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The "Rockefeller Report" on U.S.  
International Economic Policy

# Foreign Economic Policy for the Twentieth Century

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Special Studies Project Report III  
Rockefeller Brothers Fund

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America at Mid-Century Series

# FOREIGN ECONOMIC POLICY FOR THE TWENTIETH CENTURY

REPORT OF THE ROCKEFELLER BROTHERS FUND  
SPECIAL STUDIES PROJECT

*(This is Special Studies Report III, the third of a series.  
Other reports will be issued subsequently.)*

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# Foreign Economic Policy For the Twentieth Century

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# Foreword by the Overall Panel

*We live in a period which to future generations will undoubtedly appear as one of history's great dividing lines. All over the world millions are groping for a new meaning in their lives and new dignity. As in all such periods the issue concerns the nature of man and his place in the universe. It is between the conception of the individual as the measure of things and the individual as a tool to be manipulated.*

*This report follows reports on international security and on domestic economic and social objectives. The sequence symbolizes the nature of the contemporary turmoil. We require military security to assure the possibility of achieving our positive aspirations. A vital and growing United States economy is essential to the well-being of peoples everywhere. But ultimately our contribution to the contemporary revolution will be measured by our concern: by our ability to embody universal values, by the degree to which we can relate ourselves to the hopes of people beyond our borders.*

*Everywhere economic growth has become a primary concern. But while increased world productivity is essential to fulfill many aspirations, it cannot be our ultimate purpose. Precisely because economic activity offers such vast rewards, the values on which it rests have never been more essential. Where technology is not related to deeper concerns, it may merely refine the tools of slavery.*

*This report strongly urges a greater American participation in world economic and social progress. We look forward to a world united more profoundly than the contemporary world by a community of shared aspirations. In this sense our values transcend national boundaries and iron curtains.*

*This report is the work of Panel III, one of seven panels of the Special Studies Project. Each member of the Overall Panel has served on one of these groups. Obviously we are most familiar with the studies of those panels on which we have served, but we have considered the draft of this report at various stages of its formulation. Not every member endorses every detail, but we have approved its substance and we believe implementation of its recommendations will greatly strengthen the free world.*

NELSON A. ROCKEFELLER, chairman of the panel.\*

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- HENRY A. KISSINGER, director of The Special Studies Project, Rockefeller Brothers Fund, Inc., and associate director of the Center for International Affairs, Harvard University.

## A Word by Panel III

*This report seeks to outline a structure for a free world which gives effect to the interdependence of nations and which makes possible the achievement of the aspirations of its peoples. We believe this to be the economic challenge of the mid-twentieth century.*

*We live in a period which has the task of rebuilding an international order and of establishing new international economic relationships. While we have devoted considerable attention to the Soviet threat, we have not derived the justification for our foreign economic policy from it. A structure cannot be built primarily on motives of negation. Its sole justification cannot be merely to prevent an expansion of the Soviet sphere.*

*We are convinced that it is not sufficient to construe the end of foreign policy simply as the procurement of military security. It is not enough to base foreign economic policy on the need for meeting emergencies requiring instant action; in fact, one of the purposes of a sound policy is to prevent emergencies from arising. Nor is foreign economic policy important simply because of United States reliance on foreign resources—considerable as this is. The free world confronts a deeper challenge than mere survival. The impetus behind our efforts must always be the things we believe much more than those we reject. We should consider our efforts not as an act of benevolence but of partnership. The challenge is therefore to our sense of purpose and to our values. The heritage of freedom and the tradition of faith in human dignity depend on our response.*

*This report is the result of a group effort by Panel III of the Special Studies Project. Although not every member of the panel subscribes to every detail, it reflects our substantial agreement.*

\*MILTON KATZ, director, International Legal Studies, Harvard Law School. Former Ambassador and chief in Europe of the Marshall Plan; chairman and U. S. member, Defense Financial and Economic Committee under NATO; U. S. representative, Economic Commission for Europe; U. S. executive officer, combined Production and Resources Board. Chairman of Panel III.

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# I—The Challenge

The world's present disorders often seem as a series of unrelated crises. Actually they reflect disintegration of a whole system of relationships which once provided nations with some measure of stability both in politics and in economics. Enormous transformations in human aspirations, in the structure of societies, in science and technology, have reshaped events at unprecedented speed.

All over the world, social and economic conditions taken for granted for centuries have come to seem intolerable. Economic and social growth has become a matter of primary concern everywhere. These aspirations for growth, if they are based on respect for national and human dignity, can become the basis of a new and more enduring world community.

The challenge, then, is to build a new structure that will make possible the fulfillment of the basic purposes of humanity. The well-being and the prosperity of every nation will depend to an increasing degree on its participation in a complex of nations designed to satisfy awakening human aspirations. No country—not even the United States—can meet the expectations of its people or continue to grow merely by developing and using its own resources alone. The free world must devise the institutions for a world community in which free societies may flourish and free men have the opportunity to realize their potentialities as human beings.

There is every reason why Americans should take the lead in meeting this challenge. Our own development has been marked by a belief in growth and in the use of this growth to enhance individual well-being. This belief reflects our own deepest aspirations. Our task now is to project more effectively our historic concerns to the world scene. For values, if they are meaningful, transcend national boundaries. Our participation in world economic and social progress is important from the point of view of our own economy and that of the free world. It is crucial from the point of view of our survival and the survival of freedom everywhere. Such participation is imposed by our deepest beliefs.

It is imperative that we become clear about the nature of our responsibilities. We have lacked a clear vision of free world institutions which make the increasing interdependence of societies a source

of mutual strength. Now such vision is essential. In the absence of a comprehensive and well-defined purpose, our actions have often seemed fitful and have not always been meaningful. The challenge, therefore, to our foreign economic policy is to develop a concept for an international structure within which the basic human objectives can be realized, to understand our responsibilities with respect to it, and then work steadily toward achieving it.

## II—The Nature of the Problem

An essential component of a sound United States foreign economic policy is an assessment of the world in which it must operate.

### A. DISINTEGRATION OF THE NINETEENTH-CENTURY POLITICAL SYSTEM

The central political fact of our time is the disintegration of the international system which dominated world affairs almost until the outbreak of World War II. Until the turn of the century, thirteen empires ruled the world. The neutrality of the Western Hemisphere—as of many regions today—depended on the existence of an equilibrium maintained by other states. This balance of power saw to it that most transformations were relatively minor; they did not threaten or seem to threaten the survival of the states comprising the international system.

The nineteenth-century international system, for all its failings, provided order, rationalized administration, and arrangements for economic exchange. It supplied a form of answer to the increasing interdependence of societies. Europe was the world's principal manufacturer and the principal user of raw materials. She was the world's primary banker and source of capital. People, goods and money moved with relative freedom from country to country; and Europe's banks financed the exchange of goods. The gold standard maintained by a central banking policy of the principal powers made for a kind of common currency.

The internal stresses of the imperial system began to be apparent in the nineteenth century, and became conspicuous in 1914. The first World War led to the collapse of the German, Austrian, Turkish and Russian empires. By 1955 most of the remaining imperialist systems had dissolved. The nineteenth-century system of empires as a means of maintaining world order, arranging world economics and settling international disputes has collapsed.

Twenty new sovereign nations have come into being since the end of World War II. More will undoubtedly emerge in the next

decade. While fulfilling their aspirations to national sovereignty, these nations face new problems. At a moment when the pressures of the contemporary period impel greater and greater interdependence, the newly independent nations are driven or tempted to erect self-sufficient economies, which tend to restrict the broad markets essential for industrialization. One system of organizing the international order has been destroyed without replacement by another. The diverging forces of nationalism must be balanced by converging forces seeking to bring about a free association of nations so that political, social and economic cooperation can transcend national boundaries. Simon Bolivar, the great Latin American liberator, expressed this principle of interdependence of free nations more than a century ago. He saw that as the young republics of the Western Hemisphere achieved their independence some new system of free association would be needed.

Twice within a generation the United States has been instrumental in bringing a world organization into being: the League of Nations in 1919 (though we refused to join) and the United Nations in 1945. In both instances the impetus was the belief that the interdependence of nations, demonstrated in two catastrophic wars, had to find an institutional expression. In each case high hopes were not fully realized because the formal institutions of the world organizations were designed to achieve more than the consensus of existing shared aspirations was prepared to support. The emergence of revolutionary dictatorship in Germany, Italy and Russia after World War I, and the pressures of Communist expansionism since the end of World War II frustrated many hopes. The existence of a group of powers seeking to undermine the free world has thus far prevented the United Nations from giving effective expression of a consensus of humanity.

This international organization has been hampered in many of its functions by the schism between the Communist and the free world. This has not decreased the importance of striving to realize its potential. But it has increased the importance of other groupings, regional and functional. After World War II, Europe dramatically led the way toward new groupings such as the European Coal and Steel Community, the European Atomic Energy Community (Euratom), the European Common Market (Euromart), and the European Payments Union. The same process has begun to take place elsewhere.

Multinational structures, regional or functional, require continuous and imaginative attention, as well as political institutions based on common goals, if they are to succeed. The structures must become a primary concern of American policy, for in this development

national interests and idealistic hopes can converge. Provided we have the vision and courage, solutions and institutions can evolve into a great design. The twentieth century is attempting to replace national and international systems of the nineteenth century; it must seek to do so with more understanding of its goals, so that human ideals and practical requirements can both be achieved.

## B. THE WORLD-WIDE SOCIAL REVOLUTION

Until the end of the eighteenth century, mankind accepted the view that poverty and want were no more to be questioned than illness and death. In the pyramid of each society—it was assumed—some would be born to wealth or power; a very few might rise to it. But for the mass of mankind, a man's station was fixed by tradition. The vast majority could hope at best for subsistence.

In the late eighteenth century the inevitability of this social order was challenged and with it the validity of the political systems which maintained it. The philosophers of the Enlightenment proclaimed the doctrine of the *political* equality of all men; the British, French and American revolutions created institutional expressions of these beliefs. During the next century most nations of the Western World—with the notable exception of Russia—followed suit.

The concept of equality was not, at first, extended to economics. On the contrary, the economic life of society was considered to be outside the sphere of governmental action. The advocates of political reform saw their task in sweeping away the old mercantile system and the regulation of enterprise by government charter. It was thought that the absence of political restraint would automatically produce economic well-being.

Within a generation, to the original eighteenth-century postulate of political liberty was added the concept that economic liberty, in the sense of freedom from economic oppression and from extremes of want, was a necessary condition for the preservation of political liberty.

The industrial revolution gave substance to these ideals. Mass production drastically reduced the costs of manufactured articles. More efficient methods of distribution stimulated wide consumption. Mass media of communication contributed to creating common patterns of taste. Over the years the notion that industrialization could first end extremes of want, and then bring about a more or less general condi-

tion of well-being, became increasingly plausible. Universal suffrage gave impetus to this belief in Western Europe and the United States; expanding world trade spread it all over the globe.

Economic possibility was translated into urgency under the impact of the great depression of the 1930's. Many governments were forced to intervene to a greater extent in the economic life of their people. It came to be generally accepted that the government shared in the responsibility for the alleviation of distress and for preventing excessive fluctuations in economic conditions. This movement gained added impetus through the two world wars. Modern war brought with it the need for sustained and conscious governmental direction of the economic effort. There was, in addition, a widespread tendency to seek to maintain the needed productive effort and patience in the face of suffering by bright hopes for a peacetime world.

As a result of all these factors, there came about by the end of World War II an almost universal demand for a better standard of living to be achieved through political action, if purely economic efforts proved insufficient. In the United States, where the gap between aspirations and reality was smallest, this demand was at its mildest—but it was unmistakably evident in such concerns as legislation for full employment, veterans' pensions and education, and a renewed impulse toward racial equality. In other nations, where the gap between reality and aspirations was larger, demands took on increasingly revolutionary overtones—the revolution of rising expectations became a dominant current in contemporary affairs.

America cannot stand aloof from this revolution. It was produced in the first place by the liberal doctrines of the West of which we are ourselves a product and an example. It was made possible by a system of industrialization which has been coupled with growing social responsibility. Unless their future offers a realistic prospect of economic growth and social betterment, many nations will prove receptive to schemes which promise economic and social progress at the sacrifice of other great values.

### **C. THE LESS DEVELOPED NATIONS: RISING EXPECTATIONS AND POPULATION GROWTH**

The social revolution is particularly pressing in the less developed regions of the world. There, many nations are seeking to achieve in a generation and under extremely difficult conditions a development

that took a century in the now industrialized states. Industrialization is impossible without either domestic savings—that is, a measure of sacrifice in the present for the sake of the future—or foreign investment. Generally it requires both. Yet the areas where the gap between aspirations and reality is greatest are also the very countries in which it is typically most difficult to encourage domestic savings or where conditions are often too unsettled to attract foreign investment.

Similarly, these countries also frequently lack the social and political institutions which are essential for sustained growth: adequate medical and educational facilities, power and transportation, efficient government services. Finally, the regions most in need of capital also are often handicapped by the absence of a tradition of enterprise, a trained labor force, or an adequate market system.

Attaining rapidly a higher level of economic and social well-being goes far beyond increasing a given level of capital investment. The experience of the Marshall Plan with respect to the relationship between economic well-being and political stability is not necessarily applicable to other areas. In Europe the institutions of democracy had grown up over centuries; the administrations were competent; the national consciousness was well developed. The danger to these institutions was the gap between economic reality and the hopes of society. An improvement in economic conditions could therefore be expected to have a stabilizing effect. It did not transform the social order. By improving the conditions of life, it restored confidence in the political framework.

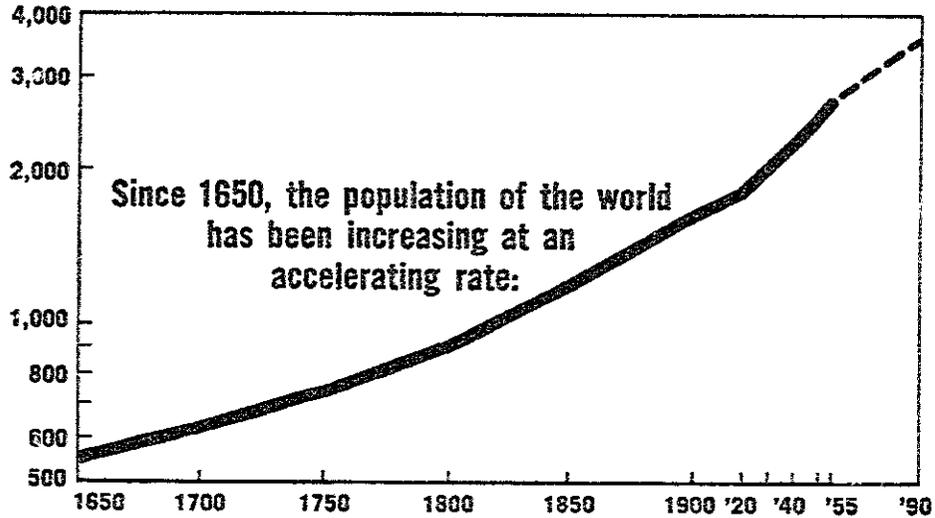
The situation is more complicated when political and social revolutions are occurring side by side as in the case of many of the newly independent nations. Here the overthrow of the colonial rule involves at the same time the collapse of the existing political framework and often of the social framework as well. As a result, economic, social and political institutions must be built anew side by side. The process of transition in most of the newly developing countries involves an attempt to replace the disintegrating colonial or indigenous feudal rule with new institutions. Moreover, we need to recognize that to the extent economic development is successful, it may well have politically unsettling effects. Many traditional institutions become obsolete. New patterns of organization—economic, social and political—are required. As the economy expands, its demands for talent will multiply. An increasingly wide base of education becomes necessary.

The world-wide social and economic revolution is made even more acute by the explosive increase of the world's population. Ever

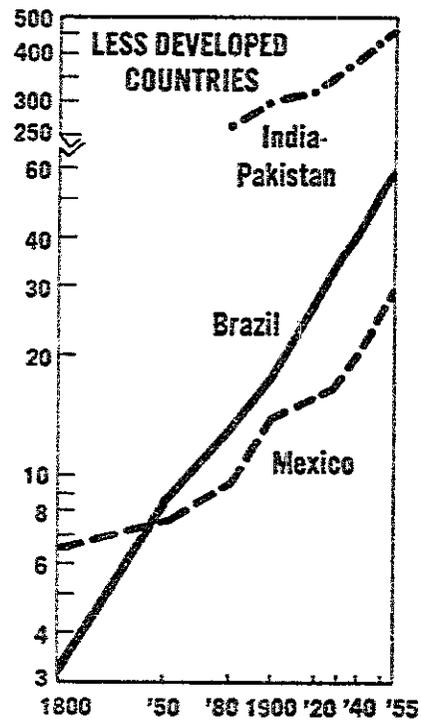
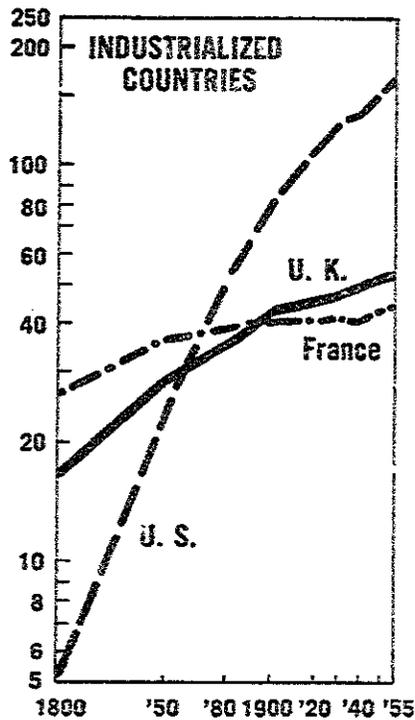
# GROWTH OF WORLD POPULATION

in millions of persons

ratio scale



Rates of growth have varied widely among countries:



Sources: W. S. Woytinsky and E. S. Woytinsky,  
*World Population and Production*;  
 United Nations Statistical Office

since 1650, the world's population has been increasing at an ever accelerating rate. From 1940 to 1955, for example, the annual percentage increase was twice the rate of the period between 1850 and 1900. Since the base of the population is growing, the rising percentage increase involves huge numbers. In the short space of 35 years, between 1920 and 1955, the total increase in the world's population was greater than the entire world population of 1750. If the rate of growth between 1900 and 1950 is maintained, the world's population will increase by at least a third in the next generation, or by about one billion. In recent years, the rate of growth has been even greater.

Among the causes of this increase are advances in public health and related factors which have produced a startling drop in the mortality rate and extension of life expectancy, while the birthrate has remained relatively constant. The impact of this increase is particularly pronounced in the less developed countries, where population growth often threatens to outstrip gains in productivity. A number of these countries face the paradoxical situation where the standard of living may drop despite a considerable increase in the gross national product.

This experience differs from that of similar periods in Europe and the United States. Because in Europe the greatest increase in population occurred only *after* a considerable amount of economic development had been achieved, it was possible not only to absorb the growing labor force but also to increase the standard of living. The United States had the advantage of virgin regions so that increases in population led to the settlement of new lands and the development of natural resources. In Europe and the United States, economic development and population growth therefore tended to reinforce each other.

It is different, however, in most of the currently less developed regions, with the exception of much of Latin America. The relation of population to resources in most contemporary agrarian nations is much less favorable than was the case in Western Europe in the eighteenth or early nineteenth century or in North America at any time. It is therefore extremely difficult in many of the less developed countries to raise national income to keep pace with population growth, much less to improve the standard of living. Thus these countries will have to increase their production very rapidly simply to maintain existing living standards.

The restlessness produced in a rapidly growing population is magnified by the predominance of youth. In Algeria, for example, the age group under 25 represents 61 per cent of the population and

in Burma 55 per cent, as compared with 43 per cent in the United States and 38 per cent in France. In a comparatively youthful population, impatience to realize rising expectations is likely to be pronounced. Extreme nationalism has often been the result.

No assessment of the contemporary scene can ignore this mushrooming increase of population, and the awakened aspirations of the less developed areas. They are possibly the greatest incentives today for speeding up the development of resources, the growing industrialization and power development, the expansion of educational opportunities for young people. The challenge is political, social and spiritual, as well as economic. Unless economic growth goes hand in hand with the creation of institutions which safeguard respect for human dignity, industrialization will have merely succeeded in creating more efficient means of oppression. The ultimate worth of economic development will be determined by the convictions and purposes of men.

#### D. THE INDUSTRIAL NATIONS OF THE FREE WORLD

The transformations of the postwar period challenge not only the less developed regions. Many of the industrialized nations are undergoing painful adaptations to positions of diminished power and influence. This requires psychological adjustments which may be even more difficult than economic adaptations. In the light of the magnitude and intricacy of the task, it is remarkable how much has been accomplished. Western Europe, at first hesitantly but with gathering momentum, has sought to compensate for a decline in its political influence overseas by strengthening its own internal relationships. Japan has established new political and economic relationships to replace the former imperial pattern.

Major problems emerge. The great industrial complex of Western Europe supports a dense population at a very adequate living standard despite an insufficient base of agricultural land, fuel, and raw materials. For the most part, it fabricates largely imported raw materials and sells overseas enough of its output to cover the food and fuel deficits and to pay for the raw materials. For this sector of the world, high levels of international trade—assured supplies of fuel and materials and ample markets—are essential. Japan's position is similar but even more acute. Her living standard is the highest in Asia although

the relationship of population to resources is far poorer even than Europe's.

The crucial political importance of these areas can be taken for granted. What cannot be taken for granted is an international structure in which their economies can continue to flourish. Western Europe's industrial pre-eminence was gravely weakened by World War I and the great depression, and transformed beyond recognition by World War II. Europe's economic security today depends on two indispensable factors: (1) her own intellectual and technical vitality and economic enterprise; and (2) an international structure which will enable Europe to have access to foreign markets on fair terms and adequate supplies of materials if Europe can offer reasonable value in return for them.

Whatever doubts may have existed in the immediate postwar years as to Europe's technical vitality, economic enterprise, and political inventiveness have been laid to rest by the extraordinary record of the last decade. Once catalyzed by Marshall Plan aid, the European economy has moved from strength to strength. German recovery is widely acclaimed as a miracle, but similar miracles have been achieved in Britain, France, Italy, Austria, the Low Countries, and Scandinavia. Japan, supporting an enlarged population in a much smaller homeland, has also made an extraordinary economic recovery.

Nevertheless, the economic situation of the industrialized nations remains precarious. If Asian, Middle Eastern and African nationalism, exploited by the Soviet bloc, becomes a destructive force, European supplies of oil and other essential raw materials may be jeopardized. Moreover, the Soviet Union is increasingly resorting to economic warfare designed, it would seem, to disrupt Western trade through systematic market raids.

Also, while the acute dollar shortage of the immediate postwar years has been alleviated, total United States exports of goods and services still exceed imports by \$6.6 billion. The difference has been made up by United States private investment abroad, economic assistance programs, its expenditures overseas for military bases, and by troop pay spent abroad. Even so, the demand for American goods has so far outstripped available dollar supplies that there has been continuing recourse in various countries to import quotas and exchange controls. Free convertibility for the major nondollar currencies has yet to be achieved. The growth of foreign gold and dollar reserves has still to reach a point where liquid balances could readily cover normal fluctuations in international trade and financial conditions.

Even the precarious balance is dependent on sustained growth of the American economy and on American foreign economic policy. The dollar reserves of our industrial allies could be reduced below the essential minimum by any one of three developments: a prolonged recession in the United States; a curtailment of foreign assistance programs; or a shift of the United States away from its Reciprocal Trade Agreement policy.

A great deal depends therefore on developing an international structure which reflects the interdependence of countries, large and small, industrialized and less developed. Europe and Japan, together with the United States, supply most of the machinery and equipment and capital investment required by the less developed countries for their industrialization. The less developed countries in turn supply an increasing percentage of the raw materials and commodities required by the industrialized nations. It is necessary to establish a structure which gives effect to this partnership. An essential component will be an increasingly liberal United States trade policy, which will permit other nations to sell in American markets.

## E. THE COMMUNIST THREAT

The world-wide social revolution, the pressure of rising expectations, the problems of population growth, and the readjustment of industrial societies are a sufficient challenge by themselves, but they are given particular urgency because of the existence of a militant world-wide Communist movement, centered in Moscow and Peiping, eager to exploit all dissatisfactions and to organize all grievances. Whereas the impetus of the revolution of rising expectations derives from the liberal values of the West, that of the Communist empire is built on a negation of these values. While giving lip service to democratic ideals and concepts for over a generation, Communist leaders have stubbornly maintained their implacable hostility to the free world.

Their irreconcilability has been maintained through all the fluctuations of Soviet policy. It was most recently reaffirmed in the attack of the Communist bloc against Tito of April 1958 and again in Krushchev's report to the Supreme Soviet in November 1957, when he said: ". . . we, of course, have no intention of asserting that there are no contradictions between socialism and capitalism. The ideological differences are irreconcilable. They will continue to exist." Even periods during which Soviet leaders proclaim a doctrine of peaceful coexistence have never had more than a tactical significance—to encom-

pass more surely the downfall of the free world. The "spirit of Geneva" did not stand in the way of Soviet maneuvers to magnify Middle Eastern tensions. The moral outrage of the world did not prevent the brutal suppression of the revolt in Hungary. The Soviet and Chinese Communist leaders are not concerned with fulfilling individual human aspirations. They see their task in exploiting or even generating grievances and in maximizing dissatisfactions.

The insidiousness of the Soviet strength derives in part from their skill in *appearing* all over the world as defenders of the very values which have given us our strength: freedom, human dignity, and national sovereignty. To be sure, these terms have a different meaning in Communist vocabulary, but the difference is often not understood until too late. At the same time, the success of Communism's attempt to steal the vocabulary of freedom could come about because the concepts of freedom, human dignity and social justice are too often used without a sense of inner conviction in the free world. No more important task confronts all nations of the free world than to give more concrete meaning to the values they profess.

Another source of initial Soviet strength resides in part in the difference in time scale between tasks of construction and efforts of disruption. The challenge before the free world is to bring about a new international order. To fulfill aspirations, to build for economic and social growth, to bring about a new international structure based on consent requires patient and sustained efforts, the results of which are rarely immediate. To fan dissatisfaction, on the other hand, to sharpen tensions is relatively simple and can be done rather quickly. Even in the best of circumstances and with the wisest policy, it will not be an easy matter to overcome the Soviet policy of disruption and negation carried on under the constant threat of growing Soviet military might and its policies of subversion.

The Soviet Union has recently begun an increasingly aggressive program of economic penetration into a few countries which have been assigned high political priority. The period was ushered in by Stalin's last theoretical pronouncement, an article in *Bolshevik* in October 1952. In it he argues that the expansion of the Soviet sphere was bound to accelerate the disintegration of the capitalistic economic system. As the market available to the free world shrank, Stalin said, the competition among the capitalist states would grow ever fiercer. It was the task of Communism, so the argument ran, to aggravate tensions by keeping up unremitting pressure and by disrupting economic relationships within the free world as much as possible.

**SINO-SOVIET AID TO  
LESS-DEVELOPED COUNTRIES  
1954 to 1958 Total Aid — \$1,952 millions**



Source: U.S. Dept. of State

## 1. *Soviet Aid*

Sino-Soviet aid promised (only a small part has been delivered) to the less developed countries from January 1, 1954 to February 1, 1958 amounted to \$1,952 million as follows:\*

|             | Millions of Dollars         |
|-------------|-----------------------------|
| Egypt       | 485 (of which 250 military) |
| Syria       | 294 (of which 100 military) |
| Yemen       | 19 (of which 3 military)    |
| India       | 295                         |
| Afghanistan | 161 (of which 25 military)  |
| Indonesia   | 109                         |
| Nepal       | 13                          |
| Ceylon      | 20                          |
| Burma       | 42                          |
| Cambodia    | 22                          |
| Yugoslavia  | 464                         |
| Turkey      | 10                          |
| Ethiopia    | 5                           |
| Other       | 13                          |
| Total       | 1,952                       |

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\* *U. S. Department of State.*

The political intent behind this program is apparent from the figures. For example, 44 per cent of total Soviet assistance to the Middle Eastern countries was for military equipment. The percentage of military aid in this program is even larger if it is realized that the military equipment has already been delivered while probably no more than 10 to 15 per cent of the economic assistance has been disbursed to date. Moreover, Soviet assistance is concentrated geographically in areas which promise a maximum political return: almost half of Soviet aid went to the Middle East. Another 24 per cent went to Yugoslavia with which the Soviet Union was then striving to restore relations.

Credits are extended with an eye to maximum political and psychological effectiveness. They are usually announced on formal political occasions. Their volume appears deceptively large because even though the credit may extend over a five to ten year period, it is the *total* amount of the loan which has been publicized. Soviet loans are usually accompanied by the offer of technicians. And they are often extended for projects which have maximum conspicuousness.

## 2. *Communist Bloc Trade*

The question of United States policy toward Soviet bloc trade is a very real one that must be faced realistically. The Communist nations have not in the past participated in any substantial degree in world trade, partly because of the nature of their economies, partly because of political reasons. Although the Soviet bloc produces about 25 per cent of the world's goods and services, as a whole it accounts for only about 10 per cent of world trade. It is interesting to note that trade with the Soviet bloc in 1956 accounted for less than 3 per cent of the \$49 billion combined import and export trade of the less developed free world nations.

More recently, however, the Soviet Union has been engaging in a vigorous program to expand its trade with the newly developing regions. Although most of the publicity has concerned recent trade overtures made by the U.S.S.R., the latter's volume of trade with the less developed areas is considerably smaller than that of its satellites or even that of Communist China. But regardless of which segment of the Soviet bloc is making the trade overtures, they are being used in a concerted effort to disrupt the historic ties between these less developed countries and the industrialized nations of the democratic West. The objective is clearly one of economic and political domination.

Through an ever increasing number of trade and clearing agreements with countries in Asia, Africa and Latin America, the Soviet bloc has been bidding on a barter basis, with machinery, equipment, cement, aluminum or other processed materials and supplies, for surplus agricultural products or industrial raw materials. As a result, the volume of Soviet bloc trade with the free world has shown considerable expansion. Although Soviet trade accounts for only a minor fraction of the total foreign trade of the less developed areas as a whole, it has had a considerable impact on the relatively few countries upon which it has been focused.

TRADE OF VARIOUS COUNTRIES WITH  
COMMUNIST BLOC—1956

|            | Exports to<br><hr/> Communist Bloc<br><hr/>                      | Imports from<br><hr/> Communist Bloc<br><hr/> |
|------------|--|---|
|            | (Percentages are of total exports<br>or imports of each country) |   |
| Egypt      | 34%  | 14%   |
| Yugoslavia | 24   | 23  |
| Burma      | 14   | 19  |
| Turkey     | 20   | 15  |
| Iran       | 17   | 10  |
| Ceylon     | 11   | 9   |
| Syria      | 8  | 4   |
| Pakistan   | 6  | 0.3   |

Source: *U. S. International Cooperation Administration.*

To most of the above countries, trade with the Soviet bloc has assumed proportions that indicate a continuing degree of dependence rather than a casual or transient bargaining incident.

It is important for us to recognize that trade competition from the Soviet bloc has not had, and for many years to come probably cannot generate, the capacity to supply a substantial portion of import needs and export outlets of the less developed countries. The competition which it offers is essentially political. Piecemeal competition, on a selective basis, fits readily into its political strategy of gaining a foothold in the less industrialized nations, one by one. The economy and resources of the Soviet bloc are ample for such purposes and for a considerable expansion beyond what it has so far attempted.

It is probable that this competition will be intensified. Since the particular offers will be designed to accomplish political rather than economic ends, they need not necessarily be restricted to exchanges that are mutually profitable. To be sure the willingness to maintain terms that are economically disadvantageous to the U. S. S. R. would disappear once the ties of dependence had been forged. But once the ties exist, they can be used to increase further the economic dependence of the less developed world.

Thus, the Soviet trade offensive is a powerful weapon to achieve economic domination and political penetration, particularly

as long as it can be conducted on a bilateral basis. Small countries that find themselves depending upon the U. S. S. R. for a large portion of their import supplies and export outlets may well find themselves caught in a vise far more restrictive and controlling than any colonial system of the past.

The free world can withstand the impact of the Soviet geopolitical trade offensive, if it organizes itself to do so. The more highly industrialized nations of the free world are linked to the less developed nations by a two-way trade of goods that totals more than \$35 billion annually or almost thirty times the amount of trade between the less developed countries and the Communist bloc. By building appropriate international institutions on the solid basis of existing mutual interest, the free world can perpetuate an advantage that lies *overwhelmingly* on its side.

### 3. *Exchange of Leaders*

Coupled with their trade programs is an increasing emphasis by the Soviet bloc on the exchange of technicians and other personnel. During 1957, 2,000 Soviet bloc technicians were working for periods of one month or more in 19 less developed countries in Asia and Africa. Roughly one-third were military technicians. The others (1,375 or more) were civilian technical specialists. The supply of Soviet talent available to be sent abroad is increasing rapidly. The Soviet Union is currently graduating more scientists and engineers than the United States. The U.S.S.R. has no difficulty in inducing personnel to serve abroad; it settles this question by command. Its emphasis on five-year language training helps to insure that most Soviet personnel in foreign countries speak the language of the areas to which they are assigned. Moreover, living conditions for these specialists abroad are more comparable to those to which they are accustomed at home than is the case with American personnel.

At the same time, a growing number of people from free world Asian countries are being brought to the Soviet Union or China for academic study, in-service training and guided tours. In 1957, over 2,000 such technicians, professional people and students went to Soviet bloc countries for study and indoctrination. A series of agreements have been negotiated to increase this number. All these factors combine to make their psychological impact an increasingly potent force.

#### 4. Conclusion

While the Soviet threat in the field of foreign economic policy is potentially formidable, it must be seen in its proper perspective. It is menacing to the degree that the cohesion of the free world is inadequate.

The selective economic program of the Soviet Union is politically effective primarily to the extent that weak countries must face the strong Soviet economy alone. If these countries are part of larger groupings they will be able to resist pressure more easily and negotiate on a more nearly equal basis.

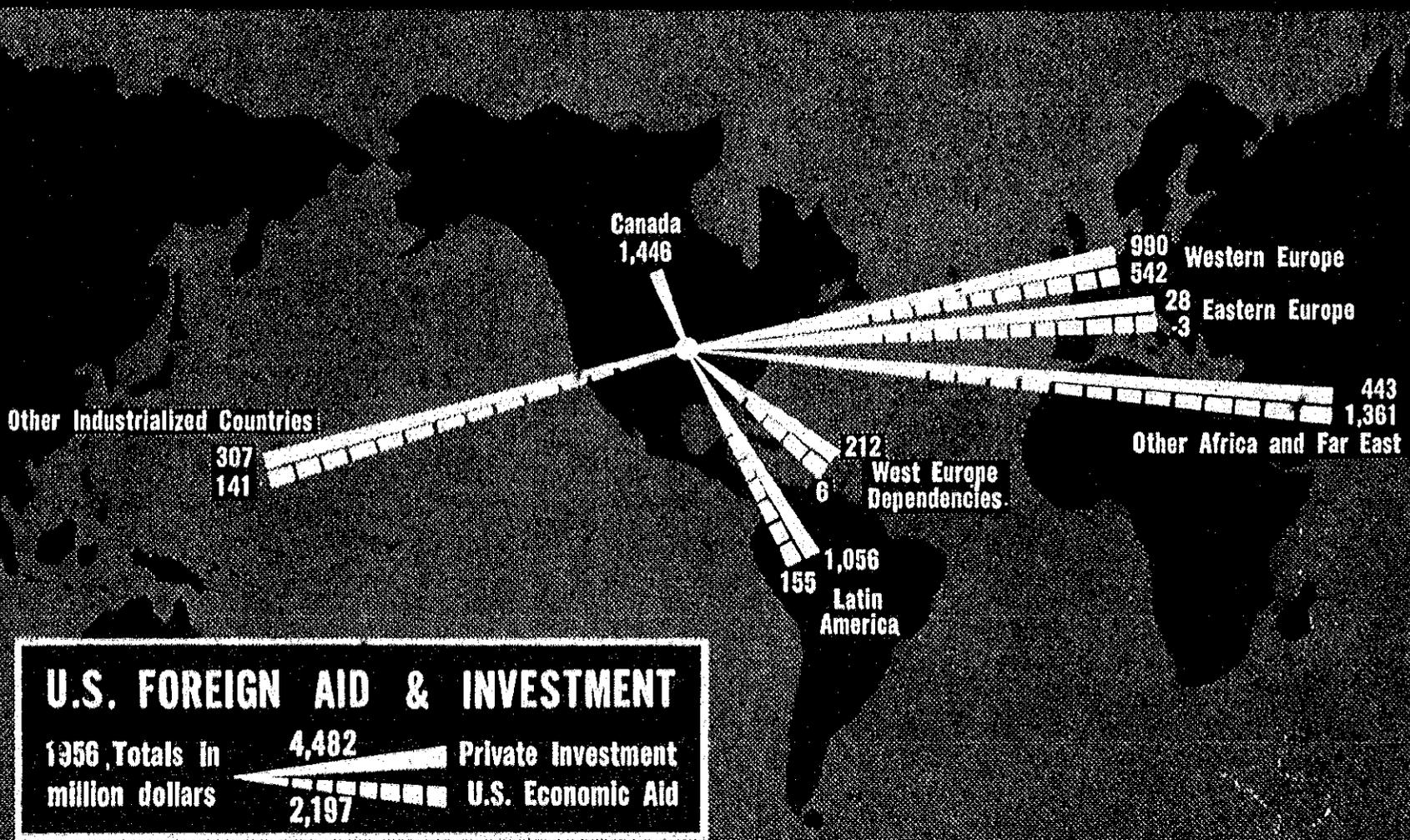
The Soviet effort is impressive primarily because the free world has failed to develop a workable structure within which the industrialized and newly developing regions can cooperate in fulfilling the aspirations of their peoples. We must contribute to the growth and cohesiveness of the community of free nations not merely because we wish to prevent an expansion of the Soviet sphere, but because we want to cooperate in bringing about a new international system dedicated to peace, to human dignity, and to respect for national independence.

#### F. UNITED STATES TIES WITH THE WORLD ECONOMY

In 1956 total United States private investment and economic assistance abroad, excluding all military assistance, amounted to over \$6.6 billion. As a result, in 1956 foreign countries were able to obtain \$6.6 billion more of goods and services from this country than the United States purchased from them through commercial transactions. In addition, foreign holdings of gold and dollars increased by more than \$500 million.

This compares with a flow of development loans from the Soviet bloc to the free world nations valued at about \$200 million in 1956—3 per cent of the United States figure.

The following table presents *net* United States private commitments abroad (including reinvested earnings) and *net* United States government grants and credits. The statistics differ from the conventional presentation in the balance of payments accounts which omit reinvested earnings and net out a variety of transactions representing money flows in both directions. The statistics in the table, which are derived from official accounts, present a more representa-



Source: U.S. Dept. of Commerce

tive order of magnitude of recent United States performance in this field than do the balance of payments figures.

U.S. GOVERNMENT ECONOMIC ASSISTANCE AND NET  
PRIVATE COMMITMENTS ABROAD — 1956  
(Millions of U.S. Dollars)

|   | From U.S.<br>Private<br>Sources | From<br>U.S.<br>Government | Total<br>from<br>U.S. |
|---|---------------------------------|----------------------------|-----------------------|
|   | _____                           | _____                      | _____                 |
| 1. To Free World Industrialized Countries:                  | 2,743                           | 678                        | 3,421                 |
| a. Western Europe   | 990                             | 542                        | 1,532                 |
| b. Canada   | 1,446                           | - 5                        | 1,441                 |
| c. Other  | 307                             | 141                        | 448                   |
| 2. To Newly Developing Countries:                           | 1,739                           | 1,519                      | 3,258                 |
| a. Latin America  | 1,056                           | 155                        | 1,211                 |
| b. Western European Dependencies                            | 212                             | 6                          | 218                   |
| c. Independent Countries of Asia, Africa<br>and Middle East | 443                             | 1,361                      | 1,804                 |
| d. Eastern Europe   | 28                              | - 3                        | 25                    |
| Total — All Areas   | 4,482 <sup>a</sup>              | 2,197 <sup>b</sup>         | 6,679                 |
|   | =====                           | =====                      | =====                 |

<sup>a</sup> \$2.8 billion in the form of net direct investments by U.S. enterprises including reinvested earnings; \$1.2 billion net portfolio investments in foreign securities and short term loans; and \$500 million net remittances of private individuals and philanthropic organizations.

<sup>b</sup> \$1.7 billion net nonmilitary grants, including about \$1.0 billion of defense support aid—i.e., economic assistance to nations cooperating in the free world defense effort. Three of these countries are included under the Western Europe heading and nine under independent countries of Asia, Africa and Middle East.

Net short term assistance totaled \$0.5 billion.

Source: *U. S. Department of Commerce.*

Almost \$4.5 billion of the total United States commitments was privately furnished. United States government grants, credits, and public sales of surplus agricultural products for local currencies (to be used for local economic development) netted about \$2.2 billion. In addition, the International Bank for Reconstruction and Development (more than 80 per cent of whose capital comes from United States public and private subscriptions) made disbursements of \$332 million during fiscal year 1957; and the United States government contributed \$15.5 million in 1956 to the United Nations Technical Assistance Program.

Of the total United States capital flow—government and private—\$3.3 billion went to the less developed areas in 1956. In addition, the International Bank for Reconstruction and Development made development loans of \$184 million to these areas; and Western European capital contributions are estimated at \$1.3 billion (\$800 million from government sources; \$500 million from private capital flows). Thus, the newly developing economies of the free world received almost \$5 billion from the industrialized West, compared to \$200 million from the Soviet bloc.

The foregoing statistics refer to the *flow* of funds during a single year, 1956. These flows served to augment the *total value* of the investment capital provided through flows of foreign investment over the years. While statistics are not fully available for total free world foreign investment, it is noteworthy that the total value of United States investment abroad at the end of 1956 is estimated at over \$49 billion, of which \$33 billion was furnished by private sources.

We have been particularly negligent in giving proper weight to the constructive role played by private capital flows. From the tabulation we have presented, it will be seen that over-all these are running at a rate that is more than twice the volume of United States government economic assistance, and in the newly developing economies it is of comparable magnitude to the United States government effort. Furthermore, in recent years private foreign investment has been expanding rapidly and broadening its base both geographically and in industrial diversity. Yet it is too often written off as having only secondary importance as an instrument for forwarding economic development in the less industrialized economies. It is our conviction that private investment can carry abroad the dynamism that has characterized the United States economy more effectively than any other means at our command. We should give far more effort than

we have in the past finding ways of encouraging its maximum use for achieving world economic and social development.

In addition to commitments in the financial field, the United States initiated in Latin America the concept of technical assistance some fifteen years ago and has pioneered its development throughout the world in the past decade. At the end of 1957, there were almost 5,000 United States specialists on government assignment in the less developed areas: 331 in Africa; 2,066 in the Far East; 1,529 in the Near East, and South Asia; and 883 in Latin America. Most of them were working on agricultural, health and education programs. Increasingly, technical assistance experts are being sent abroad in the fields of industry operation, transportation, and public administration. The number of nations from less developed countries who in 1957 were receiving training in the United States under our technical assistance program totaled almost 4,000; and many others received similar training under private auspices.

Thus the effort of the free world industrialized countries and particularly of the United States in the less developed regions has clearly been of major significance. Their capital contributions represent about one-fourth of the total capital accumulation in these countries. Of the total trade of the newly developing areas, about 75 per cent is with free world industrialized nations; about 25 per cent is with the United States alone.

Nevertheless, the fact must be faced that the present level of total private and government capital flows from the industrialized free world is not nearly enough. Nor is its distribution sufficiently well balanced. Except for a few places, economic growth in the less developed areas is hardly keeping pace with population growth. It is far from sufficient to give a sense of steady progress in raising individual living standards to the peoples of these areas. Since the rate of capital accumulation for the less developed areas is only about \$17 billion annually, the additional amount needed to provide a margin between static and genuinely dynamic progress is well within the resources of the industrial free world.

# III—A Twentieth-Century Economic Structure for the Free World

## A. THE INTERDEPENDENCE OF NATIONS

The cardinal feature of the contemporary world is the ever growing interdependence of nations. The less developed nations need the industrial equipment and consumer items of technologically advanced nations and markets for their primary products. The industrialized nations depend on these sources of raw materials and food, and they require markets abroad for their manufactured products. Both require markets larger than any individual nation can provide. Because of the weight of the United States economy, perhaps the major contribution we can make to world growth is the maintenance of the vitality, growth and stability of our own economy.

In the nineteenth century, though the interdependence was somewhat less, the economic cohesion of the world was greater. There was a relatively free flow of goods and money across national boundaries. The movement of peoples was easier. The economic system united by the gold standard worked, however, at a level of economic and social well-being which is no longer acceptable. Nineteenth-century economic and social conditions were accepted partly because it was thought that the resources of the world did not permit much improvement and partly because no higher level had ever been known. Similarly, sharp fluctuations in economic activity, employment and price levels were regarded as inevitable and acquiesced to with resignation.

None of these conditions holds true any longer. The nineteenth-century system of economic exchange has been disrupted by growing ideas of protectionism and by emergency action: during two wars and a depression. The economic and social conditions of the nineteenth century are no longer acceptable to the peoples of the world. No country will any longer passively submit to market adjustments which,

however small from the perspective of the over-all world economy, would shake the economic, social and political structure of weaker countries. In all free societies, peoples expect their governments to achieve social goals considered outside the scope of government in the nineteenth century. Throughout the world, there exists a conviction that modern science and technology can bring about a fuller and more meaningful life. All nations have a joint interest in a dynamic and growing world economy.

In field after field it has been demonstrated that the small production unit bound by the limits of a restricted market simply cannot compete. Science and technology have developed products that need to draw on materials that are not available within any one narrow geographic area. Not even the wide existing political boundaries are large enough to accommodate or contain the reach of competitive production as it is organized in today's world. For the smaller nations the modern economic organization that is now a general aspiration is beyond realization unless there is a framework of economic law and accommodation that runs beyond the boundaries of existing political sovereignties.

Any effort to fulfill the aspirations of the peoples of the free world must include institutions which take account of this interdependence. Since World War II, a number of institutions have been developed, many of them representing an effort to create communities which permit the nation-state to enjoy the benefits and assume the responsibilities of participation in a larger complex. These include:

1. The European Coal and Steel Community and now The European Atomic Energy Community. Here segments of the economies of the European powers concerned have found their way into communities which exercise many of the functions formerly carried out on a national basis. Sovereignty appears divisible. Community of action may exist with respect to some functions and not with respect to others. This offers possibilities of cooperative effort barely suspected in the nineteenth century.

2. Communities based on a common market, for example, Benelux (the earliest), comprising Belgium, the Netherlands, and Luxembourg, and now the European Common Market. Another community of this type is being developed in Central America, composed of Costa Rica, El Salvador, Honduras, Nicaragua and Guatemala. At the same time, there is discussion of such a structure for the Latin American economies as a whole. Over the years

another kind of multinational economical and political grouping has grown up in the British Commonwealth.

3. Market and commodity agreements, looking toward price stabilization and orderly distribution of certain commodities. The United States at various times has entered into multilateral arrangements with respects to specific commodities; for example, sugar with Western Hemisphere producers.

4. Monetary and credit arrangements, as illustrated by the European Payments Union and, on a larger scale, the International Monetary Fund.

5. Corporations whose operations extend through many nations. In order to be effective, these corporations, through which a considerable and essential part of the world's economic activities is carried on, must be able to compose diversities, adjust conflicts of interests, and adapt their operations to the needs of the countries within which they operate. In doing so, they represent a further example of a multinational solution of common problems.

These arrangements, however useful, have grown up on an *ad hoc* basis to meet specific needs. Such organic growth is vital and should continue. However, a structure adequate to the aspirations and opportunities of the twentieth century requires a more comprehensive outlook and a longer-range purpose. Henceforth, the nations of the free world should make a deliberate effort to determine their common objectives and to create institutions which give effect to them.

Moreover, while strengthening the cohesion of the free world is important for its own sake, it is also the most effective means for meeting the Soviet economic offensive. A reinforced political and economic structure of the free world can prevent the domination of weaker economies by the Soviet bloc. For it is not trade as such with the Soviet bloc that concerns us but the possibility of the political domination it creates.

The task of increasing the economic cohesion of the free world obviously transcends the economic realm. The nineteenth-century economic structure was closely related to the imperial system of political organization. The economic structure of the twentieth-century free world must be related to associations of free nations working together in the common interest. As with all great tasks, the goal of constructing a new political and economic structure for the free world must be perceived clearly before intermediate steps can be effective.

The details of an economic structure for the free world involve

a great deal of technical study. In this report we shall consider the following broad aspects:

1. The United States and world economic growth.
2. Regional arrangements.
3. Functional arrangements.
4. Liberalized trade arrangements.

## B. THE UNITED STATES AND WORLD ECONOMIC GROWTH

Basic to world economic growth is an expanding and vital United States economy. We produce 35 per cent of the world's goods and services. Our exports and imports constitute 16 per cent of the world's trade. Relatively small fluctuations in our imports can have a major effect all over the world and catastrophic consequences for weaker economies geared to a few commodities. A United States recession can have a violent effect on other free world countries. Conversely, an expanding and reasonably stable United States economy is essential to world growth. A growing United States economy will import more goods from abroad, thus providing dollars for economic development. It will create additional resources for foreign investment.

The importance of the United States as a market and as a source of supply is fundamental. In fact, perhaps the greatest single economic contribution the United States can make to the free world, and hence the greatest responsibility of the United States lies in efforts to promote the growth and stability of the American economy. The measures to achieve an expanding and healthy American economy recommended in the report of Panel IV, *The Challenge to America: Its Economic and Social Aspects*, are essential to world economic development.

## C. REGIONAL ARRANGEMENTS

Policies to promote the vitality of our economy are only the beginning of our task. They must be taken concurrently with measures which make the interdependence of nations a source of mutual strength. It is impossible for the United States to deal creatively with 80 sovereign nations solely on a bilateral basis. The most natural multinational arrangements are frequently regional. In many parts

of the world, geography combines with common history to provide the basis for common objectives and fruitful cooperative efforts.

We have had a special experience with regional arrangements, both domestically and within the Western Hemisphere. Domestically, we have benefitted from the stimulus of a large trading area. The United States is composed of regions as diverse in their geographic and economic characteristics as many groups of nations elsewhere in the world. Mutually beneficial trade exchanges are nevertheless achieved between areas as diverse as the manufacturing Northeast, the agricultural Central states and the desert and mountain areas of the Southwest. It is clear that the development of each region would have been less rapid if each section of the country had maintained its own currency, separate tariffs and its own system of capital investment.

Partly because of our domestic regional system, the economy of the United States is larger than the combined economies of Western Europe and Latin America. The strength and durability of the North American economy is greatly enhanced because it has at its disposal a large geographical area unimpeded by the barriers set up elsewhere by fragmentation into sovereign nations.

Moreover, in the history of the Western Hemisphere, participation in regional arrangements has found expression in the joining together of the American states in a free association in the common interest of all. Gradually and at times painfully, a community of nations united by similar aspirations for the welfare and dignity of their citizens has evolved. This association has been based on six principles: juridical equality, nonintervention, consultation, common objectives, common action and mutual security. The path of development of these principles has not always been smooth and even. Yet the nations of the Western Hemisphere have made notable, and continuous, progress toward a political structure for a free association of nations. They have been less successful in the development of common economic objectives and institutions.

The United States should encourage the formation of regional arrangements if they are designed—as they should be—with due regard to the general growth, cohesion and interdependence of the entire free world. Regional arrangements of the kind here considered do not imply regional autarky. Their aim is the progressive elimination of barriers within groups, not the erection of new barriers between groups.

It is not possible to describe the precise form regional arrangements should take in all parts of the globe. They may involve joint efforts to achieve economic development, common markets, and free

trade areas, or functional arrangements like the European Coal and Steel Community. Fully developed, they imply a joint accord on monetary and exchange arrangements, a common discipline on fiscal matters and a free movement of capital and labor. We believe that this regional approach has world-wide validity. Because the particular adaptation will be different for each region, the structure will have to be worked out by each region through consultation. We feel the United States should encourage the development of such regional structures in all areas of the free world. We have tried to develop the outline for Western Hemisphere unity in Chapter V, as an illustrative case.

Regional arrangements can spur world economic development. They can make possible more rational international economic relationships. Instead of large numbers of states dealing with each other bilaterally, large trading areas can regulate their relationships to bring about the greatest mutual benefit. In addition, such arrangements will permit weaker economies to withstand more effectively the impact of selective trade offensives by larger states, such as the Soviet bloc.

At the same time, regional arrangements impose a responsibility on the participating nations. They must not substitute protectionism of a larger unit for the national trade barriers they replace. Regional arrangements should be considered a step in the direction of freeing world trade. We should encourage not only regional economic groupings but strive for increasingly free relations *among* these groupings. Such a policy will be essential not only to promote world economic development but to promote our own trade interests.

For, once regional trading systems are fully developed, we shall no longer deal with units whose economic strength is dwarfed by ours. A fully integrated common market in Western Europe, for example, would represent trade interests larger than our own. It is therefore highly important that we adopt more coherent, consistent and responsible trade policies than we have practiced in the past. We need not only an extended Reciprocal Trade Program, but ultimately we must be prepared to make bolder commitments if we are to be effective in negotiating with Europe directly or with other areas against Europe's trade bids with them. We have to subscribe fully to international bodies like the Organization for Trade Cooperation, and meet a reasonable need for commodity stabilization.

In striving for regional arrangements, we should remember that they depend importantly on political vision and initiative. Regional arrangements can give content to the hopes and aspirations of humanity

seeking to encompass a greater community. Clearly the actual details will require careful technical exploration. What is needed immediately is a determination to move in the direction they imply. Regional arrangements are no longer a matter of choice. They are imposed by the requirements of technology, science and economics. Our course is to contribute to this process by constructive action. It will emerge through us, and we can participate in its benefits, if we are wise; it will come into being in opposition to us, if we are timid or turn our backs on the aspiration to human betterment which is the source of our strength.

## D. FUNCTIONAL ARRANGEMENTS

Regional arrangements by themselves cannot supply the entire structure of a free world economy. Some problems and opportunities cut across regional lines; others should be dealt with on a world-wide basis. Three of the most important functional challenges—the problem of primary commodity products, the new vistas of science, and the role of international financial institutions—will be discussed here.

### 1. *The Special Problem of Primary Products*

Most of the countries in the less industrialized areas of the world derive the bulk of their foreign exchange earnings from primary products exports. Collectively, close to 40 per cent of their exports are agricultural food products; close to 25 per cent are petroleum and other fuels; and the remainder are industrial raw materials, either agricultural or mineral. Since the pace of their general economic development depends so importantly on the amount of foreign exchange available for the purchase of industrial equipment from highly industrialized economies, the price of primary products and the demand for them is of vital significance to many newly developing economies.

The demand for primary products and their terms of trade in international markets have been, in general, highly favorable since 1939. In 1957, however, the prices of most export foodstuffs fell and prices of industrial raw materials declined even more sharply. Industrial raw materials prices now average about 20 per cent below their levels at the end of 1956. Meanwhile, international prices of manufactured items have continued to climb. The result has been a sharp

drop in the buying power of countries that generally are ill-equipped to stand the economic and social consequences of such disruption. In many of them partially completed development projects are imperiled. In others the entire economy faces a drastic decline.

Prices for individual commodities have fluctuated far more than the broad averages. Since many of the less industrialized countries count upon one, or at most two or three export commodities for the major portion of their foreign exchange, they are concerned with particular rather than general price movements. In Brazil, Haiti, Guatemala, Colombia and El Salvador coffee exports account for from 70 to 80 per cent of total foreign trade earnings. From 1953 to the present, coffee prices (quarterly averages) have advanced over 60 per cent and fallen again to 1953 levels or below. More than half of Bolivia's export earnings come from tin and over two-thirds of Chile's from copper. Export prices for copper advanced 65 per cent above their low point in 1953 and fell off 56 per cent by the first quarter of 1958. Tin prices advanced 33 per cent above their lows in the third quarter of 1953, and fell off 14 per cent by the last quarter of 1957. For Vietnam, Indonesia and Cambodia exports of crude rubber bring in from 30 per cent to 50 per cent of foreign exchange earnings. Since 1953, rubber prices in world trade have fluctuated between 100 per cent above and 20 per cent below the 1953 average. The impact of price swings of such dimension is often devastating upon economies that are exceptionally dependent upon the sales of the commodities involved.

It is not surprising, then, to find an insistent demand on the part of countries so situated for international agreements designed to mitigate the extreme fluctuations that cause so much human suffering and that introduce so large an element of uncertainty into their economies. Such demands have been increasing, as the recent downturn of the terms of trade for primary products has created balance of payments difficulties which seriously threaten the capacity to preserve economic, and even political, stability.

Clearly, this is a major problem for the economy of the free world. To be adequate to its responsibilities, the economic structure of the free world must find a way to prevent excessive instability. Its meaning to many of the less developed countries will reside in its ability to discharge this responsibility.

However, the task is exceedingly complex technically. There are obvious difficulties in attempting to substitute international control mechanisms for the free market operation under which supply and demand are adjusted to each other through price changes. The United

States experience with its own agricultural support programs demonstrates both the formidable expense of guaranteeing prices, when the supply of given commodities exceeds effective demand, and the extreme difficulty of controlling supply of agricultural products even within a single country that has been building an elaborate governmental administrative machinery over many years.

Often the proposed remedies are of doubtful practicality. The few international programs that have been tried have failed to produce results that conclusively demonstrate their effectiveness. Since 1953, an International Sugar Agreement has been in effect under which quotas for sugar production and exports are assigned as a means for stabilizing prices. But between the first half of 1956 and the first quarter of 1958, world sugar prices rose by more than 80 per cent and fell off again by 40 per cent from their peak in the second quarter of 1957.

There is another international agreement for wheat, under which exporting countries agree to ship a fixed minimum amount at not more than a stipulated ceiling price, and importing countries agree to purchase fixed minimum amounts at not less than stipulated floor prices, with the market operating freely so long as prices hold within the agreed-upon limits. This agreement may have exerted some moderating effect upon price fluctuations in the international wheat trade, but the evidence is far from compelling. World wheat prices in the first quarter of 1958 were 17 per cent under the 1953 average.

A third international agreement, governing tin, has been in effect only since the middle of 1956. It calls for a buffer stock arrangement to cushion both shortages and surpluses. Experience to date has been too limited to permit adequate appraisal of its effectiveness. The Suez incident introduced a strain upon normal operations. Tin shipments from the U. S. S. R., a non-participating nation, have further unsettled the market. On a quarterly average basis, tin prices fell 14 per cent from the fourth quarter of 1956 to the fourth quarter of 1957.

In view of our own experience with agricultural price supports, and the less than convincing achievements to date of international control experiments, the United States has been reluctant to give support to new commodity stabilization proposals of international scope. But the situation in a number of countries is now so acute and the outlook ahead so grim that immediate action is required to avert crises and to deal with these problems on a long-term basis.

We have the duty to explore all means for averting economic collapse in many areas of the free world. Since it is improbable that any workable commodity stabilization programs could be agreed upon in time to meet the needs of certain crisis situations which may be immediately upon us, these should be dealt with through the extension of international credits. The International Monetary Fund can help through its regular procedure for extending credit to ease short-term balance of payments adjustments. Bilateral credits, such as Export-Import Bank loans, will undoubtedly be needed to complement the Fund's efforts.

For the longer term, it is essential for the major industrial nations to put more effort and imagination into the exploration of procedures that will reduce the instability of primary producing nations. Ways must be found to keep violent fluctuations in commodity prices from producing economic crises and interfering with economic progress.

No panaceas will be offered here for a problem that is very complicated and that must be dealt with largely on a case by case basis. But in order to make our line of thought tangible, we would suggest consideration of the following two procedures:

An agreement for commodities like coffee and cacao, where there are no practical means for controlling supply, might be worked out by the producing and consuming countries to deal with surplus stocks and to hold price fluctuations within certain bounds. Just as agreements limit the allowable daily price fluctuations on certain commodity exchanges, longer-term agreements might limit the fluctuations within a given year to a stated percentage, say 10 per cent, above or below the average price for the given product in the previous year. If demand were greater than supply, most of the year's shipments would move at the ceiling price, and prices for the following year would be set at the 10 per cent range above or below the given year's ceiling. If supply exceeds demand, the base on which the range was set would move gradually downward. Enforcement would operate through customs' authorities at either end. If such an arrangement could be administered, it would have the virtue of damping down the violent swings of commodity prices while still allowing long-term price trends to work toward an adjustment of supply to effective demand.

A second procedure would be to use international credits to cushion the impact of necessary adjustments in commodity markets on producing nations. This would involve longer-term balance of

payments credits than are presently granted by the International Monetary Fund. The objective would be to enable nations producing raw materials to maintain imports of the machinery, equipment and materials essential for development in periods when export earnings are low. Thus, the necessary adjustment of supply to demand could be accomplished without slowing the pace of general development. The credits would be repaid after the adjustments had been completed and prices moved higher. Safeguards would be needed to make sure that the credits would, in fact, facilitate necessary readjustments in commodity production rather than merely delay them. Both the International Monetary Fund and regional payments unions could be used in this manner, although their resources would need to be greater than the amounts needed for shorter-term credits.

It may be that other and better ways of serving similar purposes can be devised. Our firm conviction is that the urgent problems of primary commodity products should be dealt with and that it is not beyond the capacity of technically competent men of good will to find better ways for meeting them than operate today.

## *2. The Vistas of Science and Technology*

No field requires international cooperation more and makes its benefits more generally available than that of science. Scientific knowledge has never been confined for long by national boundaries. The cooperative efforts of the international community of scientists have tended always mutually to support each other. The advances of science can be translated to benefit all of humanity.

In the field of science, international cooperation on a world scale is most readily conceivable. In many areas it is essential if progress is to be made at all. Since each country is judged by its day-to-day contribution, accomplishment rather than propaganda will count. The experience of world-wide cooperation might then extend into other fields.

The United States should, therefore, seek to develop a series of agreements, looking toward the stimulation of scientific interchange and the fostering of scientific progress on a world scale, such as the International Geophysical Year. The Communist nations should be invited to participate. Unlike other agreements which to be effective depend on nations not doing certain things, scientific cooperation has the advantage of permitting the achievement of positive ends through

positive actions. If, however, some or all the Communist nations refuse to join, the United States should proceed with whatever countries care to join on a free world basis.

In fields like the following, international agreements and co-operation are essential if significant progress is to be made because the problems are broader than national boundaries:

### *a. Oceanography*

A large percentage of the world's food supply already comes from the oceans. But the exploitation of the oceans is comparable to a nomadic stage of agriculture on land. No systematic attempt is made to farm the seas or to modify life in them. Eventually we may be able to breed fish as we now breed cattle, or to grow plankton to increase the world's food supply.

### *b. The development of an agriculture using irrigation by sea water*

The use of sea water has been most frequently discussed in connection with the problem of extracting the salt thereby making the water suitable for irrigation. The cost of this procedure appears at present to be prohibitive. On the other hand, salt water can support life. In fact, it is the original cradle of life. Crops might be developed that could thrive under salt water irrigation. This could make a significant contribution to the economy of some arid regions.

### *c. Meteorology*

Meteorology has developed rapidly during the past few decades. This is due partly to the great amount of information which has been gathered by airplanes everywhere in the world. It is also due to improved computation techniques. High-speed electronic machines can today correlate and digest data with sufficient rapidity so that the complex process of weather prediction can be carried out before the results become obsolete. For really good weather prediction, global data is necessary. Therefore the natural agency for meteorological work is an international one. If it becomes possible to interfere

actively in the big processes of the atmosphere, the results are likely to transcend national boundaries. The problems which will then arise must be handled on an international basis. They may well turn out to be insoluble if the development leading up to weather control has been carried out by uncorrelated national efforts.

#### *d. Medical research*

World health must be a major concern for a community of nations dedicated to the well-being and fulfillment of the individual. Moreover in many areas of the world endemic diseases hamper economic development by sapping the vitality of the people. An international effort to encourage medical research is of great importance.

#### *e. Peaceful uses of nuclear energy*

The cost of electricity from nuclear sources is uncertain and for our national economy nuclear energy may be unattractive for some time to come. However, the materials required for the production of nuclear energy are light and easily transportable. Therefore power from nuclear energy could be made available throughout the whole world at a relatively uniform price. This will have important consequences in places like Europe and in many other areas where fuel costs are high.

### *3. The Role of International Institutions*

The world possesses a most impressive array of international institutions concerned in one way or another with economic and social problems. There are highly specialized bodies, such as the International Air Transport Association, which are concerned with international consultation on technical matters well within the resources and political consent of the nations concerned. There are organizations concerned with the coordination of international trade: the General Agreement on Tariffs and Trade provides an informal meeting ground for negotiations on trade restrictions, and the International Monetary Fund has given assistance in helping individual nations overcome specific crises in the balance of payments.

In the field of economic and social development, the array of organizations is most remarkable of all. There are the United Nations and its specialized agencies for food and agriculture, for health, for refugees, for special aid to the world's children. There are technical assistance programs through the United Nations Technical Assistance Administration, through regional programs, such as the Organization of American States and the Colombo Plan, and through bilateral arrangements under the United States International Cooperation Administration and other agencies of the United States government. In the financing of international investment, the International Bank for Reconstruction and Development and the International Finance Corporation exist side by side with investment programs in the British Commonwealth of Nations and the nations of the Soviet bloc. But all are overshadowed by the volume and variety of investments provided under country aid programs of the United States International Cooperation Administration, the United States Export-Import Bank, and the potential of the new Development Loan Fund.

The very multiplicity of these institutions concerned with international development poses obvious problems of coordination. The lack of a clear and coherent central purpose, of a well-understood framework of world order, is the main trouble. Matters of organization also require attention. Coordination is required on the level of individual country development plans. One of the most important forms of assistance to the newly developing lands can be in helping them take maximum advantage, within their own national purposes, of the complex of opportunities available to them in the way of outside assistance. For problems of development which cross the political boundaries of nations, regional development banks and organizations may prove a most fruitful method of relating regional needs to the various forms of international assistance available. Some of our aid can be most effectively channeled through the existing institutions of the United Nations. In addition, consideration could profitably be given to the establishment of an International Development Authority to provide added impetus to world-wide economic growth.

## E. TRADE POLICY

Ultimately the vitality of the economy of the free world will reveal itself in a high level of international trade. Here much depends on United States policy.

Before policy with respect to our foreign trade can be formulated, it is requisite that the broad outlines of world trade structure be understood.

In 1956, the total value of goods moving in international trade, exports and imports combined, totaled approximately \$206 billion, or about 18 per cent of the world's total production of both goods and services. If the international trade in services, shipping, tourism, banking, and insurance were added, the degree of interdependence in the world economy would be seen to be considerably higher still.

The degree to which the countries in any given area are dependent upon the maintenance of trade with the outside world is better indicated by comparing the combined imports and exports of each with the total value of goods and services it produces. We then find that the trade of Western Europe and of the other industrialized free world nations, excluding the United States, averages about one-third of their total national product. For the less industrialized group of free world nations, the percentage is even higher, at about 37 per cent. For the Communist bloc as a whole it is 7 per cent, and for the U.S.S.R. only 5 per cent.

An understanding of these basic elements of the over-all world trade pattern is essential to the formulation of a constructive United States commercial policy. We must take account of the fact that, comparatively, the impact of fluctuations in the level of United States imports and exports upon the economies of other countries is greater even than the considerable effect of such fluctuations upon our own economy. Within the free world trading system, United States exports account for 20 per cent of all exports, and its imports for 14 per cent of total imports. But in terms of our domestic economy, combined imports and exports represent only about 8 per cent of annual output. This relatively small—although, as we shall see, highly significant—proportion which foreign trade bears to our own total output often leads us to underestimate, and indeed to misunderstand, the importance of that trade to *other* nations. What is a small item on our import list may be a major source of revenue for an exporting nation, as for example our imports of Swiss watches, Scotch whisky, or Latin American coffee and copper. Thus, a small fluctuation in the level of United States imports or exports may have a major impact on the economies of other nations—including many in whose political and economic stability we have a deep concern.

Despite its relatively small percentage weight in our over-all economy, a vigorous and expanding foreign trade is essential for the

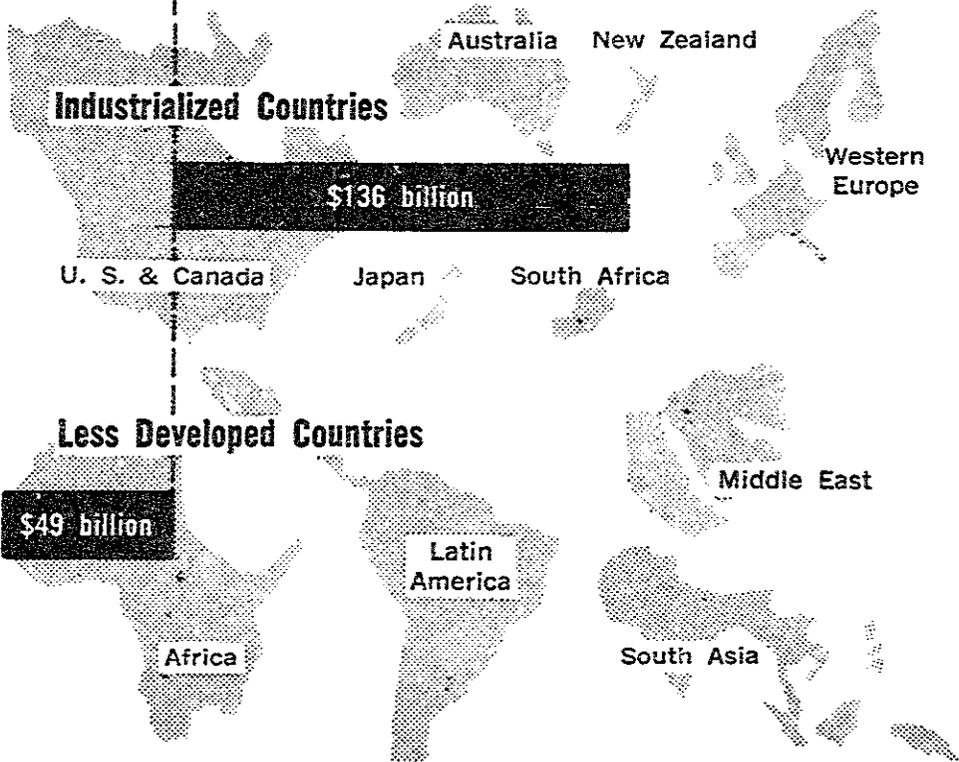
# WORLD TRADE WAS \$206 BILLION IN 1956

(EXPORTS AND IMPORTS COMBINED)

\$206 billion



**THE FREE WORLD ...**  
 \$185 billion



Sources: United Nations Statistical Office;  
 Communist Bloc (1957) estimated

vitality of our economy. We import half or more of a wide variety of metals and minerals essential to United States industry. Three-fourths of our newsprint is imported, all of our natural rubber, 18 per cent of our iron ore, and over 15 per cent of our petroleum.

Between 9 and 10 per cent of all the durable goods produced in the United States is sold abroad. Significantly enough, these sales provide the margin between profit and loss for a large segment of American industries. Exports represent from one-fifth to one-third of the total sales of American production of civilian aircraft, textile, steel and rolling mill machinery, and sewing machines. They represent 19 per cent of all motor truck and bus sales, 16 per cent for diesel engines, 14 per cent for agricultural machinery, and 11 per cent for machine tool production. American farmers depend upon foreign markets for the sale of 20 to 40 per cent of their wheat, rice, cotton, rye, barley, hops, grain sorghums, soybeans, leaf tobacco; and the same is true for domestically produced calf skins, fats and oils, dried fruits and processed milk.

Even this does not exhaust the United States dependence on foreign trade. For 1957, the total value of United States goods and service exports totaled \$26 billion. But the total sales of 2,500 branches and subsidiaries of United States companies located abroad were estimated at \$32 billion and at least 40 per cent of these were sales in international rather than local markets. About 4.5 million workers, or 7 per cent of the entire United States labor force are directly dependent upon foreign trade for their livelihoods. Foreign trade provides more direct employment in the United States than the automobile, steel, chemical and textile industries combined.

Against the background of this degree of interdependence between the United States and other areas, it might be expected that the foreign commercial policy of the United States would be encouragement of exports and imports to the utmost, if only from the point of view of our most immediate economic self-interest. When we add the vital importance of expanding production and trade for all of the other nations of the free world, it would appear that the case for a liberal trade policy should command virtually unanimous national agreement.

Yet it is clear, from the debates over the renewal of the Trade Agreements Act and the President's authority to reduce tariffs, that this is not so. The case for a freer trade policy must be repeated year after year and the same arguments must be refuted each time. Nearly every-

one recognizes the advantage of a liberal trade policy. But it seems that we hesitate to pay the price it demands. Understandably, those who suffer by lower tariffs are reluctant about a freer trade policy. Yet economic wisdom demands acceptance of the fact that if other jobs, sales and profits are to accrue from United States exports, we inevitably must be willing to accept the imports upon which payment for our exports depend. It is unavoidable that some of our imports will compete with segments of domestic production as do our exports in many of the markets in which they are sold.

Every serious study that has been made in this field to date indicates that the preponderant bulk of American industry is well able to meet such competition. Indeed, one of the most important arguments in favor of trade liberalization is that it will broaden competition and thus increase the competitive discipline that is a major safeguard against inflation. Especially when consumer demand in the United States is pressing against our capacity output, freer access of foreign producers to our market will help to keep prices from rising. Under any gradual progression toward tariff liberalization, the displacements are not likely to be on a broader scale or of deeper dimension than those that are continuously occurring through domestic competition within and between industries.

The major fault of United States commercial policy, in recent years at least, has been its failure to provide assurance of direction and continuity. Judged by current world standards, our prevailing tariff levels and commercial policy procedures are not unduly restrictive. But our market is so large and so generally competitive that it requires a sustained and expensive effort for foreign business interests to establish a foothold in it. Relatively few have the resources or the fortitude to make the effort when they are faced with the possibility or even probability that our rules will be changed if they are successful.

We therefore believe it essential that the Reciprocal Trade Agreements Program be made a permanent part of our national policy. There should also be a broadening of Presidential discretion to allow for consideration of broad domestic and foreign policy interests. Escape clauses, peril point provisions, and even defense essentiality procedures should be reconsidered so that the criteria for decision is based upon the whole balance sheet of national policy instead of items of short-run advantage and disadvantage. Beyond the Reciprocal Trade Act the United States should use its influence in bringing about an increasingly free world trade. The regional groupings described earlier if properly conceived can be an important step

in this direction. We need above all to be clear about this aim and we require sufficient resolution to adhere to it.

Thus our trade policy necessarily becomes a central part of our foreign economic policy, and must be considered on this plane. Without a policy of vigorous promotion of multilateral trade, our larger foreign economic policy cannot promote a just and workable international order, or forward our own aspirations for growth.

# IV—Special Problems of the Economic Development of Less Developed Countries

The interdependence of nations implies that any lagging part of the world economy holds back every other. Conversely, to the extent that the less developed regions participate fully in world economic growth, the entire free world will benefit. Markets will expand, both for raw materials and industrial products, and an increasing range of human aspirations will be satisfied. We cannot achieve a community of free nations if the disparities of opportunity for their peoples are so vast as to preclude any common experience. The ultimate objective of all economic development is the well-being and happiness of the individual and the basic unit of society, which is the family. The future peace of the world and the achievement of some of our deepest values depend on the sustained advance of the less developed countries in cooperation with the industrialized nations.

## A. GENERAL CHARACTERISTICS

The term *less developed* covers nations with an immense diversity of resources, social structures, political leanings, and economic conditions. It embraces countries under heavy population pressure, like India and Indonesia; and societies which have an actual shortage of manpower for agricultural and industrial development, such as Iraq and certain parts of Latin America; countries with potentially vast and largely undeveloped resources, like Brazil or Rhodesia; and also countries with a meager resource potential, like Libya; societies which have effective central governments commanding popular confidence and support; and countries in which the structure of govern-

ment and administration is rudimentary. Yet underlying a diversity of local conditions, which makes hazardous a rash generalization of operating policy, lie certain similarities of basic conditions.

Conspicuous among these characteristics is the wave of rebellion which has been sweeping over many of these areas. In the sources of this upheaval there is a paradoxical element—for current revolutionary doctrines were introduced into colonial areas by the imperial powers themselves. These powers typically displaced existing ruling groups in populations which neither enjoyed nor expected direct participation in government. This enabled relatively small numbers from the conquering powers to establish their rule over vast dominions and millions of people. But they were not content with simply replacing an indigenous feudal ruling class. They brought with them doctrines of administration and popular participation in government which in time proved inconsistent with their own continued rule. The attempt to form coherent administrative units led to the consolidation of many areas for the first time in their history. For centuries before the appearance of the British, India had known only nominal unity of control. Similarly, Indonesia was nothing but a geographic expression until the Dutch found it more efficient to administer its many islands as a unit. At the same time, the colonial powers trained a group of indigenous leaders in their universities where they absorbed the ideals of the right to self-government, human dignity and economic advancement which had been the rallying points for the European Enlightenment.

Thus while colonialism exacted a human and political toll, it also represented one of the greatest conversions in history. As the ideals of the British, French and American revolutions became diffused, partly through the very spread of colonialism, the seeds were sown for the destruction of colonialism itself. The more successful the teachings of the colonial powers, the more untenable grew their position. Almost without exception, the leaders of independence movements fought their rulers in terms of the rulers' own beliefs. They asked them to live up to their own principles. They did not seek to overthrow the political system of the West but to enter it.

The disintegration of the colonial systems is thus fraught with both promise and peril. Its promise resides in the community of values which produced it. This gives the basis for hope of future cooperative relations based on the principles of human dignity which inspired the colonial upheaval. Its danger resides in the fact that anti-colonialism, so heroic while in opposition to foreign rule, may

turn out to be the only shared objective of a people, that it may be easier to find agreement on things to oppose than on constructive steps of development. The result may be nationalism impelled more by resentment than by positive aspirations.

It is deeply in the national interest of the United States that economic development in the less developed countries should take place in a manner which encompasses genuine national independence, peaceful international attitudes, institutions supported by the consent of their people and respect for human personality. It is also profoundly in their own interest that these countries should pursue their goals in this manner. This harmony of interest, if understood and given effect through operating policies, can be a great source of hope and strength for the free world.

Economic development can both foster and profit from the concept of a new structure for the economy of a free world described earlier. The United States and the other industrialized nations cannot underwrite the separate aspirations of some 40 less developed nations. However, through a structure of multinational groupings, the industrialized nations can work together with the less developed countries in a joint effort to achieve their common objective of a dynamic and growing world economy.

It is essential that sights be set high. The total capital investment in the less developed part of the free world came to \$17 billion in 1956 compared to \$146 billion in the industrialized part, even though the population of the less developed countries is almost twice as great. An increase in capital flow to the less developed areas could have vast economic consequences, providing adequate political and social structures exist. A farsighted effort of world economic development, boldly executed, would yield enormous returns in individual well-being and in a sense of common purpose.

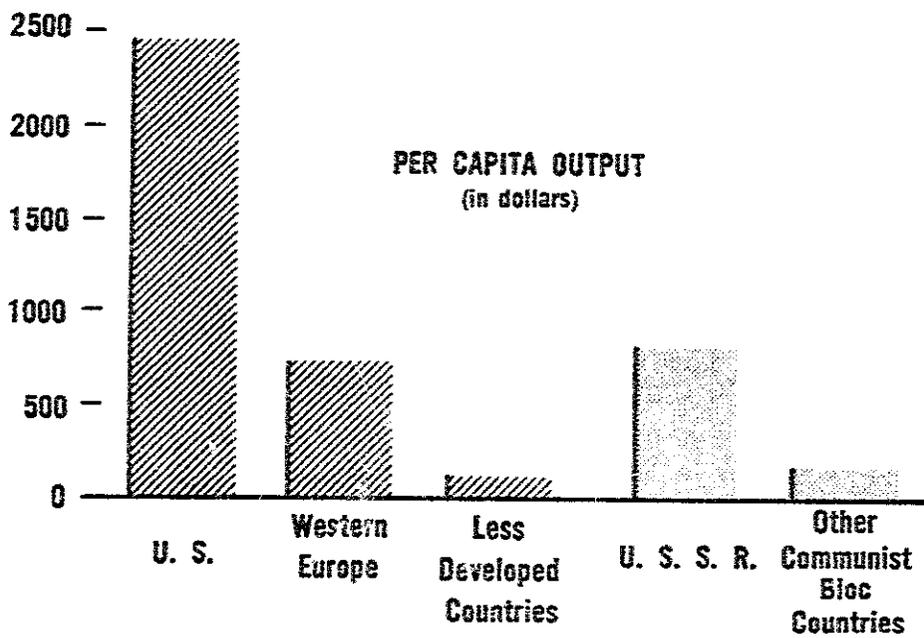
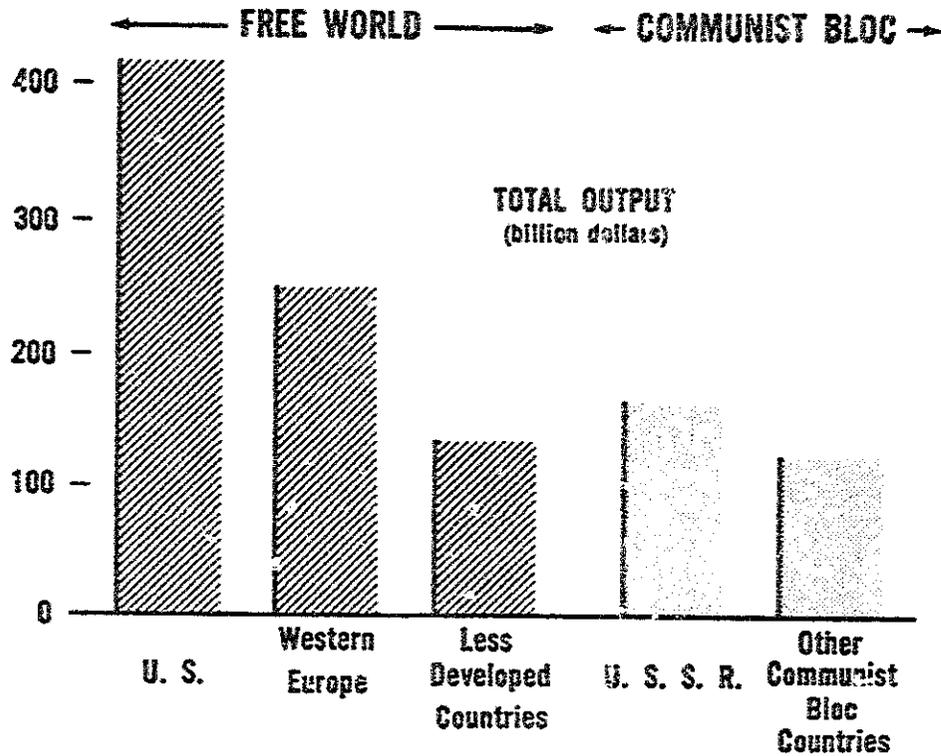
Judged by the magnitude of the opportunity before us, we have fallen far short. The scale of our effort has been insufficient. The coordination of private and public activities has been inadequate. The institutional and social aspects of economic development have too often been neglected, together with the conceptual framework into which these essential elements fit.

## **B. ESSENTIAL ELEMENTS IN ECONOMIC DEVELOPMENT**

The similarities of the less developed countries must not leave the impression that the problems that arise in them call for uniform

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treatment. Nothing could be further from reality. While in their quest for a new life most of these countries may seem to have basically the same objective, their start is from different levels, the problems they face are different and their progress is at different rates. A variety of local circumstances affects them in different ways, and the outside world affects them in widely differing ways.

The process of growth is conspicuously a process of change involving a great number of factors, each of which affects the others and is in turn affected by them. Many of these changes result from the processes of growth itself. Many others require the application of some new force that compels the change to take place. In assessing the development problem of a less developed country at any particular time, nothing is more important than to recognize the factors *critical* to the process of continued growth—requirements that must be supplied before the next step can be taken.

### *1. Governmental Structure and Services*

Economic and social development presupposes the existence of a responsible government reflecting the aspirations and hopes of its people. Without such a political structure and adequate enabling legislation, it will be impossible to develop the long-range objectives essential for growth or to impose the disciplines necessary to achieve them. Essential elements to the rate of advance therefore will be law and order with justice, the development of sound structure for taxes, customs and budgets, plus an efficient, loyal and trained civil service.

### *2. Education and Trained Manpower*

Attention must be given to the advancement of education at all levels. Well-developed plans for universal primary education are essential if people are to develop and preserve their own democratic institutions and well-being. In the final analysis the future of all nations depends on their wisdom as well as their vocational and technical skills. The quality and availability of educational facilities are therefore key factors.

High-talent manpower, a critical factor limiting capacity for economic growth, depends on development of secondary and vocational education, as well as university facilities in both liberal and specialized

fields. In many countries the need for competent administrators, engineers and skilled technicians of all kinds is as great, if not greater, than the need for capital. Indeed the operation of power and irrigation systems, railways and factories, will lead to tragic waste of invested capital and excessively high costs of goods and services unless such talent can be developed.

Preparation for the assumption of the responsibilities of leadership cannot be mass produced; it is a slow, lengthy and expensive process. Though it may take only a few years to build a dam, a steel mill, or a textile factory, many years are needed to produce a competent engineer or an able administrator.

The less developed countries require the assistance of the industrially advanced countries for staff, materials and equipment for their technical colleges and universities. They cannot utilize machinery purchased abroad unless technicians are loaned to install it and to instruct local personnel in its proper utilization. They need help in establishing vocational schools, employment exchanges, and programs of job training. They will need to send abroad larger numbers of able young persons for study at technical institutions and universities in the industrially advanced countries. They require a wide range of consulting services for building their own industrial enterprises in addition to foreign enterprises operating factories within their boundaries. Thus, governments, private enterprises, consulting firms, universities, and foundations are in position to offer very strategic technical assistance. The future of the less developed countries may depend on the sources of this assistance and also on the philosophical premises upon which it is provided.

Accordingly, we recommend an approach to educational problems along the following lines:

a. An appraisal should be made of the problems and needs of development of high-level manpower in free world less developed countries. In particular, it is important that each country or region assess its own problems and develop its own measures to meet them, as well as the extent to which it wishes outside assistance.

b. In order to determine high-priority programs of technical assistance in these areas, there should be a general assessment, in terms of impact and cost, of all present United States activities which are related to human resources development. The existing wide variety of private and public programs is an advantage rather than a shortcoming, for it provides opportunity for experimentation, latitude for individual initiative, and many avenues for cooperation by United

States citizens. One shortcoming, however, is that there is no appraisal of the combined programs at the regional and country level with their relationships to over-all efforts in the area.

c. The United States should cooperate with the region or country concerned in the development of educational institutions of all kinds, particularly in the field of higher education. A major role in this task can be and is being played by private American foundations. But the task transcends private resources. It is a major field for government action.

d. Finally, there is need to develop specially trained personnel in the United States government, as well as in educational, philanthropic and industrial institutions, serving abroad. In dealing with other nations and peoples the need for personnel with language facility, knowledge and understanding of cultural and historical backgrounds is especially acute. Our capacity in this respect must be enlarged through carefully worked out programs of recruitment, selection, training and tenure.

Business enterprises operating abroad, foundations, educational institutions and various departments and branches of the United States government alike report the difficulty of attracting and keeping American men and women in overseas operations. In certain aspects, this difficulty may be compared with the difficulty to which so much attention has been called in attracting qualified men and women into teaching and into scientific research. This difficulty reflects the importance of a deeper national understanding with respect to world economic development and human betterment, so that our ablest people will feel challenged to contribute to it. The problem of values and incentives will be discussed in the Panel V Report. Here we should like to affirm our belief that these needs represent opportunities for young men and women comparable in excitement and constructive promise to the challenge of the old American frontier.

### *3. Public Health and Sanitation*

Increased skill and productivity are also dependent on improvements in health and sanitation, as well as better nutritional standards. Too often the vitality of the peoples in the less developed areas has been sapped by the ravages of disease and famine. The elimination of endemic and debilitating diseases will make possible a more stable and reliable working force. Economic and social progress must go

hand in hand with sanitation and health services, including care for women and children.

Modern medicine and science have made attainable the virtual eradication of such diseases as malaria, yaws, tuberculosis.

This area has received the effective attention not only of the World Health Organization but also of such regional health groups as the Pan American Sanitation Bureau. The work in public health was pioneered by the private foundations and has been supplemented in recent years by effective programs of cooperation on a bilateral basis through the various United States government technical assistance programs. A major contribution to well-being and development can be made by more effective planning and the coordination of existing services.

#### *4. Agriculture*

As industrialization starts to take hold in the developing areas, it produces an accelerated movement of people to the urban centers. Unless modern technological and scientific methods are introduced, the dwindling agricultural populations will not be able to increase their productivity sufficiently to feed the rapidly growing national and urban population. To achieve this evolution in the rural areas requires a major expansion of government services in the fields of agricultural extension service and home demonstration. It also requires the availability of supervised rural credit, both short- and long-term, at reasonable interest rates.

The development of such services by government is a slow process. However, experimental programs have been successfully carried out in many of the less developed countries. A balanced agricultural development is an essential corollary to industrial growth and a rising standard of living for the people of the nation as a whole. Once agricultural extension service, home demonstration and supervised credit services are established, new scientific methods can be made available and effectively absorbed.

#### *5. Basic Public Works*

Economic development requires a systematic expansion of basic public works in such fields as transportation, power, irrigation, and port facilities.

Because most of the less developed regions suffer from a lack of transportation, the typical pattern even within the borders of the individual nation itself is not that of an integrated economy but of a large number of isolated ones.

The lack of power has been a major deterrent in industrial development.

The lack of irrigation has been the cause of holding back agriculture essential for production of foodstuffs in arid regions, while contaminated water supply has been a serious health threat in the urban centers.

A lack of port facilities has seriously retarded the development of international trade and commerce.

These fields require intelligent, long-range planning, both nationally and regionally. The financing of such projects must be a major concern for the free world.

### C. FINANCING CAPITAL NEEDS

The capital needs of the less developed countries can be grouped roughly into three categories: basic services (public health and sanitation, education, agricultural extension, public administration); public works (roads, railways, harbors, irrigation works); and the production and distribution of goods and services. A variety of financial tools, public and private, is available to help meet such needs. Yet closer coordination is necessary and new institutions for specific needs must be devised.

As a general rule, the provision of basic services and public works in the less developed areas has been financed from government sources while production and distribution are private enterprise functions in a free economy. There are, of course, exceptions. One of our problems is to work out appropriate procedures for making the best use of all of our financial tools toward the general purpose of promoting economic development.

A substantial portion of the capital to finance public services and public works comes from tax receipts of individual governments. An additional source of financing available to governments lies in the sale of government securities to the public. In most cases, however, capital markets in these nations have been little developed and governments have been reluctant to place interest rates on their securities that will attract private savings. In most of the less developed nations,

local sources of capital have been inadequate to finance the public works and public services needed to support rapid development.

While a great deal can and must be done to increase local savings and capital formation the less developed nations will still need capital from abroad, just as the United States did in its early years. Thus, the problem is to increase the availability of both local capital and foreign exchange.

Productive projects that generate the means of repayment within a reasonable term of years usually have little difficulty attracting financing. Both our own Export-Import Bank and the International Bank for Reconstruction and Development, that has drawn most of its capital from the United States, are organized to make loans to sound industrial projects or to the basic public utilities upon which they depend. The International Finance Corporation, closely affiliated with the IBRD, is set up to assist private enterprise in the less developed areas through loans and what amounts essentially to an equity participation. Since it can share in profits, it can consider projects entailing a degree of risk that would preclude eligibility for Export-Import Bank or IBRD loans.

Despite the existence of these facilities, there are still many development projects of genuine merit that have difficulty in finding financing. It is often impractical to raise capital within a country to finance the local currency expenditures needed to build a plant or construct a railroad or electric power facility. It is particularly difficult, for example, for governments in financial straits to provide the capital needed for the flood control and irrigation portion of a multipurpose dam, even where the electrical utility that might be an integral part of the project would qualify for loan support from existing institutions if the rest could be financed. For instance, an important irrigation and power project might cost \$300 million but the earnings from the project would be only sufficient to finance a \$250 million loan. Because of the political, social and economic significance of such a project, it might be extremely important that it go forward. However, to loan the total amount involved would be to risk the possibility of default. What is needed in such a case is an institution which has the authority to make grants. A \$50 million grant here would make the project a sound financial risk for an international loan from the International Bank or the Export-Import Bank. There are many such projects in the less developed areas that are being held up for the lack of this kind of facility.

It was to fill such gaps in the existing international credit

structure that the development Loan Fund was conceived as part of the United States program. It began operations in November 1957, with a modest appropriation of only \$300 million. By the end of January 1958, it had received 161 applications from 27 countries totaling \$1.3 billion. The Administration is seeking an additional appropriation of \$625 million for fiscal year 1959 with future expansions contemplated.

The Development Loan Fund is designed to operate as a loan agency with exceptionally flexible scope and operating procedures. We are in agreement that it be incorporated as a permanent government corporate institution, and we recommend that it specifically be authorized to make grants. At least a portion of the United States grant and aid program should be handled through it. We also recommend that it be authorized to contract with American companies to produce goods and services abroad in areas where private capital will not go on its own initiative because of the risks involved.

The Development Loan Fund can operate with great flexibility. Its funds do not revert if they are not committed or spent by a fixed deadline, and repayments are used to replenish its capital. It can finance either private or government projects. Its maturities are adjustable and may run for as long as 40 years. It can participate in earnings in the manner of the International Finance Corporation procedure, and it is not required to adhere strictly to the criteria of what is or is not bankable that governs the practice of existing agencies. It can guarantee private loans, help in the establishment or expansion of existing local development banks, and it can accept payment in local currencies when such a procedure is indicated. One of its prescribed responsibilities is to be responsive to situations considered important to our foreign policy interests.

It is essential to bear in mind that, in many cases, the difference between success and failure in the efforts of the less developed countries to achieve their goals, in a manner consistent with their genuine national independence and their growth in freedom, will be determined by the availability of sufficient capital investment or technical assistance from the outside. In such cases, it is in the national interest of the United States and the broad interest of the free world that appropriate means should exist to provide such capital or technical assistance.

The Development Loan Fund can add an important dimension and give increased effectiveness to our foreign economic program. It provides needed flexibility in the international financing field. Thus,

the Development Loan Fund can participate with the International Bank for Reconstruction and Development, the Export-Import Bank or private enterprise to carry through needed projects which could not heretofore be financed. For this reason, we believe that a considerable increase in its capital may be thoroughly warranted.

The Development Loan Fund should become the focal point in the United States government for United States effort in the International development field. This instrument may also help to establish regional development agencies where such agencies would have a constructive role to play in promoting the prerequisites of growth in many of the less developed areas. It could also work closely with an International Development Authority should such a multilateral development institution be set up.

The chart opposite serves to illustrate the possible relationship among international and United States government investment institutions.

## D. THE SIGNIFICANCE OF PRIVATE ENTERPRISE

### 1. *The Encouragement of Private Enterprise*

The discussion so far has been centered on the principal areas of government responsibility which importantly support and facilitate economic and social development. However, the driving force in a free country comes from the initiative, imagination and willingness to assume responsibility on the part of innumerable individuals. The success and effectiveness of the totality of their efforts depend importantly on the climate, the framework and the conditions under which they are able to operate.

Recognition must be given to two factors that work against their achievement—the lack of a tradition of the value of individual initiative, together with the pressures of rising expectations, tend to result in a centralization in government of economic and social forces. Therefore, a major conscious effort must be made to encourage the development of systems which permit the flourishing of these values within structures not necessarily identical with ours but which are compatible, and make possible a common effort.

Two general approaches to the encouragement of private enterprise by national governments should be emphasized. The first relates to domestic policies to encourage initiative and enterprise and promote

ILLUSTRATION OF POSSIBLE RELATIONSHIPS  
AMONG INTERNATIONAL AND  
UNITED STATES GOVERNMENT  
INVESTMENT INSTITUTIONS

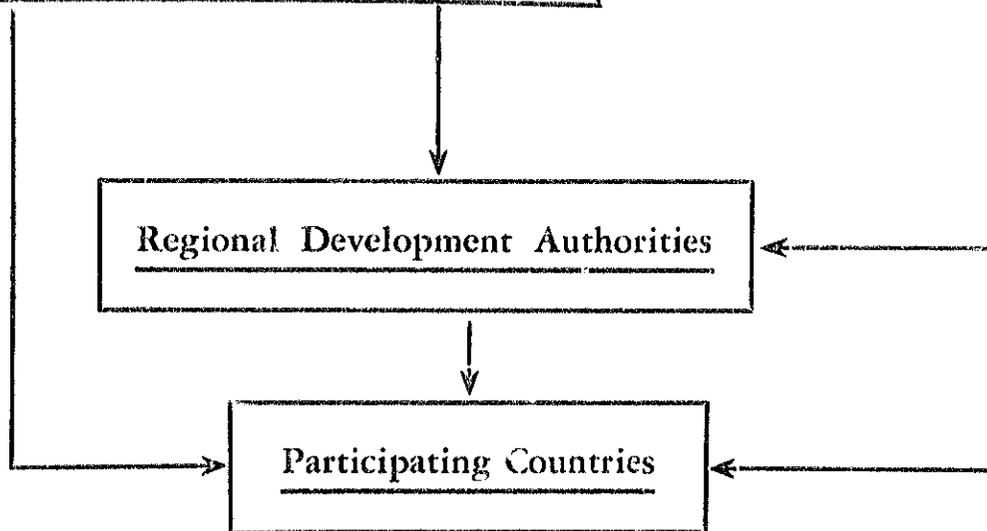
International Financial Institutions  
*International Bank for Reconstruction and Development*—self-liquidating loans directly to governments and loans with a government guarantee  
*International Finance Corporation*—loans and equity-type capital to private enterprise

United States Financial Institutions  
*Export-Import Bank* — dollar loans to governments and to others with or without a government guarantee  
*Development Loan Fund* — dollar and local currency loans to public or private enterprises; loan guarantees; equity participation through debentures; management contracts

Regional Development Authorities

Participating Countries

55



domestic saving and investment. Among the most important of such policies are those designed to check inflation and stabilize currencies. In many of the less developed countries, domestic inflation has been the chief enemy of growth. Steps to contain inflation through the active use of monetary and fiscal methods would make a most significant contribution to economic growth. An end to inflation would encourage savings, assure that savings would be channeled into the most efficient form of investment, and make possible the removal of the maze of direct controls that inhibit initiative and enterprise.

Taxation is another field where national governments might take action to promote the growth of private enterprise. Tax structures should be reviewed to minimize impediments to growth.

## *2. The Role of Private Foreign Investment*

The capital needs of less developed nations are so huge, relative to their resources, that rapid economic growth can be achieved only if local saving and public foreign investment are supplemented by an increasing inflow of private foreign investment. Such investment performs two key functions: it adds to the capital resources of the host nation; and it is the chief mechanism through which the managerial and technical skills and the creative and catalytic quality of foreign enterprise can contribute to the economic development of the less developed areas. Private capital from abroad, particularly from Europe, gave dynamic impetus to the expansion and development of the United States. United States capital has played an increasingly significant role in the economic and social development of other nations, particularly in the Western Hemisphere.

Private philanthropic capital can also play a constructive role in economic development. Such efforts can help directly by providing facilities for education, health and similar purposes, and indirectly by supplying leadership in such fields as medical and agricultural research. Philanthropic activities are already making a significant contribution in Latin America, Asia and Africa.

It should be the policy of the United States to encourage private overseas investment as a complement to programs of economic aid and technical assistance. However, private investment—with the exception of private philanthropic capital—will flow into foreign fields only if there is the prospect of a return commensurate with the risks involved. If the risks or uncertainties are too great, private enterprise will not

enter many areas where it could make a great contribution. One of the preconditions for the fullest use of private enterprise is the development of the regional, political and economic structures described in Chapter III—a framework, which permits men, money and goods to move freely to where they can play the most important role in world economic growth.

In addition, we recommend that the United States government take direct action to encourage the flow of private funds into international investment by providing appropriate tax incentives for foreign investment. At the very least, the advantage now provided to Western Hemisphere corporations of a 14 point reduction in the corporate income tax should be extended to the rest of the world.

### *3. Coordination of Private and Public Activities*

Our private and public activities in the international investment field have suffered from a lack of coordination. Two steps would help overcome this difficulty:

a. Facts should be collected covering all substantial private American capital investment presently taking place abroad. Information as to the projects and plans of American private companies carrying on overseas operations should also be collected. Such information would make possible the coordination of private and public activities for the maximum benefit of the less developed regions.

For example, in Honduras there is a forest reserve large enough to found a paper and pulp industry capable of supplying a large part of Latin America, and private companies have been interested in it. Coordinated with public projects—for example, roadbuilding—a higher rate of growth and development for an entire area might be obtained. Appropriate plans for coordination, including an accurate survey of existing private operations, can eliminate bottlenecks which prevent further expansion or can create facilities making new development possible.

b. The handling of intergovernmental loans, such as those made by the Export-Import Bank, could be made less time consuming and more productive. Programs should be developed to use appropriate combinations of private and public capital and thus magnify the impact of our contribution to economic growth. Regional development authorities may be most helpful in the development of such programs.

Another of our problems is to introduce the managerial and technical skills of private investment into areas where the normal standards for private investment decision would not induce such investment. Two approaches to this problem should be thoroughly explored:

a. To achieve certain objectives in these areas of high risk it might be practicable and useful to make long-term, low interest rate loans to private enterprise as a special inducement to go into such areas. This form of participation by the United States government might well make private investment practical and desirable. The Development Loan Fund has authority to operate in this manner.

b. Where even this type of loan would not induce private enterprise to go into these areas, and where it is in our national interest to develop the production of certain types of goods and services there, another approach is possible. Rather than making an outright grant to state-operated organizations, the newly incorporated Development Loan Fund should be given authority to contract with American private enterprises to render certain services of a technical or managerial character abroad, just as is done under the atomic energy or defense production programs at home. In most cases, governments in these areas which have in the past received grants have been unable to get American companies to come in to perform these services.

The procedure would be for the United States government to negotiate agreements with the governments of the countries in question which would provide for such technical and managerial services contracts with American concerns. The agreement might also include an option for an ultimate participation by the contract firm in an equity position along with local investors.

Obviously, the feasibility and desirability of such arrangements would depend upon the facts and circumstances of the particular situation. The purpose would be to combine the objectives and criteria of a sound program of economic development with the utilization of the talents of enterprise and management and technical skills which might otherwise be unavailable.

#### *4. The Framework for Investment and Enterprise*

The long-range need of the United States and other industrial societies for an expanded production of raw materials, and the availability of investment capital in these societies, can be mutually supporting. This prospect assumes, however, a continued hospitality

for foreign investment in other nations as well as forward-looking national policies on our part. Equally, in the less developed areas, cool and rational judgment based upon actual need has on more than one occasion been swept aside by fierce nationalism, by a bitter distrust of any arrangement which seemed to smack of colonial relationships, and by the confusion engendered by rapid growth and inexperience. In short, private investment can only take place in a world in which political and legal foundations are provided for economic activity.

The principle of contract finds expression in virtually every known legal system. The terms of statement vary, from the familiar doctrine of the binding obligation of contract in the Anglo-American common law and the civil law of the continent; to the Muslim principle, "Muslims must abide by their stipulations," derived from the injunction in the *Qur'an*—"O ye who believe, fulfill your pledges"; to the recognition of the binding character of vows and pledges in Chinese and Japanese law; to comparable affirmations in Hindu legal doctrine; to the *pacta sunt servanda* of public international law. These legal systems, national and international, represent a distillation of the experience of mankind. This varied and universal experience testifies to the need for legal institutions and procedures to vindicate the contractual rights of investors.

In collaboration with other nations, the United States must continuously seek to establish legal institutions and arrangements, national and international, which serve as the foundation for a dependable and productive flow of investment and trade in international economic life.

## E. LIBERALIZING INTERNATIONAL TRADE

Action to liberalize trade throughout the free world can provide important encouragement to the expanding production of goods and services by private enterprise. Without exception, the less developed nations, if they are to achieve maximum industrial and general economic development, need broader markets than can be provided within national boundaries. What is more, steps to liberalize trade broaden the scope of competition, thus providing incentives for more efficient production and distribution. And they reinforce efforts to contain inflation and thus favor the removal of restrictive controls. This calls attention to the importance of adopting the trade policy recommended in Chapter III.

## F. CONCLUSION

The free world can best demonstrate the vitality of its principles by making much more rapid progress in fulfilling the aspirations of its peoples. In these terms, programs of international cooperation to achieve economic and social goals can become an expression of the vitality of free societies and the values they represent. An imaginative program developed in advance of an emergency will be a symbol of moral purpose. A crash program formulated after a crisis develops will appear as an attempt to buy our way out of difficulties. Everything depends therefore on being clear about the kind of world we wish to bring about; and to be prepared to make much greater efforts, both materially and spiritually, in achieving it.

# V—The Western Hemisphere—A Test Case

Much of our discussion has of necessity been concerned with principles rather than with particular applications which will vary with circumstances. Regional arrangements will have to be adapted to local conditions; functional arrangements will be affected by the specific needs which called them forth; economic development cannot be divorced from the particular situation in which it must take place.

For this reason, we have thought it appropriate to discuss one region in somewhat greater detail in order to illustrate the application of the free world structure described in this report to a particular case. In an important sense Western Hemisphere relationships are a living example of our foreign economic policy. They derive from historic ties; they reflect a geographic fact; they can give expression to a profound opportunity. They can illustrate regionalism, functional arrangements and problems of development.

It is imperative for the United States to cooperate closely with its Western Hemisphere neighbors in the solution of problems that necessarily are of common concern. A sober review and consideration of our longer-term economic and social objectives and relationships have been too long deferred.

Any serious reformulation of United States foreign economic policy must include as a major element careful consideration of our common objectives with respect to and our impact upon the neighbors to whom we are so closely bound. Even in Canada, where the development record of the economy has been outstanding, there have been recent rumblings. These reflect at least a sharp questioning of certain of our economic interrelationships and deserve immediate and serious attention.

For the United States, for Canada on our north and for the 20 Latin American republics to our south, inter-Hemisphere economic ties are the predominant factor in their respective foreign trade interests. About half of all the United States trade flow is within the Hemisphere, almost equally divided between Canada and Latin America. Over 65 per cent of Canada's trade is with the United States and almost

50 per cent of Latin America's. Trade connections between Canada and Latin America are of small dimension on both sides, but they have a common concern in Hemisphere development because their interests are closely bound to the United States economy that lies between them. Inter-Hemisphere trade interests are today of far greater magnitude and far more important relatively than they were 30 years ago.

A comparable phenomenon has been occurring in the field of capital investment. Of the \$22 billion of United States direct investments abroad in 1956, 33 per cent was in Canada and 33 per cent in Latin America. These investments are contributing importantly to the expansion of Hemisphere industrial output and export earnings.

### A. CURRENT EMERGENCIES

Over the past quarter century, Latin American countries generally have made substantial, though unevenly distributed, economic progress. Rapid industrialization and a high level of export earnings have helped produce a per capita income increase of about 2 per cent per annum, even though the population growth in Latin America is the highest for any major area of the world.

In the past two years, however, Latin America's economic growth has slowed, in part because of sharp declines in prices of such important exports as coffee, copper, lead and cotton. Rapid domestic inflation in a number of Latin American nations has served to complicate the problems of adjustment. As a result, we face a situation of serious economic deterioration—one that could lead to crises in a number of Latin American nations.

Export earnings have already declined substantially in Brazil, Chile, Colombia, Uruguay, Bolivia, and Mexico, while there have been lesser declines in other nations. This decline in export earnings is forcing drastic cutbacks in imports of machinery and equipment, fuel and raw materials. The result will be at least a slowdown in the rate of economic advance, and serious economic and political crises are possible. Such developments are of the utmost concern to the United States. Crises tend to lead to improvised solutions that are never as good as carefully considered measures that can be provided with proper forethought.

The acute problem is coffee, with current production running considerably above indicated demand and carryover stocks very high. Continuing effort on the part of a number of the producing countries

to support coffee prices, by holding exports at an agreed upon percentage below past shipment rates, is proving to be an expensive burden on national treasuries. Aside from coffee, demand and price fall-offs in copper, tin, lead and zinc, intensified by the current recession in the United States, may create sufficiently severe problems in certain other Latin American economies to justify emergency handling.

## B. AN INTER-AMERICAN CONFERENCE

The United States should participate in calling an Inter-American Economic Conference to which Canada would be invited.

The Conference should be called as soon as possible for the joint consideration of and action on the following problems:

1. Finding workable procedures for moderating extreme price fluctuations in commodity trades that can importantly affect certain national economies.

2. Devising ways for the cooperative promotion of general economic growth and development to the end that individual living standards may show progressive upward trends throughout the Hemisphere and including consideration of the establishment of an Inter-American Development Authority.

3. Working toward international agreement to set up a common market of Hemisphere-wide scope, or of regional common markets with merger as an eventual goal.

4. Establishing an Inter-American Payments Union to provide for the full convertibility of currencies among all nations subscribing to the above common market arrangement—interim or complete.

5. Facilitating other inter-American arrangements for cooperation upon common purposes and social objectives in such fields as education, low-cost housing, health and technical assistance.

6. Assuring that all arrangements shall be so conceived and executed as to promote high levels of multilateral world trade and the general economic growth of the entire free world.

## C. COMMODITY AGREEMENTS

Since the problem posed by recent declines in prices of a number of commodities is immediately acute in certain Western Hemi-

sphere nations, we believe that this is one of the first problems with which the Inter-American Economic Conference should cope.

Brazil, Haiti, Guatemala, Colombia and El Salvador depend upon coffee exports for from two-thirds to more than four-fifths of their total export revenues; two-thirds of Chile's exports earnings come from copper, and over half of Bolivia's from tin. Sugar, cotton, wheat and meat are important foreign exchange earners for a number of Latin American countries. Venezuela is extraordinarily dependent upon oil exports, and to Ecuador, Panama and three other Central American countries bananas are of major significance. The peacetime markets for the latter two commodities have been relatively stable, however.

Measures to deal with the impact of surpluses and fluctuations of commodity prices on producing countries were set forth in Chapter III. We believe that the Inter-American Economic Conference should give urgent consideration to their implementation.

#### **D. PROMOTING HEMISPHERE ECONOMIC GROWTH**

Although current emergency situations must be faced, the Conference should give a major part of its attention to cooperative measures to achieve vigorous growth economies.

We have never organized ourselves, as a Hemisphere, to give concerted attention to this task. The formation of an Inter-American Development Authority with capital contributions from all Western Hemisphere nations on some equitable formula such as that which governs the Organization of American States contributions, could be the focus for cooperative action. There would be no lack of genuinely useful projects of broad regional significance, once ingenuity is focused upon the objectives of fostering industrial and agricultural growth in a Hemisphere of broad horizons and ever-increasing interdependence. We have scarcely begun to build the fabric of transport facilities that will clearly be needed if we do no more than follow the trends of intra-Hemisphere linkage that are forging themselves without benefit of conscious design.

#### **E. A WESTERN HEMISPHERE COMMON MARKET**

One of the obvious items that should have high priority on the Conference agenda is the development of new structural arrangements

to promote trade and economic growth throughout the region and with the rest of the free world. This involves steps to work out a cooperative agreement with all the nations in the Hemisphere to eliminate barriers to trade and investment, and to ensure that the proceeds of growth are used to attain our common social and human objectives.

Latin American nations already are giving consideration to the regional application of common market arrangements for all of the 20 republics and for smaller groupings such as the Central American states. At present the inter-trade among the Latin American nations amounts to less than 10 per cent of their total trade. This compares with a figure of about 50 per cent for Western Europe's intertrade. Historically, most Latin American economies have been oriented toward overseas trade with Europe or the United States. Trade within the area has been hampered by a lack of transportation and by tariffs, quotas and inconvertible currencies. Therefore, any common market structures restricted solely to Latin American countries would start from a fragile base.

However, the Latin American economy has now reached a stage of development in which greater freedom of trade within the area would contribute to general growth. Industrialization in many nations is now outrunning local markets. Yet the barriers to trade are such that few industries in Latin America can serve more than a protected local market. In short, industry is bursting its seams, and it would be logical to widen the scope of industrial activity by removing present constraints. Any steps that Latin American countries take toward eliminating internal barriers and working toward broader regional development planning in harmony with the general economic growth of the free world deserve our support.

At the same time a broader approach is indicated. Serious consideration should be given to the advantages of working toward the establishment of a common market embracing the entire Western Hemisphere. We believe that this would contribute most effectively to a rapid and broad economic development in all nations of the Western Hemisphere. As is the case in the Western European Common Market, we might suggest a procedure to arrive at that goal over a period of, say, ten to fifteen years. This would permit time for the adjustment to the conditions of freer trade and exchange. The United States might well consider adopting a much swifter timetable on which it would free its own restrictions, and some special concessions of the infant-industry variety might be offered to nations lagging far behind in industrial progress.

Either of two general lines of approach might be followed. One is to move first to the development of regional trade arrangements among three groups: the Central American nations; the northern tier countries of South America; and the nations of southern South America. At the same time, a mechanism looking toward a common market area for the Hemisphere might be established providing a timetable for the reduction of barriers to trade. The other is to move directly toward the ultimate and bolder concept.

No doubt the proposal of a common market will raise fears about impeding the industrialization of our South American neighbors. However, the experience of Puerto Rico would seem to indicate that tariff barriers are not required to stimulate economic development; in fact, they may impede it. Puerto Rico is part of a common market with the United States. This has encouraged a greater degree of industrialization in Puerto Rico than anywhere in the Caribbean.

The experience of all less developed regions within the boundaries of sovereign states further supports the merit of this approach. The less developed regions of the United States, for example, have not been progressively impoverished. Rather, their participation in the same trading system as other areas has enabled them to attract an ever greater share of industry.

## F. AN INTER-AMERICAN PAYMENTS UNION

A necessary complement would involve setting up an Inter-American Payments Union to provide full convertibility of currencies of all participants. Such a step is essential since currency restrictions and regulations can impede trade as effectively as tariffs and quotas. Thus, the development of a Payments Union must go hand-in-hand with steps to set up either a general or regional common market.

This fact offers an opportunity for the United States to assume constructive leadership. To make a payments union work, the participants must gain some direct advantage from it. The advantage such an arrangement would offer consists of making available to members drawing rights along the lines of the European Payments Union. The United States would supply the major part of the capital for the Payments Union and would be a part of it. Thus, the Inter-American Payments Union would be able to provide credit to cushion the adjustments entailed by shifts in the international economy. Such credits would enable nations to maintain their imports of materials, machinery

and equipment needed for economic development while carrying through the adjustments required to restore a high level of foreign exchange earnings. The credits extended by the Payments Union would be repaid in periods of high export earnings.

The details of the Payments Union would be worked out in negotiating the treaty setting up the organization. However, the objective should be to expand the area of convertibility throughout the Hemisphere, as a major step toward free world convertibility.

Adjustments to maintain over-all equilibrium in each nation's balance of payments would be made primarily through the exchange rate mechanism. To make the system work, multiple exchange rates would be abolished. If a nation is in persistent deficit with the Union, it would be required to adjust its exchange rate to restore equilibrium. At the same time, the managing body of the Payments Union would work, as the European Payments Union has, to encourage member governments to adopt realistic monetary and fiscal policies.

An Inter-American Payments Union is an essential first step in broadening markets throughout the area. It would provide a tremendous impetus to economic development by making it possible for industries to serve the entire area, instead of individual nations. Thus, it could set in motion the sort of broad industrial and agricultural expansion that has been facilitated in the United States by the fact that there has always been one broad common market instead of 48 separate ones.

## G. WESTERN HEMISPHERE SOCIAL OBJECTIVES

An Inter-American Conference should consider also common efforts on the part of Western Hemisphere nations to further the important social goals that have been an inherent part of this Hemisphere's cultural tradition.

In all our countries, the improvement of educational standards—primary, secondary, professional and vocational—must be a compelling concern for all of us. We should also take more positive steps toward fostering a greater measure of Hemisphere knowledge—its problems, cultures, values, and languages. A sufficient interchange of teachers and students would assure that the understanding would be more intimate and human rather than merely literary.

The foundation for mutually advantageous programs in the field of health already has been laid through the pioneer efforts of the

Pan-American Sanitary Bureau. The work in this field should be continued and expanded. Disease evades tariff barriers and has singularly small regard for latitude.

There are many other fields for which the possibilities of fruitful Western Hemisphere effort might be explored. Low-cost housing development is one that deserves exploration. In Latin America, as in Canada and in the United States, there is a flood of migration to urban centers inadequately equipped to deal with the problem. In this country, one of the measures that has helped has been the Federal Housing Administration program of mortgage insurance or guarantees. Without actual cost to the government it has mobilized funds for housing on a scale that would have been impossible without it. We should explore ways and means of developing cooperative procedures for dealing with urban housing problems throughout the Hemisphere.

# VI—The Significance of Economic Growth for Attaining World-Wide Objectives

Experience supports three broad generalizations about economic growth:

First, it is not automatic. It requires a favorable climate. Some of the measures to provide such a climate have been set forth earlier in this report.

Second, even though we achieve a high rate of economic growth, we shall always face the problem of choice. The essential economic problem is that it is impossible to divide up more than we produce—some needs and demands will always go unsatisfied. And while the problem of choice must be posed as an economic matter, it cannot be resolved in purely economic terms. It is by the success with which a community uses the proceeds of its economic efforts to contribute to human, spiritual and cultural development of its peoples that the community will ultimately be judged.

Third, steps to create a propitious climate for economic growth and to provide positive encouragement for growth can help immensely in dealing with the economic and social challenges facing the free world. A growing economy can absorb adjustments of a social, political and economic nature which would prove unmanageable in a stagnant economy.

In economic terms, the immediate problem is to start the more than a billion people now living in the less developed areas up the road toward rising production and consumption while maintaining the growth of the industrialized areas. As we have pointed out, these two problems are intimately related.

## A. PAST GROWTH TRENDS

The economy of the free world has experienced considerable growth since 1948.

Manufacturing output per person has advanced 70 per cent since 1948. Specific examples of growth in the free world outside the United States in this period include increases in telephones in use from 23 million in 1946 to 50 million in 1957, in passenger cars from 10 million in 1949 to 24 million in 1957, in steel production from 72 million tons to 144 million tons, and in petroleum production from 87 million tons in 1938 to 443 million tons in 1956.

Perhaps the most significant feature of this growth has been the resumption of general economic advance in Western Europe, following a period of virtual stagnation in output per person from 1913 to 1948. Western Europe has achieved an economic dynamism surpassing that of the period of growth in the century ending in 1913. Since 1948 gross product per capita in Western Europe has increased 40 per cent as compared with a rise of 20 per cent in the United States.

This growth in Western Europe has been accompanied by a tremendous upsurge in capital investment, a dramatic expansion of the middle income market and a general acceptance of the idea that steps to encourage further economic growth are desirable. The fact that Western Europe's existing capital equipment—the value of all plant and equipment in being—may be less than half that in the United States for close to twice the population, points to the possibility of a long-term increase in capital investment in this area. The basic need for more investment in Europe provides a strong underpinning for the structure of world trade and development.

There has been some growth in per capita production in the less developed areas taken as a whole during the past decade. However, it has fallen short of that in the industrialized nations. While our statistical measurements leave much to be desired, it would appear that production has increased more rapidly than population in most nations in Latin America, the Middle East, Africa, South Asia and Southeast Asia. There are some exceptions—in India production may have about matched the growth in population after an extended period of decline in the level of living; and per capita production may have declined during the past decade in Indonesia, Chile, Haiti and some other nations.

Nevertheless, the growth trend of the economy of the free world in the past decade undoubtedly has bettered that of the period

before 1913 and is clearly above that of the 1913-1938 period. To use exceedingly rough estimates, the total production of the economies of the industrialized free world may have moved ahead at an annual rate of 4 to 5 per cent in the past decade as compared with an annual advance of 2 to 3 per cent in the 1870-1913 period. This represents a considerable improvement in the performance of the economy of the free world in comparison with earlier decades.

As far as the less developed countries are concerned, their general growth trend was influenced by two important factors—one of which may prove transitory and one which may prove of great significance in the longer run.

The first of the two factors is the fact that while prices of basic commodities rose much more rapidly after 1938 than prices of manufactured goods, many of them have fallen sharply in the past year, so that nations heavily dependent on exports of a single commodity face a significant reduction of export earnings during 1958.

The second factor is that many less developed nations have used a higher proportion of their increased international purchasing power of the past decade to finance imports of the capital equipment needed to support general economic development than in earlier decades when consumer goods dominated import patterns. This has produced a most significant shift in the general pattern of world trade:

1. In the pre-1914 period the typical pattern of trade involved an exchange of raw materials from less developed areas for consumer goods from industrialized areas—cotton and wheat were exchanged for cloth and flour.

2. Now the typical trade pattern involves an exchange of industrial raw materials or fuels for the machinery and equipment needed to support the general economic development of less developed nations.

3. Thus today's pattern of trade favors the general development of the entire world economy in a manner fundamentally different from the trade pattern of the nineteenth century.

## **B. PROJECTIONS BASED ON PAST ECONOMIC GROWTH TRENDS**

What would the world economy look like in 10 or 20 years if recent trends should continue? In the present state of our statistical and economic knowledge, such a question can only be answered in the most tentative terms. International comparisons of economic

statistics are exceedingly difficult to make in terms that are meaningful. Here are a few examples of the difficulties:

1. Statistical concepts and definitions differ importantly among nations. As an example, the statistical treatment of food produced and consumed on farms is far from uniform.

2. There is no satisfactory method for comparing levels of living as between different nations with scales of values that are not fully comparable—the choices between using any increase in purchasing power to buy an automobile as opposed to the basic necessities of food, clothing and shelter may involve vastly different considerations.

3. Population projections are particularly hazardous. Too little is known about the factors influencing population trends to make anything more than very rough projections of populations in any area of the world.

Despite these very real problems, it may prove useful to attempt some projections of world production and population. While such projections cannot in any sense be considered as forecasts, they may help provide perspective on the general nature of the problems and challenges that may lie ahead. Their purpose is the modest one of showing the general dimensions of the economic prospects for the next 10 to 20 years. Such projections are of course subject to modification as the world moves ahead in economic, social, scientific and political fields.

If recent trends in the world economy should continue, we would see growth rates in total production of goods and services, as shown in the chart, Recent Economic Growth Trends:

4 per cent in the United States

5 per cent in the other free industrial countries, including Western Europe, Canada, Japan

3 per cent in Latin America and perhaps 2 per cent in other less developed areas

6 per cent in the U.S.S.R., 3 per cent in the satellites, and 2 per cent in Red China

If these growth rates are regrouped by broader categories, we get these results:

4.5 per cent in free world industrial nations

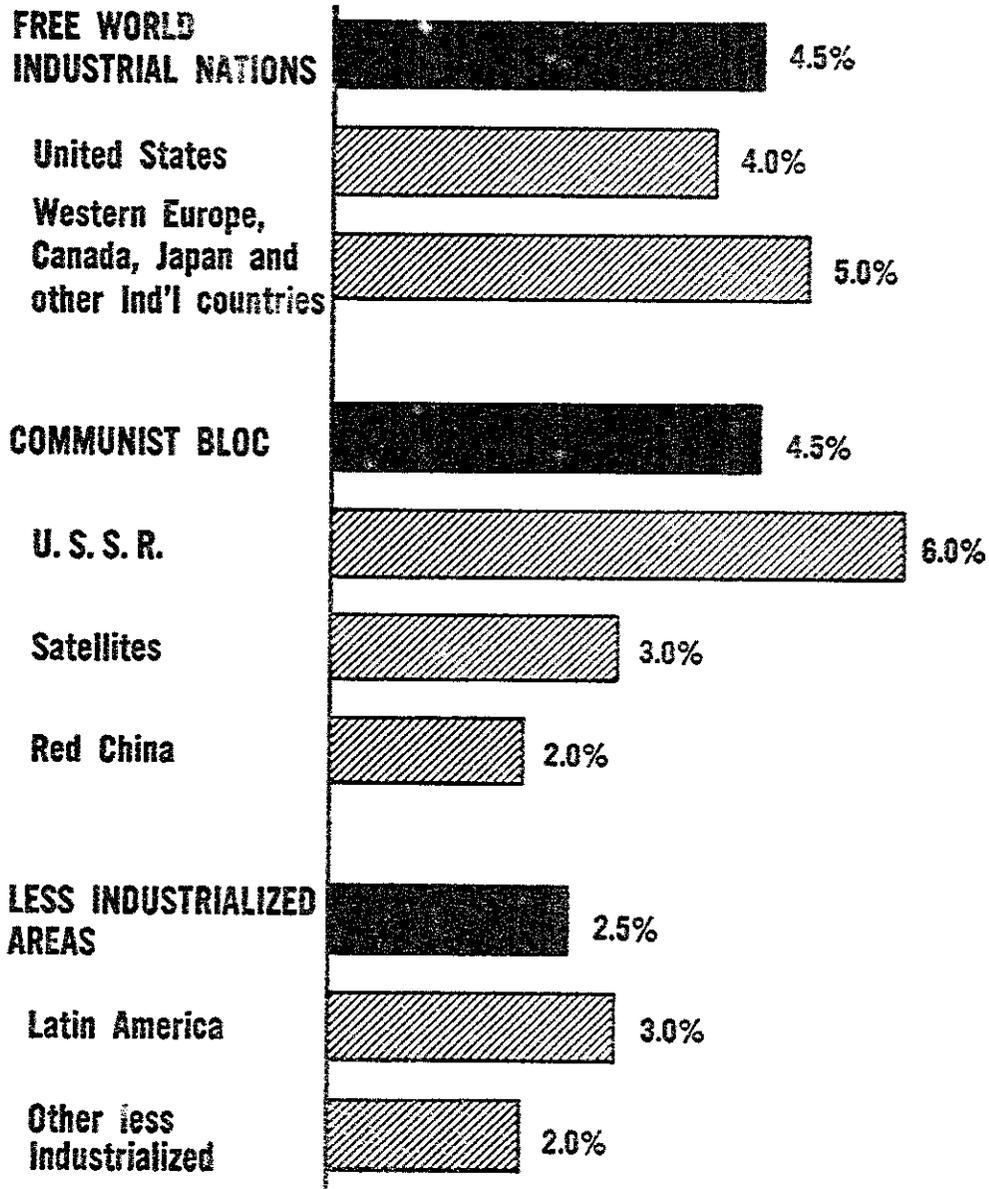
4.5 per cent in the Communist bloc

2.5 per cent in less developed nations

The following table projects these rates of growth in total production into the future and translates them into production per capita, using presently available population projections.

# RECENT ECONOMIC GROWTH TRENDS

## AVERAGE ANNUAL INCREASE IN GROSS NATIONAL PRODUCT



## PROJECTIONS OF WORLD POPULATION AND PRODUCTION

Assumptions: GNP grows 4.5 per cent in the free world industrial countries; 2.5 per cent in the less industrialized countries; 4.5 per cent in the Communist bloc.

| Area                                     | Population<br>(millions) |      |      | Total GNP<br>(\$ billions) |      |      | Per Capita GNP<br>(dollars) |      |      |
|--|--------------------------|------|------|----------------------------|------|------|-----------------------------|------|------|
|  | 1956                     | 1966 | 1976 | 1956                       | 1966 | 1976 | 1956                        | 1966 | 1976 |
| Industrialized Free<br>Countries . . . . | 640                      | 696  | 761  | 742                        | 1152 | 1789 | 1159                        | 1655 | 2351 |
| Less Industrialized<br>Free Countries.   | 1132                     | 1278 | 1451 | 134                        | 172  | 220  | 118                         | 135  | 152  |
| Communist Bloc .                         | 910                      | 1018 | 1148 | 284                        | 441  | 685  | 312                         | 433  | 597  |

Sources: *United Nations Statistical Office; U. S. International Cooperation Administration*

The broad conclusion that emerges from these projections of recent trends is that existing economic disparities among nations would widen. At recent growth rates in total production, output per capita in the free world industrial nations would increase 43 per cent in ten years and would double in twenty years. However, the increase in per capita output in the less developed areas taken as a whole would work out to only 14 per cent in ten years and 29 per cent in twenty years. Clearly, past rates of economic growth must be bettered throughout the free world, and particularly in the less developed areas, if we are to match the rising expectations of individuals everywhere.

It is also significant that the same rate of growth seems to characterize the Communist bloc as a whole and free industrial nations as a whole. Rapid growth in the Soviet Union is partially offset by the slower growth of Red China and the satellites, just as rapid growth in Western Germany, Canada and Japan is combined with a slower growth in the United States, the United Kingdom and some other nations. If these trends continue, the *relative* economic strength of the two groups will not change significantly.

A widening disparity between the industrialized and the less developed nations would make the attainment of a peaceful community of nations increasingly difficult. A great deal depends therefore on the ability to speed up the rate of growth of the less developed regions.

### C. NEEDS AND POSSIBILITIES FOR FUTURE GROWTH

What can be done to accelerate growth throughout the free world? The process of economic growth is extremely complex, involving as it does not only economic matters but also social, psychological and political forces. Yet, as has been indicated earlier, one obvious economic difference between industrialized and less developed nations is the higher rate of investment in the former. In recent years, in Canada, Western Germany and the U.S.S.R., where gross investment has run to 25 per cent or more of gross national product, GNP has grown at an average annual rate of more than 6 per cent. In the United States, the United Kingdom, and Latin America, where the investment ratio has been 15 to 19 per cent, average annual growth in GNP has been 3 to 4 per cent. In Asia, the Middle East, and Africa, investment has averaged 10 to 15 per cent of GNP and the growth rate has been no more than 1 to 2 per cent.

It would be a profound mistake to draw the conclusion that the only secret of growth is an investment ratio of 25 per cent of GNP. A great many other things are involved in growth: effective governments; social attitudes; a high rate of saving that supports investment; a willingness to accept change; the training of scientists, business managers and workers to use new capital. Yet there seems to be empirical evidence to support the conclusion that the development in a society of institutional arrangements that make it possible to devote a large part of GNP to investment is an indispensable factor in achieving a high average annual growth rate.

Consequently, one of the important tasks is to create conditions under which the rate of investment in the less developed areas can be increased from its present level of about 15 per cent of GNP as rapidly as possible. If this can be done in a political and social atmosphere that favors growth, these areas might achieve a rate of economic advance comparable to that of recent years in Canada, West Germany and Japan.

To illustrate the significance of rapid growth, consider what might happen if total output in the less developed areas were to increase at an average annual rate of 6 per cent: per capita production in the less developed areas might rise 59 per cent in ten years and 151 per cent in twenty years—as against only 29 per cent in twenty years under recent trends.

The attainment of these goals would lift the average level of living in the less developed countries to that achieved by the industrialized nations in the early 1900's, with the average in Latin America approaching that in Western Europe in the 1920's. Moreover, the very qualities of dynamism involved in such a rapid pace of economic advance would lead to an ever-broadening sharing in the fruits of economic growth in a manner that would contribute to the ultimate purpose of our society. In short, the significance of rapid economic growth is that it would enable the peoples of the free world to face the future with hope. It is to this objective that the measures recommended in Chapters III and IV are directed.

#### **D. INCREASING THE LEVEL OF INVESTMENT**

In 1956, the less developed areas invested \$17 billion in plant and equipment, housing, roads, schools, and other forms of capital. More than one-fourth of this total represented the contribution of foreign investors—through a direct flow of private and public

## USES OF PRODUCTION—1956

(Billions of U. S. Dollars  
Percentages of total GNP)

|  | GNP  |     | Investment |    | Military |    | Supply of<br>Civilian Wants |    |
|--|------|-----|------------|----|----------|----|-----------------------------|----|
|  | Amt. | %   | Amt.       | %  | Amt.     | %  | Amt.                        | %  |
| Industrialized Free Nations .....      | 742  | 100 | 146        | 20 | 59       | 8  | 537                         | 72 |
| 77 United States .....                 | 416  | 100 | 77         | 19 | 42       | 10 | 297                         | 71 |
| Western Europe .....                   | 251  | 100 | 50         | 20 | 14       | 6  | 187                         | 74 |
| Canada .....                           | 30   | 100 | 8          | 26 | 2        | 7  | 20                          | 67 |
| Other Industrial .....                 | 45   | 100 | 11         | 24 | 1        | 2  | 33                          | 74 |
| Less Industrialized Free Nations ..... | 134  | 100 | 17         | 13 | 4        | 3  | 113                         | 84 |
| Communist Bloc .....                   | 284  | 100 | 60         | 21 | 53       | 19 | 171                         | 60 |
| U. S. S. R. ....                       | 162  | 100 | 44         | 27 | 42       | 26 | 76                          | 47 |
| Satellites .....                       | 65   | 100 | 10         | 15 | 5        | 7  | 50                          | 78 |
| Red China .....                        | 57   | 100 | 6          | 11 | 7        | 12 | 44                          | 77 |

capital plus the reinvestment of earnings and depreciation funds. Thus, foreign investment has a vital role to play, and the measures recommended in Chapter III and IV to encourage a greater flow of such capital throughout the world are essential.

The essential responsibility, however, remains that of the country itself. It is vital to encourage an upsurge in domestic capital investment of the less developed nations financed largely by their own domestic savings. This can be done although the effort required will be great. Even in areas with a low growth rate in total output, policies to channel the proceeds of growth into investment can accelerate the rate of economic advance. This works to the advantage of everyone in the community.

In other words, even a poor economy faces the choice of consuming all of the increase in its output (an increase which may run to 2 to 3 percent per year) or devoting some of it to investment. If it is consumed, growth ceases. But if part of it is invested, the flow of goods and services is thereby increased for the indefinite future. That this process is one of the great bargains available to the world's consumers is shown by what has happened in the United States and in other industrialized nations. Living standards have increased because our institutions were so set up as to channel a part of the increase in output into capital investment.

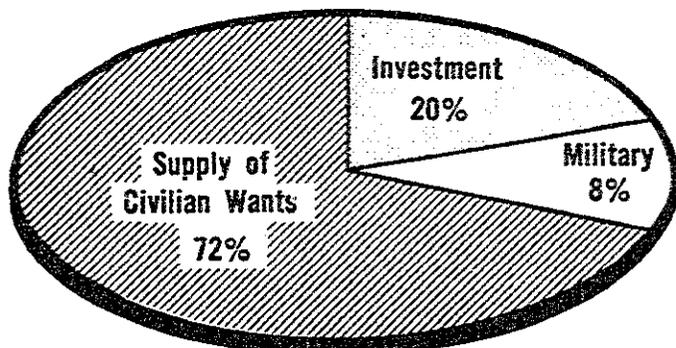
What can be done to produce these benign results in the vast areas of the world where investment is now insufficient to support a rapid rate of economic growth? There are no simple answers, and no short cuts. An attempt to double the rate of investment in less developed areas in a short period would result in major economic and social changes.

In the long run, however, there is no reason why this cannot be accomplished. Yet economies cannot be turned upside down overnight without creating stresses and strains. Any attempt to raise the rate of investment in the less developed areas by massive international loans or grants would very likely prove disruptive if attempted in too brief a period.

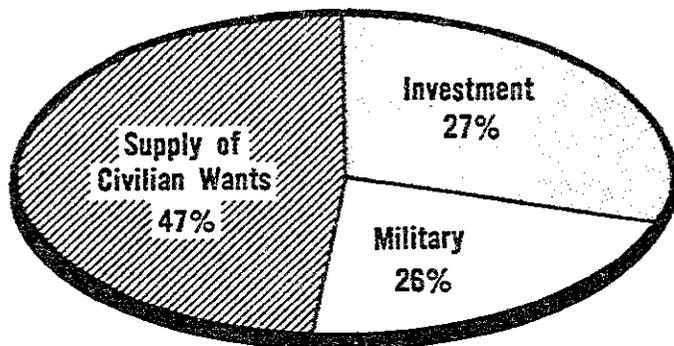
An increasing flow of international capital—private and public—can assist in the development process, and it may be peculiarly important in initiating the cumulative and self-sustaining process of growth. The main and continuing impetus to investment must come through the encouragement throughout the free world of saving and investment together with initiative and enterprise, high levels of multilateral trade and through the development of a broader under-

# USES OF PRODUCTION : 1956

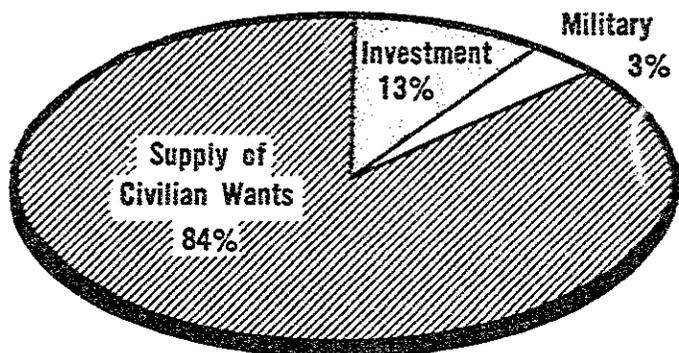
## FREE WORLD INDUSTRIAL NATIONS



## U. S. S. R.



## LESS INDUSTRIALIZED AREAS



standing of our common purpose. We must, in short, develop a new vital international economic structure.

By doing so the world can accelerate its economic growth and development. Important though such an accomplishment would be, it would solve only part of the economic and social problem. In a society dedicated to the fulfillment of the individual, the *uses* to which production is put are all-important.

## E. THE USES OF GROWTH

Ultimately, the difference between societies is not only in their ability to achieve growth but more fundamentally by the uses to which this growth is put. This is shown in dramatic fashion when one compares the uses made of production in the free world with those of the Communist bloc. Such a comparison is presented in the table below. While it should be emphasized again that international statistical comparisons are subject to many reservations, the conclusions that emerge from the table in so striking a fashion have general if not precise validity.

It must also be stressed that the figures in the last two columns of the above table reflect the percentage of the gross national product which is devoted to improving current living standards, regardless of whether the goods and services are privately or publicly supplied. The figure is arrived at by subtracting from the gross national product military expenditures and capital investment which, whatever its merit in increasing future output, does not satisfy current consumer needs.

In these terms the greater concern for the individual of the free system is plain. Seventy-two per cent of the output of the industrialized free world is devoted to the current welfare of the citizen, while the Soviet bloc makes available only 60 per cent and the U.S.S.R. only 47 per cent. This is due largely to the fact that the U.S.S.R. devotes 26 per cent of its production to military uses as against 10 per cent in the United States.

Economic growth is not an end in itself. The growth achieved by the Soviet Union has involved the sacrifice of so much that it has been of little benefit to the individual citizen. The economic growth of the free world is a reflection of its concern for the individual, and its meaning resides in the possibility it affords for individual fulfillment. This must be the ultimate impetus behind our effort and the goal to which it must be directed.

## VII—Conclusion

This report has sought to outline an economic structure which may assist us, together with the other peoples of the world, to fulfill the universal aspiration to individual fulfillment and economic and social advance. To achieve this goal many specific recommendations have been made. Implementation of these recommendations will, we believe, greatly strengthen our nation and the free world.

A final concern of this report is an intangible problem: the attitudes of the American people and the vision of its leadership. The free world structure described in this report will not be meaningful unless it expresses a true sense of the community of all people. The measures required to attain such a structure cannot be carried out unless there is an informed public opinion accompanied by both concern and courage. One of the chief obstacles to an effective United States foreign economic policy has been the absence of an adequate public awareness of our stake in world economic and social progress; nor has our leadership been effective in bringing it about. There exists no vocal constituency for foreign economic policy as for so many other aspects of national policy.

As a result, foreign economic policy has all too often become simply a response to a series of separate crises. Specific measures to meet each such crisis tend then to be discussed and evaluated in terms of a particular issue alone, a procedure which accentuates the difficulties of each situation and obscures the over-all relationships.

Nothing is more important, therefore, than to bring about the conviction that a sustained and imaginative foreign economic policy, directed to the human aspirations we share with all peoples, is crucial not only for our self-interest but for the peace and well-being of the entire world. The history of America has seen an expansion of our concerns. Our task now is to project these concerns abroad, to make of the interdependence of all nations a source of mutual strength and vitality, to understand that the well-being of mankind is truly inseparable.

The rewards are great. They lie in a community of nations which support each other in realizing common hopes and in solving common problems. Every individual has a personal stake in the solution of the

problems and the realization of the aspirations of his fellow men in ways that will preserve the great traditions of initiative and freedom. A community of sovereign nations bound together in service of this common goal is man's best hope for peace.

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