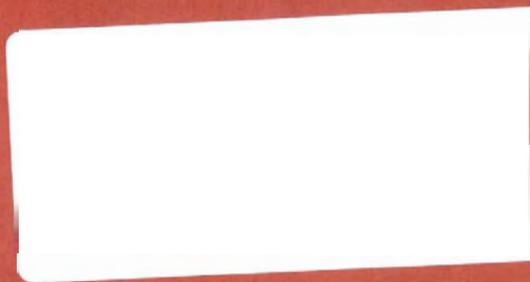


**NEEDED:
A NEW
FOREIGN
AID
POLICY**



NEEDED: A NEW FOREIGN AID POLICY

BY

Howard C. Petersen

PRESIDENT, FIDELITY-PHILADELPHIA TRUST COMPANY
CHAIRMAN, CED SUBCOMMITTEE
ON INTERNATIONAL ECONOMIC POLICY

Based on

A Statement on National Policy

issued by

THE RESEARCH AND POLICY COMMITTEE
of the

Committee for Economic Development



Howard C. Petersen, President
FIDELITY-PHILADELPHIA
TRUST COMPANY

The following article was prepared by Mr. Petersen to present in brief form the substance of the Statement on National Policy issued by the Research and Policy Committee, April 5, 1957.

Copies of the Statement, "ECONOMIC DEVELOPMENT ASSISTANCE — A Long-Term Policy for Assisting Economic Growth and Encouraging Independence in the Underdeveloped Nations of the Free World," may be obtained by sending a postcard to The Committee for Economic Development, 444 Madison Avenue, New York 22, N. Y. Members of the CED Research and Policy Committee are listed on Page 22.

A fundamental reassessment of United States policy on foreign economic aid is urgently needed.

Opinion is divided and confused. Misconceptions abound. And yet, there is no economic issue of greater import to the security and well-being of the United States. The concern many individuals and groups, both private and public, are manifesting toward this question is therefore desirable and timely.

CED sought to assist national thinking on the role of American investment in economic development abroad through a statement released by its Research and Policy Committee in February, 1956. At the same time, the Committee directed that further study be given to the problem of assisting economic growth in the underdeveloped nations of the Free World.

Now, 14 months later, the Committee's work has led to the conclusion that the United States should develop without delay an improved, enlarged and long-term program for economic growth in the underdeveloped areas that span most of Asia, the Middle East, Africa and Latin America.

Many factors support the Committee's conclusion.

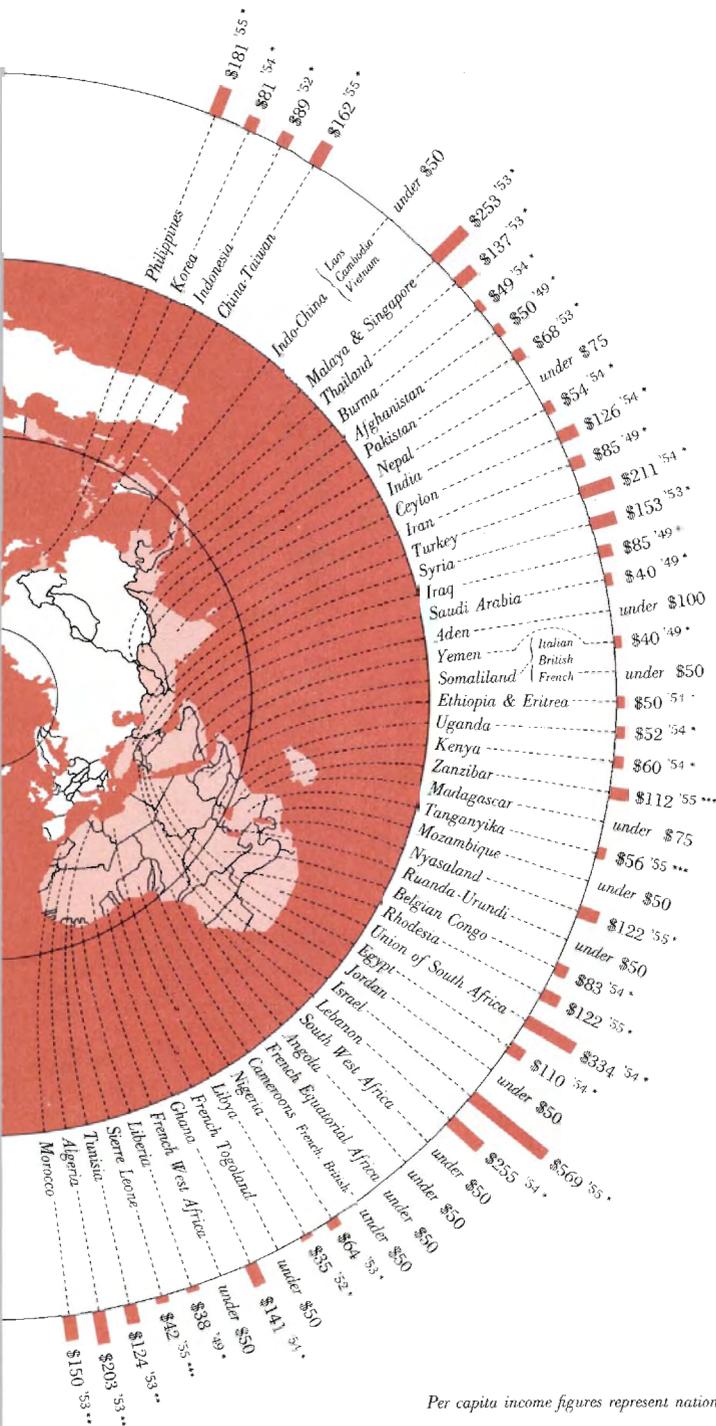
Two-thirds of the Free World's people live in these economically underdeveloped areas. Their average production of goods and services in 1955 amounted to only about \$100—nearly 20 times less than the United States average of \$2,000 per person. And their life expectancy of 36 years is only about half that of the rest of the Free World's.

The need of one billion 150 millions of people for better living standards is being joined with an increasing desire and determination to break loose from their history of grinding poverty.

The Underdeveloped World:

75 countries, 1,150,000,000 people





Per capita income figures represent national income divided by population.
Standard exchange rates used, except in South America where multiple rates exist.

This rising demand of the underdeveloped world is strong enough to shape world history in either desirable or undesirable ways because the efforts of leaders in these countries to bring about economic progress can take the way of peaceful development and growing freedom; or they can lead, through frustration, to violence, communist subversion or other forms of regimentation.

Recent events in the Middle East have demonstrated clearly that impoverished, unstable countries can confront vital American interests with economic burdens and security dangers that are real, immediate and grave.

Even before the ominous underscoring provided by the Suez crisis, it was evident that the needs and desires of the underdeveloped world for economic growth touched the interests of the people of the United States in at least three important respects.

1. It is vital to our national security that these nations should be stable, peaceful and independent—not necessarily allies, and certainly not “satellites,” but independent. Deeply resented poverty and a frustrated desire to progress are not conditions in which stability, peace and independence can be expected to grow.
2. Economic growth in areas comprising half the globe and where over a billion people live could not fail to enrich world trade and investment opportunities—including our own.
3. As individuals and as a nation we have a traditional humanitarian concern with the well-being of people everywhere.

These interests require the United States to frame and carry out a policy designed specifically to assist economic development in the Free World.

instrument for development, and in last year's statement, "Economic Development Abroad and the Role of American Foreign Investment," made specific suggestions to encourage the flow of private capital into underdeveloped countries. However, it is not realistic to expect that private capital can meet the needs of these countries until their development has proceeded beyond the present stage. Basic but non-revenue-producing facilities, such as roads, harbors, irrigation, are not sufficiently attractive to private investors. Once such economic facilities are created, private investment can then play an important and perhaps a major role in developing manufacturing, extractive industries, trade, and similar productive enterprises.

PAST PROGRAMS

Past foreign aid programs, big as they were, have not been aimed at aiding the growth of the world's less developed countries.

With but minor exceptions, their main goals were: 1. the direct relief of distress in war-damaged areas; 2. the rehabilitation of Europe under the Marshall Plan, and 3. the military strengthening of our allies in Europe, the Middle East and Asia.

These goals have been pursued with a large measure of success. But if economic growth in underdeveloped countries is a major concern, the programs need to be examined more carefully.

Of the \$57 billion¹ of U. S. foreign aid in the 11 years from mid-1945 to mid-1956, \$39 billion was spent for economic assistance and \$18 billion for military help. Europe received two-thirds, or about \$26 billion of the total spent for economic aid, mainly under the Marshall Plan. A further \$2.4 billion went to another industrialized area—Japan.

¹This figure excludes about \$3 billion of U. S. contributions to the capital stock of the International Monetary Fund and International Bank for Reconstruction and Development.

It includes grants, net long-term credits (loans less repayments) and net sales of agricultural products for local currency (currency acquired by sales, less currency expended).

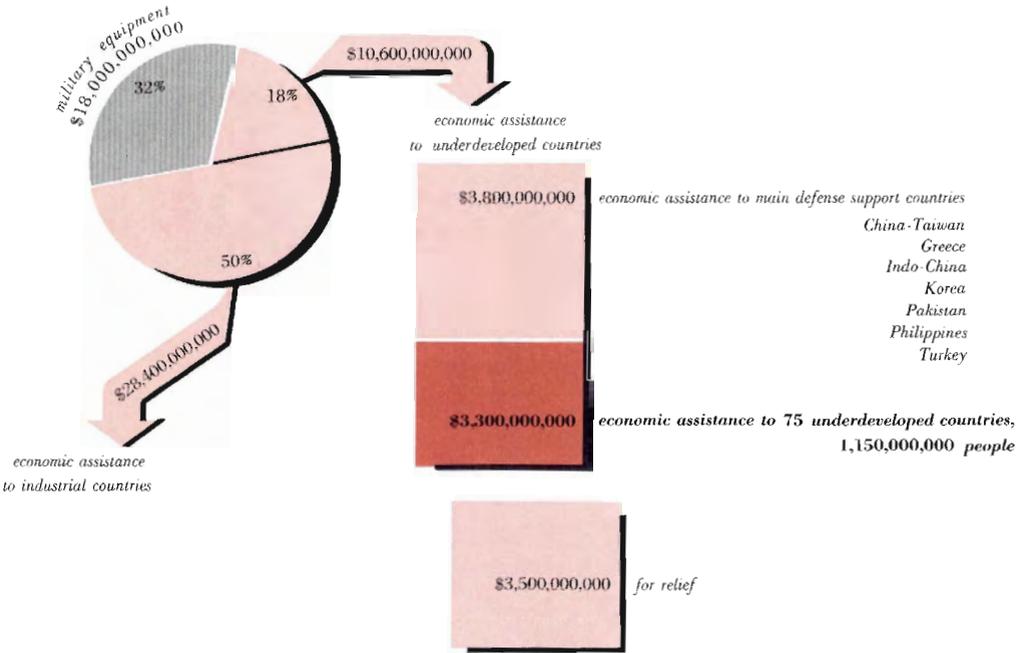
United States Government Expenditures for Foreign Assistance

11 years- July 1, 1945 to June 30, 1956

economic assistance

to 75 underdeveloped countries

(not including main defense support countries)



The remaining \$10.6 billion—less than one-fifth of the total—went to underdeveloped countries, but nearly \$3.5 billions were for relief, mainly in areas devastated by war. This left about \$7.1 billion for aid having a high “development-assisting” content—but nearly \$3.8 of these billions were concentrated in the seven countries with which we have large-scale military arrangements: China (Taiwan), Greece, Indo-China, Korea, Pakistan, the Philippines and Turkey; having a total population of almost 200 million.

Thus, out of the \$57 billion, all the other underdeveloped countries, containing more than one billion people, received during these 11 years approximately \$3.3 billion. In other words, almost two-thirds of the Free World’s people received less than one-eighteenth of our help.

In the most recent complete fiscal year, 1955-56, an enlarged but still small share of our aid went to underdeveloped countries. Although we provided grants and credits of about \$5 billion in that year, economic aid other than relief, and excluding Europe and Japan, was only \$1.3 billion. About \$850 million of that sum went to the seven chief military-agreement countries, leaving \$450 million for all the rest of the underdeveloped world.

These figures acquire special significance in view of the race for economic growth that is being run between the independent less-developed countries and the countries in the Soviet orbit, China, in particular. This is a race the Free World cannot afford to lose if it wants peoples in the underdeveloped countries to choose freedom rather than communism.

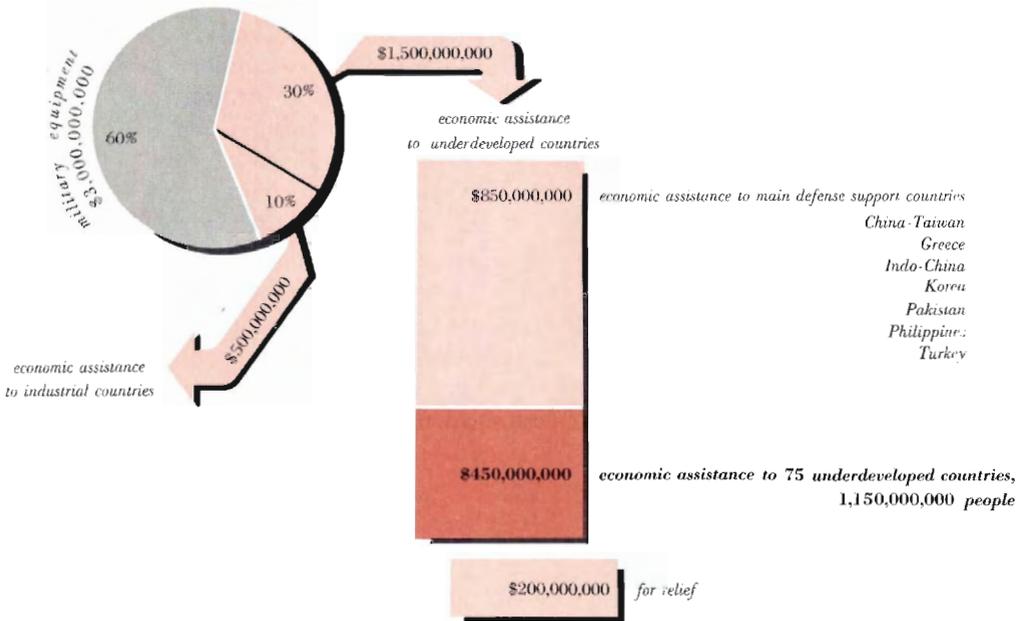
THE OBJECTIVE IS GROWTH

It would be a blunder to expect economic development to be a panacea for the underdeveloped world. And in setting our own course, we should not be diverted by expectations that our assistance will make all the underdeveloped countries our friends, allies, or imitators of our society. Such results may sometimes occur, but the guiding point of our policy should be to

United States Government Expenditures for Foreign Assistance

1 year- July 1, 1955 to June 30, 1956

*economic assistance
to 75 underdeveloped countries
(not including main defense support countries)*



encourage a process of economic growth sound enough to be self-sustaining. It is to this growth, and its translation in terms of independence and stability, that we must look for benefits to the countries themselves, to us, and to the world at large.

And we must recognize that such growth will not occur unless two factors are present.

First, the fundamental effort must come from the people of the underdeveloped areas themselves.

Outside assistance can only be the extra boost that *may* make success possible. The peoples of these countries, and their leaders, must not only desire economic growth, but they must also be willing to devote their energy, talents and resources to it, and to discipline their desires in favor of growth.

Second, an effective effort to help the poorer countries of the Free World help themselves requires a long-range commitment by the United States.

This requires the government and the people of the United States to make and support a new, major decision of national policy. CED's Research and Policy Committee has concluded that economic development assistance to the underdeveloped countries should become a major element in our long-range efforts to make our own freedom secure, and has outlined eight principles which it believes are among the

REQUIREMENTS OF AN EFFECTIVE PROGRAM

1. Our program should be consistent with the fact that economic development and economic development assistance are long-term processes.

Until now, economic assistance by the federal government has been regarded as something to be reconsidered annually, with a fundamental debate each year about the wisdom of the whole program. This process needs to be changed.

Most functions of the federal government are carried out under "permanent" authorizing legislation (which gives Con-

gressional approval to the activity for an indefinite time) and annual appropriations (by which Congress finances on a one-year basis the long-term activity it has approved). But economic assistance operates under annual authorization as well as annual appropriations, which keeps the continuity of the program in constant doubt.

Our long-term dedication to the task would be made clear, both at home and abroad, by "permanent" authorizing legislation of the kind that underlies other major activities of the government. Congress would retain annual control over amounts to be spent and the manner in which they were to be spent. And this would make clear, both at home and abroad, our intent to keep the program under continuing supervision.

Other methods of assuring continuity also are possible. For example, since much of the development activities will be carried on through loans, Congress could establish a loan fund and authorize the lending agency, as in the case of the Export-Import Bank, to borrow from the Treasury. The Export-Import Bank would, in fact, be an appropriate and experienced agency to supervise expanded development assistance lending. Congress reviews the activities of the Export-Import Bank annually as a part of its budget deliberations, and this same supervision could be provided if a special loan fund or agency were established.

Whatever procedures are adopted, it is essential they recognize that economic development is a long-term process. The program must be responsive to the fact that efficient decisions about the use of capital require reasonable ability to foresee future availability of capital. It must encourage governments to make long-term commitments of their energies and resources, particularly since the training of people and the creation of economic institutions that must underlie successful investment projects are time-consuming.

2. Development assistance should be extended mainly on the basis of country-by-country, or regional, programs.

The underdeveloped world comprises a great variety of countries, widely different in geography, history, culture, religion, resources, climate, population, political and social systems and degree of underdevelopment.

A few have an abundant natural resource, such as oil, adequately filling their capital needs, but they require technical assistance in the efficient use of their capital. Most need a steady flow of funds, applied to capital development. And to use this capital effectively for economic growth they also need, in varying degrees, technical assistance of many kinds. They need not only training in agricultural and industrial skills, but also the development of managerial abilities, governmental techniques, and, very importantly, the development of institutions such as banking systems, distribution facilities and credit facilities.

This means economic development can best be approached through programs worked out country-by-country, project-by-project, or in some cases, on a regional scale. Where countries wanting development are incapable of drawing up their own plans, they can be helped to do so as part of our technical assistance.

3. In general, the United States should control the allocation of the Economic Development Assistance it provides, although for some purposes, multilateral agencies should be used.

A program directed toward advancing stability and independence in the free, underdeveloped world obviously involves political as well as economic judgments. Such decisions it is wisest for the United States to make for itself. Also, some of the countries needing development help also receive military aid and defense support from us, and decisions on the amount and kind of all three kinds of aid should be made together. Such decisions, obviously, must be kept on a bilateral basis.

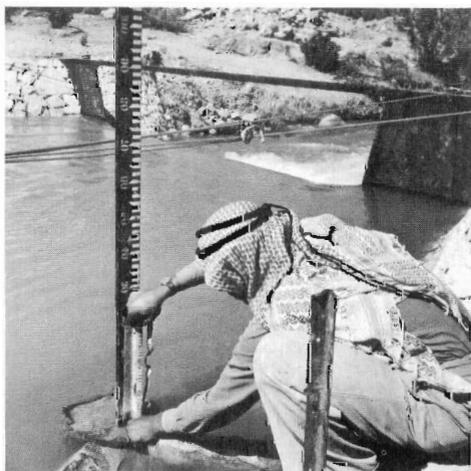
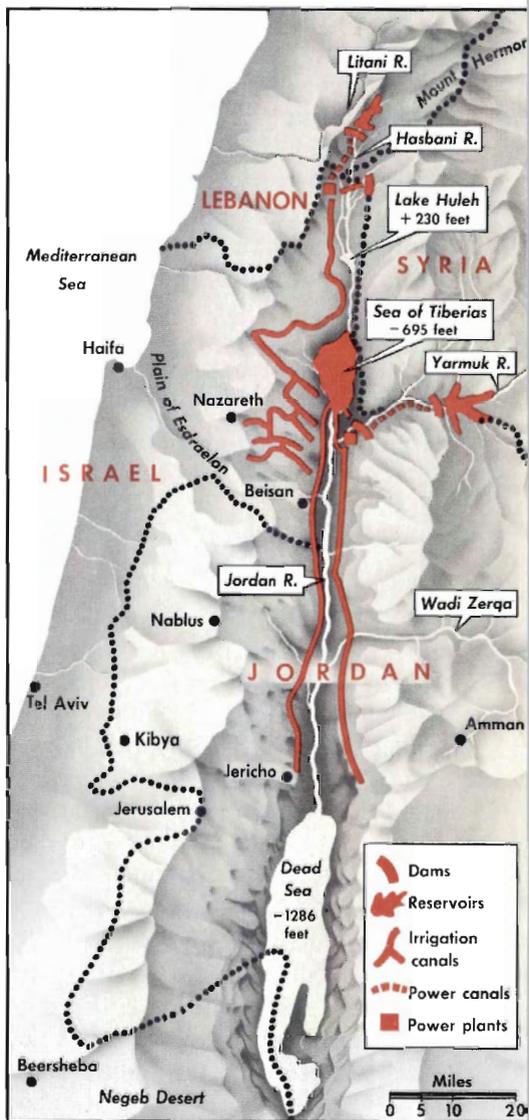
There are cases, however, in which use of multilateral arrangements would be desirable. While only a few countries can provide capital, there are many that can contribute technical assistance, and much of the technical assistance needed might be administered by such agencies as the United Nations' Food and Agriculture Organization, the International Labor Office and the World Health Organization.

Even in relation to capital, the administrative competence and extensive experience of the World Bank, another UN agency, could be used to advantage in administering assistance we have allocated to particular countries and projects. This might be

The water and power resources of the Jordan river offer development opportunities to four countries. A plan for "unified development" of the Valley, submitted by Eric Johnston in 1952, on which the adjoining map is based, has been the center of continuing negotiations and has stimulated alternative proposals. Below, An Arab U.N. worker reads water height on the Yarmuk, a Jordan tributary and site of a proposed power plant. On the opposite page, a U.N. agronomist studies aerial maps made to assist irrigation planning.

Map—Courtesy of Newsweek Magazine—Magill.

Picture—Courtesy of United Nations



especially helpful in assuring sensitive underdeveloped countries that we do not intend to subvert their independence through administration of our assistance.

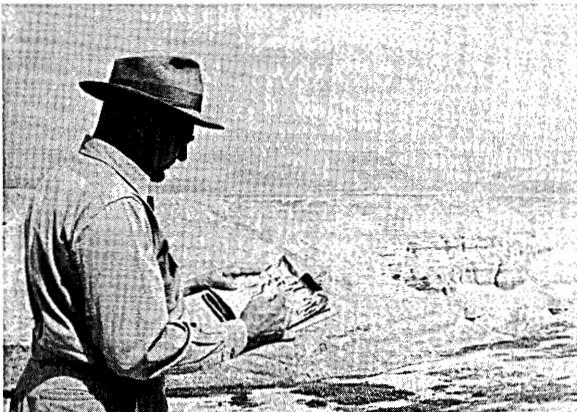
In some cases, it would be desirable to encourage regional groups. An outstanding example is the Middle East. Some of the most important development projects there, such as the Jordan River project, are of obvious multi-national interest. The use of regional development organizations, where they can effectively tackle their problems, would provide an opportunity to use development assistance to promote self-reliance, reduce international tensions, and at the same time diminish the emphasis on economic nationalism which handicaps growth in much of the underdeveloped world.

4. Our assistance, generally, should go to specific projects that are consistent with a country's over-all development program and prospects.

Several advantages should flow from linking our help to specific projects.

First, it is helpful to make the purpose of development assistance concrete in the form of a well-defined project. These projects should be based on the best available estimates of costs; the construction, production and management problems involved; and the distribution and use of the product envisaged. The very process of drawing up such estimates will be an important step in development.

Second, it will be possible to judge the value of and assign



priority to development aims only when they are converted into terms of specific projects.

Third, the process will make clear the demands that are to be made upon the country's capital resources, its management abilities, its labor supply, water resources and the like.

Such "programming" will underscore in the developing country the importance of realism, frugality and efficiency, and will give us a firmer basis for estimating the amount and kinds of assistance we should supply.

5. Loans advance the objectives of development assistance better than grants, but some grant aid will be necessary.

The generation of a greater sense of self-reliance, of the need for prudent use of scarce resources, and of management abilities is vital to effective development assistance. The businesslike use of loans tends to encourage the development of attitudes, skills and institutions necessary to the evolution of dependent economies into self-managing and self-sustaining economies.

Resources for loan repayments in the currency of the lender, particularly in dollars, will be severely limited over considerable periods in some cases. In these instances, loans repayable in the currency of the borrower should be made. Payments on these loans could be reinvested, as a part of a revolving development fund.

The tax system in at least some underdeveloped countries may not be adequate even to raise local currency, without inflation, to repay development loans. In such cases, while an effective tax system is being developed, U. S. grants should be considered for temporary technical assistance and for the building of basic facilities that do not yield revenue directly, such as harbors and roads.

6. The United States should encourage and assist the underdeveloped countries in meeting their need for enterprises and management that can use capital and labor effectively.

An economic system is not a vending machine into which capital and labor can be inserted and from which efficient production will then automatically flow. The resources must be combined, managed and used. Decisions about the use of

resources must be made—thousands of decisions even in a relatively simple economy.

These decisions require business managers and business enterprises. The enterprises must be so organized that their managers have substantial freedom to make decisions, to take risks. There must be maximum independence and decentralization, and a minimum of bureaucracy, red-tape and detailed prescription from higher authority. There must be opportunity for people with talent and drive to form enterprises, for successful enterprises to grow and for unsuccessful enterprises to shrink.

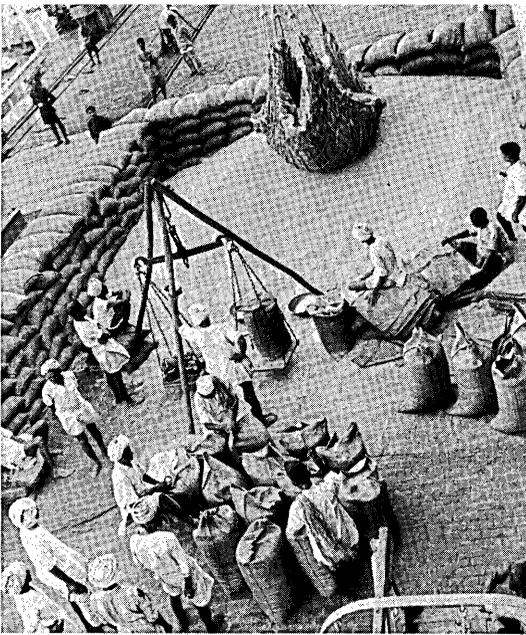
Many of the countries that are most eager to achieve economic advance have failed to understand the importance to economic growth of developing managers and a broad range of enterprises. Anxious as they are to borrow Western technology, they have not recognized the vital role of enterprises and enterprisers in the success of Western economies. And the attempt to launch the process of economic development at the initiative of government often does not encourage the emergence of decentralized, independent enterprises or provide incentives and freedom for business managers.

The U. S. can provide assistance that will accelerate the emergence of the institutions and people that will make growth possible.

CED does not recommend preaching the merits of American capitalism as a part of a development program. We believe our system makes its own best arguments in action. We should not urge others to copy us, but urge them to strive, by means congenial to their own cultures, to develop independent enterprises and capable, energetic managers.

We advocate this course because we believe that basic American concepts such as freedom of enterprise, the value of competition, the right of labor to organize and bargain, and the right to private ownership of property will flourish where given a chance to take root.

The most effective way to encourage economic democracy will be through example, experience, contact and training. Our assistance programs should include provision for training prospective business managers in this country, both in schools of



Surplus wheat being unloaded and bagged at Bombay, as part of a three-year program that will see \$300 million of U. S. agricultural products being used in support of development projects in India.

business and in businesses. Better still, we should assist in training business managers in the underdeveloped countries. We should be prepared to train foreign teachers of business administration in this country, and to provide personnel to assist in establishing business administration schools abroad.

If we are to help the underdeveloped countries effectively we must understand them better and be better able to communicate with them. This has obvious implications for our own educational system. Our schools and colleges need to devote much more effort to teaching the history, cultures and languages of the underdeveloped countries, especially of the East.

The U. S. government should utilize private businesses, including private management consultants, operating on contract, to fulfill U. S. commitments in the cooperative effort at development. This will not only be an efficient use of U. S. funds; it will also have the important by-product of increasing the contacts of enterprise in developing countries with U. S. enterprise.

7. Our assistance agreements should not be encumbered with guarantees of mutual defense or friendship.

If development assistance is to make its full contribution to our security by advancing material well-being, political stability and independence in the underdeveloped world, the program must be acceptable on its own merits. Attaching defense arrangements and friendship guarantees to development assistance

agreements brings our motives into doubt and impairs the effectiveness of the program.

We need to keep attention focused on those conditions which are properly a part of such agreements: that decisions about where to give aid, how much and when must be ruled by our national interests; and that United States officials have the right to determine whether or not our aid is being used productively.

8. The United States can, and should, use its agricultural surpluses effectively in promoting economic growth in the underdeveloped countries.

Although agricultural surpluses of food and fibers are consumer goods, they can serve as capital and become a major factor in helping the poorer nations solve their growth problems.

Whether agricultural supplies in a developing country are sufficient or deficient, our surplus stocks can allow that country to use less of its resources or foreign exchange on agriculture and devote more resources, chiefly labor, to building the roads, harbors, communications, and factories it must have if it is to become an expanding economy. In either case, the surpluses can release resources and put them to work increasing capital.

We should not relax the effort to devise a domestic agricultural policy that will terminate the persistent generation of surpluses. And we should not, of course, press on a country agricultural surpluses for which it has no good use. But experience already gained shows that agricultural surpluses can be used to genuine and even greater advantage in aiding development programs.

THE COST OF THE PROGRAM

The amount that can be invested productively in effecting a permanent increase in productive capacity at this stage in underdeveloped countries is strictly limited.

In many countries the ability of either private enterprise or government to plan the productive use of capital is small. Man-

agerial talent and skilled labor to use capital is scarce. Transportation, power and materials to go with the capital are lacking.

As development proceeds, the ability of underdeveloped countries to use capital effectively for further economic growth will increase. At the same time, the ability to generate internal capital will also grow. But internal capital resources are likely, at first, to grow less rapidly than the increasing capacity of developing countries to use new funds. This means that the amount of foreign capital that can be productively absorbed into a growing economy will rise even while its own capital resources are expanding. This need not mean, however, that the amount of external *government* capital need rise accordingly.

A dependable flow of government capital into basic development projects, plus technical assistance that increases the ability of underdeveloped countries to manage capital and business, should be a stimulus and assurance to the flow of private capital, making it possible to obtain an increasing part of the rising demand for new capital from private sources. And if the process is successful, the developing country should reach a point at which it can depend wholly for its continued growth upon its own savings and foreign private investment.

The costs are therefore difficult to estimate in advance. They will only be definitely learned as we go through the process of programming.

It is unlikely that programs meeting the tests of feasibility and value could be developed during the first five years that would involve an outlay of more than 5 billion dollars. If definite proposals of this magnitude can be formulated, CED's Research and Policy Committee believes such a sum would be not only a desirable but a necessary investment in our national security and in our economic and humanitarian interests.

Use of agricultural surpluses owned by the U. S. government would mean that actual cash outlays would be considerably less than the total dollar value of the program. Also, every effort should be made to obtain the cooperation of other countries in providing at least part of the capital needed by the underdeveloped countries.

A program for additional economic aid expenditures averag-

ing \$1 billion a year would bring our total economic assistance to underdeveloped countries to some \$2¼ billions a year. This additional billion would be less than 1½% of our present federal budget. It is ¼ of 1% of our national production.

There is an urgent need for economy in federal expenditures to prevent inflation and permit important tax reductions and reforms. But the essence of economy is to distinguish between the vital and the merely desirable, and there are few federal functions more vital to our national interests than that of advancing economic development abroad.

In its study of this important national issue, CED's Research and Policy Committee summarizes its views in this statement of

CONCLUSIONS:

- 1. Success in economic development can be promoted in the underdeveloped world by United States capital and technical assistance applied where dedicated efforts at self-help are made.**
- 2. Where success in economic development occurs, the prospects for stability and independence will be made more favorable in a large area of the world now dangerously unstable and unsure of its future.**
- 3. The United States national interest would be served by growing stability and independence of the now underdeveloped countries.**
- 4. The United States should consequently undertake an improved, enlarged and long-term program of Economic Development Assistance to free countries.**
- 5. The Committee recommends the use of Economic Development Assistance as an instrument of national policy. This means that the direction, amount and timing of assistance should be governed by the test of our long-run national interest.**



Frazar B. Wilde
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The Background of CED Statements on National Policy

The Statement on National Policy, on which this article is based, represents the views of the members of the Research and Policy Committee of the Committee for Economic Development and of the Subcommittee responsible for drafting it.

The Research and Policy Committee is directed by CED's by-laws to:

“Initiate studies into the principles of business policy and of public policy which will foster the full contribution by industry and commerce to the attainment and maintenance of high and secure standards of living for people in all walks of life through maximum employment and high productivity in the domestic economy.”

The by-laws emphasize that:

“All research is to be thoroughly objective in character, and the approach in each instance is to be from the standpoint of the general welfare and not from that of any special political or economic group.”

The Research and Policy Committee is composed of 39 Trustees from among the 150 businessmen and educators who



Alfred C. Neal

PRESIDENT, COMMITTEE FOR ECONOMIC DEVELOPMENT

comprise the Committee for Economic Development. It is aided by a Research Advisory Board of leading economists, a small permanent Research Staff, and by advisers chosen for their competence in the field being considered.

Each Policy Statement is preceded by discussions, meetings, and exchanges of memoranda, often stretching over many months. The research is undertaken by a subcommittee, with its advisers, and the full Research and Policy Committee participates in the drafting of findings and recommendations.

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COMMITTEE FOR ECONOMIC DEVELOPMENT
444 Madison Avenue, New York 22, N. Y.

First Printing, April 1957, (7649)
Committee for Economic Development
444 Madison Ave., New York 16, N. Y.

