PC-AAA-658

THE DEPARTMENT OF STATE Bulletin

VOL. XLIV, No. 1137 • PUBLICATION 7167

April 10, 1961

The Department of State BULLETIN, a weekly publication issued by the Office of Public Services, Bureau of Public Affairs, provides the public and interested agencies of the Government with information on developments in the field of foreign relations and on the work of the Department of State and the Foreign Service. The BULLETIN includes selected press releases on foreign policy, issued by the White House and the Department, and statements and addresses made by the President and by the Secretary of State and other officers of the Department, as well as special articles on various phases of international affairs and the functions of the Department. Information is included concerning treaties and international agreements to which the United States is or may become a party and treaties of general international interest.

Publications of the Department, United Nations documents, and legislative material in the field of international relations are listed currently.

For sale by the Superintendent of Documents
U.S. Government Printing Office
Washington 25, D.C.

PRICE:
52 issues, domestic $8.50, foreign $12.25
Single copy, 25 cents

Use of funds for printing of this publication approved by the Director of the Bureau of the Budget (January 19, 1961).

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Foreign Aid

MESSAGE OF THE PRESIDENT TO THE CONGRESS [1]

To the Congress of the United States:

This Nation must begin any discussion of "foreign aid" in 1961 with the recognition of three facts:

1. Existing foreign aid programs and concepts are largely unsatisfactory and unsuited for our needs and for the needs of the underdeveloped world as it enters the sixties.

2. The economic collapse of those free but less-developed nations which now stand poised between sustained growth and economic chaos would be disastrous to our national security, harmful to our comparative prosperity, and offensive to our conscience.

3. There exists, in the 1960's, a historic opportunity for a major economic assistance effort by the free industrialized nations to move more than half the people of the less-developed nations into self-sustained economic growth, while the rest move substantially closer to the day when they, too, will no longer have to depend on outside assistance.

I

Foreign aid—America's unprecedented response to world challenges—has not been the work of one party or one administration. It has moved forward under the leadership of two great Presidents—Harry Truman and Dwight Eisenhower—and drawn its support from forward-looking members of both political parties in the Congress and throughout the Nation.

Our first major foreign aid effort was an emergency program of relief—of food and clothing and shelter—to areas devastated by World War II. Next we embarked on the Marshall plan—a towering and successful program to rebuild the economies of Western Europe and prevent a Communist takeover. This was followed by point 4—an effort to make scientific and technological advances available to the people of developing nations. And recently the concept of development assistance, coupled with the OECD [Organization for Economic Cooperation and Development], has opened the door to a united free world effort to assist the economic and social development of the less-developed areas of the world.

To achieve this new goal we will need to renew the spirit of common effort which lay behind our past efforts—we must also revise our foreign aid organization, and our basic concepts of operation to meet the new problems which now confront us.

For no objective supporter of foreign aid can be satisfied with the existing program—actually a multiplicity of programs. Bureaucratically fragmented, awkward and slow, its administration is diffused over a haphazard and irrational structure covering at least four departments and several other agencies. The program is based on a series of legislative measures and administrative procedures conceived at different times and for different purposes, many of them now obsolete, inconsistent, and unduly rigid and thus unsuited for our present needs and purposes. Its weaknesses have begun to undermine confidence in our effort both here and abroad.

The program requires a highly professional skilled service, attracting substantial numbers of high-caliber men and women capable of sensitive dealing with other governments, and with a deep understanding of the process of economic development. However, uncertainty and declining public prestige have all contributed to a fall in the morale and efficiency of those employees in

[1] H. Doc. 117, 87th Cong., 1st sess.; transmitted on Mar. 22.

the field who are repeatedly frustrated by the delays and confusions caused by overlapping agency jurisdictions and unclear objectives. Only the persistent efforts of those dedicated and hard-working public servants, who have kept the program going, managed to bring some success to our efforts overseas.

In addition, uneven and undependable short-term financing has weakened the incentive for the long-term planning and self-help by the recipient nations which are essential to serious economic development. The lack of stability and continuity in the program—the necessity to accommodate all planning to a yearly deadline—when combined with a confusing multiplicity of American aid agencies within a single nation abroad—have reduced the effectiveness of our own assistance and made more difficult the task of setting realistic targets and sound standards. Piecemeal projects, hastily designed to match the rhythm of the fiscal year are no substitute for orderly long-term planning. The ability to make long-range commitments has enabled the Soviet Union to use its aid program to make developing nations economically dependent on Russian support—thus advancing the aims of world communism.

Although our aid programs have helped to avoid economic chaos and collapse, and assisted many nations to maintain their independence and freedom—nevertheless, it is a fact that many of the nations we are helping are not much nearer sustained economic growth than they were when our aid operation began. Money spent to meet crisis situations or short-term political objectives while helping to maintain national integrity and independence has rarely moved the recipient nation toward greater economic stability.

II

In the face of these weaknesses and inadequacies—and with the beginning of a new decade of new problems—it is proper that we draw back and ask with candor a fundamental question: Is a foreign aid program really necessary? Why should we not lay down this burden which our Nation has now carried for some 15 years?

The answer is that there is no escaping our obligations: our moral obligations as a wise leader and good neighbor in the interdependent community of free nations—our economic obligations as the wealthiest people in a world of largely poor people, as a nation no longer dependent upon the loans from abroad that once helped us develop our own economy—and our political obligations as the single largest counter to the adversaries of freedom.

To fail to meet those obligations now would be disastrous; and, in the long run, more expensive. For widespread poverty and chaos lead to a collapse of existing political and social structures which would inevitably invite the advance of totalitarianism into every weak and unstable area. Thus our own security would be endangered and our prosperity imperiled. A program of assistance to the underdeveloped nations must continue because the Nation's interest and the cause of political freedom require it.

We live at a very special moment in history. The whole southern half of the world—Latin America, Africa, the Middle East, and Asia—are caught up in the adventures of asserting their independence and modernizing their old ways of life. These new nations need aid in loans and technical assistance just as we in the northern half of the world drew successively on one another's capital and know-how as we moved into industrialization and regular growth.

But in our time these new nations need help for a special reason. Without exception they are under Communist pressure. In many cases, that pressure is direct and military. In others, it takes the form of intense subversive activity designed to break down and supersede the new—and often frail—modern institutions they have thus far built.

But the fundamental task of our foreign aid program in the 1960's is not negatively to fight communism: Its fundamental task is to help make a historical demonstration that in the 20th century, as in the 19th—in the southern half of the globe as in the north—economic growth and political democracy can develop hand in hand.

In short we have not only obligations to fulfill we have great opportunities to realize. We are I am convinced, on the threshold of a truly united and major effort by the free industrialized nations to assist the less-developed nations on a long-term basis. Many of these less-developed nations are on the threshold of achieving sufficient economic social, and political strength and self-sustained growth to stand permanently on their own feet. The 1960's can be—and must be—the crucial "decade of development"—the period when many less

3

eveloped nations make the transition into self-sustained growth—the period in which an enlarged ommunity of free, stable, and self-reliant nations an reduce world tensions and insecurity. This oal is in our grasp if, and only if, the other industrialized nations now join us in developing with he recipients a set of commonly agreed criteria, set of long-range goals, and a common undertaking to meet those goals, in which each nation's ontribution is related to the contributions of thers and to the precise needs of each less-developed nation. Our job, in its largest sense, is to reate a new partnership between the northern nd southern halves of the world, to which all ree nations can contribute, in which each free ation must assume a responsibility proportional o its means.

We must unite the free industrialized nations n a common effort to help those nations within each of stable growth get underway. And the oundation for this unity has already been laid by he creation of the OECD under the leadership of President Eisenhower. Such a unified effort will elp launch the economies of the newly developing ountries "into orbit"—bringing them to a stage of self-sustained growth where extraordinary outside assistance is not required. If this can be done—and I have every reason to hope it can be done—then this decade will be a significant one indeed in the history of freemen.

But our success in achieving these goals, in creating an environment in which the energies of struggling peoples can be devoted to constructive purposes in the world community—and our success in enlisting a greater common effort toward this end on the part of other industrialized nations—depends to a large extent upon the scope and continuity of our own efforts. If we encourage recipient countries to dramatize a series of short-term crises as a basis for our aid—instead of depending on a plan for long-term goals—then we will dissipate our funds, our good will and our eadership. Nor will we be any nearer to either our security goals or to the end of the foreign aid urden.

In short, this Congress at this session must make possible a dramatic turning point in the troubled history of foreign aid to the underdeveloped world. We must say to the less-developed nations, if they are willing to undertake necessary internal reform and self-help—and to the other industrialized nations, if they are willing to undertake a much greater effort on a much broader scale—that we then intend during this coming decade of development to achieve a decisive turnaround in the fate of the less-developed world, looking toward the ultimate day when all nations can be self-reliant and when foreign aid will no longer be needed.

However, this will not be an easy task. The magnitude of the problems is staggering. In Latin America, for example, population growth is already threatening to outpace economic growth—and in some parts of the continent living standards are actually declining. In 1945 the population of our 20 sister American Republics was 145 million. It is now greater than that of the United States, and by the year 2000, less than 40 years away, Latin American population will be 592 million, compared with 312 million for the United States. Latin America will have to double its real income in the next 30 years simply to maintain already low standards of living. And the problems are no less serious or demanding in the other developing areas of the world. Thus to bring real economic progress to Latin America and to the rest of the less-developed world will require a sustained and united effort on the part of the Latin American Republics, the United States, and our free world allies.

This will require leadership, by this country in this year. And it will require a fresh approach—a more logical, efficient, and successful long-term plan—for American foreign aid. I strongly recommend to the Congress the enactment of such a plan, as contained in a measure to be sent shortly to the Congress and described below.

III

If our foreign aid funds are to be prudently and effectively used, we need a whole new set of basic concepts and principles:

1. Unified administration and operation—a single agency in Washington and the field, equipped with a flexible set of tools, in place of several competing and confusing aid units.

2. Country plans—a carefully thought through program tailored to meet the needs and the resource potential of each individual country, in-

4

stead of a series of individual, unrelated projects. Frequently, in the past, our development goals and projects have not been undertaken as integral steps in a long-range economic development program.

3. Long-term planning and financing—the only way to make meaningful and economical commitments.

4. Special emphasis on development loans repayable in dollars—more conducive to business-like relations and mutual respect than sustaining grants or loans repaid in local currencies, although some instances of the latter are unavoidable.

5. Special attention to those nations most willing and able to mobilize their own resources, make necessary social and economic reforms, engage in long-range planning, and make the other efforts necessary if these are to reach the stage of self-sustaining growth.

6. Multilateral approach—a program and level of commitments designed to encourage and complement an increased effort by other industrialized nations.

7. A new agency with new personnel—drawing upon the most competent and dedicated career servants now in the field, and attracting the highest quality from every part of the Nation.

8. Separation from military assistance—our program of aid to social and economic development must be seen on its own merits, and judged in the light of its vital and distinctive contribution to our basic security needs.

IV

I propose that our separate and often confusing aid programs be integrated into a single administration embracing the present Washington and field operations of—

A. The International Cooperation Administration (ICA) and all its technical assistance (point 4) and other programs;

B. The Development Loan Fund (DLF);

C. The food-for-peace program (Public Law 480) in its relations with other countries, while also recognizing its essential role in our farm economy;

D. The local currency lending activities of the Export-Import Bank;

E. The Peace Corps, recognizing its distinctive contribution beyond the area of economic development;

F. The donation of nonagricultural surpluses from other national stockpiles of excess commodities or equipment;

G. All other related staff and program services now provided by the Department of State as well as ICA.

The fieldwork in all these operations will be under the direction of a single mission chief in each country reporting to the American ambassador. This is intended to remove the difficulty which the aided countries and our own field personnel sometimes encounter in finding the proper channel of decision making. Similarly, central direction and final responsibility in Washington will be fixed in an administrator of a single agency—reporting directly to the Secretary of State and the President—working through Washington directors for each major geographical area, and through the directors of the constituent resource units whose functions are drawn together in each national plan: a development lending organization, food-for-peace, the Peace Corps, and a unit for technical and other assistance stressing education and human resources—initiating a program of research, development, and scientific evaluation to increase the effectiveness of our aid effort; and, in addition, the Secretary of State will coordinate with economic aid the military assistance program administered by the Department of Defense, the related operations of the Export-Import Bank, and the role of the United States in the Inter-American Fund for Social Progress and activities of international organizations.

Under the jurisdiction of both the Secretary of State in Washington and the ambassadors in the field, foreign aid can more effectively play its part as an effective instrument of our overall efforts for world peace and security. The concentration of responsibilities and increased status will both require and attract high-caliber personnel. Programs such as the Peace Corps and food-for-peace far from being submerged, will be used more effectively and their distinctive identity and appeal preserved—and food-for-peace will continue to be based on availabilities determined by the Department of Agriculture.

But I am not proposing merely a reshuffling and relabeling of old agencies and their personnel

vithout regard to their competence. I am recommending the replacement of these agencies with a new one—a fresh start under new leadership.

V

But new organization is not enough. We need a new working concept.

At the center of the new effort must be national development programs. It is essential that the developing nations set for themselves sensible targets; that these targets be based on balanced programs for their own economic, educational, and social growth—programs which use their own resources to the maximum. If planning assistance is required, our own aid organization will be prepared to respond to requests for such assistance, along with the International Bank for Reconstruction and Development and other international and private institutions. Thus, the first requirement is that each recipient government seriously undertake to the best of its ability on its own those efforts of resource mobilization, self-help, and internal reform—including land reform, tax reform, and improved education and social justice—which its own development requires and which would increase its capacity to absorb external capital productively.

These national development programs—and the kind of assistance the free world provides—must be tailored to the recipients' current stage of development and their foreseeable potential. A large infusion of development capital cannot now be absorbed by many nations newly emerging from a wholly underdeveloped condition. Their primary need at first will be the development of human resources, education, technical assistance, and the groundwork of basic facilities and institutions necessary for further growth. Other countries may possess the necessary human and material resources to move toward status as developing nations, but they need transitional assistance from the outside to enable them to mobilize those resources and move into the more advanced stage of development where loans can put them on their feet. Still others already have the capacity to absorb and effectively utilize substantial investment capital.

Finally, it will be necessary, for the time being, to provide grant assistance to those nations that are hard pressed by external or internal pressure so that they can meet those pressures and maintain their independence. In such cases it will be our objective to help them, as soon as circumstances permit, make the transition from instability and stagnation to growth; shifting our assistance as rapidly as possible from a grant to a development loan basis. For our new program should not be based merely on reaction to Communist threats or short-term crises. We have a positive interest in helping less-developed nations provide decent living standards for their people and achieve sufficient strength, self-respect, and independence to become self-reliant members of the community of nations. And thus our aid should be conditioned on the recipients' ability and willingness to take the steps necessary to reach that goal.

To meet the varied needs of many nations, the new aid administration will have a flexible set of tools, coordinated and shaped to fit each national development program: the grant or sale (for either local currency or dollars with special repayment terms) of surplus foods, equipment and other items; technical assistance; skilled manpower from the Peace Corps; development grants; transitional, sustaining, or emergency grants; development loans repayable in local currency; and development loans repayable in dollars, with special terms of repayment that will meet the needs of the recipient country. These tools will be coordinated with the activities of the Export-Import Bank, and with loan and investment guarantees to private enterprise.

The instrument of primary emphasis—the single most important tool—will be long-term development loans at low or no rates of interest, repayable in dollars, and designed to promote growth in those less-developed nations which have a real chance for ultimate self-reliance but which lack the ability to service loans from normal lending institutions. The terms of repayment will vary from as long as 50 years for those countries just starting on the road to development, to a much shorter period of time for those countries that are nearing the stage of self-sufficient growth.

Such long-term loans are preferable to outright grants, or "soft loans" repayable in local currencies that are of little benefit to the American taxpayer. The emphasis on law or interest-free loans is not designed to undercut other institutions. The objective is to rely on flexibility in the

6

repayment period and the requirement of ultimate dollar repayment for insuring strict accountancy while meeting individual needs in an area not met by suppliers of capital on normal terms.

Lending on these terms is not normal banking practice. We are banking on the emergence over coming years and decades of a group of independent, growing, self-reliant nations.

VI

A program based on long-range plans instead of short-run crises cannot be financed on a short-term basis. Long-term authorization, planning, and financing are the key to the continuity and efficiency of the entire program. If we are unwilling to make such a long-term commitment, we cannot expect any increased response from other potential donors or any realistic planning from the recipient nations.

I recommend, therefore, an authorization for the new aid agency of not less than 5 years, with borrowing authority also for 5 years to commit and make dollar repayable loans within the limits spelled out below. No other step would be such a clear signal of our intentions to all the world. No other step would do more to eliminate the restrictions and confusions which have rendered the current foreign aid program so often ineffective. No other step would do more to help obtain the service of top-flight personnel. And in no other way can we encourage the less-developed nations to make a sustained national effort over a long-term period.

For, if we are to have a program designed to brighten the future, that program must have a future. Experience has shown that long-range needs cannot be met evenly and economically by a series of 1-year programs. Close consultation and cooperation with the Congress and its committees will still be essential, including an annual review of the program.

And we will still need annual appropriations of those amounts needed to meet requirements for which dollar repayable loans would be unsuitable. These appropriations should be available until spent in order to avoid any wasteful rush to obligate funds at the end of a fiscal year.

The new continuity and flexibility this kind of long-term authority will bring cannot help but result in more productive criteria, a greater effort on the part of the developing nations, greater contributions from our more prosperous allies, more solid results, and real longrun economy to the taxpayers. The new emphasis on long-term plans and realistic targets will give both the Congress and the Executive a better basis for evaluating the validity of our expenditures and progress.

VII

A long-term program and borrowing authority, even though limited, will enable us to demonstrate the seriousness of our intentions to other potential donors and to the less-developed world. Over the next 5 years, the economic program here proposed, together with an expanded food-for-peace program as recommended in my agricultural message,[2] and project loans by the Export-Import Bank, will constitute direct U.S. economic assistance activity of considerable magnitude.

It will, however, take time to institute the new concepts and practices which are proposed. Thus, during this initial year, while we will need to make the necessary long-term commitments for development lending, it is unnecessary to ask the Congress for any additional funds for this year's program.

Consequently, while the funds requested by my predecessor will be sharply shifted in terms of their use and purpose, I am asking the Congress for a total foreign aid budget of new obligational authority no greater than that requested in the rockbottom budget previously submitted ($4 billion)[3] despite the fact that the number of new nations needing assistance is constantly increasing; and, though increasing such authority for nonmilitary aid while reducing military assistance, this budget provides for a level of actual expenditures on nonmilitary aid no greater than reflected in the previous budget ($1.9 billion). (These figures do not, of course, reflect Public Law 480 operations.)

In deciding on this program, I have also carefully considered its impact on our balance of payments. We are now putting maximum emphasis, in both our development lending and grant aid programs, on the procurement of goods and services of U.S. origin. As I pointed out in my

[2] H. Doc. 109, 87th Cong., 1st sess.
[3] H. Doc. 15, 87th Cong., 1st sess.

message on the balance of payments,[4] under present procedures not more than 20 percent of foreign economic aid expenditures will affect our balance of payments. This means that approximately $2 billion out of the requested $2.4 billion in economic aid will be spent directly for goods and services benefiting the American economy.

This is important. For not only do we have the highest gross national product, both total and per capita, of any country in the world, thus making clear both our obligations and our capacity to do our full part, but we are currently underutilizing our great economic capacity because of economic recession and slack. Less than 80 percent of our industrial capacity is now in use, and nearly 7 percent of our labor force is unemployed. Under these circumstances cutbacks in the foreign aid program would be felt not only in loss of economic progress and hope abroad but in loss of markets and income for business, labor, and agriculture at home.

In short, this program will not in whole or in part unbalance the previous budget in any fashion. Its impact on our balance of payments will be marginal. And its benefits for our domestic economy should not be overlooked.

The $4 billion previously requested for fiscal year 1962 will be reallocated under this new program as follows:

Military assistance will be reduced from the $1.8 billion requested to $1.6 billion, as discussed below.

Economic assistance, with a much greater portion going to development loans, a small increase in development grants, and a reduction in sustaining grants, will total $2.4 billion.

Of this, $1.5 billion will be contained in the usual annual appropriation of new obligational authority to finance the part of the program that is not suitable for dollar development loans: grants for education, social progress and institutional development, the Peace Corps, and sustaining aid. Nine hundred million dollars will be available for long-term low or interest-free development loans to be repaid in dollars, financed through an authorization of public debt borrowing authority which would also provide no more than $1.6 billion for each of the succeeding 4 years. Also to be made available for such loans under the new system of full coordination will be the unappropriated dollar funds now coming in in repayment of the principal and interest on certain previous loans to foreign governments (United Kingdom, ECA [Economic Cooperation Administration], GARIOA [Government and Relief in Occupied Areas], and others—but not the Export-Import Bank).

VIII

The economic programs I am recommending in this message cannot succeed without peace and order. A vital element toward such stability is assurance of military strength sufficient to protect the integrity of these emerging nations while they are advancing to higher and more adequate levels of social and economic well-being.

I shall therefore request the Congress to provide at this time $1.6 billion for provision of military assistance. This figure is the amount required to meet the U.S. share in maintaining forces that already exist, and to honor firm existing commitments for the future.

I am frank to say that we cannot now say with precision whether this amount will meet the minimum level of military aid which our basic security policy might demand this year. The emergence of new crises or new conflicts may require us to make an even greater effort.

However, while I have mentioned in this message the amount to be allocated to military assistance, those funds, while coordinated with the policies of the new agency, will not be administered by it and should not be included in its appropriation. In order to make clear the peaceful and positive purposes of this program, to emphasize the new importance this administration places on economic and social development quite apart from security interests, and to make clear the relation between the military assistance program and those interests, I shall propose a separate authorization for military assistance with appropriations as part of the defense budget. Moreover, to the extent that world security conditions permit, military assistance will in the future more heavily emphasize the internal security, civil works, and economic growth of the nations thus aided. By this shift in emphasis, we mean no lessening of our determination to oppose local aggression wherever it may occur. We have demonstrated our will and

[4] BULLETIN of Feb. 27, 1961, p. 287.

ability to protect free world nations—if they so desire—from the type of external threat with which many of them are still confronted. We will not fall short on this.

IX

The levels on which this new program is based are the minimum resulting from a hard reappraisal of each type of assistance and the needs of the less-developed world. They demonstrate both to the less-developed nations and to the other industrialized nations that this country will meet its fair share of effort necessary to accomplish the desired objective, and their effort must be greater as well. These are the rockbottom minimum of funds necessary to do the job. To provide less would be wasteful, perhaps more wasteful, than to provide more. Certainly it would be wasteful to the security interest of the free world.

But I am hopeful that the Congress will not provide less. Assistance to our fellow nations is a responsibility which has been willingly assumed and fashioned by two great Presidents in the past, one from each party—and it has been supported by the leaders of both parties in both Houses who recognized the importance of our obligations.

I believe the program which I have outlined is both a reasonable and sensible method of meeting those obligations as economically and effectively as possible. I strongly urge its enactment by the Congress, in full awareness of the many eyes upon us—the eyes of other industrialized nations, awaiting our leadership for a stronger united effort—the eyes of our adversaries, awaiting the weakening of our resolve in this new area of international struggle—the eyes of the poorer peoples of the world, looking for hope and help, and needing an incentive to set realistic long-range goals—and, finally, the eyes of the American people, who are fully aware of their obligations to the sick, the poor, and the hungry, wherever they may live. Thus, without regard to party lines, we shall take this step not as Republicans or as Democrats but as leaders of the free world. It will both befit and benefit us to take this step boldly. For we are launching a decade of development on which will depend, substantially, the kind of world in which we and our children shall live.

JOHN F. KENNEDY.

THE WHITE HOUSE, *March 22, 1961.*

United States Ratifies OECD Convention

White House press release dated March 23

Following is a statement made by President Kennedy on March 23 announcing the ratification on that day of the convention of the Organization for Economic Cooperation and Development.[1]

In behalf of the United States I have ratified the convention establishing the Organization for Economic Cooperation and Development. I have done so with great satisfaction and with expectations that the Organization for Economic Cooperation and Development will become one of the principal institutions through which we pursue the great aim of consolidating the Atlantic Community. As I said in my inaugural address,[2]

> United, there is little we cannot do in a host of cooperative ventures. Divided, there is little we can do—for we dare not meet a powerful challenge at odds and split asunder.

In giving its advice and consent to this act of ratification, the United States Senate has affirmed the intention of the United States to enter upon a new era of cooperative enterprise with our Atlantic partners. We face a broad spectrum of common economic problems. And OECD should prove a useful forum in which the member states can consider and act together on a number of the vital questions.

Among these challenging problems, none is more urgent than that of helping the less developed countries in their quest for economic growth and stability. The countries represented in OECD have a common interest and a common responsibility in this task. For they are among those fortunate enough to have earned the capital and the skills required for such programs. And they share with all humanity the hope and determination that the less developed peoples will succeed in their valiant efforts to achieve sustained economic progress.

Next week the Development Assistance Group, which is soon to become the Development Assist-

[1] For background and text of convention, see BULLETIN of Jan. 2, 1961, p. 8; for statements by Under Secretary of State Ball and Secretary of the Treasury Dillon, see *ibid.*, Mar. 6, 1961, p. 326.

[2] *Ibid.*, Feb. 6, 1961, p. 175.

9