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ADDRESS BY THE HONORABLE DAVID E. BELL
ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT
DEPARTMENT OF STATE

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The A. I. D. program.

I come before you, from a newsman's point of view, as that most useless of creatures - a lame duck. It is too late for me to speak with authority, and too early for me to speak without responsibility. I do have a few parting comments, however, mostly having to do with the future possibilities of the U.S. foreign aid program. In the question period to follow, I will of course be glad to answer questions on any subject within my competence.

I

My first suggestion is that the prospects for economic growth in the developing countries are better than many people think. One often hears the view that the needs of the developing countries are so great - their poverty is so extreme - that the United States and the other advanced countries will have to provide aid in large amounts for decades to come. Another view sometimes heard - in a sense the reverse of the first - holds that the developing countries are so hopelessly poor, so weakly and irresponsibly governed, that sending them aid is a waste of good resources and should be stopped altogether.

As you could guess from the way I have set up these straw men, I think both are quite wrong, and are based on an excessively pessimistic reading of our experience. The record shows some startling success stories. Looking back, we forget how startling they were. Remember the case of Japan. In 1949, so responsible a source as Fortune Magazine described the United States' "\$2 billion failure in Japan", and went

on to say that " the Japanese face a future uniquely bleak ... five, ten or more years of ... grueling work. The American taxpayer must prepare himself for an indefinite period of vast appropriations."

That of course is not what happened. Japanese economic growth has been a modern wonder. Instead of going on for an indefinite period, sizeable economic aid from the United States to Japan ended within five years of that Fortune article. More recently, Japan has agreed to repay \$490 million of our economic assistance, and in 1965, its own foreign aid program totaled more than \$240 million.

Even more significant, in my opinion, is the success of Taiwan - a story some of you in this room may have heard me tell before. The key lesson of Taiwan is that a country can achieve the conditions of self-sustaining economic growth at a surprisingly low level of per capita income. American aid has not made the Taiwanese wealthy - their per capita income is less than \$200 per year, compared to more than \$2500 per year in the United States. But our aid - and their own efforts - have given Taiwan the power to achieve further economic growth without further economic aid.

These cases, and others like Greece, Israel, Mexico, do not prove that every underdeveloped country will succeed. But they come close to showing that every underdeveloped country can succeed.

These success stories lead, I think, to three very important inferences.

One is the enormous power of modern science and technology when effectively applied to the production conditions in developing countries. It seems to be possible for the developing countries, by making use of the scientific advances of the West, to achieve comparatively very high growth rates over sustained periods of time. The Japanese record is well-known. Taiwan's is less well-known, but nearly as spectacular.

For the past decade, Taiwan's economy has been growing at an average annual rate of 7.6 per cent. For the last five years, this rate has averaged 8.8 per cent per year. In 1965, the year in which the U.S. discontinued concessional economic aid, Taiwan's gross national product increased by 10 per cent. All these rates are approximately twice the comparable rates for the United States.

The second inference is the crucial importance of leadership in the developing countries. Modern science and technology do not apply themselves - they must be applied, as the result of strong development policies. Priorities must be set sensibly. Local resources must be raised. Incentives must be assured. Skills must be trained. All these and many other matters can be arranged only by public and private leaders in the developing countries.

It is not too much to say that the most useful effect of foreign aid is not the projects that may be built, but the support and stimulation that may be given to stronger and wiser development policies. Clearly each project should be well-run and effective, but the important question is what effect can aid have in encouraging and helping the local leadership to devise and apply firm development policies.

The third inference relates to the future need for aid from the U.S. and other donors. Just as many observers may have underestimated the prospects for economic growth, so many may also have exaggerated its cost. The purpose of foreign aid, after all, is not to help every country achieve the income standards of the advanced countries, but only to help aid recipients reach the point where they can move ahead on their own.

The real question is: what amount of concessional aid, coupled with sound self-help policies and actions, will put the country in question in position to move ahead on its own, to obtain its capital requirements on normal commercial terms, thus ending the need for concessional aid. Taiwan has only started on the road of economic development. Many years of growth will be required before Taiwan will approach present U.S. income levels. Taiwan will need to import much capital over that period. But now it can do so on normal commercial terms, without further concessional aid. Taiwan has only started on the development process, but it has already finished the aid process.

II

If these conclusions are warranted, as I believe they are, one could suggest that the future U.S. aid policy should simply be to work on with those developing countries following strong self-help policies until, in country after country, economic strength and progress have been established and each has the capacity to continue its forward momentum without our aid.

So far as it goes, this conclusion seems to me correct. There is a group of countries - such as Israel, Mexico, Venezuela - in which the need for concessional aid - grants and soft-term loans - is clearly near its end.

There is a second group of countries making strong and solid progress though it will be some years before aid can be ended. These are countries which, like India, Pakistan, Korea, Turkey, Brazil, Chile, are following sound self-help policies. United States development assistance is heavily concentrated in these countries.

These countries are clearly on the road to economic self-support. They are likely to reach their goal at different times, since each starts with a different endowment of natural resources, skilled managers, and so forth. Some of these countries could be economically self-sustaining within five years, and even the poorest, probably within 15 or 20 years.

Our economic aid policies toward the type of countries I have been describing can be relatively simple - although their execution is frequently a very complex and difficult matter. The logic of the situation would seem to be to continue to do our full share in aiding these countries. Along with

other donors, we should be prepared to provide even more aid in the future to these countries, if it will enable them to make faster headway toward economic self-support and the end of the need for outside aid.

The question of policies becomes more uncertain when we look at countries that do not have strong, full-scale development programs. Some of these are countries, such as a number in Africa, which are not in a position to make rapid progress toward economic development because they are seriously short of competent leaders, or because they have not yet found a way, in their particular political circumstances, to achieve a firm commitment to sound economic policies.

There have been suggestions that until such countries put their own houses in order there is little we can do to help them, and consequently we should do nothing. I believe such a policy would be utopian and wrong. There are certainly cases in which we should indeed provide no aid at all. Indonesia, a year ago, was such a case.

But many of these developing countries can be helped, by technical assistance and training efforts, to understand their own problems better and gradually to improve their development policies and programs. And sometimes a wise and timely use of incentives can help bring about important policy changes or reforms. This is delicate business, normally needing to be carried out privately, and preferably through the good offices of an international agency such as the World Bank or the IMF. But it can sometimes be done.

Our policy, therefore, in countries which are not fully committed to strong full-scale development programs, in my opinion, should be one of seeking to catch hold where we can, and to bring positive influence to bear where the opportunity is open to us, with the objective of helping more and more countries to embark on full-scale economic development efforts which can lead them toward economic self-support.

I have not mentioned so far one last group of countries to which we provide aid. These are the countries such as Vietnam and Laos, the Congo, and the Dominican Republic, where the first problem has been the restoration of peace and security, and economic aid is directed to assist that objective, as a prerequisite to longer-term considerations of economic and social progress.

If, therefore, you look across the developing world you can see a rough spectrum ranging at one extreme from countries torn by insurgency, through those which are at peace but are struggling to develop effective leadership and policies for development, through countries well on the road to solid development, to those at the other extreme where our assistance is terminating. It seems to me our economic aid policies can be fitted to the particular circumstances of these various types of countries, in order to help each of them achieve the next step forward from the restoration of security, through the development of effective leadership, through strong development programs, to economic independence. And it seems to me that looked at in this light, it is legitimate to say that if we stick with the job we can hope to see very substantial gains over, say, the next decade, along this path toward economic development.

III

In saying this, however, I would not wish to be understood as asserting that our present U. S. aid programs are nearly as good as they should be. A great deal of change has been underway and further changes are in prospect. I would cite three illustrations.

First, we are in process of adapting to the fact that foreign aid has become an international business--with other advanced countries in Europe plus Canada and Japan providing last year over \$2.5 billion in aid to the developing countries. The most promising arrangements for coordinating aid are the consortiums and consultative groups, of which the World Bank has established perhaps ten or a dozen, with two or three more on the horizon. Through these consultative groups, the Bank takes the lead in working out the right prescription both for the self-help actions and for the amounts and types of aid that are required for a particular aid-receiving country.

It is feasible for the United States or another bilateral aid donor to take a leading role in working out the arrangements for strong self-help in a given country. We have done so successfully in several cases. It is clearly preferable, however, for this role to be played by the World Bank or another international agency, backed up by the bilateral aid donors. The consultative group, therefore, represents in our judgment a major improvement in our methods of providing economic assistance.

A second improvement which is well underway is to place much greater emphasis among both aid recipients and aid donors on the urgency of enlarging agricultural productivity in the developing countries and, meanwhile, of improving the arrangements under which food assistance is provided to them. In this same connection there is rapidly growing a more rational approach to the problems of population growth. The United States, I am glad to say, has played a leading role in both these areas.

One illustration of this is our invitation for the annual high level meeting of the Development Assistance Committee of the OECD to meet in Washington next week, with problems of food and agriculture in a prominent place on its agenda.

A third improvement which is underway in our aid programs is a greater emphasis on the encouragement of local and private initiative in the developing countries. We continue to support strongly American private investment in Asia and Africa and Latin America. And we are also finding more ways to support the growth of private and local organizations in the developing countries themselves -- businesses, cooperatives, trade unions, farm organizations, and so forth. We are finding excellent support among private American organizations of all kinds for this approach, and a number of new organizations have been established by private groups to contribute to this end - as the AFL-CIO has established the African-American Labor Center and a group of businessmen led by David Rockefeller and Sol Linowitz has established the International Executive Service Corps.

In these and other ways the United States foreign aid program - and the aid programs of other countries - are in a state of rapid change and, I believe, increasing efficiency. It is a lively business, attracting highly able people to work on the challenging problems of economic and social change in the developing countries.

IV

I should like to close with an observation or two going beyond the area of economic development as such.

It is important not to expect too much. Our aid programs, when they are successful, assist developing countries to establish themselves as independent, self-supporting nations. That is a great accomplishment, and of great value to the United States. A world of independent, self-supporting nations, cooperating together to solve common problems, is the kind of world the United States seeks - in which we believe we can live most safely and most constructively. But such a world is not utopia.

The case of France illustrates the point neatly. France has been the largest single recipient of U. S. aid - over \$9 billion in economic and military assistance. That aid accomplished what it was intended to accomplish, namely, the restoration of the French economy from the devastation of World War II, and the rebuilding of the French military forces as part of the NATO alliance. It is not an exaggeration to say that France is strong and

free today as a result of United States aid, and that is a result which would have been worth a good deal more to the United States than \$9 billion. But it does not require Bastille Day to remind us that an independent France may sometimes act independently. And the moral of that story is that foreign aid can solve some problems but not all.

A final observation. The question is often asked whether United States aid helps the growth of democratic attitudes and institutions in less-developed countries. In the present state of our knowledge, we cannot be sure of the answer. My own personal view is that aid is substantially helpful to this end, for several reasons.

The first is exposure. There is no doubt that most of the thousands of persons who come to this country under our aid programs, and most of those who come in contact with our technical assistance people abroad, are impressed by the freedom and mobility of our society and the benefits of government by consent.

Furthermore, under the aid program we deliberately foster many democratic institutions - savings and loan associations, for example, democratic trade unions, cooperatives of various kinds; government agencies with an attitude of service toward people; and many others. Through such institutions, people in developed countries learn at first hand how a pluralistic society functions, and experience the necessity for responsible choice.

Finally, the economic and social policies which we foster are designed to broaden the base of economic participation and spread the powers of economic decision. Land reform, for example, is often a powerful means for making a society more democratic, as well as for stimulating the growth of investment and output in agriculture. The extension of education to more children at elementary, secondary, and higher levels broadens the basis for responsible participation in a nation's affairs.

In all these ways and for all these reasons, I believe the net effect of our aid programs is strongly positive in encouraging democratic evolution, and those critics who charge the aid program with perpetuating rigid social patterns and oligarchical control have simply not been looking at what we are actually doing around the world.

Nevertheless, I would certainly not argue that economic assistance is a sure recipe for democracy. There are many other influences at work, and it will plainly be a long, difficult struggle in many countries to find a satisfactory basis for political institutions that could properly be called democratic.

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And so I am ending my association with AID with the good feeling of having been in the thick of a very good fight - of having been involved in an endeavor of very great significance to the United States and to the future of the world. The problems are extremely difficult, and we have much to learn about how to deal with them effectively. But I am convinced that the United States in its aid programs is on a sound footing. I trust we will have the wisdom and the fortitude to stay the course.