort, by far the greater onus would rest on the former. Undoubtedly many of those present, and in the U.S. Congress, would therefore wish me to spend the rest of my time at these Hearings elaborating on where I believe Latin America has fallen short on its own domestic policies, and how I believe this could be put right. Such an interest is perfectly understandable but nonetheless it is not what I intend to do for the two reasons already specified in my Introduction.

However I would like to add that, in my opinion, among the many measures that Latin Americans should undertake within their own boundaries, or one country with the rest of the region, the following would figure very prominently: namely more effective policies regarding employment, demographic trends, the green revolution, industrialization, and economic integration. As I said before, you will find my views on all of these matters presented with much detail in my recent report. I do want to add however that, in my report, I show that Latin America must work towards an 8% annual income growth rate during the course of the present dedcade, and thereafter, if its manifold tensions are to be alleviated. This is a challenge of Herculean proportions, for there is a sizeable dynamic insufficiency in the Latin American economies. If this insufficiency is not remedied, there will be an excessive distortion of the region's already redundant labor force, accompanied by very serious social and political consequences.

The External Constraint

Having said all of this I shall now reiterate why—despite its lesser degree of quantitative importance—international collaboration remains in my mind as a fundamental variable in the overall development equation. Although my report is mainly oriented towards domestic measures, it nonetheless also devotes much attention external constraint: that is to say the extent to which the level, the rate of growth, and the predictability of foreign exchange tends to inhibit, in greater or lesser degree, the growth patterns of most developing countries.

There are a number of avenues that can be followed to close the foreign exchange gap, and to do so in a smooth and coordinated manner. One such avenue refers to trade; another to public and private financial transfers; and still another refers to invisible transactions. All of them should be simultaneously explored for, to the extent that actions on any one avenue fall short of expectations, then it follows that actions on all other fronts must be correspondingly enhanced. For reasons of time however, I will concentrate today upon the trade and financial headings.

Trade Policies: A Panorama of Measures

For convenience of presentation, one might conceive of evolving an inventory of measures designed to promote, over the next decade or more, two broad categories of exports from developing countries, namely those in primary product form, and especially those that are semi and finished manufactures. As regards primary products, it seems to me that three main areas are clearly ripe for action: (i) elimination of obstacles to market access in developed countries; (ii) positive promotional measures; and (iii) stabilization efforts. As for semi and finished manufactures, again I believe that the over-all strategy would encompass three major headings: (i) increased access to markets of major importing countries; (ii) improved export promotion, marketing and distribution techniques; and of course (iii) the introduction of a global system of general preferences.

Needless to say, I assign the highest priority to policies of international collaboration designed to expand exports of semi and finished manufacturers from developing countries.

Financial Policies: Another Listing

Turning next to financial transfers, another panorama of broad long-term policies might be presented under the two headings of public and private flows. Much work has been done in policies affecting international flows of public funds within the UNCTAD, OECD, IBRD, IMF, IDB and other international, regional and national centers. Fundamentally such studies center around (i) the level of public transfers, and (ii) their terms and conditions. As for private investment, an equally large number of studies have been undertaken, although here perhaps more room exists for new work. In any event, in my view at least, two principal areas requiring further attention would be (i) the extent to which private investment does in fact succeed in alleviating the foreign exchange gap of developing countries, and (ii) the extent to which it does the same as regards the technological gap of those same countries.

Some Priorities

In the two preceding sections I have listed a panorama of broad long-term areas of desired trade and financial policies. If international consensus could be reached on how to link such matters into an overall strategy of development, that would be a great intellectual advance. Professor Tinbergen has done path-breaking work in this regard, as have many others. I shall not go further into the long-term strategic and philosophic elements therefore, but rather will move next in order to indicate what I believe would be some areas of short-term priorities. In other words, what should the U.S. and other developed countries do over the next year or so in areas which have special urgency of implementation, but which simultaneously find their fit within the overall longer-term strategy. Looking at the same headings that I gave in the preceding sections, my priorities would be as follows.

On *trade* policies, I believe that access to markets (through stand still arrangements, and more positively through a global system of preferences) is of fundamental importance. At the same time however I believe that much more can be done in terms of stabilizing export prices and earnings, such as has been under consideration by the UNCTAD, IBRD, and IMF in recent years. On the matter of *financial* transfers, I would like to strongly support the importance of the U.N. one percent target and to suggest that among alternative ways of reaching that target, attenion now be given to the need for linking the creation of Special Drawing Rights with the expansion of international development assistance. Also, I should like to emphasize the importance of increasing the predictability of financial transfers, both by appropriate procedures in the donor countries as well as by intergovernmental approaches such as supplementary financing or some ideas inspired by the Horowitz Plan for an interest equalization fund. Thirdly, I should like to express my satisfaction on the growing interest in this country with the special debt problems of developing countries. The seriousness of this problem is no longer in question, and I hear concur that it be given the highest priority.

Lastly, I should like to give my views on priorities regarding private investment. Here I think two kinds of research or related efforts are still needed as precursors to policy. One would be to clarify what kinds of technologies Latin America should seek to import from the more advanced countries, and how to locate, transmit adapt and pay for them. The other would concern itself with promoting Latin American private entrepreneurship in order to gradually correct its financial and technological inferiority. Parenthetically, even though I have given more space to financial than to commercial policies, this should not be overly interpreted. In fact I look upon international financial transfers as a transitional means of helping to bring about self-sustaining growth. They should not become an avenue for increasing dependency of peripheral countries upon those at a higher state of economic development. In the long run, therefore international commercial policies must be accorded major emphasis.

Institutional Machinery

In these few preceding pages I have attempted to list broad groups of policy measures that might be of particular interest to the U.S. Congress as it re-examines its approach to the development of the Third World over the coming decades, and as it seeks to establish some priorities within that broad panorama of measures. But assuming that all this was done, one basic question still remains, namely that concerning the institutional machinery required for transforming those policies into practice. Here I should like to warmly endorse the views presented by Mr. Rudolph Peterson in his testimony on May 13, as well as in his previous report as Chairman of the President's Task Force on International Development. His emphasis on the increasing need to multilateralize the international developmental system; the primary role that international organizations can play in facilitating this global multilateral effort; and the extent to which the U.S. and other developed countries' bilateral programmes should fit into this multilateral framework are all points which respond to a large body of aspirations in Latin America. Even so however I would have liked to have seen Mr. Peterson endorse the one percent target.

In the particular context of Latin America finally, I should like to conclude my testimony by pointing out that a highly effective multigovernmental framework currently exists in this hemisphere, whereby national, subregional,

regional and international mechanisms have already combined in an effectively functioning system that has probably not yet been matched by any other major developing area of the world. Of course, there are many ways in which the system can be improved. But my point in mentioning it is not as a point of comparison with those other areas but rather as a means of bringing to your attention that—over and above the international agencies—Latin America has its own unique regional mechanisms such as the IDB, the OAS/CIAP, and the ECLA/INSTITUTE whose experience and competence could be of much value in facilitating the move towards multilateralism that Mr. Peterson so wisely urges.

Chairman Boggs. And now Professor Tinbergen.

Will you proceed, sir? We are happy to hear from you.

STATEMENT OF JAN TINBERGEN, PROFESSOR OF DEVELOPMENT PLANNING, NETHERLANDS ECONOMIC INSTITUTE, CHAIRMAN, UNITED NATIONS COMMITTEE FOR DEVELOPMENT PLANNING, AND NOBEL LAUREATE IN ECONOMICS

Mr. Tinbergen. Thank you, Mr. Chairman.

I want to thank you also, as others have done, for the openmindedness to invite foreigners to appear. By now I am afraid you have already been confronted with the well-known fact that if you have four economists you have five opinions, in my case two opinions, stemming from the fact that I am partly presenting the United Nations Development Planning Committee's and partly my own views, as Mr. Prebisch has already announced.

I am very sorry, Mr. Chairman, that for some reason or other the text of my prepared statement has not arrived. It has been dispatched four weeks ago. I do not know which post office is to be blamed here or who else.

INTRODUCTORY REMARKS

I need not remind you: the prospects of world political stability are unfavorable. Sociologists have shown that political instability within countries is greater, the lower the income per capita. Internal political instability may easily escalate into international conflicts. Particularly threatening is the prospect of increasing unemployment in poor countries, due partly to the population explosion. Poverty in general and unemployment in particular make it easy to recruit soldiers, whereas in prosperous countries the willingness to join the army is declining.

The common interest of all the world's citizens in reducing poverty in the poorest countries has not been fully understood by Western countries. While many commendable activities were undertaken and expended, in many respects their extent was too little and they were undertaken too late. Western attitudes vis-a-vis India, Pakistan and the U.A.R. (high Aswan Dam) are examples.

Many European countries have done far too little. At present, several of them have announced substanzial increases in their programs of development cooperation. The British Government in its recent White Paper announced a rise from their present level of "aid" of about £220 million to about £300 million in the 4 years from

1969–70 to 1973–74, in present prices. The Federal Republic of Germany will increase its public transfers by 11 percent per annum; the total of private and public flows is already now well above 1 percent of gross national product.

The Swedish Government will increase its public effort by a higher rate, around 20 percent per annum. The Netherlands will have reached in 1971 the 0.7 percent target proposed in the Pearson report. France has for years already been at the level of more than 1 percent for its total flow.

No effective international development policy can be carried out, however, without the cooperation of the United States, which did so much in the past and in 1968 still provided one-half of the total flow. It would not be in the long-term interest of the people of the United States if its policy were based on understandable, but largely emotional, tendencies now prevailing among its citizens. Politicians, as an elite, have the task to give guidance to public opinion whenever it is temporarily biased by counterproductive emotions.

Rightly the Peterson report advocates the separation of military and socioeconomic assistance. Such a separation will improve the image of socioeconomic development cooperation, especially for countries such as India, where an effective socioeconomic cooperation still may help to avoid future military enanglement, but for many other countries as well.

THE UNITED NATIONS DEVELOPMENT PLANNING COMMITTEE AND ITS REPORT

The U.N. Development Planning Committee was established by the Economic and Social Council of the U.N. in its spring session of 1966. It is composed of 18 members, acting in their personal capacity. Half of the members are citizens of developing countries; three of official Communist countries, one each of Japan and Yugoslavia and four of western countries. The Committee has assisted the Secretary General of the U.N. in the preparation of a "framework of international development strategy for the 1970's," which has now been published in the committees report of its sixth session (New York 1970, E/47 76).

It is significant to note that this report has been adopted unanimously and that it has been drafted with the cooperation of all the agencies of the United Nations system, plus some other international agencies, such as OECD. This means that such sector programs as FAO's Indicative World Plan for Agriculture and comparable programs by UNESCO, WHO and ILO on education, health and employment, respectively, have contributed to the UNDPC's report and, in part already, been checked for their consistency with the proposals.

The broad cooperation upon which the recommendations are based implied that the approach chosen was not narrowly economic, but, in accordance with modern views, a wider one, in which social and cultural factors were also given their due place.

During the preparations I was in contact also with Mr. Lester B. Pearson, chairman of the Commission on International Development, established by the president of the World Bank, and with members of Mr. Pearson's staff.

It is perhaps of significance too to state that the recommendations of the Pearson report are in many respects similar to ours. For the appraisal of these recommendations it is essential to have in mind that they are based on the assumption that a closer international cooperation for development will materialize.

In the absence of a political will for closer cooperation the targets chosen will not be attainable. Such absence, however, would be the road to disaster, if one takes a look at today's social and economic trends. These point in the direction of massive unemployment in the developing countries, an increasing gap in the well-being between the poor the the prosperous countries, and an increasing polarization into radically opposed camps.

MAIN GOALS CHOSEN

The approach chosen may be characterized as the one of socio-economic engineering in contradistinction from the one of general slogans such as capitalism versus socialism. An attempt has been made to identify the components of the problem of poverty and to find workable solutions. Thus, it is proposed that governments of developing countries eliminate nonoperational privileges such as those of big land owners who hardly pay taxes and tend to monopolize political decisionmaking.

Also, education in its broadest sense is given much emphasis, especially when directed at practical attitudes. Obsolete and inefficient government structures should also be changed. Employment must be a major preoccupation of development policies and the choice of activities for development should to a large extent be based on that preoccupation. Since most social measures require financing, however, the central economic target of quick growth in production remains of overwhelming importance. For the developing countries taken together we have arrived at a growth target, over the decade 1971–1980, of between 6 and 7 percent per annum, meaning a growth rate of income per capita of 3½ to 4½ percent.

The figures of 6 and 7 percent should be compared with that of 5 percent now prevailing; a figure well above the average of the growth rates of Western countries in the 19th and early 20th centuries. For the years 1971–1975 we do not think that more than 6 percent will be attained, but if a perspective is to be opened to the poor masses, higher growth rates are a must.

Some of the main social targets—education and health—as set by the specialized organizations of the United Nations, are compatible with the growth rate of income recommended.

All these figures should be considered as guidelines for the individual governments, which will choose their own targets, but hopefully in line with the general suggestions.

The figures have been checked for individual countries. On the assumption of improved international cooperation they are possible, but not easily to attain targets. Oil countries and those in the neighborhood of Japan already show figures higher than 7 percent. Some of the most important countries such as India, Pakistan and Indonesia will need special attention, however.

The growth rates needed for imports will be about 1 percent above the growth rates of national incomes, hence 7 to 8 percent per annum. Agricultural production will have to rise by about 4 percent, which has become a possibility thanks to the "green revolution." Manufacturing industry, building and services will have to grown by 8 to 9 percent annually. This will require some special cooperative attitudes from the developed countries in the fields of trade and aid.

MEANS TO BE APPLIED BY THE DEVELOPED COUNTRIES

The UNDPC report deals extensively with the means—or measures—to be applied by the developing countries themselves. In fact by far the larger part of the effort has to be done and is actually being done by them; the Pearson report estimates that part to be 85 percent. In this statement I want to focus on the efforts to be made by the prosperous countries, in their own long-term interest and as a token of their civilization. It is commonplace to distinguish four main area, briefly to be indicated as financial flows, trade policies, research and technical assistance.

With regard to financial flows the 1 percent target should be reached in 1972; and three-quarters of a percent of GNP should be made available from public sources. Funds of this magnitude can be of immediate usefulness to such countries as the three big Asian countries already mentioned. I regret that the Peterson report rejects the idea that targets such as these should be adhered to. For an efficient policy, targets have to be set; otherwise no check on efficiency is possible. The argument of the Peterson report that defense expenditures, at the level of 7 percent of GNP, should be taken into consideration, seems inconsistent with the recommendation, by that same report, to separate military and socioeconomic efforts.

It is my hope that the recent conversations with the FRG about sharing defense expenditures and, of course, the SALT negotiations will help to make the Pearson targets in the financial field acceptable to the United States. The impact on the image of the United States in the Third World will be considerable; favorable if the one percent and 0.7 percent targets are accepted, unfavorable in the opposite case.

In the field of trade policy the Peterson Report is very constructive and much in the spirit of what the UNDPC proposes, and what has been proposed in the December hearings of this subcommittee by Professor Cooper and Mr. Watson. Indeed, protection is not a weapon to be used by economically strong countries. For unstable markets, mostly the agricultural markets, commodity agreements and the implied quotas are necessary, but for most markets of industrial products they have to be rejected. A considerable step forward in the creation of more industrial employment in the developing countries could be made if the United States were willing also to include textiles in the list of commodities on which preferences are negotiated—between UNCTAD and OECD—on behalf of developing countries. Of course, the European Economic Community also will have to change its attitude on protection.

If the developing countries could sell more textiles and other labor-intensive products—timber products, shoes, and vegetable oils —to the prosperous countries, they would earn more foreign exchange to buy capital goods, chemicals and other capital-intensive or research-intensive goods in which the developed countries can compete on the world market without artificial measures. The gradual but quick elimination of trade barriers will require a change in the industry mix of the prosperous countries which ultimately will increase their incomes.

In the field of research the magnificent example of the Rockefeller and Ford Foundations which gave rise to the "green revolution" should be followed by other institutions and in other fields. The targets under consideration by the Advisory Committee on Science and Technology are that developed countries—

(i) Transfer 0.05 percent of their GNP to the developing countries for direct support of science and technology, and

(ii) Devote some 5 percent of their own R. & D. expenditures in 1980 to specific problems of developing countries. Among the problems to be studied are how to save on capital—rather than on labor—costs of the industries most appropriate for the developing countries.

May I add, Mr. Chairman, that one of the international concerns of my own country, Philips, has a pilot factory in which such capital saving devices are being tried out.

Technical assistance as organized by the United Nations development program has increased rapidly. In order to increase its capacity the administrator has commissioned Sir Robert Jackson to report on improved organization of the program. In his "Capacity Study" Sir Robert has made a number of very useful proposals. I express my personal hope that many of them will be accepted by the governing council.

It is conceivable that future contributions to the program be made dependent on the acceptance of a number of key proposals, such as the ones about the tasks of the resident representatives, and the ones about the possibility to execute some projects by other agencies than the U.N. specialized agencies.

Very important technical assistance can be given by western production units operating in developing countries. Such operation, whether in joint ventures or not, should be stimulated by all governments concerned.

EVALUATION AND ITS FEEDBACK

For a more effective international development stragegy to be carried out it will be necessary that periodic appraisals or evaluations be made which have a feedback effect on each government's policy. Evaluations will be made currently in an "administrative way," that is, by the organizations involved themselves. Governments will evaluate their progress, consortia, and similar groups will do so, and the United Nations Regional Commissions as well as the Secretariat will summarize the findings.

Also the specialized agencies will follow the progress of their own work. The UNDPC believes that an independent appraisal by experts not responsible to their governments should be added to the evidence before the annual meetings of the economic and social council, in order that the council, and hence the general assembly, be able to make recommendations for improvement of the policies followed.

The committee feels it is part of its own terms of reference to make such appraisals and is now preparing for this activity.

One feedback will operate through public opinion. A stronger one may be a relationship between the appraisal of any country's progress and the assistance given to this country—also suggested by the Pearson report. Assistance should be given on the basis of several criteria, namely—

(i) The country's needs—and the Pearson Commission does not say this,

(ii) Its efforts,

(iii) Its performance or success, and

(iv) Its prospects.

I take it that the private sector will take care of that part of the criteria. So the public sector might well take account of the three others.

Some provisional criteria have been listed in the committee's report. The need for more research is stressed. Purely political criteria should be reduced and replaced by the socio-economic criteria to be elaborated.

The evaluation should apply to developed as well as to developing countries.

That completes my statement, Mr. Chairman. Thank you very much.

Chairman Boggs. Thank you very much.

Mr. Conable, questions?

Representative Conable. Thank you, Mr. Chairman.

Gentlemen, I apologize for not being here earlier. I have been at the Ways and Means Committee hearings which are not unrelated to what we are discussing here.

I have looked over your statements, the part that I have not heard. And I would like first to ask Professor Johnson a question.

In your prepared statement you have the statement:

> Adjustment assistance should not be tied to trade disturbances but should be part of a set of general policies designed to improve the flexibility and efficiency of the domestic economy in the face of economic changes of all kinds.

We are using adjustment assistance in Congress here pretty much as a bargaining lever with protectionist elements. Of course, we have a form of adjustment assistance in unemployment insurance to protect against economic dislocations of this sort. I would like to understand if you are suggesting how these phase in together. Are you using adjustment assistance in a very broad sense when you say that it should relate also the domestic market?

Mr. Johnson. Yes, sir. We do have other policies besides those you have mentioned, regional policies, and so forth, which were designed to relieve the consequences of particular specified kinds of economic change which fall unduly heavily on some citizens. And the principle that I am advancing simply is that what we really want is an efficient economy. And we want to assist workers and employers who are in difficulty because of economic change to get out of whatever they are in that is unprofitable and into something else that pays. And it is in that spirit that I say adjustment assistance should be part of a general program.

And tying it to particular kinds of hardship misses quite a lot of cases where economic change, technical change, shifts of population, and so forth, produce hardship and make the economy less efficient than it could be. So all I am saying is that while it may be that for political purposes you need to do it in this piece-meal way, the objective should be an efficient American economy. And for that purpose categorizing cases where you will do something and cases where you will not does not seem to me to be efficient.

Representative CONABLE. We have another form of adjustment assistance included in the welfare reform bill recently passed by the House where we provided, for instance, for the cost of relocation. Ideally I would suppose that this kind of adjustment assistance should be included in some kind of an overall Welfare Reform Bill. It is valuable as a bargaining tool in international affairs, if you consider it desirable to have an expansion of our free trade policy.

I notice also, sir, that you talk about the need for developing governments encouraging foreign direct investment. Would you endorse removing any restrictions on exporting capital from the United States to developing countries? We have been following a short-term policy at least that has been counterproductive in this field. In the light of your experience do you think that we would not have serious short-run balance of payments problems if we were to do this?

Mr. JOHNSON. I think, first of all, that if you consider only restrictions on investments in these particular countries, that that is rather trivial to begin with. And it is unlikely that such investment would grow very rapidly so as to constitute a major problem. But more fundamentally I think that the efforts the United States has made to solve its balance of payments problems by restrictions on capital exports of all kinds have been completely futile. There is no basis for them in economic theory. And they certainly cannot be said to have worked on the basis of the evidence. I think we need to look after the balance of payments problem as a monetary problem and an exchange rate problem and an international monetary problem rather than to try to do it by tackling bits and pieces of the balance of payments.

Representative CONABLE. We have had a tendency to go at it on a bits and pieces basis, I will acknowledge that.

I am sorry, I do not know to whom to address this question. I would like to ask you about the debt burden of the developing countries. I think perhaps Mr. Bell would be a good man to ask about this.

The cost of debt service has been going up faster than the amount of aid that has been going to developing countries. I wonder if you would endorse a kind of project bankruptcy as a result of lending on contracts that prove to be uneconomic in connection with aid? Is this something we have got to come to? I think we are probably headed for problems in this field, aren't we?

Mr. BELL. Yes, sir. It is my impression that we are.

I would be glad to say one or two things about this. I would hope that Dr. Prebisch and Professor Tinbergen might say something in addition. I am sure they are more up to date on this question than I am.

You are correct that in many countries—India, for example, and Pakistan—the increase in debt payments—repayments of principal and payments of interest on foreign borrowing—have been growing very rapidly, and they now take high proportions of the foreign exchange earnings of those countries. And it would seem to me that some form of rescheduling of debt in a number of cases is likely to be necessary.

I am not sure that the proper term is bankruptcy, perhaps because that is a pejorative term—but rescheduling.

Representative CONABLE. You just object to the use of the word "bankruptcy," is that it?

Mr. BELL. I think that "rescheduling" can be accomplished, and the future payments, while spread out over longer periods of time, can be so arranged that the total burden on the debtor does not diminish in a real sense, but the total income to the creditor can be, on a discounted basis, as great as it was going to be in the first place.

Rescheduling, however, which would seem to me to be appropriate in the most difficult cases of developing countries, certainly would involve some forgiveness of part of the obligations. And to that extent, in a strict sense, it would be like a bankruptcy proceeding. Some of the debt would be forgiven.

I think we are a long way, sir, from having an internationally agreed concept and pattern of what ought to be accomplished through debt rescheduling, what the standards should be, and what is fair to both debtor and creditor. And it is on these matters that I think a good deal of evolution of international machinery is probably necessary.

Representative CONABLE. I worry some about the future of the normal interest rate, and the development loans, because, of course, with high interest rates in this country there is a good deal of political reaction to our making loans at 1, 2, and 3 percent. Perhaps we should go to the nominal interest rate as a matter of rescheduling, and not as a matter of first instance, in cases where there is difficulty?

Mr. BELL. This has been a longstanding issue, of course. If one conceives of development assistance on a concessional basis as a temporary process, ideally and properly a temporary process, which is akin to pump priming, part of a process of getting a growth process going in each developing country, and that country, as Dr. Prebisch has quite properly emphasized, establishes and carries out the policies that are necessary on its side, then it is entirely appropriate to conceive of development lending on a soft loan basis as a temporary procedure, as part loan and part grant, and so designed from the beginning. Therefore, in such cases it would seem to me to be much less efficient to do the lending in the first place on a hard loan basis with the expectation of rescheduling.

Representative CONABLE. I wonder if Dr. Prebisch or Dr. Tinbergen would like to comment on this?

Mr. BELL. Or, Dr. Johnson, whose field is international economics.

Representative CONABLE. Dr. Johnson?

Mr. JOHNSON. I would just like to make a very brief point, which is that this concern about the nominal interest rate is somewhat inconsequent. With a rate of price inflation of 3 to 4 percent a year any rate of interest on these loans less than 4 percent is a gift. In the sense that, by the time they come to pay the interest, prices will have risen enough so that they ought to be able to pay it. And I think, in fact, the inflation that we have had has increased the grant part of concessionary lending.

Representative CONABLE. Mr. Prebisch?

Mr. PREBISCH. Thank you, sir.

I fully agree with what Mr. Bell has said.

May I take as an example the situation in Latin America. Considering the amount of remittances of interest and amortization as a proportion of the actual volume of Latin America's outstanding debt, their present ratio is 19 percent per year. This is too heavy.

Representative CONABLE. I should think so. That would be too heavy for anyone.

Mr. PREBISCH. Even for any good commercial enterprise it would be very, very heavy indeed.

And this is due largely to the short period of amortization and reimbursement of loans, especially taking into consideration the famous export credit loans that have been so detrimental to the debt situation of many Latin American countries. Naturally the rate of interest has a great role. But I would say that the heaviness of the amortization payments is the main factor of this situation.

And I am much in favor of a proper rescheduling, and a combination of different forms of lending depending upon the particular situation of each developing country, and their own internal efforts.

I fully agree also with Professor Johnson when he said that in some cases the rate of interest implies an element of subsidy. But this should be considered in a broader view. I think that if exports of the developing countries would grow at a faster rate than in the past, the payment of the real rate of interest for many Latin American countries could be a very feasible proposition, because of the fact that the amount of remittances has been going at a fast rate in relation to the rate of export. So it is not only the problems of the interest rate itself, but also of the overall ability to pay.

Thank you, sir.

Representative CONABLE. Dr. Prebisch, let me ask you this. Is one of the implications of this increasing debt burden that there is going to be a new emphasis on equity financing in developing countries in the years to come?

Mr. PREBISCH. Well, I would say, sir, that it is necessary to combine both things.

Representative CONABLE. But inevitably as the debt goes up you look for alternatives. And one of the alternatives of debt financing is direct investment. Do you anticipate more stimulative dividends on the part of developing countries for this kind of equity investment in the future?

Mr. PREBISCH. I would say, yes, sir. But as part of a clearly thought out policy of private investment in developing countries, when investment is made in projects that increase exports, or in sound import substitution projects—and I would say sound in the framework of a Latin American common market and not merely on an individual country basis—I think this form of foreign capital has been extremely useful. It means new technology. But what is happening in Latin America is a matter of great concern, that well-established Latin enterprises where the technology is well known are passing to the control of foreign enterprises. And this is unduly increasing the amount of remittances without any proportionate domestic benefits.

Representative CONABLE. And it is also quite naturally causing serious difficulties to the countries.

Mr. PREBISCH. Yes.

And so I think it is very necessary to evolve a good policy on both sides; to stimulate foreign private investment on the one side, and on the other side to insure its propriety.

Representative CONABLE. Dr. Tinbergen?

Mr. TINBERGEN. I will not add very much to what my colleague has said.

I should remind you of the fact that rescheduling is already a current process, and that it is being proposed to be continued. That is one thing.

And in the long run wouldn't it be more realistic not to speak about loans or grants or anything of a capital type expenditure, but rather of current expenditure for development purposes? If you look at plans for development purposes inside single countries, you have a considerable portion of the current budget that is being paid on investment projects, especially of a public nature, of course, and why wouldn't we have in the somewhat longer run also this same approach in the international field? It would do away with a lot of difficulties.

Representative CONABLE. My time is up, Mr. Chairman, thank you very much.

Chairman BOGGS. Thank you very much, Mr. Conable.

Mr. Johnson, I was interested in the difference between your approach and that of some of the other members of the panel. You talked about the necessity of, the overriding importance of, population control. The problem seems to be, as Dr. Prebisch pointed out, the people who already exist, not people who may be coming later—he suggested the necessity for industrialization to take care of the existing population. What is your comment on that?

Mr. JOHNSON. Well, it is always possible at any point of time, sir, to say that the existing population exists. But the problem is that we have been in the development business for 25 years, and it is only now that we are beginning really to take the population problem seriously.

The people that Dr. Prebisch referred to might not have been there and constituting a problem if some more positive action in the population field had been started 25 years ago.

Apart from that, considering that these people exist and that they need employment, it would seem to me that if you could manage to cut down the rate at which the population increases, then savings would be available for investment in industry and elsewhere in the economy that otherwise would have to be piled into the rearing and education of children.

So that an immediate start on the population problem could help to clear up the current situation of those who already exist as well.

Mr. PREBISCH. I fully agree with Professor Johnson.

Chairman BOGGS. Mr. Bell?

Mr. BELL. Could I request the opportunity to add something, Mr. Chairman?

Chairman BOGGS. Yes; I would be very happy for you gentlemen to discuss these issues among yourselves if you would like to.

Mr. BELL. I do not want to involve us in arguments about the shadings of terms, I do believe that the way that Dr. Prebisch put the point in his prepared statement is the right way to put it. And if I may say so, I think Professor Johnson has evaded the issue a little bit. What Dr. Prebisch has said, as I understand it, is that the population growth rate is serious now, and it has been serious for 25 years, and we would be a lot better off if we had been working on it 25 years ago. But nevertheless it is here now. We can agree that we should be working on it harder than we are, everyone concerned, starting with the developing countries themselves.

Suppose that were to be done, however. Suppose we were, in fact, to have the maximum feasible present attack on population growth rates. With the technology we have now, and the management skills that we have now, both of which are limited in this field, with the social and historical and cultural obstacles that have to be overcome, just on a simple basis of accomplishing something in the social setting of these countries we cannot anticipate an instant stopping of population growth. It will just not occur. And we will be seeing for the rest of this century certainly rates of growth that are, any of us would agree, too high in terms of the developmental possibilities of these countries.

The rates should be falling. They are falling now in important countries. And they should be falling faster.

But over the rest of the century certainly, and many demographer-economists would carry the statement on well into the next century, we will be seeing significantly high rates of population growth.

Now, under these circumstances the kind of problem that Dr. Prebisch has outlined is going to be with us. And therefore it seems to me that his statement of the matter, namely, that we need a population policy as part of a policy for economic and social progress and economic growth, is the right way to put the matter.

And to suggest that all we have to do is worry about population growth is totally erroneous. I am sure that this is not what Professor Johnson meant. But it is misleading to discuss these issues as either/or propositions. We must, it seems to me, face the real question of whether, as Dr. Prebisch suggests, we should be placing greater emphasis on industrialization in the specific circumstances of Latin America. And I think he is probably right.

Chairman BOGGS. Mr. Johnson?

Mr. JOHNSON. I did not mean to imply that population was the only thing. But it seems to me that if we are taking any sort of long-range view of this as a world problem, we have to recognize that as long as population continues to increase as fast as it does, we will be trying to beat the population explosion with an industrial explosion.

But there is one aspect of the industrialization problem that I would like to call attention to, because it is always, it seems to me, forgotten by people in this field. And that is, if there is this vast army of low wage labor available, there is a strong case to be made for forcing down industrial wages. There is a big differential between industrial wages and subsistence-sector earnings. And this is a consequence both of unionization and social policy.

If one is really concerned about improving the welfare of the mass of population it seems to me one way to do it is to break the monopolistic exploitation of the situation by industrial labor. I do not say that with any great degree of joy or enthusiasm, but it seems to me that if you have a small well-paid industrial sector, and, on the other hand, the mass of population, it would be logical to suggest that if you want to improve the lot of the masses by moving them into industry, you could do it by reducing the wages. Instead of going into it by Professor Prebisch's route, which is to provide more jobs at the going wages by nonindustrialization, you might let the factor of costs have a chance to play.

Chairman BOGGS. Would you like to comment on that, Mr. Tinbergen?

Mr. TINBERGEN. I think I can agree with what Mr. Johnson said in the last instance, except that, of course, it remains a long-term solution to look to the population side of it. With regard to the other side, I feel that it reinforces my plea for labor-intensive industries to be permitted, so to say, to the developing countries. And here we are facing mainly the trade policies of the developed countries as an obstacle.

So I would come back to that point. And I feel that we have to make a considerable effort to admit a number of products from developing countries by changing our protectionist attitudes.

Chairman BOGGS. Mr. Prebisch, in connection with his comment, would you favor preferential treatment for Latin American countries in trade with this country?

Mr. PREBISCH. No, sir. I would favor a general and nondiscriminatory policy, but not a policy of hemispheric preferences.

Chairman BOGGS. Why?

Mr. PREBISCH. Because it would not be successful from the economic point of view, and very detrimental from the political point of view.

Chairman BOGGS. Why?

Mr. PREBISCH. Because if Latin America concentrates more and more of its trade with the United States, Latin American will depend more and more upon the United States.

Chairman BOGGS. But Latin America is complaining now about the preferential treatment granted to certain African States by the European Common Market.

Mr. PREBISCH. It is true, sir. But Latin Americans have been exaggerating the impact of the preferential policy of the European Economic Community. I fought this while I was in UNCTAD, sir. But I told my colleagues in Latin American, do not exaggerate and pave the way for a policy on hemispheric preferences on the basis of the light effects that the preferential policy of the Community has had in relation to Latin American products.

What worries me is not what is going on now in the Community, but the way in which the Community, the European Economic Community, is extending this bad policy to other countries and to other products. If they would limit this preference for a number of years to a few agricultural commodities, with a policy of phasing it out, I would not give it great importance. But today they are trying to extend this to manufacturers too. And this is important.

So before speaking about hemispheric preferences, the Latin Americans have to exercise the utmost political pressure on the Community in order to get a proper policy from the Community. And I have to say with great regret, sir, that Latin American governments have not done that yet. They intend now to do this after 10 years.

Chairman BOGGS. If the United Kingdom comes into the Common Market you might have further preferential arrangements with some of the former Commonwealth nations.

Mr. PREBISCH. This is the danger. This is why Latin America should be aware of the problem and try to find a way. And they have not been fighting in this matter.

Chairman BOGGS. What do you think the prospects are for getting Latin America to start fighting on this issue?

Mr. PREBISCH. Excuse me, sir?

Chairman BOGGS. You say that they have sat still and have not reacted.

Mr. PREBISCH. For the first time, after 10 years, the Latin American governments have recognized this. And you probably know, they recently joined together in presenting to the United States some demands as to international trade policy and financial policy. This is what has been called the Consensus of Vina del Mar. It was done through a group called CECLA. The intention of the governments is to use the same group for dealing with the Community—and some steps are being taken now in that respect—and for dealing with the Communist countries too. And I think this is a very good development.

On the other hand, the policy of the Community, Mr. Chairman, is far from being monolithic. I have the impression that, for instance, countries like Germany and Holland are not in conformity with this policy of the Community. So, I have hopes that a well-organized action on the part of developing countries, with the support of the United States that has always been against discrimination, could be successful.

Mr. TINBERGEN. I fully agree. And I would like to add that there is one way out that, I think, has been suggested by Mr. Prebisch himself, namely, that if we could transform the preferences given by the Common Market to the African countries into the idea of giving a special treatment to the least developed countries all over the world, that might be a way out. On the occasion of the renegotiation of the Treaty of Yaounde this suggestion was made, but unfortunately has not been accepted.

But I am hopeful that once it will be accepted; it will then lead us toward nondiscriminatory treatment.

Mr. PREBISCH. Don't forget, too, that the EEC policy of preferences has been very costly to African countries. And this is because the African countries have to pay higher prices by giving their own preferences to the Community.

Chairman BOGGS. Reverse preferences? Does any other member care to comment on this?

(No response.)

Chairman BOGGS. Again, Mr. Prebisch, you talked about an 8-percent annual growth, I think. That must contemplate a rather substantial increase in aid programs in the developed countries, would it not?

Mr. PREBISCH. Yes, sir. In my report I present the following calculation: If the 1 percent target of the U.N. is attained in 1975——

Chairman BOGGS. You mean 1 percent of GNP?

Mr. PREBISCH. Yes, if the 1 percent target is reached in 1975—and Latin America gets the minimum proportion it received over the last 10 years, which was 15 percent, and sometimes went to 20 or 24 percent—there would be enough to contribute to achieving Latin Americas 8 percent rate of growth, if there was a schedule for that. This is the condition.

Chairman BOGGS. I would like Mr. Bell to comment on that.

One percent would be about $8 billion, would it not from the United States?

Mr. BELL. Yes, sir; as of now, and, of course, rising some each year.

Chairman BOGGS. Ten billion would be——

Mr. BELL. I do not know what the anticipated GNP would be in 1975. One percent would be about $10 billion by then, would it not?

Chairman BOGGS. It would be more than that, we think.

Mr. BELL. The point that I am not clear on, Mr. Chairman, is the usage of the term "aid" here. We use it rather casually in these discussions. I assume that Dr. Prebisch is referring to capital transfers.

Mr. PREBISCH. Yes.

Mr. BELL. Private and public. And among thhe public transfers there are loans on commercial terms, or thereabouts, as well as concessional loans on low interest or even grants for technical assistance. And I would suppose that of the capital flow that he is assuming, a very large proportion could be on commercial terms, it could be private investment, and loans at normal rates of interest. Therefore the conception that the rest of the world needs to subsidize Latin America in order to achieve his rates of growth is greatly exaggerated by references to the 1 percent figure, because it may be only a quarter of that, or perhaps less, that would need to be subsidized.

Chairman BOGGS. Mr. Rashish of the staff wants to ask a question.

Mr. RASHISH. Let me invite Professor Tinbergen's comment on that. His committee came up with a proposal that by the mid-1970's three-quarters of 1 percent of the GNP be allocated for official development assistance, and that would meet a 6 percent growth target. Would you care to comment on what the dimensions of this is in terms of U.S. foreign official assistance?

Mr. TINBERGEN. You are right in the figures you quote. It would be largely along the same lines, I think, as we have just discussed.

Mr. RASHISH. Are we talking about something in the neighborhood of $8 billion of official assistance in order to meet the three-quarters of 1 percent GNP target?

Mr. TINBERGEN. Almost that by 1975. And it seems to me that we have to have in mind that every year the total income per capita increases by 3 percent, after 2 years by 6 percent, and after 3 years by 9 percent. And it really does not represent a very great sacrifice. Moreover, it is in the long-term interest of the United States themselves.

But you are right in your interpretation.

Mr. BELL. Mr. Rashish, use of the term public assistance, is that what you said?

Mr. RASHISH. Official.

Mr. BELL. That includes substantial sums which are lent by the Export-Import Bank or by the World Bank at commercial rates. And indeed in recent years many of the AID loans have had only a small degree of subsidy in them. I emphasize this only to stress that the degree of subsidization which is involved in those rather large figures is rather small.

Chairman BOGGS. At the very moment the Committee on Ways and Means, which is a legislative committee dealing with these matters is considering trade legislation. What would you recommend in that area, Mr. Bell?

Mr. BELL. The three gentlemen on my left are world-renowned authorities on trade, Mr. Chairman. I am not the one to answer that.

Chairman BOGGS. I will let them all comment after you.

Mr. BELL. I fully support the view that has been expressed in previous answers, that the economy and the people of the United States will be better served by working toward an open international system of world trade based on normal competitive markets and the actions of businessmen and workers in responding to them. If we move in the opposite direction toward more restrictions, whether in the form of quotas or in the form of tariffs, this will be detrimental to ourselves, not simply to the rest of the world.

These are standard responses by, I suppose, 99 percent of American economists, and have been for years. I recognize that the committee is dealing with very strong political pressures, specially stemming from certain industries which are facing severe competition from abroad. As Mr. Johnson said earlier, it seemed to me very correctly, American businessmen and American workers are accustomed to dealing with severe competition. That is the system we believe in.

We have all kinds of internal changes going on all the time. The morning papers have long stories about the difficulties with the aerospace industry, which is not facing competition, but the reduction in

U.S. budget outlays. And the people in that industry, or in those industries, are today facing very difficult problems of adjustment.

They are, I suppose, quite likely larger problems of adjustment than are being faced by any of our industries facing foreign competition. Adjustment can be helped by government policies, and certainly should be. But to try to stop the basic evolution of efficient economic production and trade is the wrong way in my view to respond to the problem.

Chairman BOGGS. Would the other members of the panel like to comment?

Mr. JOHNSON. I agree entirely with what David Bell has said.

Mr. PREBISCH. I would say that I am very happy to agree with Professor Johnson on this matter.

Mr. TINBERGEN. Mr. Chairman, may I add that, especially if it were possible to mobilize consumer organizations, that might be a point. Because now what we see is lobbies of certain producers. Since there is an increasing awareness on the part of the consumers, and since there is the question of inflation, it might well be possible to enlist more support from the organizations in the consumer field. Because some expenditures might indeed be reduced by this very policy of a more liberal trade.

Chairman BOGGS. I think, though, that many of the items affected are not coming from the so-called developed countries, they are coming from the developed countries, the Common Market, and Japan. And the problem that presents itself is that in both instances, both the Common Market and Japan employ discriminatory devices against American exports into those countries.

Mr. BELL. Which we would oppose just as strongly, Mr. Chairman.

Chairman BOGGS. I am glad to hear you say that.

Mr. TINBERGEN. I agree with that, Mr. Chairman. Even so, if you reduce tariffs there will be a reduction of prices too.

Chairman BOGGS. Mr. Rashish, do you have any further questions?

Mr. RASHISH. I did not want Mr. Bell to get away from us today without offering his comments on the Peterson Commission Report as the man who was responsible for administering the foreign aid program of the United States for a number of years.

I would like him to comment on these recommendations from two points of view. One, from the point of view of whether he thinks they would result in a better foreign aid program, and secondly, whether he thinks they would improve the prospects of public and congressional acceptance of the program in the United States.

The other members of the panel, I think, commented on the question of the multilateralization. I have in mind, in addition to that, the other recommendations, the Peterson Commission, such as the separation of development from security assistance, the long-term funding of the development institutions, the provision of an international development council in the White House to coordinate the program, and the separation of U.S. bilateral assistance programs into three parts: OPIC, the Bank, and the Development Institute.

Mr. Bell. I will be glad to respond to that. Everything except the last, I think, is a clear gain. And the last is—I will come to that—debatable.

First of all, the separation of development assistance from security assistance seems to me to be an appropriate change at this stage. Some years ago when we were coming out of the fifties in a situation in which there were several types of security assistance being made available, in those days indeed to Europe as well as to developing countries, it was possible to argue that putting development assistance and security assistance together made it possible to plan the most efficient use of U.S. aid resources in relationship to any given country.

We have been moving steadily away from such a position. Today, as I understand it, there is virtually no security assistance outside of Southeast Asia. The Southeast Asian problem is a special one, and it would be advantageous in my opinion if the Congress accepts the recommendation of separating development assistance from security assistance.

I strongly support secondly the recommendations in the Peterson Committee Report about moving toward a multilateral framework. That involves, as this committee knows, two different ideas. One is to encourage the enlargement of international organizations such as the World Bank. And the second idea is that the U.S. as a bilateral aid donor and other bilateral donors should work together more consistently within the framework of consortia, consultative groups, and so on.

This is a strong idea also, in my opinion. And I would certainly endorse it.

I think it is important to recognize that not all international agencies are automatically more efficient than national agencies. Indeed, if you rank the world's development assistance organizations at the present time I think you would put the World Bank clearly at the top, and AID would probably rank second in terms of the commonsense with which the resources are applied by the standards which are being discussed here this morning.

On the other hand, the other international agencies are increasing in efficiency. And particularly if the recommendations of Sir Robert Jackson are followed, and the United Nations agency are improved in efficiency, then I would think it would make sense to put steadily more resources through international channels, and to follow the practice of jointly working out under international auspices the appropriate pattern and volume of development assistance for any given region or country.

Third, it seems to me the notion of multiyear funding is, as it always has been, a very good idea. That is obvious and it can be left at that.

There is one element of the Peterson Committee Report which I would particularly stress as a valuable innovation. And that is the notion—I have forgotten the exact term they use—of a technical assistance foundation—that is not quite the right phrase—an organization which would be concerned with the flow of scientific and technological training and assistance.

Now, one of the reasons, I think, that idea is so important is that it seems to me it can evolve into an organization which expresses the continuing American interest in international interchange on scientific and technical matters. It need not be thought of simply as a way of assisting others. Gradually we are going to need to benefit from the work in other countries, including developing countries, on pollution problems, environmental problems, the uses of oceans, and many others. So that we will need instruments by which the American scientific and technical community, both social scientists and physical scientists, can be in touch with—on the same network with—their colleagues all over the world.

And an instrument such as the Peterson Committee has recommended might very well be very useful in that direction.

Last there is the question of whether it is helpful to separate, as the Peterson Committee recommends, capital assistance from technical assistance from the support of private enterprise abroad.

I think on grounds of management effectiveness that recommendation can be questioned. On grounds of the political facts of life, however, it seems to me, as one observer, to be wise. And I do not think the arguments about management effectiveness are overwhelming one way or the other. We have a big and complicated government, and it is tough to run it no matter what the arrangements are. The International Development Council, I think it is called, which would be established in the White House under the Peterson recommendations, sounds very much like something that did exist back in the Marshall Plan days, which I, as a very junior officer in the Government at that time, saw something of. It seems to me it is a useful idea. And it did work then, and I think it could work now.

Therefore, while I have some nostalgia for the days when we were designing AID and putting capital and technical assistance together and trying to gain from their interrelationship, it does not distress me particularly to see now a recommendation which would again separate them. I think the times probably call for it. And I think the machinery that the Government would have under the Peterson recommendations could be strong and effective machinery for providing a useful American participation in the development process.

Chairman Boggs. Are there any further questions, Mr. Conable?

Representative Conable. No further questions.

Chairman Boggs. Gentlemen, you have been very helpful, and we appreciate your coming.

Thank you very much.

We will adjourn until 10 o'clock tomorrow morning.

(Whereupon, at 12:55 p.m., the subcommittee recessed, to reconvene, at 10 a.m., Tuesday, May 19, 1970.)

A FOREIGN ECONOMIC POLICY FOR THE 1970'S

TUESDAY, MAY 19, 1970

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The Subcommittee on Foreign Economic Policy met, pursuant to recess, at 10 a.m., in room S–407, the Capitol Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representatives Boggs and Reuss.

Also present: John R. Stark, executive director; John R. Karlik, economist; Myer Rashish, consultant; and George D. Krumbhaar, economist for the minority.

Chairman BOGGS. The subcommittee will come to order.

Today we hold the final session in the current hearings of the Subcommittee on Foreign Economic Policy to examine U.S. policies toward developing countries. We have now heard from a number of experts, both Americans and foreigners, last week and this week, and we are very pleased today to have again an outstanding panel made up, first, of Mr. Frederick L. Deming, who was formerly Under Secretary of the Treasury for Monetary Affairs.

Mr. Deming made a great contribution to the evolution of the international monetary system in helping, under the direction of Treasury Secretary Fowler, to negotiate the special drawing rights amendment to the IMF Articles of Agreement. Mr. Deming will discuss the terms of financial assistance to developing countries, including the need for debt rescheduling and compensatory financing to smooth fluctuations in export receipts.

Second is Antonie Knoppers, senior vice president of Merck & Co. Mr. Knoppers has extensive experience as an executive dealing with foreign governments and will focus on the activities of the multinational corporation in developing countries and the issues that private foreign investment raise in these countries.

Erik Thorbecke, professor of economics of Iowa State University, will discuss the problems of population growth and employment in the developing world.

And last but not least, Ambassador John W. Tuthill, who will evaluate and offer suggestions regarding the trade policies of the industrial nations towards the developing countries. Mr. Tuthill is now director general of the Atlantic Institute and is the former U.S. Ambassador to Brazil, the European Economic Community, and the Organization for Eonomic Cooperation and Development.

Gentlemen, we are very happy to have you here.

And, Mr. Deming, we will be very pleased to hear from you, sir.

STATEMENT OF FREDERICK L. DEMING, LAZARD FRERES & CO., AND FORMER UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS

Mr. DEMING. Mr. Chairman, it is a pleasure to be here.

The prepared statement I have prepared for this hearing is a bit long to read completely in the time allotted to me, so I will talk from it, with your permission, and submit it in total for the record.

Chairman BOGGS. Surely.

Mr. DEMING. In introduction, I might say that the debt problems of developing countries are not merely of detached or intellectual interest to me. The firm of which I am a member has the honor to act as investment banker, with some others, for two of the major countries in Latin America and for the Inter-American Bank, and it is an advisor for a country in southeastern Asia. So we see their problems at first-hand, and that accentuates my interest in the topic as a whole.

I might begin by stating some very elementary points, all of which will be familiar to you, I am sure. First, any debt in a sense is a burden, in that to service it you have to get some revenues, and the revenues that you use for debt service cannot be used for other purposes.

The burden can be small or large, depending on the relative amount.

There is an important difference between internal and external debt. If it is assumed that the return on the use of funds borrowed exceeds their cost, and the timing of the income increase is roughly consonant with the time of the repayment of principal and interest, and if the borrowing is domestic, the debt problem more or less automatically takes care of itself.

But there is not any rule which says that foreign exchange earnings rise at the same rate as the domestic economy rises. So even if you have a prosperous domestic economy, you could have an external debt service problem.

Foreign exchange, of course, arises from net exports or from capital inflow. If a country, as is the case for most developing countries, requires net imports in order to have economic growth, what it has to do is to depend on net capital inflow to generate net foreign exchange. But as the required debt payments or other out-payments grow, the gross new capital inflow simply has to increase in order to cover the required out-payments and leave some capital inflow to finance the net imports. And in this case the terms attached to the capital inflow are of critical importance.

Finally, in this connection, since the terms of capital inflow are critical, it follows that no cost capital—grants—provide the easiest terms, because there are no repayment requirements. If you leave aside—which you cannot do, of course, practically—but if you leave aside the political and social questions, the next easiest terms generally are associated with direct investment.

The Pearson Report notes that there is a built-in grace period for direct investment, because you do not pay out anything if you do not earn anything. Also a good share of earnings are not repatriated, a substantial portion are reinvested in the host country. And there are other advantages, I think, to direct investment. I will comment on those briefly later. I understand another member of the panel will talk about that more extensively.

Let me begin the major portion of this prepared statement with a quotation from the Peterson Report:

> The debt burden of many developing countries is now an urgent problem. It was foreseen, but not faced, a decade ago. It stems from a combination of causes: Excessive export credits on terms that the developing countries cannot meet; insufficient attention to exports; and in some cases, excessive military purchases or financial mismanagement. Whatever the causes, future export earnings of some countries are so heavily mortgaged as to endanger continuing imports, investment, and development. All countries will have to address this problem together.

I think that is a reasonably accurate statement of the debt problem.

I try to avoid too many figures in this prepared statement, but some of them are necessary to set the problem in perspective. The public and publicly guaranteed external debt of the developing countries is in the neighborhood of $50 billion. That does not include private debt except that guaranteed by Government. In 1961 the comparable figure was $21 billion. The external debt of the developing countries has been rising at an annual rate of 14 percent during the past decade, and debt service payments have been growing at an annual rate of about 17 percent. So annual debt service today on this public and publicly guaranteed debt is roughly $5 billion a year.

About a third of the outstanding debt is owed by the developing countries of Latin America, another third by those of Asia, about one-sixth by African countries, and the balance by the other developing countries in southern Europe and the Middle East.

The debt service payments are distributed somewhat differently from the outstanding debts. The service payments reflect, of course, not only the amount of the debt but the terms of borrowing, that is, interest rate, grace period, and maturity. Roughly half the debt service on the public and publicly guaranteed debt in 1968 was due from Latin America, less than a fourth from Asia, about a tenth from Africa, and the balance from southern Europe and the Middle East.

One would think that perhaps that meant that the problem of debt service was far greater for Latin America than for the rest of the developing world. But that is not necessarily true. What it does mean is that the problems of management of the external debt are different as between regions and countries.

One measure that has been used for the debt service burden is the so-called debt service ratio. That is the proportion of export earnings on goods and services that is required to service the external debt. In 1969 the debt service ratio for all of the developing countries was about 10 percent.

Four years earlier it had been 8 percent, which means that debt and debt service has grown faster than exports. And, of course, that ratio really understates the full burden, since it does not include the service on the private debt. Private debt figures and private debt service figures are difficult to get.

That overall ratio masks substantial differences between regions and individual countries. The ratio for Latin America in 1968 was around 17 percent, for Asia about 9 percent, for Africa about 5 percent, and for the Middle East about 2 percent.

Some countries have ratios that are well above 25 percent, and some have ratios that are very low.

The shortcoming of the debt service ratio taken along, especially just for 1 year, is that it does not really delineate the problem thoroughly, and it does not serve as a competent guide to policy. It does indicate what is left over from export earnings to pay for imports, but it does not take into account capital inflow which also produces foreign exchange, nor does the ratio for any one year give any indication of the prospective problem.

You may have exports grow or fail to grow. You may have capital inflow increase or fail to increase, and the developmental need for imports may increase or be expected to level off, or the debt may be long or short. The grace period may be running full scale or may be about to run out.

But you have to start somewhere with an analysis, and the debt service ratio is a reasonably useful starting point. You can project the stream of debt service payments into the future, and under certain assumptions made with respect to exports, imports and capital inflows and outflows, get some indication of the problems as they may develop. It is when this is done that the problem begins to stand out in the way that is characterized by the Peterson report or the Pearson report or any of the other reports on this subject.

UNCTAD has estimated that if the capital flow to the developing countries, net of repayments, were to be held at the 1966 level, the debt service would double by 1975, from $5 to $10 billion. And if exports grow at a rate of 4 percent in that time, the debt service ratio for the LDC's in 1975 would be 25 percent as against the 10 percent that I referred to earlier.

That appraisal probably overstates the problem. Export earnings from the developing countries actually grew at about 6 percent annual rate in the sixties. And, in fact, from 1963 through 1969 export earnings increased about $16 billion, or by about 50 percent, half of that gain coming in the last 2 years.

That record does not look quite as good when it is noted that the developed countries' exports rose even faster than the developing countries' did, and consequently the share of the developing countries in world exports actually declined. Also, the last 2 years were probably unusual years, with prices of primary products fairly high.

Nevertheless I would think that the developing countries should be able to look forward to a better export earnings growth than 4 percent.

But even after saying that it is a fact that the debt service burden is growing and will continue to grow.

You can look at this problem in another way. Look at debt service as a percentage of new lending either gross or net. The Development Assistance Committee, the DAC, estimates that debt service payments on both official and private borrowing by developing countries totaled $4¾ billion in 1967, while the total gross flow of capital—grants, hard and soft loans, and investment—was about \$14½ billion.

In that year debt service was fully one-third of the total new inflow, and it made the net inflow less than \$10 billion.

The Pearson report has a table that shows that debt service was 73 percent of gross new lending in 1965–67 for Africa, and 87 percent for Latin America. It estimated that if the gross flow remained unchanged both as to level and mix of terms over the next 10 years, by 1977 debt service alone would exceed gross new lending. It would exceed it by 20 percent for Africa and 30 percent for Latin America. And you would have to have gross new lending increase at a rate of 8 percent a year just to keep the 1965–67 percentage of debt service level in the 10 year-year period.

The terms under which the developing countries obtain capital inflow is of key importance. There have been two opposing trends notable over the past few years. On, I guess what you would say, the good side there has been some easing of terms and some increase in gross lending from official sources on the part of some countries, and some lengthening of maturity with respect to export credit. And on the other side there has been a general rise in interest rate which has increased the rates on both private and hard loan official flows to developing countries, a relatively sharp increase in the proportion of lending by certain hard lending countries, a hardening of U.S. lending terms, and a more than proportionate increase in loans as against grants.

Taken altogether, the adverse trend has more than offset the good trend, and the average terms have hardened.

You can measure the softness or hardness of terms by computing what is called the "grant element" in financial flows to developing countries. Obviously a grant is 100 percent grant element, and a commercial loan is zero grant element. Concessional terms provide some grant element. And it depends on how concessional the terms are as to the amount of grant element.

The DAC estimated that in 1964 the grant element in all DAC countries loans to developing countries was 82 percent. By 1968 it was 74 percent, which is an indication of hardening of terms.

U.S. terms have grown harder. The grant element of the U.S. development loans in 1961 was 84 percent. In 1968 it was 67 percent.

We have changed our grace period interest rate from three-quarters percent in 1961 to 2 percent in 1968, and the rate to maturity from three-quarters prrcent to 3 percent. It is a hardening of terms.

There has been a substantial increase in private capital flows over the past decade. In one sense this is quite good and quite desirable. But in another sense it has been accompanied by a hardening of term, and has increased the debt service burden.

Private capital flows were equal to almost half of total flows in 1968, where they had been about 20 percent in 1956.

Export credits have proved to be a difficult problem. The developing countries need export credits, but they are high cost, and they can be very volatile. The Pearson report recommends that they be controlled both as to amount and proportion, both by the recipients, the developing countries, and by the grantors, the developed countries.

The second part of the suggestion I do not quite see as being very practical. The first part obviously needs consideration in any debt management problem.

There is an example cited in the paper, Mr. Chairman, of a hypothetical loan case, from a monograph that is done by the Overseas Development Council. It cites a country that has had to finance certain of its import requirements for a period of time and then manages to get into reasonable balance, but continues to have to borrow to finance the debt service. The example indicates how much difference a difference in terms produces. If the loans are made on World Bank terms, which are not as hard as pure commercial terms—7 percent rate, 5-year grace period, and 25 year maturity—the payout is in the year 56 and the debt service ratio peaks at 63 percent of export earnings. If the loans are on IDA terms the payout is in year 27, and the debt service peaks at 6 percent.

I think that is a graphic way of describing the difference in terms and their effect on the debt service.

I think one can make four observations on the problem of debt service.

First, there is a major problem for the developing countries in servicing the debt they already have. While the nature of the problem varies considerably among countries, it is fair to say that a number of countries will face difficulties over the next 10 years and some will face difficulties before then.

Second, taken by themselves debt service ratios are not conclusive in determining whether a country has a major problem or not. High debt ratios can be signs of trouble when debt is growing very fast. Obviously, if a country is vulnerable to sharply adverse swings in its foreign exchange earnings a high debt ratio indicates danger. But much depends upon the structure of the external debt, the reserve position of the country, its credit record and the stability or prospects for growth in its foreign exchange earnings. Thus the high debt ratios of certain Latin American countries are not necessarily greater signs of danger than lower debt ratios in other countries. Much of the Latin American debt is short or medium term. Essentially the Latin American debt problem seems more transitional than fundamental.

Third, it is clear that the debt problem for any developing country would be exacerbated without a continuing and rising inflow of capital. It is equally clear that a lot of that capital inflow will have to be on concessional terms. There is nothing inherently good or bad about hard or soft loans; the problem is to ensure an appropriate mix that will permit debt service requirements to be met. One simple rule of thumb to keep in mind to insure adequate new capital inflow is: if new loans increase at a rate greater than the rate of interest paid the borrower gets a net inflow.

Fourth, the appropriate mix of capital inflow is a subject that both developed and developing countries need to study more. Some developing countries are now doing so by attempting to forecast export and import trends (not needs but trends) and deriving from that capital inflow needs. From that derivation it is possible to make policy judgments as to the amount of capital inflow the country can afford under different kinds of mix of direct investment, grant aid, concessional loans, hard official loans and commercial credits.

Before going to the conclusion, Mr. Chairman, I would just like to say a word about private capital investment. As noted earlier, direct investment capital is a relatively inexpensive means of channeling funds to developing countries. It has a built in grace period; profits are remitted only when earned and a good share is reinvested in the host country. Investment in the developing countries reached a cumulative total of $30 billion in 1966 and has expanded since then.

But the flow of direct investment into the developing countries has not changed significantly for the better in the past 15 years. Direct investment during 1966 was almost exactly the same as in 1956 ($2.4 billion) and thus, while the 1968 total was 18 percent larger than in 1966 it was also just 18 percent larger than in 1956.

Both the Pearson and the Peterson reports make a series of recommendations designed to foster private investment in the developing countries. I think all of these are pretty good, and it would be useful to follow them.

It is quite obvious that a number of developing countries are not without sin in their handling of foreign direct investment. You can understand their fellings that they have been exploited, and their feelings about their rising nationalism. But I think it is important to get a wider understanding that direct investment is an inexpensive and rational way to obtain capital inflow, and that a proper climate to assure both the private investor and the people that stable and fair arrangements can be achieved, indeed I think must be achieved if the development is to go forward.

I think also direct investment can carry some significant collateral advantages beyond the capital inflow, and they may prove to be of more advantage in the long run than the flow itself.

In my judgment, Mr. Chairman—and these ideas are not original with me—to meet the capital inflow and debt service problems of the developing countries a four-part program would be desirable.

First, with respect to debt rescheduling, there almost certainly will be some need for debt rescheduling for some countries in the years ahead—some perhaps in the relatively near term future. In general, I would endorse the program set forth in the Peterson report on pages 32 and 34. I want to stress two or three points and add one or two.

(*a*) There have been some 20 debt rescheduling operations for 10 countries over the past 10 years. These were all so-called "ad hoc" operations which took place only when the problem was immediate and urgent. It would be far better, as the Peterson report suggests, to plan ahead on debt rescheduling and attempt to prevent emergencies rather than to deal with them.

(*b*) At the same time it should be made clear, if the World Bank and IMF deal with developing countries on a case by case basis, as the report suggests, that any debt rescheduling operations are aimed at strengthening a country's credit standing rather than calling it into question. Properly handled, debt rescheduling should be interpreted neither as an easy escape for a country from its obligations or as a last alternative before foreclosure or bankruptcy.

40-333—70—pt. 3——15

It is of vital importance not to impair the credit standing of a country that may, at least in part, depend upon the private capital markets for some finance.

(*c*) Countries should be encouraged to do what some are already doing in making hard plans for their external debt management. Properly done, this should provide a very helpful debt management tool and produce a series of meaningful policy choices in respect to capital inflow. Some countries will, of course, have more policy choices than others. For example, some will have access to the international private capital markets; others will not.

(*d*) No debt rescheduling should be shared in by the international lending institutions. Their future operations are dependent upon borrowings in the capital markets and the scheduled reflow of funds. Neither source of funds should be endangered.

(*e*) The IMF will be an integral part of any rescheduling operation. IMF standby credits almost certainly will have to be a feature of most reschedulings and IMF policy advice will be important.

There is substantial need for a rising flow of lending on very concessional terms. The Pearson report suggests a standard for official bilateral loans of 2 percent interest, 10-year grace period and 40-year maturity. It also states that debt relief or rescheduling should be considered as an integral part of development aid. It is clear that developing countries need a rising flow of loans and that too large a proportion of hard loans merely adds to future debt service problems.

It would be useful to explore further the suggestion made from various sources that interest payments—and perhaps a portion of principal repayments—on bilateral loans be channeled to cover the interest differential on very low interest rate loans to developing countries.

As indicated earlier, fostering direct investment, both by developing country and developed country action, would help provide a growing flow of capital to the developing countries on terms that would be helpful and with collateral advantages that could be important.

SDR'S AND DEVELOPMENT FINANCE

Several sources have suggested that a link be provided between the creation of the new reserve asset, the special drawing right, and development finance. At the last meeting of the IMF and World Bank a number of governors—from both developed and developing countries—spoke to this point. This is a suggestion that is worth exploring intensively. The new asset must be regarded first and foremost as a reserve asset and the amount created must reflect the world's need for reserves rather than the need for development finances.

And in my view there is virtue in exploring within the limits noted the possibility of transferring some portion of the new reserves received by the big industrial countries to a fund, perhaps to IDA, to be used for concessional loans. This could be an important means of providing additional concessional finance. It also could be an important means of providing it in a multilateral fashion, which I think is one of the great attractions of this suggestion.

I do not think we are quite ready to do this yet, but I think that work should be going forward on it, I think it is a useful idea.

Thank you, very much.

(The prepared statement of Mr. Deming follows:)

PREPARED STATEMENT OF FREDERICK L. DEMING

The topic assigned to me is: Debt Rescheduling, Compensatory Financing and The Terms of Financial Assistance. I propose to address myself to these subjects by commenting first on some general points about external debt and capital inflow. I then turn to some comments on the volume of external debt in the developing countries and the so-called debt service burden. This leads naturally into the question of financial assistance terms. The discussion then turns to means of handling the debt problem which for a given country may or may not involve rescheduling or compensatory finance but which for almost all countries must involve hard questions of external debt management. The concluding portion of this statement notes some suggestions—none of them original with me—as to means of providing a continued efficient and manageable flow of capital into the developing countries.

Let me introduce the discussion by stating some very elementary points, all of which I am sure are fully recognized by the members of the subcommittee but which are useful to underline.

First, any debt is a burden—to an individual, a business, or a nation—in the sense that revenues, either income or added borrowing, have to be found to pay the interest and presumably to retire the principal. Use of revenues for these purposes prevents them from being used for other purposes. The burden is small if the debt service is small relative to available revenues. Obviously it is worthwhile to incur debt if the funds obtained can be utilized to increase revenues—that is, if the return on the use of the borrowed funds exceeds their cost. Equally obvious is the fact that if the return, the income flow from the use of the funds borrowed, is delayed far into the future there will be a period when debt service may be a substantial burden. It will be an even more substantial burden if the debt service requires a large part of current revenues.

Second, there is an important difference between internal and external debt. If it is assumed that the return on use of funds borrowed domestically exceeds their cost and the timing of the income increase is roughly consonant with the timing of repayment of principal and interest, it is evident that the rise in income more or less automatically will take care of the domestic debt service burden. But external debt service has to be met with foreign exchange. It does not necessarily follow that growth in foreign exchange earnings will keep pace with domestic economic growth. A prosperous domestic economy which generates a high rate of savings and/or a large revenue from taxation does not automatically translate into a high rate of increase in foreign exchange.

Third, foreign exchange is acquired from net exports or from capital inflow—the latter either from official or from private sources. If a country requires net imports in order to have economic growth, as is the case in many developing countries, it must depend upon net capital inflow to generate foreign exchange. But as the required debt service or other out-payments grow the gross new capital inflow has to increase in order to cover the required out-payments and leave some net capital inflow to finance the net imports. In this case the terms attached to the capital inflow are of critical importance. This kind of situation, dependence upon net imports and net capital inflow, obviously cannot hold forever for all developing countries; in time the growing economies must produce some net exports; but it is a situation that may endure for a long time.

Fourth, since the terms of capital inflow are critical it follows that no cost capital—grants—provide the easiest terms; there are no repayment requirements. Leaving aside political and social questions, the next easiest terms generally are associated with direct investment. Normally such investment generates out-payments only if it produces earnings. As the Pearson Report notes, there is a built in grace period for direct investment. Normally not all earnings are repatriated; a substantial portion are reinvested in the host country.

Parenthetically it might be noted that there are other advantages to developing countries from direct investment capital inflow: notably increased technology and often increased exports. Soft loans carry relatively easy terms; generally the debt service burden is smaller if loans are made on concessional terms —low interest rates, long grace periods and long maturities. But even concessional loans require debt service payments and if there is significant delay between the time debt repayment must be made and foreign exchange earnings increase, there can be a burden. Hard loan terms merely make the problem more difficult. That is not to say there should be no hard loans to developing countries but merely that the proper mix of grants, direct investment, concessional loans and hard loans is of key importance.

To conclude this introductory section, I should note that the following discussion draws heavily on the Report of the Commission on International Development, *Partners in Development*, the well-known Pearson report, on the recent Report to the President from the Task Force on International Development, *U.S. Foreign Assistance in the 1970's: A New Approach*, familiarly called the Peterson report, and on a monograph by Charles R. Frank, Jr., *Debt and Terms of Aid*, published by the Overseas Development Council.

I try to avoid overburdening this statement with statistics. Detailed statistics are available in the Pearson report and some data referred to come from the Frank monograph. Most of the other data used is taken from *International Financial Statistics*, published by the International Monetary Fund.

The Problem of Debt Service

"The debt burden of many developing countries is now an urgent problem. It was foreseen, but not faced, a decade ago. It stems from a combination of causes: excessive export credits on terms that the developing countries cannot meet; insufficient attention to exports; and in some cases, excessive military purchases or financial mismanagement. Whatever the causes, future export earnings of some countries are so heavily mortgaged as to endanger continuing imports, investment, and development. All countries will have to address this problem together." [1]

The public and publicly guaranteed external debt of the developing countries is in the neighborhood of $50 billion. The only private debt included in this figure is debt extended by private sources that is publicly guaranteed. At the end of 1961 the comparable figure was $21.5 billion. The external debt of the developing countries has been rising at an annual rate of 14 per cent during the past decade and debt service payments have been growing at an annual rate of about 17 per cent. Annual debt service today is roughly $5 billion per year on the public and publicly guaranteed debt.

Roughly one-third of the outstanding debt is owed by the developing countries of Latin America, another third by those of Asia, about one-sixth by African countries and the balance by the developing countries in southern Europe and the Middle East.

Debt service payments are distributed somewhat differently from the outstanding debt. Service payments reflect, of course, not only the amount of the debt but the terms of borrowing—interest rate, grace period and maturity. Roughly half of the debt service on the public and publicly guaranteed debt in 1968 was due from Latin America, less than one-fourth was due from Asia, about one-tenth from Africa and the balance from southern Europe and the Middle East.

Does that mean that the problem of debt service is far greater for Latin America than for the rest of the developing world? Not necessarily. What it does mean is that the problems of management of the external debt are different as between regions and countries.

One way of looking at the debt service problem—but a way that has limitations—is through so-called debt service ratios, the proportion of export earnings on goods and services that is required to service the external debt. In 1969, the debt service ratio for the developing countries as a whole was about 10 per cent; four years earlier it was about 8 per cent, which means that debt and debt service had grown faster than exports. And these ratios really understate the entire burden of debt service since they are computed only from

[1] *U.S. Foreign Assistance in the 1970's: A New Approach*, Report to the President from the Task Force on International Development, Mar. 4, 1970, p. 10.

public and publicly guaranteed debt and do not include private debt service figures which are difficult to ascertain.

The overall ratio masks substantial differences between regions and individual countries. In 1968 the ratio for Latin America was around 17 per cent, for Asia about 9 per cent, for Africa about 5 per cent and for the Middle East about 2 per cent. Some countries have ratios well above 25 per cent.

But the debt service ratio taken alone, and especially for just one year, has limitations both as a delineator of the problem and as a guide to policy. It does indicate what is left over from export earnings to pay for imports. It does not take into account capital inflow which also produces foreign exchange; nor does the ratio for one year give any indication of the prospective problem; exports may expand or fail to grow; capital inflow may increase or be curtailed. The developmental need for imports may increase or be expected to level off. Finally, the debt may be short or it may be long, the grace period (during which interest payments are made but principal payments are deferred) may be running full scale or may be about to run out.

Nevertheless, the problem analysis has to start somewhere and the debt service ratio is a useful starting point. The stream of debt service payments may be projected into the future and certain assumptions made about exports, imports and capital inflows and outflows to get some indication of the problems as they may develop.

It is when this is done that the problem begins to stand out in the way characterized by the Peterson report or the other sources noted. UNCTAD has estimated that if the capital flow to the developing countries net of repayments is held at the 1966 level, the debt service will double by 1975, from $5 to $10 billion. If exports grow 4 per cent per year in that time the 1975 debt service ratio for developing countries will be 25 per cent.

The above analysis probably overstates the problem of debt service for the developing countries. Their export earnings actually grew at a 6 per cent annual rate in the 1960's. In fact, from 1963 through 1969 export earnings of the developing countries increased by about $16 billion or 50 per cent, with half of that gain coming in the last two years. This record looks fairly good until it is noted that exports of the developed countries grew even faster and the developing countries' share of world exports actually declined in significant degree. It also should be recognized that the last two years probably were not representative years—prices of primary products have been quite high in that period. Nevertheless, the developing countries should be able to look forward to a better export earnings growth than 4 per cent.

At the same time, it is a fact that the debt service burden is growing and will continue to grow. As noted, external debt grew at an annual rate of 14 per cent in the 1960's and debt service at an annual rate of 17 per cent. The developing countries do have to import as well as pay debt service; their imports went up by almost the same dollar amount as their exports from 1963 through 1969.

This brings me to another way to look at the debt service burden—as a percentage of new lending, either gross or net. The Development Assistance Committee (DAC) estimates that debt service payments on both official and private borrowings by developing countries totalled $4.7 billion in 1967 while the total gross flow of new capital—grants, hard and soft loans and investment—was $14.4 billion. In this year, therefore, debt service was fully one-third of the total new inflow and made the net inflow $9.7 billion.

The Pearson report shows that debt service s 73 per cent of gross new lending in 1965–67 for Africa and 87 per cent for Latin America. It was estimated that if the gross flow remained unchanged both as to level and mix of terms over the ensuing 10 years, by 1977 debt service alone would exceed gross new lending, by 20 per cent for Africa and 30 per cent for Latin America. Gross new lending would have to increase by 8 per cent per year just to keep the percentage of debt service to new lending at the 1965–67 level.

The terms under which developing countries obtain capital inflow are of key importance. Two opposing trends have become notable over the past few years: (*a*) some easing of terms and increase in gross lending from official sources on the part of some countries, and some lengthening of maturity on private export credits, and (*b*) a general rise in interest rates which has increased the rates on private and hard loan official flows to developing countries, a relatively sharp increase in hard lending by certain countries, a hardening of U.S. lending terms, a more than proportionate increase in loans as against grants. Taken altogether, the second trend has more than offset the first, and in general and on the average terms have hardened.

One way of measuring the softness or hardness of terms is to compute the "grant element" in financial flows to developing countries. Obviously a grant is 100 per cent grant element, a commercial loan is zero grant element. Concessional terms—rate, grace period and maturity—provide some grant element; the easier they are the softer the loan and the larger the grant element.

The Development Assistance Committee estimates that in terms of all DAC country loans to developing countries the grant element was 82 per cent in 1964 but was 74 per cent in 1968. While many countries softened terms, the relatively hard term countries (Germany, Japan, Austria and Italy) increased the volume of their loans substantially. U.S. terms have grown harder: the grant element of U.S. development loans in 1961 was 84 per cent; in 1968 it was 67 per cent. The grace period interest rate has gone from ¾ per cent in 1961 to 2 per cent in 1968; the rate to maturity after grace period has gone from ¾ per cent to 3 per cent. Tying loans also has the effect of raising the real interest cost.

Private capital flows have increased substantially more than public capital flows over the past decade. Leaving aside the direct investment component, private capital flows were roughly one-fifth of public capital flows in 1956; they were equivalent to 45 per cent in 1968. Export credits alone almost quadrupled in that period, while total net flows were just doubling.

A word should be said here about export credits. The developing countries need export credits but they are high cost and they can be very volatile. The Pearson report recommends that they be controlled as to amount and proportion both by the recipients—the developing countries—and by the grantors, the developed countries. The second part of the suggestion does not seem very practical to me but the first part obviously needs consideration in any debt management program.

To illustrate the effect of different terms, it is instructive to cite a hypothetical example from the ODC monograph noted earlier. Frank postulates a case where a developing country requires foreign assistance to finance 30 per cent of its import costs for 10 years and then gradually reduces its dependence for such finance to zero over the next 10 years. Its foreign exchange earnings grow at 6 per cent per year, its import costs by 5 per cent per year.

To finance the funds borrowed, both interest and principal, requires continued borrowing even after year 20. If the loans (from the beginning) are on World Bank terms (7 per cent rate, 5-year grace period, 25-year maturity) the pay-out is in year 56 and the debt service ratio peaks at 63 per cent of export earnings in year 52. If the loans are on IDA terms (¾ per cent rate, 10-year grace period and 40-year maturity; the pay-out is in year 27 and the debt service ratio peak is only 6 per cent.

To conclude this section on the problem of debt service certain observations can be made:

1. There is a major problem for the developing countries in servicing the debt they already have. While the nature of the problem varies considerably among countries, it is fair to say that a number of countries will face difficulties over the next ten years and some will face difficulties before then.

2. Taken by themselves debt service ratios are not conclusive in determining whether a country has a major problem or not. High debt ratios can be signs of trouble when debt is growing very fast. Obviously, if a country is vulnerable to sharply adverse swings in its foreign exchange earnings a high debt ratio indicates danger. But much depends upon the structure of the external debt, the reserve position of the country, its credit record and the stability or prospects for growth in its foreign exchange earnings. Thus the high debt ratios of certain Latin American countries are not necessarily greater signs of danger than lower debt ratios in other countries. Much of the Latin American debt is short or medium term. Essentially the Latin American debt problem seems more transitional than fundamental.

3. It is clear that the debt problem for any developing country would be exacerbated without a continuing and rising inflow of capital. It is equally clear that a lot of that capital inflow will have to be on concessional terms. There is nothing inherently good or bad about hard or soft loans; the problem is to ensure an appropriate mix that will permit debt service requirements to

be met. One single rule of thumb to keep in mind to ensure adequate new capital inflow is: if new loans increase at a rate greater than the rate of interest paid the borrower gets a net inflow.

4. The appropriate mix of capital inflow is a subject that both developed and developing countries need to study more. Some developing countries are now doing so by attempting to forecast export and import trends (not needs but trends) and deriving from that capital inflow needs. From that derivation it is possible to make policy judgments as to the amount of capital inflow the country can afford under different kinds of mix of direct investment, grant aid, concessional loans, hard official loans and commercial credits.

In the final section of this paper there is some discussion about means of providing continued efficient and manageable flows of capital into the developing countries. But before going to that section which deals primarily with debt management, it is useful to say a few words about one important source of capital inflow—direct investment.

Private Capital Investment

As noted earlier, direct investment capital is a relatively inexpensive means of channelling funds to developing countries. It has a built in grace period; profits are remitted only when earned and a good share is reinvested in the host country. Investment in the developing countries reached a cumulative total of $30 billion in 1966 and has expanded since then. But the flow of direct investment into the developing countries has not changed significantly for the better in the past 15 years. Direct investment during 1966 was almost exactly the same as in 1956 ($2.4 billion) and thus, while the 1968 total was 18 per cent larger than in 1966 it was also just 18 per cent larger than in 1956.

Both the Pearson and the Peterson reports make a series of recommendations designed to foster private investment in the developing countries. The Pearson report recommends that the developing countries remove disincentives and attempt to preserve stability in laws and regulations concerning direct foreign investment. It also recommends structuring the tax systems to encourage reinvestment of profits and suggests that developing countries that want to achieve larger proportions of domestic ownership create incentives for both foreign and domestic companies to share equities with the host country people via sales of shares. Finally, it recommends that the developed countries strengthen incentives for their companies to go abroad to developing countries, and that the World Bank and other multilateral official lending agencies expand their activities in advising on ways to encourage direct investment.

The emphasis in the Peterson report recommendations runs more toward strengthening the structure of both public and private multilateral institutions that can advise, stimulate and make direct investments themselves. It suggests more U.S. capital investment in regional development banks and U.S. and other government encouragement of more private firm membership and support to regional private investment companies such as ADELA and PICA. It suggests that the paid in capital of the International Finance Corporation be increased from $100 million to $400 million, and suggests that the U.S. press for early completion of a World Bank proposed program for an international investment insurance program against the risks of expropriation. Finally, it suggests that the U.S. might contribute more actively to the evolution of capital and credit markets in the developing countries and that the U.S. professional organizations and businesses should do more to exchange experience with their counterparts in developing countries.

A number of developing countries are not without sin in their handling of foreign direct investment. To some extent their feelings that they have been exploited and their rising nationalism are understandable. But they should also understand that direct investment is an inexpensive and rational way to obtain capital inflow and that a proper climate to assure both the foreign investor and their own people of stable and fair arrangements can be achieved—indeed it must be achieved, if development is to go forward. I have already noted that direct investment can carry with it some significant collateral advantages beyond capital inflow. In the long term these may prove of even more advantage than the inflow itself.

CONCLUDING COMMENT

To meet the capital inflow and debt service problems of the developing countries a four-part program is desirable.

1. *Debt rescheduling.*—There almost certainly will be some need for debt rescheduling for some countries in the years ahead—some perhaps in the relatively near term future. In general, I would enforse the program set forth in the Peterson report on pages 33 and 34. I want to stress two or three points and add one or two.

(*a*) There have been some 20 debt rescheduling operations for 10 countries over the past 10 years. These were all so-called "ad hoc" operations which took place only when the problem was immediate and urgent. It would be far better, as the Peterson report suggests, to plan ahead on debt rescheduling and attempt to prevent emergencies rather than to deal with them.

(*b*) At the same time it should be made clear, if the World Bank and IMF deal with developing countries on a case by case basis, as the report suggests, that any debt rescheduling operations are aimed at strengthening a country's credit standing rather than calling it into question. Properly handled, debt rescheduling should be interpreted neither as an easy escape for a country from its obligations nor as a last alternative before foreclosure or bankruptcy. It is of vital importance not to impair the credit standing of a country that may, at least in part, depend upon the private capital markets for some finance.

(*c*) Countries should be encouraged to do what some are already doing in making hard plans for their external debt management. Properly done, this should provide a very helpful debt management tool and produce a series of meaningful policy choices in respect to capital inflow. Some countries will, of course, have more policy choices than others. For example, some will have access to the international private capital markets; others will not.

(*d*) No debt rescheduling should be shared in by the international lending institutions. Their future operations are dependent upon borrowings in the capital markets and the scheduled reflow of funds. Neither source of funds should be endangered.

(*e*) The IMF will be an integral part of any rescheduling operation. IMF standby credits almost certainly will have to be a feature of most reschedulings and IMF policy advice will be important.

2. *Concessional lending.*—There is substantial need for a rising flow of lending on very concessional terms. The Pearson report suggests a standard for official bilateral loans of 2 per cent interest, 10-year grace period and 40-year maturity. It also states that debt relief or rescheduling should be considered as an integral part of development aid. It is clear that developing countries need a rising flow of loans and that too large a proportion of hard loans merely adds to future debt service problems.

It would be useful to explore further the suggestion made from various sources that interest payments (and perhaps a portion of principal repayments) on bilateral loans be channelled to multinational institutions or to national aid agencies to cover the interest differential on very low interest rate loans to developing countries.

3. *Direct investment.*—As indicated earlier, fostering direct investment, both by developing country and developed country action, would help provide a growing flow of capital to the developing countries on terms that would be helpful and with collateral advantages that could be important.

4. *SDR's and development finance.*—Several sources have suggested that a link be provided between the creation of the new reserve asset, the Special Drawing Right, and development finance. At the last meeting of the IMF and World Bank a number of governors—from both developed and developing countries—spoke to this point. This is a suggestion that is worth exploring intensively. The new asset must be regarded first and foremost as a reserve asset and the amount created must reflect the world's need for reserves rather than the need for development finance. But, in my view, there is virtue in exploring, within the limits noted in the preceding sentence, the possibility of transferring some portion of the new reserves received by the big industrial countries to a fund —perhaps to IDA—to be used for concessional loans. This could be an important means of providing additional concessional finance.

Chairman BOGGS. Thank you very much. And now, Mr. Knoppers, we would be very happy to hear from you.

STATEMENT OF ANTONIE KNOPPERS, SENIOR VICE PRESIDENT, MERCK & CO.

Mr. KNOPPERS. Mr. Chairman, ladies and gentlemen, I thank you for the opportunity to share some of my experience in the field of foreign direct investment through multinational corps. I have deposited a prepared statement this morning, and I would like to give an oral summary, possibly flavored with personal experience.

Chairman BOGGS. Surely.

Mr. KNOPPERS. I compliment you on your list of witnesses. As a citizen by choice, I am very proud to be included. But I am apprehensive, too, because most of those witnesses are well known specialists in economics and finance, and at best I consider myself an industrial blue collar worker, a sort of practitioner in the field of direct investment, including that in developing countries.

A lot of that investment—a total of $30 billion was just mentioned, and the guess is that the American part of it is $20 billion—is done through multinational corporations. They are a growing reality, a key factor in that endeavor.

In our own company, the Merck Sharp & Dohme International Division changed its policy in the early fifties. And since 1955 we have increased our sales 10 times.

The multinational corporation is not so easy to define. It has something in common with happiness or misery. No one can define it, but you always know when it is there. But there is a very general definition possible. The multinational corporation is a business organization or enterprise that sees the world, or a goodly portion of it, as its market, and acts to make the most of its opportunities on a supranational basis—production, imports, exports, management, specializations, et cetera. And some of that principle of supranational thinking must be in it, otherwise it is not a multinational corporation.

The problem arises that a multinational corporation operates mostly through subsidiaries which are national entities. And you can see that there are some conflicting situations which are possible and real.

Richard Robinson has subdivided the types of corporations in this field into international, those which have substantial international operations but have mostly one home base; multinational, where the sales abroad are at least as high as domestic—in the usual case, the United States—and there is at least some international ownership, possibly in one or two countries—Royal Dutch and Unilever are good examples; and the final category would be the transnational corporation which would cover the whole world, and would have lost its nationality by very wide ownership.

I think the transnational corporation is still quite far off. Mostly we deal with international corporations which have a home base. And in our discussion this morning we speak about international corporations, mostly based and owned in the United States, but which adhere to some principle of this supranational thinking.

I think it is important to realize that U.S. international corporations are based and owned here, because it puts some constraints on the decisionmaking on a supranational basis.

First, U.S. stockholders are mostly between 90 and 100 percent of the total. There are the relations with the American Government, and with American labor, so in our supranational thinking there are many restraints and balances to be made, because we are strongly home based in the United States.

Still those multinational corporations will grow in influence. They have the capital, the reserves to go fast. And they have moved fast. And they have certainly deeply influenced already the developed world. Our direct investment, for instance, in Europe has grown quite fast. In the less developed world the growth has been slower.

The figure was mentioned of an average over the last year of about \$2.5, \$2.7 billion a year. And to put such a figure in perspective it might be wise to compare it with another figure. The total direct investment in France, for instance, at the same time is around \$2½ billion. So it means that, in terms of investment by multinational or international corporations, we find ourselves comparing two-thirds of the world with one European country, a sizable country, but not too large.

Why are the figures for direct investment by multinational corporations going up? The extractive industry is a field unto itself. I would like to abstain today from any discussion of it, because it is a specialized field, and I would not claim any sound knowledge of this type of industry.

The other groupings are within manufacturing industries. Companies of one type, and these may have a considerable capacity for innovation, must invest abroad to grow; otherwise they would be excluded from the market if they did not invest directly. Whether this is always sound may be debatable, but one wants to protect the market. A third group, the technology-intensive industries, have a total involvement in research, and depend completely for their gross on good marketing of the innovations they can make.

To put the magnitude of U.S. industry in perspective and to emphasize how great our good fortune is in the United States, I would like to quote from Prof. Robert Heilbroner, who stated in a review of Theodore Geiger's work "The Conflicted Relationship" that even after it has paid for research and development, paid its taxes and distributed dividends, U.S. industry produces about \$35 billion annually for gross investment. Most of this is reinvested in this country. A lot goes for investment, direct investment in developed countries, but a certain fraction goes to the less developed countries. And we have, therefore, a pool for growth that could foster investment in less developed countries. I would certainly assume that the money is there.

So we must be down to earth. At present the real contribution of multinational corporations to the growth of less developed countries is limited.

Lester Pearson is right in stating: "In most industrialized countries there are influential voices that say that private investment could and should replace official aid flows. In the present state of affairs, however, this is an illusion."

In the long-range private investment must back reality. The multinational corporation has the tools to break the vicious circle restraining development, provided the game is played right by both parties. And this is certainly not always simple. In the transfer of technology for development, not only economic factors but noneconomic factors play a role too.

This I believe, has been mentioned before on this committee by Professor Geiger, I think on March 16.

I read in the newspaper that Professor Morgenthau alluded to this matter. So I do not have to go deeply into it. But possibly it is best to summarize the problem with a statement by a former aid official, Professor Montgomery of Harvard. He describes three noneconomic factors: (1) how well does ne wtechnology fit in the cultural patterns of recipient nations; (2) the question of communication, the kind of knowledge and skills capable of being transmitted, and (3) receptivity, can the recipient country inspire the mental and physical changes needed to implement this new technology? And he ends his statement: "Each of these three factors has been neglected in toto in the blind assumption that technology, like dollars, is a universal medium of exchange."

Possibly I feel as practitioner in the field of direct investment, this activity can be described best as "non-zero-sum game." Kindleberger uses this definition in his book about investment abroad by industry. In a "non-zero-sum game" you win or lose, and the sum need not be zero, a game, both parties can be winners or both parties can be losers, and sometimes one loses while the other wins.

One example is marriage. And I think marriage is a good example because the power positions at the time of marriage might be different 25 years later, yet nothing says both sides cannot be ahead in the game. This happens, too, in the relations between multinational corporations and the governments of less developed countries.

This game is changing and improving. I think the multinational corporations understand the game better. They are more patient, more understanding of the problems, and less demanding. The developing countries, I think, have a better understanding of what is involved, although there are offsetting factors. We meet more and more, I might mention, U.S. business graduates in developing countries, and they certainly know both the play of the multinational corporation and that of the developed country.

Often we are caught in the middle of local situations. The Finance Minister will want to conserve exchange, the Development Minister wants to create jobs and technical competence, and their attitudes towards multinational corporations are hardly compatible.

I would say I have the deepest respect for many, many of the managers of our subsidiaries, who when they find themselves in the middle of such a game can extricate themselves.

I would say, to define such an international manager, that he must have a rare combination of being very cool in crisis situations and still be very imaginative, too. Some managers are masters at it.

When we look at the non-zero-sum game," and the changes of power position it is important that the multinational corporation understand certain points from the beginning. The game is mostly in its favor. Corporations like to come in. They contribute immediately. But in the long range, the position of the government improves. And I would say a multinational corporation should in its long-range planning be very active in the initial period.

For instance, we are all in favor of the sanctity of contracts. But sometimes conditions change so much that it is wise for a multinational corporation to agree to renegotiate. There is one good thing sometimes about renegotiating. A government that may wish to amend a contract frequently has other needs. Sometimes to trade it off is possible.

The trouble naturally is that although we play the "non-zero-sum game," often the multinational corporation, and governments of the developing countries do not play the same game.

The multinational corporation is a carrier of technology, and can give assistance in the needed technology. It can give managerial and technical skills, often by training nationals.

We create jobs, and sometimes instill new business concepts. Moreover, there definitely is a multiplier effect supporting industries.

But in a "non-zero-sum game" we have to get in the shoes of the other party and look at his problems too. Developing countries naturally are worried about economic domination, and imperialism. They feel that in its supranational thinking, a multinational corporation tends to have its interest prevail over the local interest. And it is logical in this game.

Typical examples are exports. The less developed countries must create a lot of their import money and their investment funds by exports. And naturally in a multinational corporation there is often a central control over the export policies of the subsidiaries. This is, I think, a problem that cannot be resolved simply.

Furthermore, there is the possible conflict position between subsidiaries of multinational corporations and national industry. The multinational corporation is extremely strong. It is often ahead in innovation. It can hire away the best managerial talent by offering a better future and better pay. And it has greater financial resources. It can handle an inflationary situation much better than the national corporation, having more resilience. Implicit in this is a competitive threat to the local economy as well.

It would be very wise for the multinational corporation to try to understand this. We often cannot handle this problem. If I take my industry, I would like to see each pharmaceutical company adopt one national company and give it licenses for products. There are problems, including clarification of antitrust considerations. Much must be organized. I give you only an example that we can be of goodwill, but still not implement what would be wise. And especially we must understand that developing countries have political systems that are often unstable, and that they may have short-term expediencies, restrictions, changing laws, changing regulations, that try our patience. But we must understand too that political expediency not only here but especially in those countries, is sometimes a question of survival, and we must be understanding.

Now, this leads to one important misconception. That is embodied in the statement of Chile's Foreign Minister, Gabriel Valdes, who generalized that: "We have reached a point where Latin America is contributing to the development of the United States and not the other way around."

So, a negative "zero-sum game" for Latin America, and a positive one for us.

I think that the problem here is that we use overall primitive statistics and a misleading apples-and-oranges approach. Such statistics say nothing about what such investment has done for the local economies, whether they were creating also income, exports and local savings, building economic infrastructure, et cetera.

The Council for Latin America has tackled the problem. In the preliminary reports Herbert May finds that the direct investment of the United States in Latin America between 1965–68 has produced a positive Latin American balance of payments of $8.55 billion. Valdes is right on one point: when the yearly investment was $700 million, the outflow was $1.4 billion. So Valdes' statement, in its primitive form, is right. Notwithstanding, when the compensating exports and import substitutions are included, you come to a positive factor of $8.5 billion. But May's report is not that simple either, because if we put on the positive balance for the Latin American countries $4.8 billion for import substitution, one must also ask the question—and I think Mr. Tuthill will deal with that later—was a particular import substitution the right one? So even May's statistics have possibly to be defined in the future.

If we take the Colombian example, the return on invested capital if about 3.1 percent. But again this is misleading, because when we sell raw materials or intermediates to these countries, we have to take an arm's length approach and put some profit margin on here.

The Treasury not only forces us to do it, but I think it is good business, because the national firm abroad would pay the same premium.

The problems remain, I think, a vital issue. We must study it more, if only to convince our partners in the game that the game, not only from a technical transfer point of view, but financially, is good for them too in development.

Another realistic part of the game is local adaptation of technology. Here I support the recommendation in the Peterson report of having the U.S. International Development Institute. I think such a formalized institute could be extremely helpful as a middleman in handling many presently ticklish problems.

In the future multinational corporations must accept political realities. As a result they might gain acceptance of their views. They must especially understand that economic development often leads to more instability rather than to less stability, that there is a period between first experimentation and a change of society in which the multinational corporation could be caught in a whirlwind.

The developing countries must ask themselves whether they feel that putting self-serving policies against private enterprise is worth the price they pay for it economically. And the real danger in this "non-zero-sum game" has been stated by John Pincus: each side then tends to think that it is playing a cat-and-mouse game, but it might be, to borrow a phrase, a situation with two cats and no mouse.

Going it alone would be a long-range disaster for the developing countries. The complex processes needed for the creation of high technology—even the technology needed for the developing countries, which might be other technology—are really in the possession of companies.

Both the Pearson and Peterson reports recognize that for investments, incentives are somewhat of a necessity. Most developing countries provide such incentives, for instance, for imports substitution and especially for exports. Still international corporations should show some restraint. A good incentive for a bad proposition is still bad business.

And I would say international corporations have to protect themselves against falling into the queue, feeling that where a competitor goes it must go too. In such a situation, a country that possibly could only digest a few firms may find itself with 10.

The same can be true for the requirement that the multinational corporation take a local partner, the politically favored joint ventures. A joint venture is all right when the local partner makes a real contribution—capital production capacity, markets, government relations and understanding what technology is needed. When highly innovative corporations are involved, striking a fair deal is difficult, especially if a country dislikes royalties, which should be a payment to the company for the innovative technology it has developed.

Still sometimes as multinational corporations we have to pay a premium to get into a market. The choice is a short profit or nothing. So sometimes, I think, corporations submit to a charming blackmail to get in.

On the other hand, in our own joint ventures I must state that we have had great support from our partners. We had one, I would say, trick that helped us. When we take a local partner we speak always for a few days with him about our relationships. And we dream of both the best and the worst of all possible worlds. What would we do if the Government did this or that? How do we reinvest? And usually, we find out after a few days that we think the same way. Sometimes the things we act out really happen. With our simulated experience, we then do not have to find a solution in an emotional environment.

Returning to incentives, I would agree with the Pearson report that it is important for developing countries to restructure their tax structure in such a way that it encourages profit reinvestment. If reciprocal arrangements can be worked out that favor us there, taxes can be paid here.

Three administrations—and, Mr. Chairman, you have often been a champion of such legislation—have proposed such tax incentives here. They were mostly defeated, not on principle but because of disagreement on methods. A simple solution, but one that is asking possibly for the moon in our tax structure, is to make dividends from developing countries tax-free while leaving tax credits often over 50 percent intact. Still statistics show that the loss for the Treasury would be rather small. If incentives that would lead to marginal investment proposals become real, I think the loss for the Treasury would be offset by the exports to those countries.

Holland, for instance, does not tax income from foreign countries.

Germany gives 50 percent investment credit, which is really saying taxes, and a 42-percent tax reduction for the establishment of a reserve which is restored to taxable income on a deferred amortization basis, a sort of interest-free deferred payment loan.

It would be important if tax deductions for exchange losses which are now extended to branches for U.S.-based international corporations could be extended to subsidiaries, for it is often much better to work through a subsidiary. And I do not feel that a subsidiary should be penalized because it is not a branch.

I suggest too a somewhat better treatment of so-called worthless securities as a result of expropriation. They can now only be treated as capital losses provided the ownership is 95 percent or more—this is my information—and not penalizing joint ventures here could be an improvement.

Also I think we have to give some attention to de facto expropriation. A government in its sovereignty can appropriate, giving you perhaps a 40-year bank loan at 3 percent interest in an inflationary economy where the normal interest rate is 10 percent. I consider that de facto expropriation. That money might be worth nothing after 40 years. It will be difficult to write legislation on such a fluid subject, but it might be worth it to try.

I feel that the previous recommendations are compatible with the DISC proposal which I would recommend as a step forward. Naturally most multinational corporations are all in favor of regionalism. It would enable us to institute economic local plants, which we have to, which are foisted on us in this game, either you are in or out. I endorse the overseas Private Investment Corp., although it might need a little bit more flexibility.

Also I agree with the Pearson and Peterson reports that aid in some form will be vital for our foreign direct investment. The infrastructure needed has to be created, and we can often only work with that infrastructure available.

I support the idea that, where feasible, we take a multinational approach to aid, but we should look at it very carefully. Sometimes very important American interests are involved.

I will only say that we within the pharmaceutical industry have not had much trouble with foreign direct investment regulations because our capital investment is not too high compared with our sales, but it might be a problem for corporations which have to make very large outlays.

Investment regulations also create psychological impediments. There is already growing disenchantment among boards of directors with investments in developing countries. With the foreign direct investment regulations, boards tend to ask themselves: Should we make feasibility studies, which are costly, and then still go through the trouble of financing under FDIC?

Although in practice the proposition seems to be somewhat hopeless, I still feel that a fresh look at antitrust legislation as applied to extraterritorial operation could be helpful. Presently we are in some trouble with antitrust concepts in the field of licensing. And to operate in a less-developed country is already troublesome enough. And a lot could be done.

When you ask somebody where the trouble in antitrust lies, nobody, as a rule, can give a firm answer. The problem is possibly in attitude. We do not think about many opportunities to do a job better, simply because we are rather wary of antitrust implications.

When we look at the U.S. position that foreign investment recreates exports, then exports become an important factor in the balance of payments. Mr. Haggerty of Texas Instruments, both on the National Academy for Engineering and other business councils, suggested that if we assume a trade surplus of $1 billion, $9 billion on the positive side of the balance comes from technology-intensive industries, mostly through multinational corporations. But if we look at the balance, our balance in this field with Japan is slightly negative, and our balance with Europe has the contrary action that the technological gap is decreasing possibly from $2½ to $1½ billion, but the rest goes to the developed world.

So in exports—and a lot of those exports are exports from multinational corporations to their subsidiaries—we have an important stake.

So I would say assistance to less-developed countries is not only a moral issue but a very important economic issue for the balance of payments of the United States. Do not forget that the less-developed countries finance 85 percent of their investment from their own resources, and therefore the multinational corporations can be very useful and successful by complementing those resources.

The multinational corporation has the technology and the resources to apply efficacious techniques in education, communications, agricultural production, and even population control. I will not touch that subject, in deference of the speaker next to me.

The result could be indeed development. Still presently the contribution of the multinational corporation, as indicated before, is small compared with the need and the potential. In many areas the future relationship between the multinational corporation and developing nations is in doubt. We are in for a lot of trouble in Latin America and India due to increasing nationalism, and particular forms of socialization. But as participants in a "non-zero-sum game." corporation management and government leaders of developing countries, if they can display both courage and patience, can evolve a relationship that could and should be positive.

It worries me that "play" by both sides in what should be a "non-zero-sum game" becomes somewhat irrational. But I see a trend in developing countries and in multinational corporations to understand the problem better, to see opportunities for both.

You, Mr. Chairman, and members of this committee, have been and can be partners in the "game" too by legislating economically justifiable incentives which will stimulate investment.

Most of such incentives would not harm the Treasury or the balance of payments, and they would mostly be offset by more export.

Thank you, Mr. Chairman.

(The prepared statement of Mr. Knoppers follows:)

PREPARED STATEMENT OF ANTONIE KNOPPERS

FOREIGN INVESTMENT AND THE MULTINATIONAL CORPORATION

Mr. Chairman, thank you for this opportunity to share some personal observations with your Committee.

As part of its study of a foreign economic policy for the 1970's the Committee is seeking in this particular set of hearings to re-examine U.S. policies to assist the developing nations. Clearly the multinational corporation can be a key factor in providing such assistance. The activities of such corporations, as they relate both to their headquarters countries and to the developing nations in which they do business, present subtle and sophisticated problems requiring thoughtful and patient examination if their force and influence are to be seen in proper perspective. I am sure the business community would applaud the approach this Committee is taking in developing information that can be brought to bear on national policy.

Let me congratulate you particularly on the quality and diversity of the witnesses you have gathered for this phase of your inquiry. Many have made major contributions to a better understanding of the economic problems that confront us now and will confront us in the years ahead. My role is to speak as someone who has been involved in the give-and-take of multinational business for a number of years, and who necessarily draws conclusions primarily on the basis of this experience.

The Committee has undertaken a constructive task in this effort to gain new insights into how business and all other complex factors of the international economy interact. I hope that my remarks on the multinational corporation and the considerations that determine its investments in developing nations may open avenues for discussion and exploration for you.

The multinational corporation, as I see it, has something in common with happiness or misery: no one can quite define it, but you always know when it is there. I think it is enough of a definition to say that the multinational corporation is a business organization that sees the world—or a goodly portion of it—as its market, and acts to make the most of its opportunities on a supranational basis.

By this definition or any other, most multinational corporations—or to use the more accurate term, multinational enterprises—are United States-based. This, of itself, puts certain constraints upon their operations and complicates decision making, when compared with the relatively greater freedom of some of their Europe-based counterparts. Christopher Layton has observed that of the five hundred largest corporations in the world, three hundred and six have headquarters in this country. Accumulated private direct foreign investment by U.S. industry is estimated at $65 billion.

Thirty per cent of our investment abroad, however, is in Europe. The total long-term European investment in the United States, currently about $26 billion—largely portfolio investment—just about evens out with U.S. investment there, the latter being largely direct investment. When we remember that Europe is coming on rapidly in developing its economic muscle, U.S. investment in Europe does not pose a threat. When we look to the developing world —and here we are talking about two-thirds of the world—we find quite a different picture.

The Pearson commission, working with 1968 statistics, found that direct industrial investments that year by developed nations in the developing countries were only $2.7 billion. Although the statistics are not completely compatible, compare this with U.S. industry's direct investment of $2.5 billion for France alone in the year 1965. Of the total cumulative industrial investment in developing countries of $30 billion, virtually half was in petroleum, mining, or smelting, with only a little over a quarter in manufacturing.

While all companies have a goal of making a profit, there are as many kinds of multinational corporations as there are motivations for going abroad. Extractive industry goes abroad because that is where mineral sources lie. Other companies simply go abroad to find new markets.

It is edifying and hopefully chastening, in view of the intense poverty that haunts most of the world, to reflect on just how great our good fortune is in the United States. Robert Heilbroner has pointed out that even after it has paid for research and development, paid its taxes and distributed dividends, the U.S. industrial complex produces $35 billion annually that can be used for growth investment. Obviously, even without currency restrictions, only a fraction of this staggering resource is ever earmarked for overseas investment . . . and just a fraction of this fraction for investment in developing nations.

In addition to extractive industries and conventional manufacturing companies looking for growth opportunities, a third type of multinational corporation exists. This is the technology-intensive company, the firm that develops new products that often are of great value to society, such as computers, electronic equipment or drugs. Many such products are sought—even demanded—by other nations, developed and developing alike.

If the expression "multinational corporation" seems imprecise, it is a model of clarity compared with the ambiguity implicit in the term "developing nation," or in any of the various euphemisms we may choose to substitute. Everyone knows, of course, that such nations differ drastically. But perhaps because the point is so blatantly obvious, we sometimes tend to ignore it. Theodore Geiger's "The Conflicted Relationship" has documented how disastrous this can be.

In view of the major cultural and economic differences within nations, one of the most important contributions of the Peterson task force report surely is its insistence that the developing nations, themselves, take the lead in their economic planning and in setting their own economic priorities. The World Bank's plans to help with such planning seem equally farsighted. Hopefully, in the competition for scarce resources, water hygiene will take precedence over prestige hospitals, trained mechanics over PhDs.

In addition to keeping in mind the fundamental structural and cultural differences between nations, we must also remember that all nations change. For example, it is a common occurrence today for multinational business to find itself negotiating in a developing nation with Ministers or other top governmental advisors who have done graduate work in American universities. These officials know, in depth, the policies and practices of American corporations at home and abroad.

Increasingly, the Ministers in developing nations know exactly what they want. And their wishes usually are highly rational within the political context in their own countries. Moreover, multinational corporations find themselves increasingly trapped between clashing viewpoints. For example, Finance Ministers are strongly interested in conserving exchange currency. What their regulations may ask of a multinational subsidiary may conflict directly with the policies preferred by—let us say—the Minister of Development, whose interest lies in creating jobs and raising technical competence.

Whatever middle course the corporation elects to follow, neither Minister is pleased. Each may feel slightly betrayed. The fact that the situation is irreconcilable doesn't appreciably lessen the abuse that sometimes is heaped on the company's head. I would say that, more and more, strident criticism is becoming a fact of life that multinational corporations must learn to live with.

Unfortunately, much of the discussion and reporting of the relationship between corporations and governments is couched in the rhetoric of combat: winners and losers. The more accurate analogy—it is Charles Kindleberger's—should be that of the "non-zero-sum game." In such a game, one player's gain does not depend upon the other's loss. Both can win, or both can lose. The concept is precisely descriptive of what should be—and often is—the relationship between the multinational corporation and a developing nation.

Kindleberger and others have called attention to a paradox that many—perhaps most—multinational corporations have experienced: success breeding disenchantment. I think we can generalize usefully about this. In the days of courtship and in the early phases of operations, the subsidiary has the controlling hand. But not for long. As a company grows and prospers, the government sometimes tends to feel that it made a bad bargain and will try to "renegotiate" for a larger share of the profits. In such cases, political realities often win out over the sanctity of contracts. If the company is wise, it will make the best of the unwanted situation and remember that some *quid pro quo* often is possible even then.

Knowledgeable and experienced companies will negotiate for the best deal they can make, a position that is understood by most developing countries. Such countries, of course, are aware that bargaining is a game for two, and many are becoming highly proficient at it.

A major cause of misunderstanding has been that while multinational corporations respond to business imperatives, the governments of developing nations must react to political realities. The company often conceives the scope and nature of its activities differently than does the host government. It often views its profit needs differently. So the two find themselves talking at cross purposes, even to the point of reciprocal accusations of subversion and sabotage. When relationships reach this nadir, there is no point in talking about a "non-zero-sum game." The two antagonists are not even engaged in the same game.

Things usually are by no means this black. Yet if you superimpose the aims and needs of a company as the company sees them, on what should be its aims and needs as the government interprets them, the two lists seldom match totally. This is especially true after a company has been on the scene for a while, and its product lines—not to mention governments—have changed. At this juncture, both sides should forgo the temptation to talk about "basic incompatibilities," assuming instead that neither side is going to get everything that it wants but that each can get something.

I fear that something approaching formalized misunderstanding is beginning to characterize much of our thinking about relationships between multinational corporations and developing nations. Corporations rightly emphasize their contributions. They furnish needed technology. They increase managerial and technical skills. They create jobs. They infuse new business concepts. They make possible backup industries.

Developing nations, however, tend to place the emphasis elsewhere. They argue multinational corporations have divided loyalties and, in a showdown, must put company interests over those of the host nations. They object that multinational corporations make central decisions about what a subsidiary may export, and to whom. They note further that American-based corporations are limited by U.S. regulations as to both the nature and the recipients of their exports. They see multinational corporations as threats to infant or small local industries, with virtually a monopolistic lock on many major products and with marketing and financial resources that cannot be matched locally. They sometimes accuse multinational corporations of luring away talented people by paying unmatchable wages, and of drying up credit sources by attracting the available loan money. The cumulative effect of such accusations —when pushed to the extreme—is that the corporation is seen as a threat to local economic autonomy.

The local manager of the multinational corporation tends to find such allegations overstated. He sees the shortsightedness of the government's over-reliance on short-term measures—import and investment restrictions, tariffs, quotas and the like. Feeling somewhat harassed, he tends to forget that political expediency can mean the survival of governments and a good deal of order instead of chaos.

We can almost measure the degree of misunderstanding when Chile's Foreign Minister, Dr. Gabriel Valdes—in a summary of the consensus of Vina del Mar—makes this statement:" . . . we have reached the point where Latin America is contributing to the development of the United States, and not the other way around." The implication would seem to be that it should be one way or the other, when—with the "non-zero-sum game" concept—each should be contributing to the other. At least this should be true of private investment.

Partisans of the position that American is undermining—rather than supporting—the developing world are quick with statistics. One fault that often is to be found in such statistics is that they compare income from the total investment base in such countries—sometimes dating back for generations—with investments over a limited period. More to the point, they say nothing about what such investments have done for the local economies, Where they were also at work creating income and savings, building economic infrastructure, and sparing foreign exchange, all of which have multiplier effects.

A recent study of Herbert K. May for the Council for Latin America undertook a broader look at the question of the impact of foreign investment. The findings would seem to argue forcefully for the advantages of foreign investment to the developing nations, even in strictly economic terms.

The May survey found that, for the period from 1965 through 1968, U.S. investment made a positive contribution to Latin America's balance of payments of \$8.55 billion annually. Let us take Colombia as a specific example: of 116 companies included in the tabulation, 75 were more than 95% U.S.-owned. In only 22 was the U.S. participation less than 50%. The 116 companies represented an overall investment of about \$297 million, including \$61 million brought into Colombia in the 1964–1968 period. Their remittances for this five-year period—dividends, royalties and payments for technical services—totaled 15.4% of the companies' total invested capital. That means that the annual rate of all remittances was merely 3.1% of invested capital. This is hardly a picture of crass exploitation. Total return to the United States, of course, is considerably higher than this figure since there is also the return from arm's-length sales of intermediates within the corporation to subsidiaries. A national firm abroad, however, would pay the same price for such materials.

I find it noteworthy that the Foreign Minister whom I quoted before, in describing his country's new investment guidelines, singled out technology-centered industry for special attention. In his eyes, certainly foreign investment *per se* was not monolithic. The Minister acknowledged what he called an "imperative need to contract with foreign enterprises to acquire technology." In this he is right. At the same time, he must recognize that the multinational corporations that possess this technology will be interested in entering his country only as respected partners in a business transaction; they are not interested in being looked upon as objects to be used and discarded.

The Minister argues that, because of its small market size, his nation has been unable to develop its own technological potential. Consolidation through the Andean Treaty, he feels, should provide a useful stimulus. I hope he is right. Only a certain amount of the technology created within the developed nations is applicable to the developing world, and seldom are the technological products ideally suited to their new environment. Much could—indeed, must—be done through local adaptation of innovation. The Peterson report again is to be applauded for its proposal for a U.S. International Development Institute to support and assist with such research.

Unfortunately, the ability to reach multiple markets is but one factor among many that have contributed to U.S. strength in the technological field. Unpopular though the multinational corporation may be politically, it remains the world's prime source of marketable technology. Any developing nation or region that has illusions of "going it alone" technologically within the foreseeable future is courting disappointment. Obviously, though, we are again stumbling over a word. "Technology" is both a hand plough and a scanning electron microscope. Vast areas exist—especially in fields such as agriculture and civil engineering—where local ingenuity can make major contributions. But the enormously complex processes needed for the creation of high technology will long remain out of the creative reach of developing nations. Still, such nations will continue to need a selection of high-technology products.

Since both governments and corporations must make their way together, it seems to me that today's situation demands less rhetoric and more flexibility, more pragmatism. Multinational corporations must accept political realities as they find them, and try to gain acceptance of their point of view by showing respect for the views of others. Equally important, developing governments—in some instances—must ask themselves critically whether self-serving polemics against private enterprise are worth the price.

We must be on guard against any expectation that an early effect of a rising standard of living will be a reduction of social tensions. A taste of a better life is intoxicating, and performance can never keep pace with expectations. I suspect that—with the best possible will and effort—we can expect years of continued discord, and we must anticipate this so as not to be discouraged by it. The assumption that stability must be a precondition for development seems to me to invite a standoff. Perhaps neither the Pearson nor the Peterson reports gave sufficient weight to this factor.

Both the Pearson and the Peterson commissions—through their solid findings and recommendations—have performed commendable service in identifying problem areas and sketching out approaches to their solution. They have, of course, taken an overall view, and businessmen will find some of their suggestions unrealistic.

Take the question of incentives, for example. In one form or another, incentives are necessary to attract investment. Most developing nations will offer incentives as a subsidy for import substitution. A good incentive for a bad proposition is still bad business, however. Both countries and corporations should show a high level of restraint, unless it can be shown that the proposal can soon be economic on its own merits. Otherwise, the new company will become another non-economic monument to national ego and a drain rather than an asset.

Also, the popular proposal that a multinational corporation should be required to function with a local partner within a developing nation leaves something important unsaid. What is not mentioned is that the local company should also bring something into the arrangement—a marketing organization, for example, or a production capacity. Otherwise, the relationship can become tense. For any multinational corporation, I would recommend a simulation technique—game-playing—that we employed with the Tata enterprises as we explored a joint venture. We constructed many contingencies, and analyzed what we would do if they were to arise. We thereby entered the merger with a clear understanding of our mutual roles. The effective teamwork that has characterized our relationship with our Indian partner undoubtedly stems in large measure from this exercise in candor.

The industry with which I am associated has not been seriously hampered in its investments in developing nations by the U.S. controls on capital exports. Our industry does not require excessive capital investments, however. I assume that other industries may well be encountering problems. The controls must certainly have discouraged even feasibility studies for many companies.

With regard to investments, I would concur with the Pearson commission recommendation that developing nations restructure their tax structure to encourage profit reinvestment by foreign companies. But I would insist that this should be done with great sensitivity. The point must not be forgotten that a multinational corporation has many options, and it has no reason to choose an economic straitjacket. The Pearson commission, itself, recognizes this.

The tax policy of the U.S. and other developed nations should be used as an instrument to promote investment in less developed countries. The past three administrations have proposed tax incentives for this purpose, and each proposal has been defeated by considerations concerning the methods by which incentive should be provided. A simple solution would be to make tax free the income from qualified investments in manufacturing industries in developing countries. All elements of the U.S. economy should recognize that U.S. foreign investments increase exports from the United States.

Investment credits and deductions could provide additional tax incentives for investing in less developed countries. Germany, for example, has employed this approach increasingly over the past ten years. Presently, they provide a 15% investment credit and a 42% tax deduction for the establishment of a reserve which is restored to taxable income on a deferred amortization basis. I would suggest that we review the tax incentives used by other countries and adopt those that seem best suited to encouraging investment of U.S. capital in less developed countries.

A number of revisions could be made within our tax laws to facilitate investment in less developed countries by providing tax benefit for losses. The risk involved in investing in less developed countries could be substantially mitigated by extending tax deductions to U.S. investors with respect to corrency exchange losses incurred by foreign subsidiaries. These losses are now extended to companies that operate through branches in foreign countries, and there seems to be no reason why similar treatment could not be accorded to operations conducted through subsidiary corporations. Another drawback contained in Federal tax law exists with respect to the tax treatment of worthless securities. These losses usually confront investors in the form of government exporpriation, either explicit or de facto. The tax law requires that such losses be treated as capital losses, with limited tax benefit except in situations where the U.S. investor owns at least 95% of the stock of the corporation becoming worthless. In many situations local exigencies require that investment be conducted with substantial participation by local investors. The limitation on tax benefit from losses on securities discourages such investment. I feel, incidentally, that all of these proposals are compatible with the DISC recommendations of the Treasury Department, which I heartily endorse.

The United States should use its influence in every way it can to encourage regionalism. The web of tariff and import restrictions that most developing nations have felt obliged to wrap themselves in virtually excludes economic escape. Tariff restrictions, for example, may compel a multinational corporation to erect some sort of manufacturing plant within a developing nation, with the alternative being the loss of the market. Competition is vital in the free enterprise system, but it must be recognized that these same restrictions can engender a rash of small plants that are uneconomic. Manufacturing for an entire region could change this pattern and result in economies for the entire area.

The emphasis by the Peterson task force on the creation of stronger international financing and international planning institutions seems to me to be well placed. The concept of the Overseas Private Investment Corporation to mobilize private-sector participation has great merit, although experience with it so far would seem to indicate that stronger incentives will have to be forthcoming. Perhaps something approaching investment guarantees will have to be devised. The problem, of course, is that investments will continue to be judged on their own merits. Corporations will shy away from questionable investments, regardless of guarantees.

Recent trends to reduce United States foreign aid have been harmful both psychologically and practically. Such funds often have been directed to creating economic infrastructure. As such, they have been of fundamental economic importance to both the recipient nation and all corporations doing business there. Obviously, what such aid can do is very limited. But—if at all possible—it should be continued and increased.

The application of U.S. antitrust law abroad obviously poses a thorny problem, in part because it is so little understood. In many instances, it is quite possible for U.S. competitors to work together in the interests of developing nations. But corporations understandably remain nervous. The problem, serious as it is, has been magnified out of all proportion, since the idea of the application of American laws abroad has been construed frequently as blatant U.S. intervention in the affairs of other governments. It may be that the lack of clarity within the law has been an inhibiting factor. In any event, we must be on guard against using the specter of antitrust as an excuse for inaction when our real motivations lie elsewhere.

It has been estimated that seven trillion dollars would have to be invested to bring the $500 annual income of one and three-quarter billion people up to $750 a year—a level that would be one half that $1,500 United States average. Seven trillion dollars is 14 times the total capital that existed in the world in 1967. Therefore, any governmental assistance program must seem insignificant when compared to the magnitude of the need. This is no reason for turning our backs. Because aid can be pinpointed to key problems, it can have a multiplier effect. The Peterson task force recommendation that—where feasible—more aid funds should be channeled through international agencies would help remove the feeling that aid is tainted and open innumerable doors.

As we enter the decade of the '70's, America has good reason to take stock of its position in world economic affairs. Patterns are different. Among other things, high technology—America's forte—has acquired a force that would have been unimaginable a generation ago. High technology now contributes an estimated $9 billion towards a United States trade surplus, compared with $1 billion by conventional manufacturing. But expertise in technology does not equip us mentally or materially to deal with penury. The United States—in the context of its priorities—must first find its answer to the question: what can—and should—we do to aid two-thirds of the world escape the crushing yoke of national poverty?

While developing nations finance 85% of their investments from their own sources, foreign private investment, including that by multinational corporations—selectively applied—can complement and stimulate this process. The challenge is largely one of creating the proper incentives, and this applies to developed and developing nations alike. We—the developed nations—can offer preferred treatment to blocs, if not to individual countries.

It is impossible to be sanguine about the future of the developing nations: we must be deeply concerned.

As these nations—with our help—examine the profundity of their problems and turn to us with suggestions for collaborative efforts, we must heed when we can.

Progress—if we are to know progress—demands mutual respect, free of paternalism. It asks broad application of efficacious techniques in education, communications and population control, as well as major efforts to raise levels of health and nutrition. Some of these techniques are within the competence of the multinational corporations, which—if the problems can be factored into soluble components—are capable of accepting the challenge with imagination and skill. We must realize that, beyond the technical problems, are enormous barriers of tradition and beliefs. Population control offers few difficulties, technically. In application, the techniques have failed conspicuously.

At the moment, the future relationship between the multinational corporation and developing nations is clearly in doubt. As a "non-zero-sum game," this should not be. If corporation management and government leaders can display patience and courage in the face of taunts and tension, the future need not be desperate. If they can display wisdom, much can be accomplished.

Chairman BOGGS. And now we come to our next witness.

Mr. Thorbecke, we are happy to hear from you now, sir.

STATEMENT OF ERIK THORBECKE, PROFESSOR OF ECONOMICS, IOWA STATE UNIVERSITY

Mr. THORBECKE. Mr. Chairman, I am very happy to be here this morning, and I want to thank the committee for giving me an opportunity to testify on what I believe is going to be one of the major problems of this decade.

I would like to make it clear at the outset that I will address myself mainly to the unemployment problem rather than the population problem as such. The two are closely interrelated——

Chairman BOGGS. You will summarize your statement, will you? Because it is quite long.

Mr. THORBECKE. Yes, definitely.

The two are closely interrelated. As will be made clear in my presentation, one could almost say that the unemployment problem as such is the mirror image of the population problem.

I have a prepared statement which I would like to submit for the record. And with your permission, I would like to summarize the major points of the prepared statement.

Chairman BOGGS. Right.

Mr. THORBECKE. The prepared statement is divided really in four parts. The first part is divided into an overall diagnosis and assessment of the unemployment problem. The second part is an analysis of the major causes of unemployment and underemployment in the developing world. The third section contains a critical review and evaluation of the Pearson Commission report dealing with unemployment and related topics.

And finally, the concluding part is an attempt at trying to look at the consequences of the 6 percent GNP growth target which was adopted in the Pearson report. Also in the concluding section I would like to make a few policy recommendations.

Starting with the question of unemployment there are really two definitions which can be used for this concept. The first definition, which is typically the census definition, considers unemployment essentially as that part of the labor force which is unvoluntarily unemployed. Now, given the low skill level of a large proportion of the labor force in the developing countries as well as the relatively high skill requirements to obtain available jobs, this definition typically yields some relatively low unemployment levels.

Another definition of unemployment is simply to compare the available manpower, perhaps in terms of total available number of man-hours over the course of the year, to the number of man-hours which are actually worked. This second definition typically yields much higher unemployment levels, as I will indicate later.

If we examine the existing evidence relating to the symptoms of unemployment and underemployment in the developing world, it can be seen from the first table which I prepared that although the rate of growth of the labor force in the developed countries declined very slightly between the period 1950 to 1965, and the projections for period 1965 to 1980, from 1.1 percent to 1 percent; in the developing countries the growth rate of the labor force went up from 1.7 percent to 2.2 percent. And if we look at the regional implications of this, we see, forinstance, that in East Asia the growth of the labor force jumps from 1.8 to 3 percent. I will not belabor these figures, but I think that it is important to realize that an extreme acceleration in the rate of growth of the labor force is taking place in the developing world today, which is related very directly to the population explosion.

Now looking more specifically at the evidence which exists on unemployment as such, we do not have a great deal of information. But the information which is available indicates that the present level of unemployment is quite high.

Let me just give you some figures here. In the case of India, the level of unemployment—according to my first definition—increased from about 11 to 15 percent between 1951 and 1961 according to one source. We find essentially the same kind of evidence for other parts of the world.

Let me simply mention one other region for which we have relative good figures. In the case of Latin America the total number of unemployment is estimated to have risen from 2.9 million in 1950 to 8.8 million in 1965. In relative terms, the corresponding proportion of unemployed rose from about 5.6 percent of the labor force in 1950 to over 11 percent in 1965.

So I think that there is very little doubt that unemployment in the developing world is a serious problem, the magnitude of which appears to be increasing over time.

If we use the second definition which I gave of unemployment, namely, if we compare the total amount of manpower available and we look at the total labor requirements to produce the given output, the under-utilization of the labor resources becomes even more dramatic. One estimate has indicated—this comes from the Organization of American States—that the total proportion of unemployment according to this definition would be of the order of 25 percent of the total labor force in Latin America. If one wants to put this in absolute figures, it would mean an equivalent of approximately 18 million workers being completely unemployed in 1960.

Since the great bulk of the labor force is employed in agriculture—ranging between 40 and 80 percent in most of the developing countries—it is, of course, to be expected that the greatest under-utilization of labor would occur in that sector. And indeed if we look at the evidence we find that the greatest degree of under employment is in agriculture, and in many cases in traditional agriculture.

A trend which is integrally related to the unemployment problem is the increasing rural-urban migration. As the degree of under-utilization of labor increases in agriculture, there is a push effect essentially out of agriculture into the urban areas. And we see today in most of the cities of the developing world a very high rate of growth of population. Very roughly speaking, I think one could say that the rate of growth of urban population in the developing world is about three times as high as the rate of growth of the population in the rural areas. This migration leads to a number of problems which I cannot address myself to here. But I might simply indicate that a large number of these migrants become in a way residual claimants for any of the jobs available, and often end up in what might be called the traditional service subsector, in other words, they start shining shoes, selling pencils on street corners, being extremely unproductive. In a certain way one could say that the service subsector in the urban areas fulfills pretty much the same function as traditional agriculture fulfills in the rural areas. In other words, what there is is a transfer of under-employment from the traditional agriculture to the service subsector in the cities.

Now, it seems to me that a very important point which comes out of this brief review is that governments ought to place a relatively high weight on employment creation. It is clear that in the past most of the developing countries have emphasized GNP growth as being the predominant objective of economic policy. But to the extent that it is extremely difficult if not impossible to use fiscal policy to redistribute income, it seems to me that it is important to attach a relatively high weight to employment creation. I will say more about this in just a few minutes.

This brings me to the second part of my presentation, which is an attempt at identifying some of the major causes of under-employment and unemployment.

The first major cause is one which we have already seen, namely, the continuing acceleration in the growth rates of population and the labor force which has occurred in the developing world ever since the end of the Second World War.

A second factor, which is well known among economists but perhaps not quite as well known among some of the practitioners, is the whole set of biases and distortions which affect the pricing of capital and labor. On the one hand, a number of policies used by developing countries such as accelerated depreciation allowances, overvalued exchange rates, subsidized interest rates, the price of capital below its equilibrium level, making capital thereby relatively cheap.

On the other hand, social legislation and minimum wage rates in some of these countries, have the effect of making the price of labor relatively expensive. Any rational entrepreneur or rational businessman, will of course select a technology which will tend to be relatively capital-intensive, which will use more of the factor of production which is relatively cheap, and less of the factor of production which is relatively more expensive. And this, I think, has been one of the contributing factors to the relatively high level of unemployment.

Then a third cause, I think, has been the tremendous emphasis on industrialization, particularly in the 1950s, as the unique key to development. It was felt by both economists and policy-makers that the industrial sector had to be the leading growth generating sector. Often industrialization meant discriminating against agriculture. As I have pointed out elsewhere, I think the trouble with this approach was that "the backward agricultural goose would be starved before it could lay the golden egg." In other words, the industrialization-first strategy often led to stagnation in output in the agricultural sector.

Finally, I think a fourth important reason for the very high level of under-employment has to do with what we might call the inward, rather than outward-looking approach with respect to international trade which many of the developing countries have followed until relatively recently.

They concentrated on import substitution as opposed to export promotion. And very often they did this by using protectionism, which led to the creation of a number of highly inefficient industries, which were also capital-intensive and did not really help the labor problem.

I believe that there is presently a reevaluation and revision of these past policies regarding the two issues of industrial versus agricultural development, and import substitution versus export promotion. I think that many governments are realizing the the desirability of concentrating more on agricultural development, and having an essentially balanced approach to development, and also are more aware of the desirability of export promotion as opposed to import substitution.

It seems to me that one important point which can be made at this point is the tremendous contribution which could be made by designing and implementing what we might call intermediate technology. This is the kind of technology which would befit the resource-endowment and the conditions existing in the developing countries, better than the kind of technology which is presently being used. It means that this technology would have to be somewhat more labor-intensive. In some cases it might take the form of redesigning technology which was in use in the United States some 20 years ago. This technology would have to be modified to suit the conditions prevailing in these countries. And I think this might make it possible to use more of this abundant resource (labor) which is available in the developing countries.

Mr. Chairman, in this connection, I was pleased to see that the National Academy of Engineering had a symposium about 2 weeks ago, at which time it asked a number of panels to come up with recommendations in the area of world food and world population. I chaired one of these panels. One of the major recommendations we made was to emphasize the contributions which the engineering community could make in the design of techniques better applied to the conditions existing in the developing countries.

How, very briefly, I would like to get into the third section of my presentation dealing with a critical evaluation of the Pearson Commission report as it relates to this whole question of unemployment. The bulk of the analysis of the Pearson Commission report in this area is contained in two sections entitled, respectively, "The Population Dilemma" and "Underemployment and Urbanization." The sequential teatment of these questions shows the link existing between the population explosion and unemployment in the minds of the Commissioners. The Pearson report devotes, I think, six recommendations directly to trying to reduce the rate of growth of population in one way or another.

With respect to unemployment per se, let me quote one paragraph which appears in the Pearson report. It says:

"The failure to create meaningful employment is the most tragic failure of development. All indications are that unemployment and under-utilization of human resources have increased in the 1960s, and that the problem will grow even more serious."

After having indicated that this was the most tragic failure of development, the Commission did not really come up with many specific recommendations as to how to improve the situation. It did make a number of recommendations in other fields which are related to unemployment but I was a little bit disappointed in the lack of any specific recommendations.

The main target which the Pearson report adopted was the establishment of a global target rate of growth of GNP for the developing world of 6 percent.

It would have been very difficult, I think, for the Commission to come up with any specific targets with respect to employment or income distribution as such. But, nevertheless, I think that it might have been possible to establish some broad distributional objective and perhaps say that the lowest quartile of the population in the developing world should grow at the rate of maybe 7 percent, which would have indicated the desirability of moving into the direction of a somewhat more equal income distribution in the developing world.

This brings me to the final section of my prepared statement on the future prospects and policy implications. A number of projections of the implications of a 6-percent growth rate in the developing world on employment were made. These projections indicate that a 6 percent GNP growth rate will not be sufficient to absorb the new entrants into the labor force over the next 10 years or so. This means essentially that two things might be necessary: Either achieve a higher rate of growth of output in the developing world, which I think is impossible under the circumstances, or achieve some very important structural changes within the economies of the developing countries. (I have a table here, which I am not going to discuss, which indicates some of the employment or unemployment implications of the 6 percent rate of growth of GNP.)

Now, let me end with a set of recommendations which I think are relatively clear. I am afraid that I was not able to come up with anything which gives me a great deal of hope in terms of resolving this problem in the future.

I think the first recommendation is that it is absolutely essential to start undertaking population control policies in the developing world right now. It is clear that the implementation of such policies would not affect the people entering the labor force over the next 15 to 17 years, because the individuals who will enter the labor force over the next 15 to 17 years have already been born. But by not starting on population control policies now it would worsen considerably the magnitude of the problem beyond the period starting after the next 15 to 17 years.

The second recommendation follows from the analysis. It would be desirable to try to encourage the developing countries to reduce and eliminate as much as possible the artificial distortions in the pricing of capital and labor. The removal of these distortions, would perhaps lead to the adoption of techniques which would be better suited to the conditions existing in these countries.

Third, I think it is very important that research continue on relatively labor-intensive techniques in agriculture. We now have what is called the "Green Revolution," the use of seeds and fertilizers on a large scale, particularly in Southeast Asia. Everything possible should be done to try to extend this "Green Revolution" to other parts of the world, particularly South America, where it has not yet taken place.

Then, fourth, I would recommend that much more work—and here I appreciate and support the Pearson recommendation—take place on technologies of a somewhat more labor-intensive nature which would be applicable to the conditions existing in the developing countries.

And finally, it is clear to me that to a large extent the discriminatory policies which the developed world has used against exports from the developing world may have been one of the contributing factors to the relatively low-level of success which the developing countries have had in expanding into new export lines. But again this is something which Mr. Tuthill can discuss much better than I can.

There is one final comment which I would like to make. We need much more research in this general area. We do not have really enough evidence on many of these questions to formulate wise policy recommendations of a specific nature. In this connection, I would simply like to underline that I know of two agencies which are studying the unemployment question in some detail. One is the Development Center of the OECD, which has undertaken a series of studies on this whole question of unemployment in the developing world. The second one is the World Bank, and particularly the Basic Research Center of the World Bank which is looking at the relationship between skills and employment within a multisectoral framework.

Thank you, Mr. Chairman.

Chairman BOGGS. Thank you very much.

Your prepared statement will be placed in the record at this point.

(The prepared statement of Mr. Thorbecke follows:)

PREPARED STATEMENT OF ERIK THORBECKE

UNEMPLOYMENT AND UNDEREMPLOYMENT IN THE DEVELOPING WORLD[1]

INTRODUCTION

One of the most serious problems which the developing countries are likely to face in the next few decades is that of unemployment. Until recently the major policy objective which the governments of the developing countries were striving for was an increase in average per capita income. It was felt that this goal was largely complementary with other policy objectives such as a high level of employment. Furthermore, to the extent that a conflict did exist between GNP growth, on the one hand, and employment and a more equal income distribution, on the other hand, the relative weight attached to the former was very high. The prevailing view was that it was more important to increase the size of the pie than to be concerned with ways of dividing it more evenly.

[1] This paper was prepared for and presented at the Columbia University Conference on International Economic Development, Feb. 15–21, 1970.

A number of factors have taken place in the sixties which forced a major re-evaluation of the above approach. Among the most important ones were a discrete jump in the rates of growth of population and labor force in the developing world; the lack of any significant improvement in the standard of living of the bulk of the population operating in the traditional sector which was largely unaffected by the income growth which did take place in the modern sector; the increasing awareness that neither fiscal nor other policies can be more than mildly successful in redistributing a given composition of output and finally, the increasing economic social and political pressures resulting from the rural-urban migration. These factors are clearly interrelated.

The population explosion contributed to the maintenance of very low standards of living in the traditional sector and since the bulk of the population is employed in agriculture, led to the migration out of that sector into urban centers. At the same time the promotion of industrial as opposed to agricultural development contributed to the increasing inequality in the overall income distribution. These various forces converged into a situation of rising un- and underemployment in the urban areas and large-scale underemployment and "surplus" labor in traditional agriculture.

This paper is divided into four sections. The first part is devoted to an overall diagnosis and assessment of the unemployment problem. An attempt is made at examining some methodological and definitional questions and at providing some overall measures of the size of the problem and describing some of its major symptoms.

The second part is concerned with an analysis of the major causes of un- and underemployment in the developing world. Among the contributing factors discussed are the high and increasing rate of growth of the labor force, the distortions in factor prices favoring capital-intensive as opposed to labor-intensive technologies, the promotion of development through industrialization and the nature of technological progress.

The third section deals more specifically with a detailed review and critical evaluation of the Pearson Commission Report's discussion of unemployment and related topics.

The final part of the paper concerns itself with future trends and prospects. The implications of the six percent annual GNP target growth rate adopted by the Pearson Commission on unemployment are derived. It concludes with a series of policy recommendations suggested by the analysis.

I. THE SIZE AND THE SCOPE OF THE UNEMPLOYMENT PROBLEM

In the process of attempting a diagnosis of the unemployment problem a number of questions have to be raised. Some of them are of a conceptual nature, e.g., what is meant by unemployment and underemployment? Others are of a quantitative nature, e.g., what is the magnitude of un- and underemployment? Finally, there are qualitative questions which have to be answered, e.g., what form does unemployment take, what are the characteristics of the un- and under-employed and the implications of high and increasing unemployment rates on the major policy objectives?

The definition of unemployment in the classical sense is the share of the total labor force which is seeking work, at going wage rates, i.e., the part of the labor force which is involuntarily unemployed. Given the very low skill level of a large part of the labor force in developing countries and the skill and educational requirements attached to the available jobs (mainly in the modern sector), the rate of involuntary unemployment is likely to underestimate substantially the underutilization of labor resources. This is particularly true, since many unskilled workers refrain from seeking jobs requiring qualifications which they do not possess (and therefore are not officially classified as unemployed). Given the fact that the great majority of the official employment censuses and surveys use the above definition of unemployment, it is not surprising that the resulting unemployment statistics appear relative low—in no way reflecting the extent of the underutilization of labor.

An alternative way of looking at unemployment is to compare the total number of man-hours required to produce the total output (or the total number of man-hours actually worked) to the available manpower resources expressed, say, in man-hours per year. This last approach is to some extent arbitrary, e.g., in deciding what constitutes a work week and in implying that the hourly wage rate is always at least equal to the marginal disutility of work. At the same time this last measure of unemployment is likely to provide a better approximation of the labor resources which are not utilized. It includes, in fact, the unutilized labor resources of those who are only partially (or part-time) employed in addition to the involuntarily unemployed.

This last concept is thus a measure of both un- and underemployment and as such is synonymous with potential employment.[2]

A final methodological distinction which should be made is between two types of underemployment in agriculture given the seasonal characteristics of production and the consequent substantial differences in monthly labor requirements. The first type of underemployment which can be called structural measures the labor force which is truly in "surplus" even when labor requirements are at seasonal peaks. By definition, this part of the labor force could be removed from agricultural production without affecting total output at any time of the year. The second type of underemployment is what might be called seasonal underemployment and would consist of that part of the peak labor force which was not required during off-peak periods.[3]

It should be clear from the above discussion that the definition of, as well as the distinction between, un- and underemployment are to a large extent arbitrary. This is not to say that the unemployment problem in the developing world is only serious if a very broad definition is used but rather that there exists a risk of underestimating or rationalizing the problem away by using a limited definition such as that of involuntary unemployment.

The next step—after having reviewed the meaning and implications of different concepts—is to examine the existing evidence relating to (and symptoms of) unemployment in the developing world. The first relevant observation is that the rate of growth of the labor force in the developing world has increased substantially in the post World War II period. Table 1 shows that while the growth rate of the labor force dropped slightly in the developed countries from 1.1 percent per annum to 1 percent between 1950–65 and that predicted to prevail between 1965–80,[4] the corresponding rate rose from 1.7 to 2.2 percent annually in the developing world.

What the above statistics do not reveal is the continuous and gradual increase in the growth rates of both population and the labor force which has taken place in the great majority of the developing countries since 1950. It can be seen from Table 1 that all developing regions are to a greater or lesser extent affected by this acceleration in the growth of the labor force—with Asia and Latin America undergoing the greatest labor force pressures. It is, of course, clear that an acceleration in the growth of the labor force is neither a necessary nor a sufficient condition to increase the level of unemployment. What it does reveal is that the supply of labor (the pool of employables) has been increasing very substantially in the last two decades.

We now turn to evidence regarding unemployment properly speaking.

The available evidence which comes from census figures, survey data and various empirical studies has been well summarized in a study by the Development Center of the OECD [15; Appendix to Chapter 3]. It should be noted at the outset that it is very difficult, if not impossible, to obtain time series information, except in the case of Latin America. Available census figures based on the sixties for Africa and the Middle East show unemployment rates of between 9 and 11 percent of the labor force for Algeria, Morocco, Ghana (urban areas) and Iran; while survey data indicate unemployment rates ranging from 4 percent in Tangier, to 13 percent in the large towns of Nigeria, and 20 percent in Abidjan (Ivory Coast). With respect to Latin America, census data show unemployment rates ranging all the way from a hard-to-believe 1.5 percent in Guatemala to slightly above 10 percent in Panama, Uruguay, Venezuela and Barbados; survey data, on the other hand, reveal substantially higher unemployment rates with the majority falling between 10 and 20 per-

[2] This is also why this last method yields unemployment rates which are substantially larger than those arrived at by applying the above described involuntary unemployment concept.

[3] These two components of underemployment in agriculture are rigorously defined and discussed in [12, pp. 49–50].

[4] Even though the growth rates appearing in Table 1 for the periods 1965–80 and 1970–80 are forecasts, a very high degree of confidence can be placed on them since the individuals, who will enter the labor force in these periods are already born. Thus, possible future changes in the birth rate would not affect these rates.

TABLE 1.— ESTIMATES OF GROWTH OF THE LABOR FORCE IN LESS DEVELOPED COUNTRIES: 1950–80

	Rates of growth					
	1950–65		1965–80		1970–80	
	Total	Annual average	Total percent	Annual average percent	Total	Annual average
Developed countries	17.6	1.1	15.8	1.0	10.0	1.0
Less developed countries	28.1	1.7	39.0	2.2	25.2	2.3
Regions						
Other East Asia	30.7	1.8	56.5	3.0	35.3	3.1
Middle South Asia [1]	23.2	1.4	33.1	1.9	21.6	2.0
Southeast Asia [2]	32.3	1.9	43.0	2.4	28.0	2.5
Southwest Asia [3]	31.8	1.9	50.4	2.8	31.3	2.8
Western Africa	38.9	2.2	40.2	2.3	25.8	2.3
East Africa	21.1	1.3	30.8	1.8	19.8	1.8
Middle Africa	16.0	1.0	19.4	1.2	12.9	1.2
North Africa	17.5	1.1	45.7	2.5	29.0	2.6
Tropical South America	48.3	2.7	55.6	3.0	34.7	3.0
Middle America	52.0	2.8	62.7	3.3	39.1	3.4
Temperate South America	25.7	1.5	25.0	1.5	16.0	1.3
Caribbean	31.1	1.8	40.6	2.3	25.8	2.5

[1] Includes Ceylon, India, Iran, and Pakistan.
[2] Includes Burma, Cambodia, Indonesia, Malaysia, the Philippines, and Thailand.
[3] Middle East Countries.

Note.—Sino-Soviet countries are excluded.
Source: [15].

cent of the labor force. Finally, the unemployment rates derived from survey data in Asia range from about 3 percent for the urban areas of Thailand to about 10 percent in Singapore, Ceylon and India.

Generally speaking, the very limited and spotty evidence discussed above reveals relatively high unemployment rates by developed countries' standards as well as substantially higher rates in urban than in rural areas in almost all cases.[5]

Since all of the above information was of a cross-sectional nature, it does not—as such—tell us whether the problem became more serious over time. However, those time series available on the magnitude of unemployment suggest strongly that it has become more serious as one would have expected from the increasing growth of the labor force in the dedveloping world. Thus, for example, one source [1] estimated that urban unemployment in India increased from 11.4 percent in 1951 to 15.4 percent in 1961. This trend is confirmed by other studies such as those of Frank for Africa [3]; Oshima for Asia [7]; and the OAS covering the whole of Latin America [6]—the only developing region for which a reasonably consistent time series of unemployment exists. Table 2 shows very clearly the absolute and relative increase in unemployment which occurred in Latin America between 1950 and 1965—the total number of unemployed rising from 2.9 million in 1950 to 8.8 million in 1965 and the unemployment rate from 5.6 to 11.1 percent of the labor force over the same period.

After having documented the increasing magnitude of the unemployment problem, it is important to review the major changes which have taken place in the sectoral composition and productivity of the labor force. This question has been studied in some detail by [15] which concluded that the sectoral structure of employment remained relatively stagnant in most parts of Asia and, probably, Africa. In contrast, in Latin America the share of agriculture in the labor force declined from 53 percent in 1950 to 42 percent in 1969—a fall which was just about compensated for by the relative increase in the share of services which grew from 23 to 33 percent over the same period [2].

This change in the relative distribution of the labor force reflects largely a migration from traditional agriculture to the traditional service subsector. There is strong reason to believe that services tend to be a residual outlet in

[5] It should be remembered that almost all censuses and survey data reviewed above are based on the involuntary employment concept. They tend, therefore, as was pointed out earlier, to underestimate the extent of the underutilization of labor resources.

TABLE 2—POPULATION, LABOR FORCE, AND EMPLOYMENT IN LATIN AMERICA

	1950	1955	1960	1965
Total population (thousands)	151,116	173,104	199,307	229,691
Participation rate (percent of total population)	34.85	34.80	34.70	34.60
Labor force (thousands) [1]	52,664	60,240	69,160	79,473
Employed persons (thousands)	49,739	56,077	62,866	70,651
Unemployed persons (thousands)	2,925	4,163	6,294	8,822
Unemployment rate (percent of labor force)	5.60	6.90	9.10	11.10

[1] Minimum, including persons who are not in active age groups but report that they are employed and women of working age who are not in labor force but are willing to work.

Source: [6].

metropolitan areas to absorb (one is tempted to say "mop up") many individuals who would otherwise be unemployed. In this last sense, one can think of the traditional service subsector as fulfilling the same function in an urban context as the traditional agricultural subsector performs in rural areas. A fair generalization which can be made is that the great bulk of the labor force in the developing world is still employed in traditional (low productivity) activities and that practically no trend toward a shift into modern sector employment is noticeable.

It may be useful in discussing labor productivity levels and trends in the developing countries to distinguish between three types of sectors: (a) sectors in which labor productivity per man-year is high and increasing over time, e.g., industry, transportation and modern service subsectors such as banking; (b) sectors in which labor productivity per man-year remained relatively constant over time—where the rate of growth of output was about equal to the rate of growth of employment—such as construction and government services; and finally, (c) sectors with very low productivity levels per man-year which remained stagnant or in some cases even fell. The traditional (subsistence) agricultural subsector as well as the traditional service subsector in urban centers would fit in this group.[6]

It has already been pointed out that if a broader definition than involuntary unemployment is used such as the ratio of the number of available but unused labor hours to the total available labor hours—which in a way would measure both open unemployment and underemployment—the magnitude and thus the seriousness of the problem are magnified. Such studies have been done in a number of countries, and at least for one continent (Latin America) revealing "unemployment equivalent" rates ranging all the way from 20 to over 50 percent. Table 3 shows the overall estimated "unemployment equivalent" in Latin America for 1960 broken down by economic sector. According to these figures more than one-fourth of the total labor force was unemployed in the above sense.[7] Alternatively, the extent of labor underutilization in 1960 was equivalent to some 17 to 18 million workers being completely unemployed (i.e., 25.7 percent of the total labor force). There is every reason to believe that the corresponding "unemployment equivalent" would be substantially higher in 1970 both relatively and absolutely.

Since the great bulk of the labor force is employed in agriculture in the developing world—ranging from 45 to 80 percent in the great majority of the LDC—it is, of course, to be expected that the greatest underutilization of labor would occur in that sector. Table 3 confirms this phenomenon for Latin America by revealing that almost one-third of the labor resources were unemployed in agriculture which represented about 60 percent of total Latin American unemployment as defined.[8] It is likely that the degree of underutilization

[6] Samples of declining output per man-year are brought out in some detail in two studies undertaken by this author. The output per capita in the traditional agricultural subsector of Guatemala fell between 1950 and 1966 [3b; Chapter 2]. Likewise, output per man-year fell in the traditional service subsector in metropolitan Lima throughout the sixties [12].

[7] This ratio represents an estimate of the total "unemployment equivalent" of persons who are openly unemployed, those who are compelled to work part-time or less than the normal work period, and those who are employed in an economic unit operating at exceptionally low productivity levels (considered in terms of each country's present stage of development) [6, p. 11].

[8] It might be noted that the "unemployment equivalent" in agriculture may well be substantially higher in certain individual countries; e.g., a study of nonexport agriculture in Peru came up with an estimate of approximately one-half [12].

TABLE 3.—ESTIMATED "UNEMPLOYMENT EQUIVALENT" IN LATIN AMERICA, 1960, BY ECONOMIC SECTOR

	Economically active population (percent of total labor force)	Unemployment equivalent (percent of sector)	Proportion of unemployment	
			Percent of total labor force	Percent of total unemployment
Agriculture, forestry, hunting, and fishing	47.0	32.6	15.3	59.5
Mining	1.8	19.0	.3	1.2
Manufacturing	13.2	16.7	2.2	8.6
Construction [1]	3.9	6.4	.2	.8
Electricity, gas, and water	3.9	2.0	.1	.4
Transportation and communication [2]	5.7			
Commerce and finance	6.9	19.0	1.3	5.1
Services	17.5		6.3	24.5
Total	99.9		25.7	100.1

[1] Visible unemployment only; tentative because of limited data.
[2] Not analyzed, for lack of data.

Source: [6].

of labor in agriculture in many parts of Asia and Africa would tend to be as high, if not higher, than the figure just given for Latin America. In addition, since a larger proportion of the labor force in these former continents is engaged in agricultural pursuits than is the case in Latin America, the share of agricultural unemployment to total unemployment (according to the unemployment equivalent concept) is likely to be even higher than the 60 percent figure applying to Latin America. In any case, the last column of Table 3 reflects probably fairly accurately the relative importance of the degree of labor underutilization, by economic sectors prevailing in many developing countries, i.e., 60 percent in agriculture and about 25 percent in services.

In contrast, census and survey information based on open involuntary unemployment, in the narrow classical sense, tend to indicate that practically all of the existing unemployment is centered on the urban areas as opposed to the rural areas. There are a number of explanations for this apparent inconsistency. Individuals engaged in traditional activities, e.g., subsistence agriculture, are almost never totally unemployed; to a large extent the labor requirements are spread relatively evenly among the economically active population in such sectors.[9] In the urban areas (and more specifically in the modern sector), on the other hand, individuals with specific skills may be looking for jobs matching these skills while, in the meantime, relying on past savings, family income, or some unemployment benefits to subsist.

It is also relevant to note, in the above connection, that in countries for which detailed information on the structure of unemployment is available, unemployment rates are much higher in the younger age groups (particularly in the 15 to 24 years of age group). A further characteristic of those openly unemployed is that they are relatively highly educated.

A trend which is integrally related to the unemployment problem and which has been alluded to previously is the increasing rural-urban migration. This trend is reflected in a number of developing countries by urban growth rates of population which are about three times higher than the corresponding rural growth rates. It can be hypothesized that this migration is a symptom of the unemployment problem at least to the extent that one of its major causes is the push factor of very low income levels and high rates of labor underutilization in the rural areas. It is, of course, true that the high wage rates prevailing in urban activities and the availability of certain types of services in the cities as opposed to the country exert a pull factor on the migrants as well. In some cases the underemployed migrants are converted into open unemployed but much more typically—as was discussed above—end up as underemployed service workers (e.g., shoe shiners, street vendors, part-time gardeners and domestic servants). One could argue that traditional agriculture in the country and traditional services in the cities are the residual claimants, or rather out-

[9] This is, incidentally, why it is possible for output per capita in such activities to decline with no change in the productivity per man-hour—simply through a reduction in the total number of man-hours worked per months or year per member of the labor force.

lets. for that part of the labor force which cannot be absorbed in the other sectors.

A final phenomenon which is directly affected by the increasing unemployment level in the developing world is the increasing inequality in the income distribution, both on personal and regional bases. The latter trend could be considered as the mirror-image of the former in the typical cases where rising underemployment rates in traditional agriculture and services have been reflected in stagnant and sometimes even falling per capital income levels.[10] Thus, a situation where the per capita income levels of a large share of society remain essentially stagnant while GNP grows, at say, 5 percent per annum (the average for the LDC during the last decade)—results in a more unequal income distribution. In the case of dual economies, in which the backward sector coincides with a well-defined region the above-described trend leads to a further relative deterioration in the share of output going to the poor region.

It will be argued subsequently that it is essential for governments to place a relatively high weight on employment creation as a policy objective when (a) rising un- and underemployment reflects itself in a socially and politically unacceptable income distribution (e.g., because minimum nutritional standards are not met) and (b) income cannot be redistributed through fiscal or other measures. This last objective is in most cases highly complementary with that of a more equitable income distribution.

In summary, the above section argued, on the basis of the limited empirical evidence available, that the magnitude of the unemployment problem in the developing world is very large and increasing over time. Census and survey data based on open involuntary unemployment tend to underestimate, sometimes quite considerably, the extent of the problem. Open unemployment is found mainly in urban areas where it affects primarily the young—relatively more skilled and higher educated—workers in non-traditional activities. On the other hand, underemployment in the rural areas and particularly in traditional agriculture appears very large—reaching in some instances half the available labor resources. Even making an allowance for the seasonal variations in agricultural production and in labor requirements it does appear that structural underemployment as opposed to seasonal underemployment, as defined above, is considerable. Since the great bulk of the labor force in the developing world is occupied in agriculture, it follows that it is in that sector that the greatest underutilization of labor resources occurs. Furthermore, the high and increasing underemployment levels have been a strong pushing force in the substantial rural-urban migration which has marked the sixties. Finally, increasing unemployment in the developing world has gone hand in hand with further inequalities in income distribution.

II. SOME MAJOR CAUSES OF UN- AND UNDEREMPLOYMENT

An attempt is made in this section to identify some of the more important causes of, and contributing factors to, the unemployment problem in the developing world. Most of the factors which are discussed below are highly interrelated and mutually reinforcing and seem to apply in differing degrees to most developing countries.

Perhaps the first and foremost contributing factor, which has already been highlighted in some detail, is the continuing acceleration in the growth rates of population and labor force which has occurred in the developing world ever since the end of the Second World War. It is, of course, true that an increase in the supply of labor can be a strong positive force in economic growth and development if the new entrants in the labor force can be productively absorbed. Unfortunately, as will be further documented below, the potential for absorption was quite limited. Unemployment and/or underemployment is bound to increase in a situation where the rate of growth of labor supply is higher than that of effective demand for labor where the wage rate cannot fall below a floor given by the subsistence wage rate.

A second factor, which has been well described and documented in many countries, is the whole set of biases and distortions affecting factor prices. The

[10] An increase in underemployment, *ceteris paribus*, would lead to a reduction in per capita output. It is, however, quite possible for labor productivity per man-hour to rise—e.g., as a consequence of simple technological changes—while the total number of man-hours worked by members of the labor force fell.

result of these distortions was to reduce the price of capital below its equilibrium level (its marginal value product) while forcing the price of labor above its equilibrium. Such biases in factor prices can and often did lead to the adoption of more capital-intensive techniques to take advantage of the relatively cheap factor of production (i.e., capital) and save on the relatively more expensive one (labor). Some of the more important distortions are discussed below, first as they apply to capital and secondly to labor.

A number of policy measures undertaken in developing countries had the impact of reducing the cost of capital such as (a) the maintenance of overvalued exchange rates; (b) industrial promotion laws and regulations; and (c) subsidized interest rates. A number of countries, particularly in Latin America, experienced over-valued exchange rates almost chronically—which encouraged the importation of relatively cheap capital goods. Among the set of industrial promotion laws and regulations which discriminated in favor of capital one can mention accelerated depreciation allowances, licensing schemes favoring capital goods (which India) used extensively at one time) and favorable tax treatment. Finally, the prevalence of interest rates at levels only slightly above the rate of inflation and even in some cases below it (resulting thereby in a negative real interest rate) was a strong subsidy to capital users.

Among the elements which tended to push the cost of labor above its equilibium level are (a) minimum wage legislation; (b) social welfare benefits and policies; and (c) the influence of some labor unions. In general, the intended effect of these factors appears to have been the achievement of a more equitable income distribution. In fact, however, it is likely that the benefits achieved in terms of higher wages and better social security benefits for the workers was more than compensated for by an increase in both absolute and relative un- and underemployment. The direct effects of these distortions affected primarily the modern sector; indirectly, however, they reinforced greatly the discrimination against agriculture in favor of industrialization described next.

In the late forties and throughout the fifties, it was widely believed that industrialization was the unique key to development and that the industrial sector, as the advanced sector, would pull with it the backward agricultural sector. More specifically, industry, as a leading sector, would be a source of alternative employment opportunities to the rural population. The tendency was to equate the modern sector with high productivity of investment (and vice versa for the backward agricultural sector) and thus direct the bulk of investment to industry and industrial infrastructure. As the conceptual framework used by economists and policymakers moved from the simple one-sector (Harrod-Domar) model to a two-sector model, the latter continued to assign to subsistence agriculture an essentially passive role as a potential source of "unlimited labor" and "agricultural surplus" for the rest of the economy. A popular policy prescription to encourage the above transfer of labor and of the agricultural surplus was to turn the terms-of-trade against agriculture. As I have pointed out elsewhere, "the trouble with this approach was that the backward agricultural 'goose' would be starved before it could lay the golden egg" [11].

It is only in the laast few years that economists and policymakers began to recognize clearly that the functions which the agricultural and industrial sectors must perform in order for growth to occur are totally interdependent. Recognition that the release of resources by the agricultural sector and the absorption of these resources by the industriial sector have to occur simultaneously in order for economic development to take place was indeed a large step forward from the Naive industrialization-first prescription, in the sense that the above conceptual framework no longer identified either sector as leading or lagging.

The main policy instruments which were used to promote industrialization—in addition to the artificial distortions mentioned above—were a high level of protection to foster domestic industries, an unabalanced public investment program favoring the modern sector, and turning the terms-of-trade in favor of industry. A number of country studies have described and analyzed these policies as well as their results. In a nutshell, these policies led to the creation of many relatively inefficient industries producing import-substitutes (which in some cases resulted in negative value—added, expressed at world prices) and the stagnation, and sometimes even strangulation, of agricultural output. Furthermore, even though manufacturing output (valued at domestic prices) was growing at relatively high rates in many developing countries, the capacity of that sector to absorb labor proved extremely limited—the elasticity of output with respect to labor being often of the order of three. It will be seen below that a number of forces operated to increase labor productivity over time, reducing thereby the labor requirements of industry per unit of output.

Related to the industrialization trend was the inward rather than outward-looking approach with respect to international trade. Many developing countries concentrated on import substitution rather than export promotion.[11]

It appears that, in the last few years, a re-evaluation and revision of past policies regarding the two issues of industrial versus agricultural development and import substitution versus export promotion are taking place. A more balanced approach is being followed by many governments, which is influenced by the Green Revolution (i.e., the seed-fertilizer revolution) ; the limited scope for further import substitution and its high cost in efficiency terms; and the undesirable employment consequences of artificial industrial promotion.

It has already been seen that artificial distortions affecting factor prices encouraged the adoption of a relatively capital-intensive (labor-saving) technology. In addition, it is important to note that in many activities the range of available technologies is largely based on the conditions prevailing in the developed countries. Much of that technology originated in the industrialized countries and therefore tends to fit the resource endowments and factor prices of these countries.[12] It has also been argued that the range within which labor and capital are substitutable in developing coutries is very narrow. There is some evidence, however, that the options open to the latter are somewhat greater than appears on the surface. Technologies of different vintage exist in advanced counrties, some of which may be appropriate to the requirements of the developing world. A counter argument, however, is that reliance on techniques which are becoming obsolete in industrialized countries (e.g., use of second-hand capital equipment) is likely to cause serious difficulties in terms of maintenance, availability of parts and overall servicing of that equipment in the future. There appears to be a large potential scope for designing and implementing "intermediate technology" befitting the conditions prevailing in developing countries. In fact, it is still largely a virgin territory for both engineers and economists.

In addition to the above factors which encourage the adoption of relatively capital-intensive techniques, there exists a substantial amount of evidence that labor productivity increases over time at a high rate in a number of advanced sectors such as industry, transportation and banking. This trend can be explained at least partially by the "rapid improvements in labor productivity associated with the general skill upgrading of employed workers through technical training, on-the-job learning programs, and the natural process of increased efficiency through greater familiarity with stable work routines" [13; p.391]. These factors bunched together have been called by the same author "labor augmenting technological progress." The major effect of this type of progress is that it pushes the elasticity of output with respect to labor further upwards and thereby lowers the labor requirements per unit of output over time.

A final phenomenon which has been suggested as contributing to the unemployment problem is the scarcity of high-level manpower. It has been argued that the scarcity of skilled workers encourages the use of more capital intensive techniques which in general require a lower level of labor skill, i.e., labor-intensive methods often require highly trained workers who may simply not be available.

In conclusion, it has been shown in this section that a constellation of interrelated factors in the developing world has contributed to the worsening of the unemployment problem. The population explosion led to a large upsurge in the supply of labor, i.e., the number of people in the productive age group. Concomitantly, a combination of artificial distortions in factor prices, advanced

---

[11] There were and still are some very good reasons for that approach—not the least of which are the restrictive policies followed by the developed countries in the postwar II period.

[12] This argument is clearly made by H. Singer: ". . . in many respects the technology of a hundred years ago would be desirable for them (the developing countries), and would make their economic development easier. But that technology no longer exists. It has been scrapped, and rightly scrapped, in the industrialized countries—and the technology of the industrialized countries is the only existing technology." [9; p. 59.]

technology better suited to the industrialized nations and the "labor-augmenting" nature of technological progress resulted in the adoption of increasingly capital-intensive techniques. Furthermore, the development strategy of favoring industrialization at the expense of agricultural development accentuated the degree of underemployment in agriculture and the consequent migration to urban areas which could not be absorbed productively.

III. REVIEW AND CRITICAL EVALUATION OF THE PEARSON COMMISSION REPORT

The first part of this section reviews the analysis and recommendations of the Pearson Commission Report relating to unemployment and ancillary matters before attempting a critical evaluation next.

The body of the report contains two short sections which are central to the issue entitled, respectively, "The Population Dilemma" and "Unemployment and Urbanization"—both of which are contained in the chapter on "The Problems Ahead." It is clear from the sequential treatment of these questions (the latter following directly the former in the text) that the Commission linked unemployment largely to the population explosion. The section on the population dilemma describes well the direct difficulties created by very rapid population growth mainly in terms of the severe budgetary strains on education and various social services, the tendency for it to lead to a more unequal distribution of income as well as the severe urban problems it causes [8; pp. 55–58].[13]

The fundamental importance which the Report attaches to the population problem is reflected by the fact that six of the sixty-eight recommendations of the Commission deal directly with it. The essence of these recommendations is that "developing countries should identify their population problem . . . recognize the relevance of population growth to their social and economic planning" (p. 206), while "developed countries should initiate or strengthen their own facilities for population studies" (p. 207) and bilateral and international agencies should "press for adequate analysis of population problems" and extend their training of population specialists (p. 207). Finally, the World Bank is enjoined to take the leadership in research dealing with human reproduction and fertility control.

With respect to unemployment *per se*, the Commission expresses itself in no uncertain terms: "The failure to create meaningful employment is the most tragic failure of development. All indications are that unemployment and underutilization of human resources have increased in the 1960's, and that the problem will grow even more serious" (p. 58). Even though the specific section on unemployment and urbanization is relatively general and short, it does touch on the major couses of unemployment such as the population explosion, the over-stimulation of capital-intensive and labor-saving technology by artificial distortion of factor prices, and the ready availability of such technology in industrialized countries. The Commission does point out that the main burden of absorbing labor falls on agriculture, given the very limited absorption potential in non-agricultural sectors. The Commission therefore suggests that "a strategy for agricultural development which increases employment opportunities rapidly without depressing incomes must focus on labor-using and capital-saving ways of improving agricultural productivity" (p. 60). It is also encouraged by the developments in agriculture (presumably the seed-fertilizer revolution) but it does warn against premature mechanization and repeating the mistakes of industrial policy in the design of agricultural development strategy.

The Commission feels that it is not enough, given the urgency of the problem, to merely avoid policies which reduce the employment potential (presumably, among others, the removal of artificial distortions in factor prices). Positive policies and programs to reduce unemployment are required, making use of unskilled labor in such areas as housing, construction of schools and health facilities, rural markets, secondary roads and irrigation facilities. Social and political turmoil in the cities is linked to and blamed on the unemployment problem. As one possible palliative the Commission encourages developing countries to emphasize the growth of regional centers offering market, service and storage facilities and light labor-intensive industries processing local materials (p. 61).

---

[13] Page references in this section refer to the Pearson Commission Report.

A number of passing references to unemployment are also made in other parts of the Report. Perhaps the most important ones are (a) the emphasis on building a relevant and suitable educational system which does not contribute to structural unemployment (p. 68) ; (b) the suggestion in the discussion of private foreign investment that the tax system be designed in such a way as to offset distortions in factor prices which bias techniques of production against economically efficient labor-intensive methods (p. 111).

When it comes to specific recommendations—in contrast to suggestions in the text—the report is clearly disappointing. There are a number of recommendations which are related to the unemployment problem but which do not face it directly, as one would have expected of a document which considered it the most tragic failure of development. Those recommendations which appear to bear some relationship to unemployment refer, respectively, to trade, food aid, the provision of local cost, education, and research and technology, in addition to the previously mentioned and highly relevant recommendations in the population field. These recommendations are reviewed briefly below.

With respect to trade the Commission recommends that the developed countries eliminate all quantitative restrictions on products of special interest to developing countries and establish a generalized nonreciprocal scheme of preferences for manufactured and semi-manufactured goods produced by developing countries (pp. 88–89). It is most likely that the implementation of these recommendations would lead to an increase in the exports of developing countries which, in turn, would have some direct and indirect positive employment effects.

Two recommendations are made with regard to food aid: Suppliers of food aid should recognize the importance of promoting trade between low-income countries and take account of the need of new exporters to participate in growing markets, and wherever possible should permit recipients to choose aid-financed imports on the basis of their needs (pp. 189–90). By trying to prevent food aid from acting as a disincentive to agricultural production and exports in developing countries, these recommendations may lead to higher and more efficient employment levels in some countries.

The recommendation on local costs calls for aid-givers to remove regulations limiting contributions to the local cost of projects and encouraging local procurement wherever economically justified (p. 190). It is likely that the insistence on the part of donors to provide and finance only the foreign exchange component of a project may have acted as a deterrent to relatively labor-intensive projects. Given budgetary difficulties, in most developing countries the scarcity of funds for local costs (largely wages) probably led to the non-implementation of labor-intensive projects (requiring large local cost components). Instead, more capital-intensive projects would normally be selected or relatively labor-intensive projects might be redesigned to augment the foreign exchange component.

Finally, a set of five recommendations is made regarding education research and technology. These recommendations call, respectively, for the experimentation with and analysis of the education system; the initiation of regional or national research institutes to study production techniques; the development of products and processes which have national or international marketing possibilities or are based on frontier technology (e.g., low-cost housing, processing of domestic raw materials, protein foods, educational television); (p. 207). Furthermore, aid suppliers should devote more resources to research on projects specifically related to problems of developing countries and assist in the establishment of international and regional centers for scientific and technological research in these countries (p. 207). The encouragement of research on new and more suitable technology (sometimes called intermediate technology) which is incorporated in these recommendations could, potentially at least, have a major impact on employment creation.

In Annex 1 of the Report on "the development situation," a number of regional and national references to the unemployment problem are made. It would appear from the Report as well as from the discussion in the Annex that the Commission attaches much importance to agricultural development as one essential way of absorbing labor more productively and thereby resolving, at least partially, many of the ancillary problems resulting from unemployment as such.

The Report addresses itself to the fundamental problem of the existence of possible conflicts between various policy objectives. It is stated that: "The balance between social and political objectives and economic growth is always a delicate one and involves difficult choices"; "sometimes . . . , economic growth must be subordinated to the maintenance or creation of national identity"; and that "in some cases, the objective (sic) of rapid growth and equitable distribution of income appear in conflict" (p. 54). The need for policies to help redistribute income is emphasized. Furthermore, the Annex mentions that per capita GNP growth as a target has been overemphasized and that other goals, "e.g., equality of personal or regional income distribution, or investment in education and social services . . . sometimes must be met at the expense of a lower rate of growth" (p. 235).

Despite these warnings, the Commission accepted the establishment of a global target rate of growth in GNP for the developing countries. The target which was adopted and recommended for the 1970's was a level of growth of at least 6 percent per year (p. 124). It is true that this selection of a unique global target was qualified by stating that it "can be no more than a partial indicator of the *pace of development*, a much broader process for which economic growth is a necessary but by no means the only condition."

Notwithstanding these qualifications and the numerous references to the necessity and desirability of a more equitable income distribution in the developing world and particularly in Latin America and Africa, the Commission did not see fit to establish any target relating to either income distribution or employment. It is true that it is much easier to select a quantitative GNP growth target than it is to agree on income distribution or employment targets. There are definitional and measurement problems, in addition to the difficulty in establishing national norms corresponding to the specific country situations which may differ quite considerably. It would have been too much to expect the Commission to specify these non-GNP targets; but it is surprising that in the discussion of performance (to be used as a mechanism to allocate aid) the latter is to be judged only in terms of two "direct manifestations," namely, the savings ratio and the ratio of exports to imports.

The inference which can be drawn from (a) the selection of a global GNP growth target to the exclusion of other objectives; and (b) the use of the above two criteria as measures of performance is that the latter will contribute to the achievement of the former and ultimately self-sustaining growth. In turn, high GNP growth (particularly if it is self-sustaining) should permit the achievement of other developmental objectives such as a more equitable income distribution and the creation of meaningful employment together with the elimination of many of the outward manifestations and symptoms of large-scale unemployment. Thus, in spite of many qualifications mentioned above, the implicit presumption is left that the attainment of various economic and social objectives is complementary to that of high GNP growth.

A number of factors have been discussed in the first two sections of this paper and in the Pearson Commission Report which can reduce greatly the complementarity between economic growth and other objectives. In fact, these same factors can in some instances even lead to a conflict between the achievements of a high rate of growth of GNP on the one hand and a high level of employment and a more equitable income distribution as a corollary, on the other. As Robert S. McNamara, President of the World Bank Group, indicated in his last address to the Board of Governors:

"In the developed countries, rapid economic growth implies full employment. But, in the developing countries this is not necessarily the case. Venezuela and Jamaica, for example, both enjoyed average growth rates of 8 percent a year between 1950 and 1960, but at the end of the decade in Venezuela, unemployment was higher than at the beginning; and in Jamaica it was just as high, in spite of the fact that fully 11 percent of the labor force had emigrated from the country.

"What this means is that in addition to expanding their growth rates, the developing countries must adopt national policies promoting the right balance between capital and labor-intensive activities, and between the supply of skilled and unskilled workers so as to maximize output through full utilization of the total labor force." [5; pp. 15–16]

Recognizing that a strong complementary relationship between GNP growth and employment may not necessarily exist and that, in fact, major structural changes may be required to create more meaningful employment opportunities, one can attempt to explore, nevertheless, the future implications on employment of the 6 percent GNP target selected by the Commission. We not turn to this question as well as to other future prospects and policy implications in the next section.

IV. FUTURE PROSPECTS AND POLICY IMPLICATIONS

A few attempts at estimating the employment effects of different GNP growth rates in the developing world have been undertaken. These projections tend to be rather crude—based as they are on many simplifying assumptions. Typically, these projections presume the continuation of past trends and as such ignore the effects on employment of possible policy and structural changes which would alter the relationship between any given GNP growth rate and total employment. Most, if not all, such projections are based on linear extrapolations of the recent past.

It will be seen below that the available projections tend to predict a considerable increase in future unemployment in many parts of the developing world if GNP is assumed to grow at 6 percent annually. One can interpret the forecasts of these future "employment gaps" as resulting either from (a) a lack of internal adjustments in terms of policy and structural changes required to absorb the increasing labor force at the postulated 6 percent GNP growth rate; or (b) an insufficiency of overall economic (GNP) growth to absorb the total labor force—assuming the continuation of present conditions and trends and, thus, making no allowance for structural or policy changes; or (c) a combination of (a) and (b) above.

Most of the country and regional projections were of type (b) above.[14] The first set of projections reviewed here is based on [15]. Table 4 summarizes the results of these projections. Assuming a continuation of the same growth rate of real product between 1965 and 1980, as prevailed between 1950 and 1965, and constant incremental output-employment ratios, this source shows, first, the incremental labor surplus in 1980 as a percentage of the labor force by region under two sets of assumptions regarding the relationship between employment creation and labor force growth. (See Columns 4 and 7 of Table 4.) The resulting incremental surpluses in 1980 are hair-raising, e.g., an additional percentage unemployment over and above existing levels of 23 percent in North Africa, between 16 and 17 percent in East and West Asia and about 12 percent in Middle Asia and Middle America. However, the most relevant part of Table 4 consists of the calculation of the required growth rates to absorb, respectively, (a) the projected addition to the labor force between 1965 and 1980 (given in Column 5); and, (b) the projected addition (in (a) above), in addition to the present unemployment level assumed to be equal to 10 percent

TABLE 4. CALCULATIONS OF LABOR SURPLUS AND REQUIRED GROWTH RATES

	Growth in real product 1950–52, 1964–66 (Percent per annum)	Growth in labor force 1950–65, 1965–80 (Percent per annum)		Incremental surplus [1] in 1980 (Percent of labor force)	Required growth rates (Percent per annum)		Incremental surplus [2] in 1980 (Percent of labor force)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
All less-developed countries		1.7	2.2	7.8			12.7
North Africa	3.9	1.1	2.5	19.4	5.4	5.8	23.9
Sub-Saharan Africa	4.1	1.7	1.95	4.0	4.4	4.8	6.0
West Asia	7.1	1.9	2.8	12.4	8.0	8.4	16.6
Middle Asia	3.8	1.4	1.9	7.4	4.3	4.8	12.4
East Asia	5.7	1.9	2.5	9.0	6.3	6.7	16.1
Middle America	5.8	2.5	3.0	7.1	6.3	6.6	11.5
South America	4.3	2.4	2.7	4.1	4.7	5.0	8.0

[1] Assuming employment creation equal to the rate of growth of the labor force 1950–65 for the period 1965–80.
[2] Assuming employment creation equal to 95 percent of the rate of growth of the labor force 1950–65, for the period 1965–80.

Source: [15].

[14] This is hardly surprising since an answer to (a) above would necessitate the specification of a rather complex multi-sectoral policy model.

of the 1965 labor force (given in Column 6). Thus, as can be seen from Column 6, the required growth rate of GNP to eliminate unemployment between 1965 and 1980 would have to be of the order of 8.4 percent in West Asia, 6.6 percent in Middle America and East Asia, and below 6 percent for the other developing regions. Hence, according to these projections, the achievement of a 6 percent GNP target growth rate in the former three developing regions would be too low to prevent a considerable increase in unemployment.

Another set of projections limited to Latin America [4] calculates that an annual rate of growth of gross domestic product (GDP) of 6.3 percent per annum will be needed in the seventies to absorb the total labor force by 1980. (Incidentally, this last rate compares with a historical growth rate of GDP of 4.6 percent annually between 1950 and 1965 for Latin America, as a whole.) It is relevant to note that this required growth rate comes out to be considerably higher than that estimated by the previous study [15]. Furthermore, the above required growth rate of 6.3 percent annually would not eliminate underemployment. ECLA [2] making use of the previously discussed "unemployment equivalent" concept estimates that the elimination of the underemployment level prevailing in 1960 (corresponding to an unemployment equivalent of 26 percent of the labor force) by 1980 would require an annual GDP growth rate of 8 percent during the 1970's.[15]

Finally, the results of a detailed study based on a model using cross-sectional data are worth mentioning [10]. In this model labor absorption is a function of the rate of growth of the labor force and per capita income in addition to many other variables. Thus, for a 2.5 percent rate of growth of the labor force and a per capita income level of $100 to $150—corresponding to the typical Asian situation—the rate of growth of GDP required to absorb the entire net addition to the labor force in non-agricultural occupations would have to be of the order of 8.5 percent. At the same rate of growth of the labor force (2.5 percent annually), but at per capita income levels of $400, the required GDP growth rate to absorb the entire net addition to labor force in non-agricultural employment would be about 6.5 percent. This latter situation would correspond to some of the Latin American countries. However, as the author points out, if the growth rate of labor force is 3 percent per year—instead of 2.5 percent in the previous example—the required growth rate of GDP would have to be of the order of 9.3 percent [10; p. 75].

The main conclusion which can be derived from the projections reviewed above is that a target growth rate of GNP of 6 percent per year would not *per se* insure the elimination of unemployment in many of the developing regions. The above projections were admittedly rough and did not presume to illustrate more than the general order of magnitude of the growth rate of output necessary to absorb the increasing labor force on the assumption of the maintenance of the present structure. Given the extremely low probability of achieving growth rates substantially above 6 percent per annum in the developing world, it appears self-evident that major changes in structure and policy will have to be implemented if the unemployment problem is to be resolved or even alleviated.

The previous analysis made it clear that a high rate of growth of GNP is an essential and necessary element in attacking the unemployment problem, but it is not necessarily a sufficient condition. A resolution of the problem calls for important structural and policy changes.

Thus, a development strategy consistent with alleviating—if not resolving—the unemployment problem would have to concentrate on the following elements which are discussed briefly below, in addition to economic growth *per se*. First, many parts of the developing world would have to implement immediately population control policies. The impact of these policies would not have any effect on the size of the labor force over, at least, the next 15 years since those individuals who will be entering the labor force during this period are already born. A reduction in population growth now should, however, reduce the supply of labor 15 to 20 years hence. Given the exponential way in which population has grown in the last two decades, it appears absolutely essential to start reducing the rate of growth of labor supply immediately. The Pearson

[15] In other words, a rate of growth of GDP of 6.2 percent would permit only the absorption of the increase in the labor force, while not reducing the existing 1960 unemployment equivalent of 17 to 18 million workers.

Commission is to be applauded for the strong stand it took and the recommendation it made in the population field.

Secondly, a major effort should be made by the developing countries to reduce and eliminate as much as possible the artificial distortions in factor prices and other policies which discriminate against the adoption of labor-intensive techniques. A whole series of measures discussed previously could be undertaken to remove the existing biases.

Third, developing countries should, to the extent that they have not already done so, explore the extent to which new and relatively simple techniques of a relatively labor-intensive character can be applied in agriculture. It is clear that the Green (i.e., seed-fertilizer) Revolution is in process in some parts of the world—particularly in Asia. The successful implementation of this revolution requires much more than new techniques (e.g., seeds). It requires also a whole set of policies conducive to agricultural development. The main advantage of the Green Revolution is that it reduces the level of underemployment in agriculture and thereby slows down the rural-urban migration and the serious urban problems which flow from it.

In any case, it is essential not to view the Green Revolution as the panacea which is going to solve the unemployment problem on a permanent basis. What it can potentially do over the next few years is to absorb productively additional labor resources. The limited evidence so far suggests that one of the major effects of the new technology is to increase the labor requirements per unit of land but to reduce them per unit of output as a consequence of the much higher yields on output. Therefore, the very success of the Green Revolution in terms of a big jump in agricultural output is likely to put a brake on labor absorption beyond a certain point. With low and declining elasticities of demand for food (as a function of per capita income), the growth of the latter is limited by the growth of effective demand. The Green Revolution is likely to provide a temporary reprieve but certainly not a long-term solution to the unemployment problem.

Fourth, it appears essential that major attempts be made in both the developing and developed countries to design and apply new and perhaps more labor-intensive technologies. There appears to be a scope for major innovations which would be better suited to the underlying conditions of developing countries. Is it utopian to expect that the technological breakthrough which occurred in agriculture cannot be replicated in other sectors? The recommendations of the Pearson Report relating to research and technology—notwithstanding their generality—are welcome and worthy of strong public support.

Finally, the developed countries should remove or, at least, reduce discriminatory policies against exports from the developing countries and consider seriously the implications of a generalized preferential scheme on manufactured and semi-manufactured imports from the latter. It is conceivable that such a scheme could encourage the adoption of new techniques better suited to the conditions of these countries.

REFERENCES

[1]. Bhardwaj, "Urban Unemployment in India, 1951-61," *Journal of Economic Studies*, Vol. 1, No. 2, Summer 1966.

[2]. Economic Commission for Latin America, *Second United Nations Development Decade—The Trade and Domestic Savings Gaps and Structural Unemployment in Latin America*, Santiago, 1969 (Doc. E/CN. 12/831).

[3]. Frank, C. R., Jr., "Urban Unemployment and Economic Growth in Africa," *Oxford Economics Papers*, Vol. 20, No. 2, July 1968.

[3b]. Fletcher, L. B., E. Graber, W. Merrill and E. Thorbecke, *Agricultural Development and Policy in Guatemala*, Dept. of Economics, Iowa State University, 1969 (in process of publication).

[4]. Lederman, E., *Hacia una politica de los recursos humanos en el desarrollo economico y social de America Latina*, Santiago, Instituto Latinoamericano de Planificacion Economica y Social, julio 1968.

[5]. McNamara, R. S., "Address to the Board of Governors (of I.B.R.D.), "Washington, D. C., September 29, 1969.

[6]. Organization of American States, *The Unemployment Problem in Latin America*, (Document prepared for Conference of Ministers of Labor), Washington, D. C., October 1969.

[7]. Oshima, T., "Growth and Unemployment in Post War Asia," in *The Structure and Development in Asian Economics*, Japan Economic Research Center, Tokyo, December 1968.
[8]. Pearson, L. B., *Partners in Development*, Report of the Commission on International Development, Praeger Publishers, New York, 1969.
[9]. Singer, H. W., *International Development: Growth and Change*, McGraw Hill, New York, 1964.
[10]. Singh, S. K., *Aggregate Employment Function: Evaluation of Employment Prospects in LDC's* (preliminary paper, Basic Research Center, I.B.R.D.), November 1969.
[11]. Thorbecke, E. (ed.), *The Role of Agriculture in Economic Development*, (Proceedings of UNBER Conference), Columbia University Press, New York, 1970.
[12]. Thorbecke, E. and A. Stoutjesdijk, *A Methodology to Estimate the Relationship Between Present and Future Output and Employment, Applied to Peru and Guatemala*, OECD, Development Centre Working Document, Paris, December 1969.
[13]. Todaro, M. P., "An Analysis of Industrialization, Employment and Unemployment in Less Developed Countries," *Yale Economic Essays*, Fall 1968.
[14]. Trigoso, Juan and Cabrera, E., *La Sub-Ocupacion en el Area Metropolitano* (Plan de Desarrollo Metropolitan). Oficina Nacional de Planeamiento y Urbanismo, Lima, 1968 (working document).
[15]. Turnham, D. and I. Jagger, *The Employment Problem in Developing Countries, A Review*, OECD Development Centre Working Document, December 1969.

Chairman BOGGS. And now we will hear from Ambassador Tuthill.

STATEMENT OF JOHN W. TUTHILL, DIRECTOR GENERAL, ATLANTIC INSTITUTE, AND FORMER U.S. AMBASSADOR TO BRAZIL, THE EUROPEAN ECONOMIC COMMUNITY, AND THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT

Mr. TUTHILL. Mr. Chairman, it is a heady occasion for a former government employee to appear before this distinguished committee which has made such a constructive contribution to economic policies.

I would, however, like to point out that you have given me a subject which is a very prickly one, and one in which, as I noted in my prepared statement, I find myself in disagreement to a certain degree with certain recent statements of the President of the United States, the Governor of the State of New York, the American Ambassador to France, Roberto Campos from Brazil, and even, Mr. Chairman, to a certain extent with yourself.

I also would like to say that my approach to this issue will reflect my own recent personal experience in Brazil. I therefore want to warn the committee that there obviously is a bias in my presentation in the sense that Brazil is much more industrialized than most developed countries. And therefore increased access to the markets of the highly industrialized countries is undoubtedly of more interest to Brazil than to other less industrialized developing countries.

I would, however, like to point out one thing that I am going to limit my remarks to economic and trade matters. I am not going to talk about recent political developments in Brazil, with your permission, Mr. Chairman.

Chairman BOGGS. Certainly.

Mr. TUTHILL. In terms of the United States, it seems to me that we have to do something about trade with the developing countries. We have to do it for both economic and political reasons.

There are just two figures I would like to give you.

The percentage of trade of the developing countries amounted to 25 percent of world trade in 1955, and 13 years later, by 1968, 18 percent.

Now, this does not mean an absolute decline, of course, but it means that the developing countries have not kept pace with the expansion of trade in the developed world.

On the political side, which I consider myself even more important, while I have nothing but admiration for the splendid isolation of the position of the U.S. Government in 1964 at UNCTAD—and I think that the refreshing breath of honesty and candor had much to commend it—I really think that this is the defense of an indefensible position. You cannot hold to this position for very long.

Now, in addition to considerations of trade, it seems to me that it is almost impossible to justify and to maintain an aid program unless you have a parallel trade program which gives some hope and some expectation to the developing countries that they will become independent.

Therefore, in my advocacy of increased access to the markets of the north, I most certainly am not down-playing the aid program. I think it is essential, and I think it should go hand in hand with a positive trade policy.

Now, the issue of the day, the issue of the debate is certainly that of preferential treatment for the export of the manufactured or processed products of the developing countries.

Let me say that I personally feel that the global approach to preferential treatment, while obviously offering no panacea to the developing countries, and of more interest to a relatively industrially underdeveloped country like Brazil, still is essential. I do not know all the details of the proposal of the European Economic Community and I think one is only able to judge whether that proposal is roughly comparable, or can be made roughly comparable, to the American proposal, if one knows in detail what the items are that would come under what is euphemistically called a "ceiling", but which is most certainly tariff quotas, and how many items will be under general surveillance, with consideration being given to whether or not the imports from the developing countries are actually disturbing the industries within the developed area.

I myself, however, am convinced that one can find a roughly comparable balance between what has been proposed from Europe and the United States. After all there is some valid criticism of the U.S. proposals. I would say that in this whole debate, though on the preferential global proposals, that I find it really very difficult to understand the concept of "burden-sharing" which everybody talks about. And I think this is important, because as I understand the discussion, a lot of people have thought that if, let us say, Europe increases barriers against trade from the developing areas, that then the United States would be entitled to raise its barriers as well—against imports from the developing countries.

Well, this is a concept of escalation of barriers to trade with the developing world, and I think it to be quite inappropriate.

At a time when we are faced by an endemic inflation in all of the northern industrialized world the favorable effect upon our economy, not only our consumers but our whole fight against inflationary pressures, is quite closely related to the access that we give foreigners to our markets. And therefore I hope very much that if, as I believe is possible, an understanding can be reached with Europe between their system and ours—and I am not talking about one system for both, but I am talking about trying to live with each other's systems—I hope very much that at the same time a system will be established for continuing review of the policies, for a continuing check to see how they are being applied. The system should provide, from the start, for the developing countries to participate. I think it would be a great mistake, especially with the burden-sharing concept, if this became a group of developed countries finding out whether the other developed country was playing by the rules of the game.

Now, on the alternative—and this is where I find myself in disagreement with a number of people—I do not think that the idea of a regional preferential arrangement with Latin American is an acceptable alternative to the United States no matter what happens in the global preferential negotiations.

I think this is true for commercial and economic reasons, but the big reason is political. Our problems, as I see them, in Latin America come from a political and psychological concern of over-dependence upon the United States. And a preferential trading area would simply exacerbate that situation, and therefore would worsen all of the political problems we have with Latin America.

On the other hand, I find no trouble with the proposal of the Peterson report that we should make an offer of preferential access with all countries, not only in Latin America, but elsewhere in the world, which did not themselves apply this outrageous system of reverse preferential treatment which exists today between Europe and Africa.

In the field of trade expansion surely one of the subjects that should be stressed is the question of self-help. And I want very briefly to comment about what happened in Brazil, because this is one part of the recent Brazilian record which I think is constructive and instructive.

Brazil had a tremendous expansion of industry based upon an import substitution program in the fifties. They also had a galloping inflation. And by about the end of the fifties or the early sixties the effectiveness of the import substitution program as a driving factor in the expansion in Brazil had run out of gas. And in about 1960, if you looked at the Brazilian export figures, you found that the exports of manufactured items were negligible, one-half of 1 percent.

This came about because of the effects of the government policy in which the rate of foreign exchange encouraged certain selected imports and discouraged exports. A high tariff systems protected those items which were being produced. In addition, an enormous and complicated administrative system of controls over trade existed.

In 1964, with the Castello Branco government, and with the guidance of your distinguished witness of last December, Roberto Campos, the government policies were changed. Government policies were changed in agriculture, in terms of an effort to take land out of coffee production and put it into food crops. But also policies were changed in basic trade policy. Tariffs were rather rapidly reduced.

The foreign exchange system was changed in 1968, almost 2 years ago, to a system by which Brazil devalues every 5 or 6 weeks by a small amount, the devaluation roughly representing the rate of inflation in Brazil on an annual basis less the rate of inflation in Brazil's main trading partners.

The result has been that the exchange rate, instead of discouraging exports, is now encouraging exports.

And then in addition—and I think this is important in a developing country—a number of direct aids were established for exports—tax-exemptions, export credits, a variety of administrative procedures.

Well, what has happened? In the last few years the level of manufactured exports has gone from a negligible one to a figure in 1969 of about $283 million, not including processed raw materials. This represents about 12 percent of Brazilian exports. It represented in 1969 a 40 percent increase over manufactured exports in 1968.

The year 1968 was not a terribly good year, but it is quite clear that from about 1964, with a change of government policies, and based upon a very considerable industrial base, of course, this expansion has occurred.

It was very popular at the end of the fifties and early sixties among orthodox economists to point with horror at the Brazilian experience, to point to the expansion, to point to loose fiscal policy, to point to the inflation. But the fact is they did obtain the industrial expansion. And the fact is that with a change of government policy in the sixties, they are now learning to exploit that industrial erpansion in the sense of expanding manufactured exports.

The multilateral corporation, as Mr. Knoppers has pointed out, of course is extremely important in developing countries. And I do not know what percentage of Brazil's exports come from subsidiaries of multinational corporations, but obviously a very large percentage. But I also, like Kr. Knoppers, would like to identify a very real problem which I think in many cases is right at our doorstep. And that is a possible conflict of interest between the corporate home offices and national government policies.

There is no question but that home offices do tend to direct subsidiaries in terms of export markets. There is no question that with an industrial base such as Brazil the subsidiaries become increasingly competitive. And there is a real possibility, certainly in many industries in Brazil, where the directive from the home office may not be entirely consistent with what the government feels the national policy should be.

I also want to say a quick word about integration, regional integration. And again I am thinking of South America. I treated this aspect too briefly in my statement. Regional integration—and I do mean a Latin American common market, because I think words like common market referring to Latin America have simply confused the issue—but regional integration, which simply means the gradual reduction or perhaps elimination of tariff and other barriers, and the avoidance of new ones, is most certainly an essential element in an expansion of processed goods and manufactured goods. Because the first and the initial and the easiest market is that of the neighboring countries.

I think I should add that, in the exploitation of possibilities, many corporations have played a leading and imaginative role. For example, IBM, I understand, looked at Brazil, Chile, Argentina, and Uruguay, and decided by specialization in various countries and production in Argentina and Brazil that an expansion was possible, provided that the governments concerned eliminated tariffs on these products. This was done, and the expansion has occurred. And last year the biggest single exporter of manufactured goods in Brazil was IBM.

A word has to be said about commodities. I am aware of the fact, of course, that the 80 or 90 percent of the trade of developed countries is in this field. In terms again of Brazil, the reason that there has to be an expansion estimated by the minister of finance of 15 to 20 percent a year of manufactured items is because of skepticism about any real expansion of traditional exports.

In Brazil the Commodity Agreement, which is far and away is the most important, is the Coffee Agreement. And you would think that any man who had served in Brazil would have become soured on commoddity agreements after all the fun and games that went on with coffee and soluble coffee. I had better not comment on how that has been handled, except to say that despite the problems of soluble coffee, despite the exaggeration of this specific aspect of the problem, I am convinced that we must seek wherever possible commodity agreements, realizing again that there is no panacea here, but that in certain areas it can be helpful.

Let me conclude this statement, Mr. Chairman, but just saying again that I am well aware that increased access to the markets of the northern countries is no panacea for the developing countries. I am furthermore aware that certain so-called developing countries are in a much better position to exploit this and to make it meaningful than most, than the great majority.

On the other hand, even those who have not yet diversified their production, would be encouraged if at least they had some idea of what lay ahead.

Which leads me to one last point. I do not like the 10-year limitation in everybody's proposals for global preferences. I think a 10-year limitation is all right for a country like Brazil. But I fail to see that it has any meaning for a country like Chad, or most other developing countries which will take certainly much more than 10 years before they are in a position to exploit this increased access.

Thank you very much.

(The prepared statement of Mr. Tuthill follows:)

PREPARED STATEMENT OF JOHN W. TUTHILL

TRADE WITH THE DEVELOPING COUNTRIES

Mr. Chairman and Gentlemen, I am of course honored to speak before this distinguished committee. This is the first occasion I have had to speak before a Congressional committee since leaving the employ of the United States Government. While I am appropriately impressed by that opportunity, I must confess that I am also struck by the fact that you have given me a topic to discuss—in "not more than 20 minutes"—which is (1) extremely difficult even to define and (2) concerning which I find myself in a greater or lesser degree in disagreement with various recent statements of the President of the U.S., the Governor of the State of New York, the American Ambassador to France, any number of other distinguished U.S. citizens, the former Brazilian Ambassador to the U.S. and former Minister of Planning in Brazil, and last, but not least, yourself, Mr. Chairman.

I hope, in the time available to me, that I will be able to identify the areas of agreement—and disagreement—and conceivably make some small contribution in our mutual attempt to make progress on this difficult, if somewhat imprecise, subject.

In my presentation I plan to stress two aspects of trade with the developing countries. The first, of obvious urgency, concerns current negotiations looking towards a global preferential arrangement for the benefit of manufactured exports from the developing countries. The second concerns policies of the developing countries designed to help themselves. In this connection I will use, as a case method approach, the recent experience of Brazil. In addition to these two main points of emphasis I will comment briefly on (a) commodity agreements, (b) regional integration and (c) some aspects of the effect of the multinational corporation on exports from the developing countries.

I share the concern of most people, including yourself, Mr. Chairman, that what we may be able to do in terms of a global preferential system may not be sufficient in magnitude and impact to satisfy the developing countries. However, my view is that, given the current stage of negotiations, we have no alternative but to move forward.

No conceivable relaxation on a global basis of tariffs towards the developing countries would in itself, do more than assist in efforts to deal with the variety of economic, financial and political problems facing the developing countries. Nevertheless, something must be done. We must do our best to see that which is done is not mere sham. The warning that you, Mr. Chairman, and others have issued on this subject should stir us to see that far reaching proposals are made and that a significant agreement is reached.

I am well aware that it is politically easier in the United States and other developed countries, to place burdens on the taxpayer by furnishing aid rather than to risk stirring up sensitive protective interests by suggesting trade liberalization. Furthermore, I realize that, in most cases, these so-called protective interests represent management and workers, who are entitled to some kind of compensating action if their means of livelihood is somehow endangered by action taken by their Government. I would not favor attempts to avoid this problem via the substitution of aid for trade. I am not, however, opposing the aid program. I think it should be strengthened and extended.

If relatively industrialized, so-called underdeveloped countries can be assisted by liberalization of trade with the developed areas, then other developing countries who have not achieved substantial industrialization are entitled to other reinforced financial and economic assistance which hopefully, at some time in the future, will allow them to exploit increased trade liberalization of the developed countries.

I see no politically acceptable prospect of the United States Government returning to its 1964 stance when it stood in "glorious isolation" resisting the demands of the developing countries for improved and preferential access to the great markets of the developed countries. This represented a stance which had the grace of honesty, spirit and panache. It was one of those moments in international negotiations when a government could distinguish itself, for a short period of time, by offering a dose of realism which was bound to influence future negotiations. Basically however it also represented the defense of an indefensible position.

The developing countries are going to obtain increased preferential treatment for their exports. The only question is whether this can be achieved on a global basis, and if it will offer maximum relief to the developing countries.

I should like to note certain figures which demonstrate that something must be done.

Quite aside from the highly controversial, and statistically unsatisfactory, contention of the worsening of terms of trade of the developing countries, allow me to identify the share of the developing countries in world trade over the last 13 years. In 1955 the developing countries' share in international trade was 25%. In 1960 it was 21%. In 1968 it was 18%.

I have always been doubtful about the claim of some that, with our various programs for the developing countries, we could "close the gap" between the economies and the per capita of the developing countries and the developed countries. I have believed however, that it was reasonable to seek programs which would result in substantial expansion not only in per capita income, but in broad development in the developing countries without insisting upon any formula in terms of relative expansion.

The drop in the share of world trade of the developing countries from 25% to 18% demonstrates that the trade expansion of recent years has, to a very considerable extent, occurred between the developed countries. The developing countries, while perhaps holding their own in absolute terms have slipped badly in relative terms. Corrective measures are overdue. Given the history of UNCTAD and the negotiations in the OECD, I am convinced that the United States must continue vigorously in its search for a formula which will give some encouragement to developing countries to expand their production and exports along non-traditional lines.

I agree with those who think that an equitable compromise between the European Community approach and ours is possible. I do not like a tariff quota system which euphemistically is called "ceilings" as proposed by the European Community. However, many Europeans find the United States' proposals for exemptions plus escape clauses also unattractive. I am of the view that, with considerable effort and goodwill, a balanced agreement can be reached. One cannot say precisely whether the European Community's proposals are adequate and equitable without knowing what items would be under the ceilings and which under "surveillance." Only by discussing the proposals in terms of specific items and in terms of trade involved can one arrive at an adequate judgment. I see no reason why one should assume a priori that the European proposals could not be shaped and determined so as to make them roughly comparable to those of the United States. Briefly therefore, I feel it is reasonable to seek a compromise with Europe using its system and the United States applying its system. It would be, in my view, undesirable economically and ruinous politically to abandon at this stage the effort to reach agreement.

This does not mean that I have a relaxed attitude towards tariff quotas. The basic objections to tariff quotas are twofold: First, the automaticity of the application of the tariff quota system is altogether bad. A formula based upon a percentage of production or a percentage of imports means that restrictions take place without any examination whether any danger exists for local industry. This kind of automatic restriction is contrary not only to the objectives of free trade but to free enterprise itself. Secondly, tariff quotas inevitably lead to an expansion of the administrative system which gives power to an ever-growing bureaucracy. Allocations must be made. The tariff quota system is inconsistent with basic trading principles which have served us extremely well.

With the American and European approach to global preferential systems certain words have crept into the discussion which I feel to be unfortunate. The words that annoy me most are "burden sharing". These words are difficult enough to apply when one is talking about military burdens, but seem to me to be most unrealistic when one is talking about imports from developing countries. Such imports are, of course, of direct benefit to the consumers of the developing countries. At a time of endemic inflation in the developed world they also can have a significant anti-inflationary impact.

Assuming that any agreement can be reached in the OECD and UNCTAD, provision will be made for systematic and continuing surveillance. Furthermore, the system must be designed not merely to reach a balance of "burden sharing" between the developed countries. It must also assure that protectionist actions of developed countries do not escalate against developing countries. It is of little help—and may even by a hinderance—to developing countries if developed countries can reach agreement amongst themselves regarding trade restrictions against imports from the developing countries. What kind of an understanding is this that would allow developed countries to increase restrictions against imports of developing countries? It seems evident to me that one must seek a system in which developed countries would discuss import limitations not only between themselves but with the developing countries as well. Surely between the OECD and UNCTAD arrangements can be made for continual discussion, debate and finally decisions which will not simply be oriented towards a concept of equitable "burden sharing" which could in practice result in increased restrictions for the trade of developing countries.

One additional point concerning the current proposals of the developed countries requires comment—i.e., the limitation of ten years. I think this time limit to be sufficient for a country like Brazil but inadequate for most developing countries. I hope that some flexibility can be agreed upon to allow the extension of preferential treatment for certain developing countries for a longer period.

Before leaving the subject of preferential treatment, I would like to record my wholehearted and unrestrained opposition to a regional preferential system whether it be in terms of Europe and Africa or the United States and Latin America.

For the purpose of this presentation, I will not even discuss the commercial and broad economic implications of such arrangements, although I believe they would be bad. The problem that I think is uppermost is political.

As I see our problems in Latin America, I believe that our whole relationship is exacerbated by the political and psychological implication of excessive Latin American dependence on the United States. This is a consideration which permeates the Latin American scene. If a regional preferential system were initiated between the United States and Latin America, this sense of dependence would be enormously increased. Latin America would find increasingly their windows to the East and West less open because their trade would tend to be oriented along a North-South axis. From my own experience in Latin America, I am convinced that the political problems which we have with Latin America would be greatly aggravated by any such development.

I am well aware that some of our distinguished friends in Latin America feel that the very threat of a United States—Latin America preferential agreement would help bring the Europeans to the view that they should trade off their preferential system with Africa in turn for our doing the same with our plans for the Western Hemisphere. It is my conviction that the Latin Americans have badly miscalculated the probable European reaction. In my view such a situation would not in the least shake those Europeans who are the advocates of regional trading arrangements and not concerned—or perhaps favor—the sphere of influence implications. I believe that such action in the Western Hemisphere would convince the sinners of the virtue of their activities and would save no soul for a better, more liberal, world trading relationship.

The advantages to Africa of the European preferential system on an economic or commercial basis can be argued but I have yet to hear of a logical defense of the outrageous reverse preferences which the African countries must provide for European imports. However, the important consideration which has maintained this sytem is political. It is basically the old-fashioned sphere of influence approach. Those who have taken this position would cheer if the United States became a member of that club.

Spokesman for the Administration have recently interpreted the U.S. trade position towards Latin America along the lines of the trade recommendations in the Peterson report. As you are aware, the task force stated that if the U.S. could not reach an agreement on a general nondiscriminatory preferential agreement "it should undertake to extend such trade preference to all developing countries except those that choose to remain in existing preferential trade arrangements with industrialized countries". Such a proposal is of course far different from a proposal for a Latin American preferential arrangement. It would include the Far East, the Near East and any other area where countries are not tied to a regional preferential arrangement involving reverse preferentials as is the case with most of Africa vis-a-vis Europe. If that is the current U.S. position, I am for it.

The simple fact about regional preferential systems is that while a small or medium-sized developed country can follow such a policy with only minor worldwide implications, the United States cannot. It is part of the burden of responsibility of power that the United States bears.

I would now like to return to my second main point regarding the policies of developing countries designed to help themselves. I plan to use Brazil as a case study of the trading problems of a developing country. For the purposes of this paper I will not comment on political developments in Brazil.

The problems of Brazil and the solutions of those problems, especially in the field of trade, are quite different from those of Chad. Brazil has a vast industrialized area and has recently experienced a veritable explosion of exports of manufactured items. This export expansion has amazed orthodox thinkers.

Admittedly, Brazil has certain characteristics which make its experience almost totally irrelevant, at least for the next few years, for most developing countries. However, Brazil's experience over the last 20 years is interesting for those developing countries who hope or plan an industrial expansion but who have not yet reached the point of expansion of the export of manufactured products. In other words, how did Brazil do it?

I will attempt to select those items of Brazilian experience which have broad implications. I would like to raise issues concerning: (1) the orthodox questioning of an import substitution program which in the 1950's and early 1960's in Brazil led to both an immense industrial expansion and galloping inflation; (2) the negligible amount of export of manufactured products from Brazil a mere 10 years ago; (3) the pessimistic forecasts concerning competitiveness and prospects for the expansion of Brazilian industrial exports in the early 1960's; (4) and the explosion (in real terms) in Brazil's manufactured exports in the last couple of years.

In the 1960's when Brazilian manufactured exports were negligible there existed: (1) an extremely high tariff structure reflecting in part the import substitution program of the 1950's; (2) a complicated system of trade controls; (3) negligible export aids; (4) an over valued currency which encouraged certain regulated imports and discouraged exports.

After the Castello Branco government came to power in 1964 a vigorous and coherent effort was made to correct these adverse conditions. Tariffs and other obstacles to imports were reduced and the complicated administrative machinery simplified. A number of direct aids to exports were inaugurated including credits and tax relief. Finally, in 1968 a system of frequent small exchange devaluations was initiated. I think these developments warrant some further discussion because they have succeeded beyond expectations.

Since 1968 the Brazilian government has devalued its currency every 5 or 6 weeks by an amount calculated to equal the internal inflation in Brazil less the amount of inflation occuring amongst Brazil's major trading partners. Instead of a rate of exchange which discouraged exports, Brazil has been operating for the past almost two years, on changing rates which have stimulated exports. In addition, direct aids to export have been vigorously administrated and have been a major factor in the expansion.

The Minister of Finance estimated in 1968 that Brazil required an annual internal economic expansion of 6–7%. In order to pay for essential imports and service external debt this required an annual expansion of exports of from 7–8%. He assumed that the maximum trade expansion of traditional Brazilian exports could be expected to increase at most by about 3–4% a year. As such exports represented about two-thirds of total exports, he concluded that non-traditional goods' expansion would have to reach 15–20% a year.

In the field of non-traditional goods there is some possibility for an expansion of food crops. The major field for possible expansion, however, is in processed goods and manufactured products.

In 1960, after the tremendous industrial expansion of the 1950's, exports of manufactured products were less than ½ of 1% of total exports. You will recall that in the early 1960's most analysts were pessimistic about prospects for a substantial expansion of Brazilian export of manufactured products. By 1963 such exports had crept up to 3% of total exports.

With the arrival of the Castello Branco government in April 1964, prospects began to change rather dramatically. By 1967 the export of manufactured goods had risen to 8.6% of total exports. The 1968 figure was 201 million dollars and in 1969 the figure was 283 million dollars, an increase of 40.9% with manufactured exports equalling 12% of total exports.

Professor Harry Johnson in his book "Economic Policies Towards Less Developed Countries" comments on the general question of effectiveness of preferences and states:

"It is necessary to determine what factors account for the inability of less developed countries, and specifically of the "developing" countries that already produce manufactures for the home market, to export in competition with the developed countries in spite of their comparative advantages in availability of materials and low-wage labor, and how significant these factors are empirically. . . . . A major part of the explanation is to be found in the import-substitution and currency-overvaluation policies typically pursued by the governments of less-developed countries, and that the cost disadvantages resulting from these policies may frequently be far greater than the competitive advantage that could be conferred by preferences from the developed countries. If this suggestion is confirmed by further empirical research, it would imply that neither preferences nor nondiscriminatory tariff reduction would help the less developed countries unless they were prepared to make major changes in their tariff and exchange-rate policies. Thus, the developed countries could legitimately insist on such policy changes in the less developed countries as a condition for trade concessions."

I concur in Professor Johnson's conclusion and I believe that the Brazilian example over the last 6 years supports his position. However, I am not altogether clear how the developed countries "could legitimately insist on such policy changes." Nevertheless, I do feel that every effort should be made to urge the adoption of such policies. Perhaps the Brazilian example could be used to buttress the argument. I do not think that Brazil altered its tariff and exchange-rates policies because of U.S. pressures in connection with our massive aid program. The Brazilians changed their policies for better reasons, namely they became convinced that they were needed not to please the U.S.—but for Brazil.

Primary products which still account for from 80% to 90% of the export earnings of developing countries are not included in the preferential proposals. A word therefore seems appropriate regarding commodity agreements.

My only first hand exposure to commodity agreements has been the international coffee agreement. One might well think that that exposure would sour me on the subject, but it has not. Many countries are one commodity exporting countries. Others, even Brazil, depend to a very heavy degree on a very few commodities. While commodity agreements represent no panacea for the developing countries, they require careful consideration and can be useful.

The Brazilian experience in coffee since 1964 is instructive. Starting that year the government held down the receipts of the coffee producers, stimulated production of agricultural food products, and encouraged the taking of land out of coffee production and into food crops. While the results from 1964 on were not spectacular, they were constructive. The production of coffee was restrained and the production and export of food crops increased. The Brazilian government learned to live with the coffee agreement, but felt very strongly that certain other countries were unable or unwilling to do so. Foreign exchange receipts from the export of coffee were maintained at reasonable levels. Nevertheless, a hot political issue developed with the United States in the field of soluable coffee.

I will not describe in any detail the soluable coffee issue as it developed between Brazil and the United States. Briefly however the argument went something like this. The Brazilians had a valid legal case to sell coffee to their producers of soluable coffee at prices below those available to American producers of soluable coffee. However, after American producers of solubles had expanded, it became evident that the competition of Brazilian producers was "unfair", if one assumed that there should be a nondiscriminatory world in which the prices of coffee should be available to all producers on an equal basis. Thus, for Americans the entire international coffee agreement, which at least from the point of view of the U.S. consumer increased the cost of coffee, was put into question. Brazilians, however, interpreted U.S. protests as a violent reaction against a perfectly legal Brazilian expansion of a processing industry concerned with one of Brazil's most important raw products.

I do not admire the way the Europeans, the Americans, the Brazilians, or for that matter the Africans have handled this issue. The Americans seemed a bit naive (to put it politely) in their support for a nondiscriminatory world in which all compete equally. The Brazilians were able to convince themselves that America was stamping out Brazilian efforts to process one of Brazil's major products. The fact is that a surprisingly small number of companies and a small number of workers' jobs were at stake in this controversy. Perhaps it is somewhat exaggerated to say that never have so few caused so much trouble for so many.

My own conclusion is that while commodity agreements are extremely difficult to negotiate and difficult to live with, they can, for some products, have favorable long range effects. To achieve this, however, both importing and exporting countries must show more political sensitivity than has been recent experience—at least in coffee.

Trade of the developing countries between themselves is of growing importance. Regional integration schemes, to the extent that they help in the renewal of old, or the avoidance of new, trade barriers are useful. However, for the present, I would favor practical sub-regional plans—at least in Latin America—rather than grandiose politically oriented plans. If pragmatic undramatic plans can lead to increased trade between the developing countries, this will help create the base needed for more far-reaching plans at a later date.

A large percentage of the exports from the developing countries represent the products from subsidiaries of multinational corporations. The importance of such corporations in the trade of the developing countries will continue to increase.

First let me identify certain positive aspects. In the early 1960s, IBM came to the conclusion that the individual markets of Argentina, Brazil, Chile and Uruguay were not large enough to support an important local manufacturing operation. However, it was believed that a combination of production in these countries together with abolition of tariffs between them and a common tariff towards imports from third countries had real attraction. When the four governments agreed, IBM proceeded to build plants in Brazil and Argentina and to make license agreements with a paper producer in Chile to produce the business forms to be used by the machines. The sheer size and dominant position of IBM in the industry were undoubtedly essential for such an arrangement. Nevertheless, this is an interesting illustration of the positive role that a huge international corporation can play.

IBM has reported that in 1969 it "was the largest exporter of manufactured goods from both Argentina and Brazil, and we are planning to expand capacity in those countries over the next five years."

Many multinational corporations have initiated systems of international specialization of production and/or assembly. In other words production has increasingly tended to be located largely in terms of economic efficiency on a global basis. However, this specialization has largely been concentrated in the developed countries. The extension of this division of labor more rapidly to developing countries could bring very positive advantages to all concerned. The developing countries have ample supplies of labor and in many such countries the training for industrial purposes is improving rapidly. An expanded system of diversified production could guarantee or give some assurance, to a multinational corporation for the maintenance of exports to the area where the subsidiary is located. Also the establishment of production facilities would often lead to expanded trade to other areas—both developed and developing.

Admittedly, such a harmony of national interests and those of multinational corporations is more likely to occur in countries like Brazil, where a considerable industrial base has already been established.

The argument has also been put forth—I think inaccurately—that such a system would be likely to hinder technically advanced industrialization in developing countrie by limiting production to a few uncomplicated items. There is something to this argument, but not much. The continuation of protective policies would be much more likely to seal off a developing country from technological developments. I would think that, in the vast majority of cases, the risk of technical backwardness would be reduced rather than enhanced by such an extension and diversification of producing units in various developing countries.

A real problem remains. This is the area of decisions by the multinational corporation regarding world markets. It would be naive to assume that the head office of the multinational corporation would grant to its subsidiaries a completely free hand in deciding which export markets to exploit. It can be expected that there will be considerable control and direction of export targets by most home offices. I have been told in Brazil by managers of various subsidiaries that they are already (or about to become) highly competitive not only in various Latin American and African markets but in European and North American markets as well, but that exports to such markets are not allowed by the parent companies.

The United States market represents about ⅓ of the current market for the expanded Brazilian export sales. My guess is that various subsidiaries of American businesses are approaching the danger point in terms of potential conflict between national and corporate interests.

In conclusion, I am convinced that improved access for the developing countries to the markets of the developed countries is essential—politically and economically. A global preferential system for manufactured products is a key aspect of this need and it is the point requiring early action.

Improved access for manufactured products will not automatically solve all the problems of the developing world and will only have limited relevance for the least developed of the underdeveloped countries. Many other policies must be vigorously pursued including aid, technical assistance, commodity arrangements, an expansion of private investment, rational regional integration and increased understanding between national governments and the huge multinational corporations. In addition, there is the basic question of policies of the developing countries designed to help themselves. But the point where immediate movement is required concerns the present negotiations for increased access to the markets of the affluent, mostly northern, highly industrialized countries. An equitable solution of this issue will not only be good in itself; it will also facilitate progress on the whole range of other issues which jointly concern both the developed and the underdeveloped world.

Chairman Boggs. Thank you very much, Mr. Tuthill.

As I have already said, the full statements of each of the witnesses will be made a part of the record.

Unfortunately I have a meeting that I must attend. And I am going to ask my colleague, Congressman Reuss, to preside for the balance of the morning session.

Representative Reuss (now presiding). Thank you, Mr. Chairman.

Mr. Tuthill, on the first page of your excellent prepared statement you said you were in disagreement with practically the entire cast of Hamlet. And you included the Chairman, Mr. Boggs. What is the skeleton in the closet? What is it that you disagree about? Is it that you are a universalist on preferences for the manufactured product of the developing countries and these others are regionalists, or what?

Mr. Tuthill. Mr. Chairman. I agree that by lumping all the characters of Hamlet in one sentence I have added an unnecessary element of confusion. My disagreement with the President just has to do with one phrase that he put in a speech in the fall, opening the possibility of a Latin American preferential arrangement.

I have the same disagreement with the Governor of the State of New York, and the Ambassador to France. I have the same disagreement really—I am like Sir Eric Wyndham-White, I am always reluctant to disagree with Roberto Campos, because he is right so often—but I think Roberto Campos has been too kindly disposed toward a preferential arrangement for Latin America and the United States.

Now, my disagreement with the Chairman is on a different point.

Representative REUSS (presiding). I am glad to hear that, because I had not thought that Chairman Boggs—we should not be talking about him since he has left the room—was anything other than a universalist on tariff preferences, which I consider the good position. So I am glad your disagreement is on some other point.

But just to make the record clear, perhaps you could tell us what that point is.

Mr. TUTHILL. That point really is a question of optimism or pessimism, I guess. The Chairman made a speech in February in which he commented on a number of things, including the global preferential proposals, which were then being negotiated.

Now, I am aware that this was several months ago—before the negotiations had moved on. But I felt myself that the Chairman was a little bit too pesimistic about the possibility of getting some kind of a working compromise out of the negotiations going on in the OECD and UNCTAD. So it is really just a point of emphasis as to whether there is a reasonable chance of success. I think there is a reasonable chance partly because of the conviction that there must be some solution.

Representative REUSS (presiding). Thank you.

I have a question of Mr. Knoppers.

On the general question which I have been discussing with Ambassador Tuthill of preferences for the manufactured products of the developing countries, which you also addressed yourself to, what about the inducement to American firms to expatriate themselves, if that happens, and thus get into a low wage area where they can export at very small tariffs, it any, to the United States? I am looking at the general problem which is plaguing the Ways and Means Committee now, of shoes, and textiles and heavens knows what next. What about the job problem of America?

Mr. KNOPPERS. It is a very real problem in the sense that in certain fields, especially in labor incentive industries, we have a high wage level and it is increasing, and because settlements made every day in industry are still highly inflationary. The problem is real. However, I see the problem more as a problem of, I would say, competitive industry in the developed world than a problem in the underdeveloped world. First, many of our industries will be restrained by their relationship with the whole labor force. I think if an American company would like to produce a drug in a foreign underdeveloped country and import it to this country it would upset possibly our relationship with the labor force.

Furthermore, I feel that in our case it would be very difficult, from the standpoint of safety, too, to produce it in an undeveloped country where the question of stability always plays a role. And I would like to stress that industrial growth creates initial instability, and most American firms would be very hesitant to put their eggs in a basket that is rather unsafe.

And so although, theoretically, it could encourage the production of manufactured goods in labor intensive industry. I think in practice the result would be limited. There are too many offsetting factors.

Representative REUSS (presiding). Why wouldn't a parity of reasoning, however, have suggested that American industry would not be very interested in investing in the last 10 years in the Common Market? Of course, this has proved to be the very exact opposite of what happened, to the extent, for example, that Outboard Marine Corporation, of Milwaukee, stopped making its 3-horsepower motor in Milwaukee and made it in Belgium, where they sold in the Common Market throughout the world, and in the United States.

This was not taken kindly by the workers who used to make the 3-horsepower motor in Milwaukee. And yet it did not bother Outboard Marine at all.

Mr. KNOPPERS. I would say such decisions will be made on an individual basis. But I think that we have to look at that in a broader context. If you take the European example, we must compare such cases with the enormous exports of American firms to their subsidiaries in Europe. And I do not know the total figure, but with the investment in Europe that has gone up tremendously, the exports to Europe of those technology industries have gone up extensively too. We still have a positive balance in technology intensive goods, and especially to the underdeveloped world. And this will remain about the same.

I would say complicates it, but I think the problem is manageable.

May I possibly make one remark, because Ambassador Tuthill looked for a figure of what those multinational corporations contribute to the exports.

In the May report I quoted he found that in 1966 the U.S. affiliates in Latin America had exports at about $4.5 billion of their products. This represented about 35 percent of total Latin American exports. And in manufactured goods it is even 41 percent. So I mentioned exports as a ticklish problem between a corporation which is centrally controlled and the government.

In practice it is not too difficult to deal with.

Representative REUSS (presiding). Let me just follow this up briefly with you.

In your paper you spoke of the competent arrangement Merck made with TATA in India.

Mr. KNOPPERS. In India.

Representative REUSS (presiding). Now, Merck as a result of that arrangement, I gather, has put into the hands of the Merck-TATA Enterprise in India pretty modern technology.

Mr. KNOPPERS. Yes.

Representative REUSS (presiding). This is really the problem. If you do that—and you have done it—and if the United States now gave a Tuthill-Reuss universal tariff preference on manufactured goods, including the pharmaceuticals, which I guess are made by TATA.

Mr. KNOPERS. Merck-TATA.

Representative REUSS (presiding). And then they come into this country at pretty close to zero tariffs, let's assume, it really would not do to tell the workers at Merck in New Jersey, or wherever you are——

Mr. Knoppers. New Jersey, Pennsylvania, and Virginia.

Representative Reuss (presiding) (continuing). Look, fellows, don't worry about this, because while the Indian worker gets only one-tenth of the salary you do, the real wage, our American technology is so infinitely better that this washes out, because, as you have just said, American technology is not in place in India.

So free trader though I am, the passage across borders of technology makes a fellow think.

Mr. Knoppers. It makes me think on the other side, too. Our operation in India is successful, but it is partly a via dolorosa. The political development in India is such—and this can be compared with many, many countries—that I would not dare make an investment in India, even if I could get lower cost, which is not the case, because of the political and economical risk.

We assisted, for instance, the Indian Government in the public sector, in 1956, on a turnkey job to produce streptomycin. We had taken the pragmatic position somehwat earlier that tuberculosis is such an important disease in India that it could make sense that it be a state enterprise. We gave them the most modern technology for the production of 40,000 kilograms per year. It later, through technical improvements and expansion, was raised to 90,000. But still, because this came at a later time. I would guess that the real cost price of streptomycin in India is possibly twice as high as in this country, because of later depreciation of the product, and other factors.

I would say that there are cases where the production of manufactured goods in a developing country such as India makes sense. But I think most firms, because of political stability and economic future and the transfer of technology, would hesitate very much to take that risk.

So in practice I am not so afraid about this part of the proposal. And I think our industry would not be unique in it.

Representative Reuss (presiding). Thank you.

Mr. Rashish?

Mr. Rashish. I would like to follow up on Mr. Reuss' question, and your last response, Dr. Knoppers. One of the basic rationales for a tariff preference scheme is that it would induce foreign investment in a developing country to manufacture for export to a third country, not necessarily directly back to the United States, but to any developed country that would be participating in the preferential arrangement.

I take it from your last response that you would be skeptical of that proposition, Dr. Knoppers?

Mr. Knoppers. It would have some influence, but we should not overexaggerate it.

Mr. Rashish. If the preference plan were limited to 10 years, as is presently under discussion in OECD, that that would further limit its attractiveness.

Mr. Knoppers. Because in our technology-incentive industries we might not have the same product any more.

Mr. Rashish. I am sorry——

Mr. Knoppers. If we have a 10-year restriction and then you get in a normal situation again——

Mr. RASHISH. Back to normal tariff rates——

Mr. KNOPPERS. Tariff rates—it might be that many of the products that we had the advantage in 10 earlier years would no longer be the major products in the line. Products change.

Mr. RASHISH. I would like to pick a little bone with Mr. Tuthill. In reading his paper and listening to his presentation, I have concluded, perhaps unfairly, that his support for a generalized, nondiscriminatory, preferential scheme at this time rested principally on the fact that the developing world is expecting the developed countries to come up with such a scheme and there is, therefore, political pressure for its adoption.

You seem to avoid the merits of the proposal. One of the major points raised by Mr. Boggs in his speech on the subject was that he was doubtful as to whether a preferential scheme, even a fairly liberal one—and he was questioning, I should say, as to how liberal it would be—whether a generalized tariff preferencial scheme would, in fact, induce any substantial increase in export earnings by developing countries, and whether, as a result, it might not result in disappointment and disillusionment.

Do you think that, aside from the political forces at work, that the arrangement itself has merits in terms of the results that would flow from it?

Mr. TUTHILL. Let me say that in that part of the Chairman's statement where he in effect said, don't do this unless you have substance to the proposal, I am 100 percent with him of course. The worst possible thing for us to do—us, the Europeans, and the United States—and I have not even talked about trying to reconcile this with Japan, which in my view is even tougher—but if the northern industrialized countries get together in happy harmony in the Chateau de la Muette and come up with a program of tariff quotas and surveillance and a burden-sharing amongst themselves, which makes no realistic provision for expanding exports of the developing countries that would be a shameful and disgraceful performance.

So on that, I certainly agree.

Secondly; however—and again I admitted my bias in terms of the developing world, because my own experience is only with a country which is in a position increasingly to exploit increased access in the northern world. I have no doubt but that Brazil and at least some other developing countries could expand manufactured exports at an increased rate if a global preferencial system can be established.

What I am not in a position to do is to try to quantify that and to make estimates. I do not think anybody is. I think even after we have all the figures, that is, know all the commodities, in which Europe could put "ceilings," I think even after you have all that data, it will be difficult to estimate the future effect on actual trade.

I am, however, convinced that a number of developing countries could increase their exports. And I am convinced that it would encourage some of the others. I recognize the dangers that an inadequate plan would do positive harm. I do not see why it has to be an inadequate plan. I do think that, at least beween Europe and the United States, a comparable basis is obtainable. From what I know of the European plan, I do think it is something that under a proper framework of institutional review and examination one could live with.

Mr. RASHISH. I have a question for you, Mr. Deming.

In your prepared statement you make the observation, point (d), that no debt rescheduling should be shared in by the international lending institutions. I am not sure I understand the point. What if part of the debt burden happens to involve obligations to international lending institutions?

Mr. DEMING. It undoubtedly will and undoubtedly does involve it. I just think that this is essentially a governmental problem. The international institutions ought to be left out of the debt rescheduling, for two basic reasons. If you slow down in any way, or change the terms of the reflow of funds, it merely means that the international institution does not have funds to lend elsewhere. If you do this without the international institution being able to have additional access to the capital markets to get additional funds, it has the same effect.

I would not want to impair the international institutions' ability to carry on the job that they have by putting them in a debt rescheduling operation. I do not think it is necessary. It is just as simple as that. It may be politically more difficult for the Government of the United States or the Government of France to do rescheduling operations, because there are some budget charges, but they do not really have the financial and economic problems that would be faced by the international institutions.

If I may carry on with that just one step, I think any debt rescheduling operation has to be done with considerable care. On the one hand, you do not want to make this such an easy out for any debtor that he automatically calls for debt rescheduling simply because it is inconvenient to meet the payments.

At the same time I would be awfully careful in implementing the proposal advanced by the Peterson committee so as not to give the impression that the IMF and World Bank are calling a bankrupt debtor into the dock to deal with him. There is nothing inherently wrong in a debt rescheduling operation. American corporations do this all the time, of course, and it does not impair credit standing. It is the atmosphere in which it is done which is important. I would think that with adequate planning and adequate handling it could be done successfully, and it should be done in advance of a major crisis.

It would be quite useful. And I think it is a perfectly legitimate form—if you want to put it that way—of extending additional financial help.

Mr. RASHISH. One reads from time to time references to the fact that the return flow of private investment funds including repatriation of capital, dividends, royalties, and so on, has on occasion exceeded the net new flow of private investment to less developed countries. I assume, Mr. Knoppers, that that is what the Foreign Minister of Chile meant when he talked about Latin America contributing on a net basis to the United States.

How serious a problem is this in the context of official debt problems?

Mr. DEMING. Well, there are undoubtedly periods in which the flow of new direct investment would be smaller than the repatriation of funds. The point I was making is that it is a rare occasion—and I do not know of any offhand—where the outflow, the repatriation of funds runs more than a hundred percent of what is earned, you cannot do that unless you are liquidating your capital investment.

But one of the reasons, with respect to some of the developing countries, that the flow of new capital may have been smaller than the repatriation of earnings is the atmosphere for direct investment. Here it seems to me that both the Peterson and the Pearson reports address themselves to some of the basic problems. I would not leave side the point that Congressman Reuss and Mr. Knoppers were talking about here. If you consider that in a reasonably friendly atmosphere on both sides there are advantages for developed companies to go overseas, and advantages for developing countries for them to come in, and what you really have to depend upon is a generally enlarged world market to take care of the enlarged production of these companies. You will run into situations in which an individual enterprise or its workers may be hurt by this sort of an operation. It is not much consolation for the fellow who gets laid off in Milwaukee to say that this is beneficial for the world economy. In a situation such as that one has to have some kind of adjustment relief processes. That is the only way I know to handle it.

Mr. KNOPPERS. There is a conflict situation that is quite clear for the international corporation based in the United States. I spoke about the relative position of the multinational corporation at the beginning when it is accepted; later, when it is established, the Government can take more power. You are in a conflict situation between the long-range planning with which you want to establish yourself as an accepted national company, as a good citizen, and the corporate controller who, especially in times of instability, would love to have some dollars back. And this you have to balance. You cannot make a rule for it.

Mr. RASHISH. I have just one more question, Mr. Chairman, and that is for Professor Thorbecke.

You mentioned the desirability of extending the Green Revolution throughout the less developed world. And yet one has the impression that where the Green Revolution has taken root, if you will pardon the expression, the effect has been to displace large numbers of agricultural workers, and to provide an incentive for the movement of those people to the urban centers.

Is the Green Revolution then an answer to, or a compounding of the problem of, unemployment and underemployment?

Mr. THORBECKE. I think the question you raise is indeed a crucial one. And in trying to answer it let me indicate first that the impact of the new technologies, the seed-fertilizer revolution, on employment is twofold. On the first hand, these technologies tend to increase the labor requirements per acre, because labor is needed to apply the fertilizer and to undertake more activities than is the case with the more traditional technology. So on a per acre basis I think there is little doubt that the labor requirements increase.

On the other hand, because of the tremendous increases in yields, which result from the use of these technologies, the labor requirements per unit of output, let us say, per bushel of corn, tend to decline. The question as to what the net effects of the Green Revolution on labor requirement are going to be depends very much on the effective demand in the developing countries themselves for agricultural products and the export prospects available to these countries.

Now, looking at a country like India which started from a fairly large net importing position, it seems to me that at first the impact of the Green Revolution probably is going to be to increase the net labor requirements. But once this import gap has been filled, then I think it is unlikely indeed that the Green Revolution will provide additional opportunities for labor.

I believe that in a number of countries in Latin America, particularly those countries which are net food-importers the net effect of the Green Revolution would be to increase the total requirements for labor.

Mr. KNOPPERS. May I possibly make one remark about the other side of the coin?

Mr. Thorbecke mentioned the question of population control. We should not be too optimistic about it. It fits expressly the three questions of Professor Montgomery. His first question was, how well does new technology fill in cultural preferences of recipient nations?

Generally speaking, it does not fit. The question of sons to take care of old age is a real problem. And other factors play a role.

The second question was communication. And there I am much more hopeful. Many governments, especially the Indian one, have done an excellent job in communicating the possibility of this new technology.

Three, the sensitivity, how well does the technology fit in the pattern of society physically and mentally.

Now, population control even in this country is in trouble. It is not so easy. You can understand how complex such a population control technique is. It is imperfect. We need possibly completely new and better methods to handle it before it can be implemented in developing countries. In Science magazine for the 15th of May there is quite a fundamental idea about the problem. And it was emphasized in the Pearson report very clearly.

We need much more research to find a more acceptable method of population control in developing countries. Until we have that, the impact of population control except through illegal or legal abortion will be rather small.

Thank you.

Representative REUSS (presiding). Mr. Thorbecke?

Mr. THORBECKE. I would simply like to submit that I am in complete agreement with Mr. Knoppers. He used the term "on the other side of the coin." What I did say in my presentation was that I felt that it was important to try to implement population control policies. But I am in complete agreement that the present state of the art is such, as well as the potential for applicability, that it is unlikely that at the present time we will be very successful.

Representative REUSS (presiding). Mr. Tuthill?

Mr. TUTHILL. Mr. Chairman, if I may, I would like to comment on one other aspect of what Professor Thorbecke has stated. That is the question of the amount of employment which has been provided by the industrial expansion in developing countries. I have given a very happy and optimistic impression of the industrial expansion of Brazil and the export expansion that has occurred. But if I may take the liberty of quoting myself from an article of a year ago, I just want to read a couple of sentences on this question; namely, "Today Brazilian industry provides roughly 35 percent of gross internal production, but provides only 8 percent of total employment. In Argentina industry provided 34 percent of gross internal production and 25 percent of total employment. In Mexico industry provides 25 percent of gross internal production and 16 percent of total employment."

In other words, I just want to make the point that the expansion in Brazil, which has been converted into exports in an amazing manner, has not made as much of a contribution internally in social and economic and employment possibilities as one might otherwise have thought.

Representative REUSS (presiding). Thank you, sir.

Gentlemen, you have made a notable contribution to our hearings, and we are very grateful.

The subcommittee will now stand adjourned.

(Whereupon, at 12:15 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.)

APPENDIX

(The following article was subsequently supplied for the record by Senator Javits:)

An Introduction to the Overseas Private Investment Corporation (OPIC)[1]

The Foreign Assistance Act of 1969 (PL 91–175, Part I, Title IV) creates the Overseas Private Investment Corporation (OPIC) as a federal agency under the policy guidance of the Secretary of State—

". . . to mobilize and facilitate the participation of United States private capital and skills in the economic and social progress of less developed friendly countries and areas, thereby complementing the development assistance objectives of the United States."

Establishment of the new corporation is expected by the beginning of the new fiscal year (July 1, 1970).

With a joint public-private board of directors, OPIC will reorganize and operate selectively on a business basis U.S. Government incentives to the investment of American private capital and know-how in projects which contribute to development.

Role and Objectives

OPIC is designed as part of a new emphasis on private enterprise and initiative in the total U.S. overseas development effort. Its role and objectives are:

> To further U.S. foreign policy by "undertaking . . . to encourage and support only those private investments in less developed friendly countries and areas which"—as well as being welcome—"are sensitive and responsive to the special needs and requirements of their economies, and which contribute to the social and economic development of their people."

This means that OPIC will assist projects which will be commercially viable and yield adequate returns to their investors, and also benefit their host countries in terms of increased national income, higher levels of employment, improved management and technology, increased earnings or savings of foreign exchange.

> To provide a more responsive corporation structure through which U.S. private citizens can participate in policy-making, and which will generate a broader understanding in the American business community of the needs and opportunities for private investors in the developing nations.

By reflecting U.S. private business experience in its direction and management, OPIC will provide a more familiar basis for dealing with private business investment in developing countries. By building investor confidence and credibility with the business community, OPIC is expected to encourage greater participation of private resources in the development process.

> To put the management of investment incentives on a more businesslike basis, increasing their efficiency, effectiveness, and adaptability to specific project needs, thereby expanding their use by investors.

OPIC programs meet long-established Bureau of the Budget criteria for use of a corporate form of government organization in that they: are predominantly of a business nature; are revenue-producing and potentially financially self-sustaining; involve a large number of business-type transactions with the public; and require greater flexibility than the customary government agency operation ordinarily permits.

[1] This fact sheet was prepared by the Office of Private Resources, Agency for International Development, March 1970. Under Presidential determination, this Office of A.I.D. is responsible for administering OPIC programs until the Corporation is established.

The Corporation can enter into commercial contracts, sue and be sued, develop an experienced, business-oriented staff and conduct its transaction in line with accepted business practices.

OPIC will not immediately generate large new dollar outflows of private capital investment. OPIC must take into account, in consultation with the Treasury, the balance-of-payments cost to the U.S. of its financial assistance. Except for local Latin American procurement, OPIC's financial assistance will continue, under present policy, to be substantially tied to purchases in the U.S. OPIC is expected to have a beneficial impact on U.S. exports, through generation of sales of U.S. goods and services recognized as an important concomitant of private investment abroad.

PROGRAMS

OPIC will take over and build upon the functions of A.I.D.'s Office of Private Resources, including the following programs:

Pre-Investment Assistance, in the form of information services and incentive financing, to help U.S. companies identify, evaluate and develop their own project opportunities.

In addition to providing general country information, investment promotion efforts have increasingly been concentrated on inducing the investor to conduct his own project reconnaissance, investigation and analysis. Repeated experimentation with investment surveys conducted by third parties have produced minimal returns. The investment survey program has encouraged 340 surveys since 1962 at a cost to the U.S. Government of $1.1 million, resulting in 46 positive decisions to invest approximately $98 million—a ratio of $89.00 of investment per $1.00 of cost to the U.S. Government.

Recent pre-investment assistance has featured experimental programs of partial financial support for feasibility studies and project development research in the fields of agribusiness, high-protein nutritional foods, and food storage, distribution and marketing.

In 1969, A.I.D. entered into a funding agreement with the private Agribusiness Council (ABC) to screen and financially participate with U.S. companies which look at opportunities for investment in food processing, distribution and marketing. Three U.S. companies have signed agreements with ABC to explore investment opportunities, and for calendar year 1970 ABC is programming 15 reconnaissance surveys and 10 complete feasibility studies by interested companies.

A.I.D. has encouraged American firms to investigate opportunities for production and marketing of high protein foods in the developing countries, by sharing with U.S. companies market survey and product testing costs for developing new high protein foods. The companies themselves pay for product development costs.

Fourteen (14) agreements have been concluded with U.S. firms for studies in seven developing countries, at a cost to A.I.D. of $750,000. While most of the studies have not yet been completed, current indications are that the firms have spent about $1.5 million of their own money on the surveys. To date, two positive decisions have been made to invest in Brazil and India. Two decisions *not* to invest have been made.

Investment Insurance, to minimize risks of currency inconvertibility, expropriation, war, revolution or insurrection—risks which may arise from political developments in developing countries and which particularly discourage otherwise interested investors from seeking opportunities in less developed countries (LDCs).

This program has involved some 3,500 coverages totaling $7.3 billion. Approximately 570 projects in the last three years have been insured under some 1,538 insurance coverages. The 458 coverages in CY 1969 totaled $1.25 billion of insurance, which protected U.S. private investment of about $540 million. The U.S. insured investment attracts an approximately equal amount of investment from other countries, mobilizing a current total of about $1 billion in new investment annually. Calculated at the rate of $2.00 of sales for each dollar of investment (a National Industrial Conference Board formula), this new investment generates an annual increase in sales volume of $2 billion. It is estimated that jobs are created at the rate of one for each $7,500 of new capital investment. The total investment of $3.5 billion insured under the program since its beginning in 1948, therefore, would have generated some 470,000 jobs, now adding 72,000 new jobs each year.

Investors pay premiums for their insurance contracts. Premiums paid each year have increased with the coverage written, and in CY 1969 insurance income amounted to $22.1 million. As of December 31, 1969, a total of $90.1 million in premiums had been collected. Losses paid have been only $3.5 million, but this does not yet reflect the vastly increased exposure and the losses to be expected on nearly $5 billion of insurance written in the last three years.

The $500 million of U.S. investment now insured per year represents approximately one-third of the total annual U.S. investment flow to less developed countries, at the current rate. Since as a matter of policy, oil exploration, concession agreements and investments in subsurface assets are not insured, and since these investments in petroleum constitute half of the total U.S. investment in LDCs, roughly two-thirds of the total new U.S. investment in other than petroleum projects is insured.

Investment Finance, primarily through guaranties of private loan or equity investments, and direct loans of dollars or local foreign currencies.

The loan guaranty program is comparatively new and only recently has resulted in significant returns. A.I.D. has authorized guaranties of $200 million of U.S. investment, almost entirely in the form of loan guaranties, to 27 projects. They have mobilized a total investment, both U.S. and foreign, of $714 million and have generated, on the same formula as outlined above, sales volume of $1.4 billion and 95,200 jobs. This program has almost entirely superseded direct A.I.D. dollar development loans to private industrial borrowers (for new OPIC authorities, see below).

Except in India availability of Cooley loan (local currency) funds is sharply declining. Cooley loans of $40 million to $50 million a year to 20–25 projects mobilize a total investment, both U.S. and foreign, of approximately $150 million per year. Calculated on the same basis as outlined above for insurance, this generates $300 million of gross sales volume and 20,000 jobs. Through FY 1969, a total of 448 Cooley loans, totaling a local currency equivalent of $450 million, have been authorized.

Technical Assistance, consisting of financial or advisory support for private programs providing technical, professional or managerial know-how to local private organizations in developing countries, with funds transferred to OPIC from A.I.D. or other public or private sources.

NEW AUTHORITIES AND RESERVES

OPIC's new authorities consist of:

Authority to "initiate and support through financial participation, incentive grant, or otherwise, and on such terms and conditions as the Corporation may determine, the identification, assessment, surveying and promotion of private investment opportunities, utilizing wherever feasible and effective the facilities of private organizations or private investors."

A five-year insurance authority of $7.5 billion, calculated in terms of maximum contingent liability, including new authority to enter into multilateral insurance arrangements covering multinational projects proportionate to the U.S. investment share.

A five-year guaranty authority of $750 million to cover U.S. private loans (up to 75% of the total investment in project from all sources, and thus up to 100% of the U.S. loan), and up to 75% of equity investments.

A corporate capitalization of $20 million per year for each of the first two years of OPIC operations, to be used as a revolving Direct Investment Fund to make dollar loans and to purchase convertible debentures and other debt instruments.

U.S.-owned local currencies in amounts to be determined annually. In financing projects in countries where these sources of local currencies are not available or adequate, the Corporation can, with the concurrence of the Treasury, permit the use of a portion of its dollar financing, including loans and guaranty agreements, to cover a reasonable share of local project costs.

A pilot program guaranty authority of $15 million to cover 25% of private local currency loans to agricultural credit and self-help community development projects in five Latin American countries to be selected.

A portion of existing appropriated and accumulated reserves (approximately $125 million) will be allocated by the OPIC board of directors to separate insurance and guaranty reserves. These will be supplemented by allocations from future net earnings of the Corporation. OPIC has authorization for such Congressional appropriations "as may be necessary to replenish or increase" its reserves. Guaranty reserves must be maintained at a ratio of 25% of outstanding liabilities.

All insurance and guaranties are obligations of the U.S. and its full faith and credit is pledged for the full payment and performance of such obligations.

OPERATING POLICIES

OPIC will actively seek qualified prospective investors, emphasizing programs of project identification and promotion to help investors develop opportunities.

It will foster project-generating "second-tier" intermediate financial and investment institutions to promote and finance suitable projects.

The Corporation will set up special facilities to assist small investors.

OPIC will conduct its financial operations on a self-sustaining basis. It will consider the economic and financial soundness of projects to be assisted, and take into account the availability of financing on appropriate terms from other sources.

It will finance administrative expenses and costs of investment promotion activities out of earnings of other accounts (i.e., interest and fees charged for insurance, guaranties, promotional and other services).

The Corporation will attempt to further broaden private participation in development and to revolve its funds by selling investments in its portfolio to private investors.

OPIC is precluded from making direct equity investments, but may purchase convertible debentures which it may sell to private investors for conversion to equity stock.

The Corporation is precluded from making direct loans to, or financing the survey of, extractive projects. No more than 10% of OPIC's insurance or guaranties may be issued to a single investor.

ORGANIZATION AND COORDINATION

OPIC will be governed by a joint public-private board of eleven directors appointed by the President of the United States with the advice and consent of the Senate. A majority (six) of the directors will be citizens with international experience appointed from private life, including one each experienced in the fields of small business, organized labor, and cooperatives. The chairman of the board will be the Administrator of A.I.D., ex officio. OPIC's president and chief executive officer, whose private business experience will be taken into account, will serve on the board. The remaining three Government directors will be Presidential appointees designated from departments and agencies charged with U.S. foreign economic policy and program responsibilities.

Through the composition of its board of directors, OPIC policies will be coordinated with A.I.D. and other agencies concerned with foreign economic policies and programs. OPIC will concentrate on longer-range projects involving private investment in the developing countries and thus not duplicate or conflict with the export promotion and financing activities of the Export-Import Bank or the Department of Commerce. To the extent feasible, it will assist in the formulation of country development plans and programs to ensure that public and private investment projects complement one another.

The Corporation, headquartered in Washington, will develop its own staff, and will make arrangements for use of U.S. embassy and mission staffs overseas. OPIC employees will be subject to Civil Service requirements except for a limited number of officers exempted from the requirements by law.

ORIGINS OF OPIC

OPIC reflects a growing trend toward the use of specialized corporations to promote private investment in the developing countries. Successful examples of the corporate approach include the private multinational Atlantic Development Company for Latin America (ADELA), the World Bank's International

Finance Corporation, West Germany's German Development Company and the U.K.'s Commonwealth Development Corporation. (Legislation establishing a Finance Corporation for Developing Countries is pending before the Parliament of the Netherlands).

An earlier proposal by Senator Jacob K. Javits (R-NY) called for a federally-chartered corporation. In March 1968, following extensive hearings, the House Foreign Affairs Subcommittee on Foreign Economic Policy, chaired by Representative Leonard Farbstein (D-NY), also endorsed the corporate concept.

In April 1968, the Congressionally-chartered International Private Investment Advisory Council to A.I.D. (IPIAC) [2] decided to study this approach to private investment incentive programs. Subsequently, Senator Javits sponsored an amendment to the Foreign Assistance Act of 1968 calling for a Presidential reappraisal of all U.S. foreign assistance programs, with specific analysis and consideration to be given to proposals for a federally-chartered corporation "designed to mobilize and facilitate the use of U.S. private capital and skills in less developed friendly countries and areas."

In December 1968, IPIAC endorsed the proposal and submitted to A.I.D. its recommendations for establishment of such a corporation. OPIC subsequently was specifically endorsed by the Chamber of Commerce of the U.S., the Committee for Economic Development, the National Association of Manufacturers, and the National Foreign Trade Council.

Other advisory groups have supported either the corporate concept or OPIC specifically, including former President Johnson's General Advisory (Perkins) Committee on Foreign Assistance Programs, the National Planning Association a task force of the National Association of State Universities and Land Grant Colleges, the World Bank's (Pearson) Commission and the Rockefeller task force. This month, President Nixon's (Peterson) Task Force on International Development reported that it "strongly supports" OPIC as "an effective instrument in encouraging U.S. private investment activities in developing countries—both through its guaranty programs and through advising American firms on how to make their investment more acceptable to the host country."

The legislation creating the Overseas Private Investment Corporation was the result of the Administration's analysis and consideration of the IPIAC and related proposals.

---

[2] IPIAC was created as an advisory council to the A.I.D. Administrator by an amendment to the 1966 Foreign Assistance Act, sponsored in the House by Reps. F. Bradford Morse (R-Mass.) and Lester L. Wolff (D-NY), and in the Senate by Sen. Jacob K. Javits (R-NY). Its membership consists of senior officials of six national business organizations: the Chamber of Commerce of the U.S.; the Committee for Economic Development; the National Association of Manufacturers; the National Industrial Conference Board; the National Foreign Trade Council; and the U.S. Council of the International Chamber of Commerce.

O