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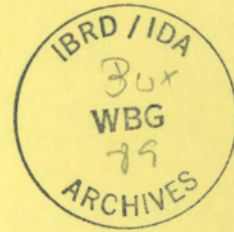
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THE ALLIANCE FOR PROGRESS AND ITS LESSONS

filed E. LERDAU

by

Enrique Lerda<sup>1/</sup>



"The tendency to achieve our foreign policy objectives by inducing other governments to sign up to professions of high moral and legal principle appears to have a great and enduring vitality in our diplomatic practice."

(George F. Kennan, American Diplomacy 1900-1950)

Introduction

1. It is just eight years ago that I was privileged to witness the initiation of what I then thought a bold and exciting experiment, a piece of history in the making. It was the signing of the Charter of Punta del Este, the official birth of the Alliance for Progress.
2. If today I want to look back on the premises, the design and the execution of this experiment it is because I continue to think that this was not just one more of the international conferences that flower so freely in what inexplicably is referred to as the Interamerican System. In a minor, a very, very minor capacity, I have participated in the experiment in its formative years; I bear my share of responsibility for some of its rhetoric, and if I ask you to examine with me some of the implicit and explicit theory as well as some of the facts, I am really asking of myself: what was right and what went wrong, what are the lessons - if any - for development and external

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<sup>1/</sup> Senior Economist, Western Hemisphere Department, International Bank for Reconstruction and Development. Formerly Assistant Director, Department of Economic Affairs, Organization of the American States. The views expressed in this paper are exclusively personal ones and should in no way be taken to reflect those of the World Bank or the OAS. I am deeply indebted to the numerous past and present colleagues and friends who have influenced my thinking over the years and some of whom have also made valuable suggestions for this paper, but none of them bears any responsibility for the final result. In particular, I wish to record my gratitude to Dragoslav Avramovic, Theodore C. Mesmer, Murray Ross, Louis J. Walinsky, Albert O. Waterston and Mervyn Weiner.

assistance in Latin America, and why did we make the particular mistakes that we made? In short, I feel that my role here is not that of an outsider being wise after the event; rather it is as much an act of self criticism as an inquiry into what was done wrong by others and what we should all learn from the experience.

3. One further disclaimer: I do not intend to be anecdotal in this paper. Certainly the elements for some Mencken-like descriptions were there right from the beginning: the cream of inter-american statesmanship crowded into the unused hotels of a summer resort at the end of a long peninsula, in the middle of the blustery Uruguayan winter protected on land by the Uruguayan army and on the sea by warships of several nations. It is a pity that most of the journalists present were just as earnest as we were. Imagine only the frantic 24 hours during which it looked as if Che Guevara, the head of the Cuban Delegation, would sign the Charter and join the Alliance! In short, the material for drama and comedy was not lacking then or later. But this is not the time or the place for it; the fact that the journalists fell down on their job and reported as if they were economists, historians and political scientists, is no excuse for members of these professions to become journalists.

How did it start?

4. George Kennan, in one of his essays<sup>1/</sup>, describes how the decision to formulate the Open Door Policy was reached in the United States. His point is that it was a non-decision in which the British Deputy Administrator of the Chinese Imperial Maritime Custom Service - which may have been the earliest international service on record - who was a personal friend of the Far Eastern

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<sup>1/</sup> "Mr. Hippisley and the Open Door" in American Diplomacy 1900-1950 (University of Chicago Press, 1951).

Advisor of the U.S. Secretary of State, managed to persuade the latter to adopt as United States policy a set of principles that had direct bearing on a dispute between the Chinese Customs Service and Great Britain. Kennan's concise summary is:

"There is no evidence that this formula was given any serious critical study in the United States Government or that any effort was made to assess the practical significance it would have when measured against events in China."

5. It would probably be unfair to draw too close an analogy between this story and the inception of the Alliance for Progress. Moreover, only those who at that time were in the councils of the new U.S. Administration are today in a position to do so. And their stories, to the extent that they are public, are not yet definitive; even for the origin of the term Alliance for Progress itself one can pick from three different versions, depending on whether one prefers one's history written by Schlesinger, Sorenson or Goodwin, all of whom were there.<sup>1/</sup> But there are analogies, not least among them the adoption of a set of premises that were not - in Kennan's terms - "given critical study".

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<sup>1/</sup> See Arthur Schlesinger, Jr., A Thousand Days, (Boston, 1965) p. 193, Theodore C. Sorenson, Kennedy, (New York, 1965) p. 533 and Richard Goodwin, Our Stake in the Big Awakening, Life, April 14, 1967. The following versions thus have similar authority:

Version	Authorship of Term:	
	Alliance	for Progress
Schlesinger	Goodwin	Betancourt*
Sorenson	Sorenson	Betancourt
Goodwin	Goodwin	Goodwin

\* Ernesto Betancourt, an employee of the Organization of the American States, consulted by Karl Meyer (Washington Post) for advice to Goodwin.

6. Perhaps this was inevitable since, as far as I can see, there was no well articulated approach to Latin America and its problems, let alone to the role of the U.S. in the region. The Good Neighbour Policy may have signified a notable advance in putting an end officially to military intervention, but once this principle was generally accepted by the end of the second world war, it had lost most of its political impact. And it was not, in itself, a guide to positive action. In the 'fifties some important events had taken place; the Guatemalan episode was one; the acceptance, in principle, that the U.S. would participate in an International Coffee Agreement was another and the creation, first of the Interamerican Development Bank and later, in 1960, of a US\$500 million Social Progress Trust Fund, still another. But by and large these were all fairly belated responses to events and to pressures emanating from the region. The proposal for Operation Pan America - primarily a call for an ambitious U.S. foreign aid program in Latin America - in 1958 by President Kubitschek might have been the most significant event of the decade, had there been any positive response from the U.S. Government. By the end of the decade one major new development occurred in Latin America: the advent of the Castro Government in Cuba and the ensuing rapid deterioration of relations with the United States. It was against this backdrop that the Kennedy Administration took office, and in line with its general activist approach to problems, it proposed the Alliance.

7. I do not want to be misunderstood; it is too easy and it may not be true, to assert that without Castro no such initiative would have been taken. All one can safely say - and Schlesinger's account makes this abundantly clear - is that the magnitude of the program and the speed with which it was mounted and accepted by the country, can best be understood in this context.

8. One further point about the 'fifties is relevant; it was then that for the first time there emanated from Latin America an attempt to formulate a theory of the Latin American development process that claimed to arise from Latin America's own experience, and that carried with it a diagnosis and a set of prescriptions drastically different from those of the neo-classical market economics of the Anglo-Saxon world. I refer, of course, to the pioneering work of Raul Prebisch and of the United Nations Economic Commission for Latin America.

9. I need not go into the conceptual framework that was developed in Santiago; the literature in the last 20 years has explored its analytic merits and shortcomings quite extensively. It is probably fair to classify much of the Santiago approach as Historicism in Popper's sense.<sup>1/</sup> The mere stress of Latin America's similarities and under-emphasis of its differences is a pointer to a non-empirical, non-pragmatic approach. Some of its limitations were once described rather fancifully by a sympathetic critic:

"ECLA's detailed projections, where all economic sectors are made to mesh harmoniously, are in a sense the 20th century equivalent of Latin America's 19th century constitutions - and are as far removed from the real world. They are a protest, both pathetic and subtle, against a reality where politicians relying on brilliant or disastrous improvisation hold sway, where decisions are taken under multiple pressures rather than in advance of crisis and emergency situations, and where conflicts are resolved on the basis of personal considerations after the contending parties have revealed their strength in more or less open battle rather than in accordance with the objective principles and scientific criteria."<sup>2/</sup>

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1/ See Karl Popper The Open Society and its Enemies (London 1945)

2/ "Ideologies of Economic Development" by Albert O. Hirschman, in Latin American Issues by A.D. Hirschman (Editor), the Twentieth Century Fund, 1961.



10. My own conclusion regarding the general character of this work is that its most serious shortcomings are a result not so much of bad theory but of too much theory too soon. The root of the trouble lies in the absence of a serious concern in Latin America with economic history in the past 100 years. Relevant theory arises from a simplification and systematization of observed reality, but only a painstaking and scholarly concern with facts and with how **economic processes** really work can give the theorist the material on which he can impose an orderly and logical pattern. The work of the Institutionalists in the United States, of the Webbs in Britain, and of the German Historical School on the Continent...none of this really has a counterpart in the Latin American intellectual tradition. It is easy to list many crucially relevant questions on which until only 20 years ago virtually nothing except impressionistic knowledge existed, and the situation is only marginally better today. Land tenure shifts over time, income distribution changes, the development, character and impact of trade unions, the economic and social role of the military, changes in the geographic and economic composition of public expenditures and the determinants of these changes, the determinants and the history of foreign investments...the list could go on. Obviously, any global development theory would be hard put to be an adequate guide for actions, or even an adequate explanation of events, if the basic facts about such items as those listed above - and about practically everything else - had not been accumulated in previous decades, or even centuries.

11. But whatever the shortcomings of the model developed in Santiago, it had one enormous attraction: it was there. And its influence on the North American intellectuals who were called upon to formulate an action

program in early 1961 was profound for just that reason: it was the only new doctrine that they could draw on. Moreover it offered just what they were looking for: a global and homogeneous interpretation of the Continent's problems, which would lend itself to a global and homogeneous set of remedies. One crucial consequence flowed from this: the Alliance's rhetoric as well as its institutional framework was cast - as ECLA's doctrines - into a single mold, with the implicit assumption that it would fit reasonably well all member countries.

12. The following words of Mr. Prebisch should dispel any doubts about the intellectual origin of the Alliance ideology:

"Indeed, the basic ideas underlying this document were conceived and gradually developed over a period of years in Latin America. In times that are not yet far behind, some of these ideas encountered very strong resistance, which was frequently couched in intractable and dogmatic terms. Now they are recognized as sound and valid and largely embodied in the Charter of Punta del Este. However, there has developed a rather peculiar tendency to present these ideas as having been conceived in the United States, or as constituting a readymade blueprint to be applied in Latin America. I am really concerned about this trend, for not only is it contrary to the facts, but its political implications are highly detrimental to the Alliance itself and to the broad popular support it requires in Latin America."<sup>1/</sup>

#### The Framework

13. Three main themes ran through the early Alliance rhetoric, were enshrined in the Charter of Punta del Este and lingered on in subsequent

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<sup>1/</sup> Raul Prebisch: "Economic Aspects of the Alliance" in The Alliance for Progress, Edited by John C. Dreier (The Johns Hopkins Press, 1962).

years in about the same way as the grin of the Cheshire cat. They were the three roads to salvation which had to be trodden simultaneously if development was to come to Latin America:<sup>1/</sup>

- a. Long-term economic planning.
- b. Land reform and tax reform.
- c. Foreign capital on concessional terms.

14. The Alliance thus was to be basically a mutual engagement to act meaningfully in these areas: Latin American Governments in the first two and the United States in the last one. In order to monitor progress under this reciprocal plighting of troth, an independent technical body of nine economists - soon known as the Nine Wise Men - was set up which was to assess the long-term plans which the Latin American Governments were to prepare and from which, inter alia, each country's foreign aid requirements were to be determined.

15. These prescriptions obviously implied that the domestic bottlenecks to development lay in the property and power relations within each country and in the form in which the dominant classes were using their power to govern. The external bottleneck here is the least controversial one; it was not internally contradictory for the United States to pledge substantial amounts of foreign assistance, even though later problems did develop about making good on these pledges. But could the same be said about the domestic component? In other words: was there a basic inconsistency between diagnosis and prescription?

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<sup>1/</sup> A fourth one - improvements of the position of primary commodities in international trade - was also there but vanished so fast that it will not be dealt with in this paper. Ever since the creation of UNCTAD, this is the forum in which Latin America has sought multilateral action on commodities and only perfunctory lipservice is now paid to the possibility of inter-american action in this field.

If the diagnosis was correct - and it certainly had been expounded with considerable brilliance by ECLA's economists - was it not illogical to expect Governments to pledge themselves to do away with their own power base and to follow through on such a pledge? Did the diagnosis, which treated Governments as the representatives of precisely the dominant classes whose position allegedly was the basic obstacle to development, not imply that such commitments could by definition not be meaningful?

16. Personally, I do not accept an unqualified affirmative answer to these questions because I do not believe that all Latin American Governments are simply the passive spokesmen for such simplified social groups as "landlords", "industrialists", "labor", etc.<sup>1/</sup> But the point I wish to stress here is that the basic question itself was not even asked at the time, or, when it was asked, it was only in the naive terms of whether a particular Government was "sincere" in its commitment to structural reforms.

17. I suggest that many of the later disappointments in the Alliance can be traced to the elements sketched out so far. Recapitulating, these elements are:

- a. lack of a tradition of serious and creative concern in U.S. Government circles with long-term policy issues in Latin America;

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<sup>1/</sup> Nathaniel Leff has made a quite convincing case for the relative independence of successive Brazilian Governments from the pressures of such social groups. See his Economic Policy Making and Development in Brazil 1947-1964, (John Wiley & Sons, Inc. 1968). The truth, I think, is that political processes in Latin America are far more complex than the simple class schemes assumed. These are, at best, useful points of departure for detailed analysis.

- b. the consequent need to improvise when events made a major reorientation of policy clearly desirable;
- c. such improvisation consisted in adopting an intellectual framework which had certain attractions but which - given the lack of a tradition of empirical economic research in Latin America - was based on unexamined premises, and which was flawed by over-emphasis on a uniform approach to vastly different countries.<sup>1/</sup>
- d. Moreover, the prescription was inconsistent with the diagnosis to the extent that it relied on commitments by Latin American Governments to repair ills which under the terms of the diagnosis these Governments could not possibly repair.

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<sup>1/</sup> Without developing it, Roberto Campos has suggested the same point. In discussing "The Alliance as a Diagnosis" he wrote:

"An analysis of this diagnosis would reveal an excessive generalization of the characteristic traits of economic and social development. If it is possible and desirable to establish the general outlines of the crisis, without which it would be impossible to prescribe the therapeutics for its solution, it is necessary, on the other hand, to keep always in view the diversity of the national and regional conditions of Latin America. The danger of generalization lurks behind its usefulness. It suffices to think of the differences in culture and mentality that exist between Spanish America and Brazil...to perceive the complexities which an abstract conception of the Latin American problem can bring to the task of its solution." (Roberto de Oliveira Campos, Reflections on Latin American Development, University of Texas Press, 1967).

To the cultural and intellectual differences I would add the enormous differences in resource endowment and locational advantages or obstacles as well as the diversity in the evolution of social institutions - such as land tenure systems - which in part may be subsumed under cultural factors but which in part also responded to extraneous political events - such as the war of the Triple Alliance in Paraguay or the Mexican Revolution - and in part were themselves a consequence of factor-endowment.

18. It may thus be less paradoxical than it sounds to assert that such successes as were achieved in Latin America in the last eight years were largely a proof that the diagnosis was mistaken, while the failures were at least in part the result of the inconsistency between the prescription and the diagnosis.

#### The Record

19. It would be impossible, in the confines of this brief paper, to summarize the economic developments that took place in 19 Latin American countries in the last eight years. Nor would it be useful or necessary: they have been documented in innumerable reports of national and international agencies. Some of these I have read; some I have even written. I doubt that any one person in the world has read them all, and if such a person existed he probably would have even greater difficulties in deriving valid generalizations than do the rest of us. The only generalization that I would venture to make here is that the developments of the 'sixties have increasingly demonstrated that neither economic theory nor the art of applying it through economic policy making has been directed to Latin America's most perplexing development problem, that of building up an efficient industrial structure. The textbook problem of primary versus secondary activities, with its implied initial tabula rasa may have been solved neatly enough; the pity of it is that in reality we start with installed equipment, employed labor, existing levels of protection, distorted price structures and a whole gamut of vested interests willing and able to argue that their particular shares in these distortions cannot be dispensed with. The problem seems to me to become increasingly complex in theory and acute in practice; to my knowledge, there is no country in Latin America in which even an

approximate measure of the impact of these distortions exists,<sup>1/</sup> but neither are there many countries in which questions of industrial efficiency do not seem to be the main constraint on the prospects for economic growth.

20. No serious concern with this problem can be reported in the Alliance for Progress framework. Hence I will not pursue it further in this paper. Rather, I want to concentrate on the experience with respect to the three central articles of faith which I listed above as the cornerstones of the Alliance, namely planning, redistribution of property and income, and capital aid.

a. Planning

21. It is in this area that the air of initial unrealism was greatest and - I think - where the inferences about the future are clearest. The initial scheme, under which each country would submit long-term economic development plans to the technical scrutiny of the Committee of Nine, who would then determine the justified level of external assistance, was to be discredited and abandoned in less than three years. It was ill-conceived on almost every count, in spite of the high intellectual caliber of many of the members of the Panel.

22. The distinguished Cuban economist Felipe Pazos, who was one of the original members of the Panel, once observed that there were three types of planning in the world: the Soviet type, or imperative planning, the French type, or indicative planning, and the Latin-American type, or subjunctive planning. The elegance of the formulation should not obscure its serious content, which is that what has been done in the way of medium and long-term national economic planning in Latin America has been, almost without exception, non-operational. It has not, in other words, done much to influence the course

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<sup>1/</sup> I refer, of course, primarily to their dynamic effects, i.e., to the impediments which they create to future growth. Their static effects are at least roughly measurable, but that exercise is of more limited interest.

of events, be it with respect to public sector investment decisions or be it with respect to economic policy measures. When one considers that some of the finest Latin American economists spent much of their time in recent years in formulating such plans, and that in this they were assisted by a glittering array of imported talent financed by the proliferating technical assistance programs of national and international agencies, it is indeed astounding that the above observation can be made without fear of serious contradictions.<sup>1/</sup> Equally astounding is the wide agreement, among planners and non-planners alike, that the country with the most impressive development record in Latin America, Mexico, is among the very few that has not gone in for the formal ritual of drawing up a long-term national development plan.

23. While there is not much dispute about the facts described above, the same cannot be said about explanations for them. These include some simplistic views, such as the one that, while the economists have done their job when they have made a "good" plan, if "bad" politicians will not carry it out, this is a fortuitous and unforeseeable misfortune which has no bearing on whether the plan was "good" in the first place. Other explanations stress technical imperfections in the data; still others suppose that the fault lies

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<sup>1/</sup> Thus a recent symposium, in trying to evaluate the planning experience of Latin America, concluded:

"Although in principle there are many advantages to planning with a time horizon from ten to, say, twenty years, in practice usually a shorter horizon will have to be adopted. An annual plan related, perhaps, to a medium-term plan may prove to be workable."

See Planning the Improvement of Planning in Latin America, Report of Study Group No. 3 (Ifigenia de Navarrete and K. B. Griffin, Secretaries) of the Conference on Crisis in Planning, held under the auspices of the Institute for Development Studies at the University of Sussex, Brighton, U.K. in July 1969. (Emphasis added.) From the underlined phrase the inference is unmistakable that (a) other methods have not worked, and (b) the proposed one has not been tried.



in insufficient sophistication of the mathematical techniques used<sup>1/</sup>. Still other explanations stress - correctly, I think - the technical impossibility of planning under inflation, the lack of political continuity in Latin American governments, and - more recently - the difficulties inherent in drawing up realistic multi-year plans in which an important component is the external financing provided by a donor whose foreign aid allocation is subject to annual legislative determination.

24. While the set of causes listed in the preceding sentence has some bearing on the failure of particular countries' planning efforts, I don't think that it goes to the heart of the matter. The commonsense conclusion that:

"The system of national planning should therefore be permitted to evolve gradually, firstly, as soon as possible, from the project-by-project approach to a second stage in which the country learns to prepare and implement a coordinated public investment plan preferably accompanied by sectoral surveys and programs, and ultimately, when improvements in information, administration and experience permit, to full-scale comprehensive planning..."<sup>2/</sup>

may seem obvious once it is reached, but it was not applied in Latin America's planning except, as Waterston shows, in Mexico. It should be added that the nature of the stages described by Waterston implies that they normally cannot be compressed into a period as short as a decade; while no-one can give a timetable in advance for the kind of changes that they require, one should mistrust any program that supposes that a country that at present is in Waterston's first stage, in five or ten years will be ready for the second.

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<sup>1/</sup> I once had it explained to me that a particular "plan" was going to be far superior to the preceding one because instead of an input-output matrix with constant coefficients, a model based on curvilinear inter-sectoral relations was to be used. The country in question, at that time, did not yet have an index of industrial production, and still does not.

<sup>2/</sup> Albert O. Waterston, Development Planning: Lessons of Experience, (The Johns Hopkins Press, 1965) p. 101.

25. The superimposition of planning organizations on the existing administrative structure in many Latin American countries was bound to fail as an economic policy making tool as long as its main motivation was to improve a government's public relations image vis a vis either the domestic intelligentsia or the external aid giving agencies. In very few cases did the decision making machinery of the public sector at all absorb the impact of the work of the planning office, and then more often because of good personal relations between the Director of Planning and the President than because of a permanent change in the decision making process. In short, it takes more than a planning office to plan; it takes competent spending agencies which are capable of generating well-conceived investment projects; it takes financial authorities willing and able to make their decisions with longer time horizons than those customary in a Treasury or a Central Bank; and finally, it takes a constellation of political relations within the public sector where these various agencies are willing to subordinate their decisions to the central authority of a President or the collegiate authority of a Cabinet, when the scrutiny by the Planning Office reveals inconsistencies among the programs of different agencies or between the sum of these programs and financial resources. The paradoxical experience here is that the better one of these preconditions is fulfilled, the more difficult becomes the achievement of another; the greater the technical capability of spending agencies to generate and execute projects, the more difficult is it for the central authority to influence the decisions of these agencies. In any event, the failure to distinguish between the subjunctive - quantitative projections by technicians - and the indicative articulations of policy decisions by authorities capable of carrying out these decisions, strikes me as one of the most serious original misconceptions

in the Alliance. It helps account not only for the virtual absence of influence of the plans on the course of events domestically, but also for the relative insulation of the plan evaluators - the Panel of Experts - from the foreign aid giving decisions, and for the frustrations which this insulation necessarily produced and which are brought out clearly by the account of the distinguished former Chairman of the Panel, Mr. Raul Saez:

"In vain the Committee of Nine's Coordinator requested that the recommendations of the ad hoc committees for Chile and Colombia be put into effect as tangible evidence of the validity of the spirit of the Alliance. This would be, he said, 'the most effective means of convincing the peoples of Latin America that the conditions governing assistance are limited to those contained in the (Panel's) reports, which are the result of technical and impartial studies, and are not the result of other requirements which would deprive the Alliance of its character as a cooperative and multilateral effort'."<sup>1/</sup>

26. If the aid allocating process did not become multilateral, the frustrations did. Largely they can be attributed to the formalistic conception of planning described above, and already in 1965 Waterston could report that

"The emphasis in the Alliance for Progress has now shifted from long-term comprehensive planning to short-term public investment planning."<sup>2/</sup>

While this in itself is not the full answer to the problem, if the above diagnosis is correct, it nevertheless shows movement in an encouraging direction.

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<sup>1/</sup> Raul Saez S. "The Nine Wise Men and the Alliance for Progress" in The Global Partnership, edited by Richard N. Gardner and Max F. Millikan, (Praeger 1968) p. 260.

<sup>2/</sup> Waterston, op. cit. p. 100.

b. Structural Reforms

27. The notion that domestic reforms are an indispensable prerequisite for economic development was not a new one, nor did it seem, until fairly recently, much more than a tautology.<sup>1/</sup> It was present, for instance, in the 1960 Act of Bogota when the US\$500 million Social Progress Trust Fund - to be administered by the IDB - was created. At that time the member governments of the OAS pledged themselves to programs of reform in taxation and land tenure as well as such social infrastructure as housing, sanitation and education. And few observers of the Latin American scene in the years preceding Bogota and Punta del Este failed to notice the shortcomings in some or all of the aspects mentioned.

28. However, differences of opinion became important in two related respects, once the Alliance for Progress purported to establish a viable program in which development would be achieved by deliberate government action in these fields. The differences were:

- a. regarding the emphasis to be placed on domestic reforms versus foreign aid, and
- b. regarding the relative importance of actions altering the distribution of income and wealth vis a vis an approach concentrating primarily on the provision of more adequate facilities.

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<sup>1/</sup> For a recent dissenting view see Claudio Veliz in his Introduction to The Politics of Conformity in Latin America (Oxford University Press, 1967: "conversely, the reforms-agrarian, fiscal and administrative, in the Alliance for Progress version - which were considered absolutely essential if economic growth was to take place, have not been implemented but this has not prevented industry from effectively taking root in a number of countries. Of course from every conceivable point of view, these reforms are most desirable...but they are not absolutely essential to ensure a moderate rate of economic growth." (p. 12)

Since in this paper I am trying, inter alia, to offer some suggestions regarding the intellectual background of the Alliance, I should like to note at this point that the second type of differences has a rather curious history. Few observers of Latin America have failed to notice the explosive growth of the major cities in the past two decades and equally few have failed to express concern about the visible misery that accompanied this process. Santiago, Lima, Rio, Caracas, Mexico City; each one has received its share of attention as populations doubled in 15-20 years (or even less) while shanty towns sprang up in the outskirts to accommodate hundreds of thousands of new arrivals. Naturally the provision of basic services and facilities, inadequate to begin with, did not keep up with the growing needs. And the humanitarian instincts of modern man are prone to rebel against conditions in which his neighbours are inadequately housed, drink polluted water and discharge their waste products into the streets. Especially when these things are happening so close by that their physical reality can be neither ignored nor denied. In addition, the more mundane thought must have occurred to many, that large masses of men, women and children living under conditions that by modern urban standards were intolerable, would eventually become a menace to the rest - hygienically, socially, politically. The stress on more and better social services thus clearly responded to a perception of a need and a danger. Whether it was a true perception, and whether the prescription was valid, is less clear.

29. It is an interesting question why until recently much more attention has been paid to the effects of the urban explosion than to its causes. In virtually all of Latin America north of Argentina, Chile and Uruguay, the annual rate of population growth has been in excess of 3 percent and in spite

of exceedingly weak demographic statistics, there is a reasonable consensus that this rate has been rising in the past two or three decades. Nevertheless, neither the Santiago school (until quite recently), nor the social meliorists responsible for the Act of Bogota, nor the writers of the Charter of Punta del Este, raised the question of population growth rates and their relevance to Latin American development. In one sense the explanation for this almost universal silence is obvious; as one statesman who did raise the issue reports:

"Rarely have I seen a debate so beset by pervasive irrationalism and demagogic romanticism...Some think that the use of the pill is a northamerican conspiracy to keep the Amazon basin underpopulated; others believe that it is a Protestant or Masonic conspiracy to undermine the Catholic faith of our people; some believe that by limiting the formation of mass-armies or of mass-markets in the under-developed countries, the industrial nations are seeking to perpetuate their predominant position; still others see in the present intensive research into the negative effects of the population explosion on economic growth nothing but a conspiracy of the pharmaceutical trusts, eager to amass profits through the sale of the pill."<sup>1/</sup>

There is no doubt that the issue is sensitive and perhaps it was inevitable that in the design of the Alliance for Progress it was omitted from either diagnosis or prescription. But this did involve a certain intellectual confusion in that it appeared as if the provision of more and better social infrastructure was an adequate way of dealing with the problem.

30. But in practice real problems of priorities in the allocation of scarce investment resources could not be avoided thus. Housing is a case in point. The objective of the Alliance to provide, by 1970,

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<sup>1/</sup> Roberto de Oliveira Campos Do Outro Lado da Cerca (APEC, Rio de Janeiro, 1967) p. 55-56 - my translation.

"...adequate potable water supply and sewage disposal to no less than 70 percent of the urban and 50 percent of the rural population...to reduce the present mortality rate of children less than five years of age by at least one-half...to increase the construction of low-cost housing for low-income families in order to replace inadequate and deficient housing and to reduce housing shortages; and to provide necessary public services to both urban and rural centers of population."<sup>1/</sup>

was simply inconsistent with the claims on available savings and foreign funds, if a sufficient amount was to be left for public investments in economic infrastructure, for private investments in industry, agriculture and all the other activities that had to expand if the economic growth targets of the Alliance were to be achieved. Moreover, the experience of developed countries, that if very poor people are to be adequately housed they need public subsidies, could not be circumvented in Latin America; the implication of this was that the larger the truly low-cost housing programs were, the greater would be the future claims on government expenditures. This, by the way, is an experience which in Latin America antecedes the Alliance; some of the most impressive blocks of low income apartments were put up in the 'fifties by some governments for tenants who - being only sporadically employed - failed to pay the rents that were needed to provide for minimum upkeep. The results have been either new slum properties - this time government owned - or rising budgetary transfers on current account, or both. By and large, this experience is beginning to influence the attitudes of governments as well as of external lenders and the enthusiasm for programs of this type is waning. At the same time there are, of course, urban projects which can meet any test of economic feasibility and in which the beneficiaries are perfectly capable of paying for the cost of the

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<sup>1/</sup> Charter of Punta del Este, Title I, paras. 8-9.

services provided; in these cases the above strictures do not apply and the positive impact of such investments on the social and economic progress of countries may be great.

31. The question of social services and of viable levels of investment in socially desirable but non-productive fields is one issue that has bedevilled governments and aid giving agencies. Another, even more serious one, is that pertaining to land and tax reforms. I do not feel qualified to speak of the land reform issue in depth; but I think that the conclusion is warranted that the impetus to a meaningful land reform cannot come from an international agreement but must emerge from the right constellation of political forces at home. In evidence I would adduce that the few Latin American countries in which land reform has meant massive transfers of rural property - Mexico, Bolivia, Venezuela and Cuba - all took the basic steps before the Alliance came into being. In other countries land reform has, so far, mostly meant more or less selective, and more or less successful, colonization programs on publicly owned land or, in some cases, the mere creation of a new bureaucratic institution whose employees may be a multiple of the number of beneficiaries. This is not necessarily a reflection of an improper response by the countries in question to their development problems; it may just as easily reflect an improper diagnosis of what these problems were. Certainly the problems of countries in which new arable land is one of the scarcest factors of production - i.e. in which the cost of bringing additional acreage under cultivation is a multiple of what it is in other countries - are qualitatively different from those in



which reasonably fertile land is still to be had without heavy investments. And the best tenure arrangements for reasonably efficient pastoral producers, such as the River Plate countries, have very little to do with those of the heavy concentrations of Indian populations on infertile land in Central Mexico or in the Andean Altiplano. In practice this, as well as the different degrees of political readiness of countries to do anything about the distribution of agricultural property, was reflected by the fact that Alliance for Progress financing - mostly through the IDB - was awarded in a few places to support ongoing programs, but that quantitatively it never became a centerpiece of the foreign aid associated with the Alliance. In something as closely connected with the very nerve center of social relations as this, each country will necessarily have to come to terms with its own tensions and conflicts in its own way. Fortunate indeed are the countries in which this process takes place both peacefully and systematically, with a minimum of sufferings and losses! But given the fierce passions associated with land ownership, it should surprise no-one if the spirit of the Alliance - revolution without violence, rapid change carefully planned and carried out by capable technicians, more social justice and more economic efficiency - did not find much application and expression in this area.

32. Tax reform, by comparison, is almost simple. By comparison only; in fact the issues are similar, but the possibilities for accommodation and compromise - or even obfuscation - are greater and the emotive content of the subject is correspondingly less. Moreover, here too short-run realities have often clashed with long-run desiderata; the need to raise revenues quickly with the objective of a less regressive tax system. By and large, I suggest

that not very much has been done to change the fundamental structure - as distinguished from the level - of the revenue systems of Latin America, which would tend to confirm the view of those who hold that tax systems too are part of an intricate socio-political matrix which is not altered lightly or by mere executive decision. This is not to say that some improvements are not being made in some countries, but they are national improvements arising out of particular national experiences. In some cases the improvements consist much more in increasing awareness of the inequities of the traditional system of tax administration than in replacing indirect taxes by direct ones - which in some of the more simple-minded Alliance rhetoric was virtually the only test of grace.

33. If the Alliance has had much of an impact in this area it is, I think, a more subtle political one than one of directly induced action. If one examines the traditional literature of the Left in Latin America it is notable how little emphasis was placed on tax reforms as a key plank in their programs for political action. Marx and Engels may have put a progressive graduated income tax into the Communist Manifesto, but neither their Latin American followers nor these followers' competitors have paid much attention to this or other "meliorative" measures. There are, of course, exceptions, but by and large the emphasis has been on other things. One important explanation is the different historical experience of Latin America; for the most part protest movements against the vested interest have been closely linked to reactions against the abuses of foreign economic groups. It is only very gradually, as the importance of these groups either clearly wanes or as some accommodations with them are found that are clearly profitable to the national economy, that the attention of the domestic reformers turns to purely domestic injustices.

The Alliance rhetoric, on balance, may have contributed to this to some extent, even though at times the opposite seemed to be the case when domestic interests were able to discredit particular reform measures as foreign impositions, offensive to the nationalists of the left as well as to the right.

34. Increasing attention is gradually also being paid to an issue closely related to that of greater equity in the tax system, but virtually ignored by the Alliance ideologists. I refer to the redistributive aspects of public expenditures. When these are considered, it may at times cast quite different light on the incidence of the fiscal operations than does the mere analysis of the sources of revenues. Thus in Brazil a system of tax sharing arrangements has come into being - a sort of gigantic Heller Plan - which transfers large sums from the relatively affluent Center-South to the much poorer North-East.<sup>1/</sup> A much less impressive, but more widely spread redistributive practice is that of making cheap credit available through publicly owned agricultural banks to peasants and small farmers with extremely high default rates; while hardly a rational way to improve the lot of the "beneficiaries" - and on the long-run a counterproductive one - there is no doubt that on the short-run the system serves an important socio-political function. All this is not to say that the net impact of public expenditure necessarily redresses the inequities of the revenue system; often the benefits of public investments go to small groups of affluent entrepreneurs in agriculture or industry.

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<sup>1/</sup> This mechanism, called the Participation Fund, obliges the Federal Government to pass on to state and municipal governments 12 percent (formerly 20 percent) of the receipts of the two largest federal taxes, the income tax and the industrial products (consumption) tax. The distribution formula is so designed that it results in far more being paid to the local governments of the poorer areas than is collected there, while the opposite occurs in the more affluent states of Guanabara and Sao Paulo.

c. External Assistance

35. The deficiency of national savings vis a vis the investments required for a high growth rate are an article of faith in virtually all post-World War II development economics. The difficulties of effectively raising these savings rates in countries whose export products face a world demand that is (a) cyclically unstable, and (b) has low income and price elasticities, have become part of the conventional wisdom in this field. Add to this the constraints imposed on the capacity to import by the need to service large and growing external debts, and the need for external assistance on non-commercial terms seems clear for many countries. I include in this category of assistance so called "hard" loans from the World Bank and the ordinary capital of the IDB; it is clear that countries borrowing from them, almost without exception, would have had to pay higher interest rates and would have received shorter maturities and grace periods if they had had to go to the private capital market for the same amounts. Nor would direct private investment alone provide the answer, not only because the required amounts may simply be too large, but also because the continuation of substantial net inflows would require such high reinvestment ratios that the political strains of a rapid rise in the foreign owned share of a country's capital stock might become intolerable.

36. In the preamble to the Charter of Punta del Este it was stated that

"The United States, for its part, pledges its efforts to supply financial and technical cooperation in order to achieve the aims of the Alliance for Progress. To this end, the United States will provide a major part of the minimum of 20 billion dollars, principally in public funds, which Latin America will require over the next ten years from all external sources, in order to supplement its own efforts."

While the estimate of total requirements itself necessarily could not be more than a notional number, and the U.S. commitment was far from precise, it is well to recollect that by any standard the declaration presaged a major increase

in public external assistance. And this did in fact take place:

Annual Average Loan and Grant Commitments (US\$ million)

	<u>1957-mid-1961</u>	<u>1961-1968</u>
U.S. Government <sup>a/</sup>	572	1104
World Bank Group <sup>b/</sup>	127	318
IDB <sup>c/</sup>	<u>20</u>	<u>359</u>
Total	719	1781

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a/ Eximbank (including compensatory loans), U.S. Treasury compensatory loans, DLF, AID and PL.480.

b/ IBRD, IDA and IFC.

c/ All funds.

Source: OAS/ECLA Estudio Economico y Social de America Latina 1961, Vol I, p.185 and OAS External Financing for Latin American Development (OEA/Ser.H/X.14, CIES/1382) p.I-2.

Whatever reservations one may have about the inclusion or exclusion of particular items - such as compensatory loans and some PL.480 sales - and whatever one's views about the relevance of commitment as against disbursement figures, there can be little question about the massive nature of the change in the years after Punta del Este. Moreover, the numbers in one important respect understate the shift inasmuch as the share of funds made available on concessional terms rose greatly.

37. The following figures bear this out, but they also cast some doubt on the role of the Alliance, since the average terms of new debt in the rest of the LDC's seems to have improved even more:

Weighted Average Terms of External Public Debt Incurred in:

	1960		1966	
	L.A.	All LDC's	L.A.	All LDC's
Interest rate (%)	6.17	5.66	4.83	3.39
Grace period (years)	2.4	3.1	4.9	6.4
Term to maturity (years)	10.7	13.3	20.9	26.3

Moreover, the increase in official aid to Latin America came at a time when the payments for service of past and new borrowing were rising rapidly:

	<u>Payments on External Public Debt</u> (U.S.\$ billion)	<u>Commodity Exports</u>	<u>Debt Service Ratio</u> (%)
1960	1.4	8.4	16.7
1967	2.0	11.8	16.9

Source: World Bank, Annual Reports 1965-66 (Tables 3 and 7) and 1967-68 (Tables 6 and 11); IMF, International Financial Statistics, July 1969 (p.32), adjusted for IBRD debt data country coverage.

38. Nevertheless, if frustrations and complaints today beset the foreign aid machinery in Latin America, it cannot be attributed primarily to defrauded expectations regarding overall volumes or terms. There was, however, built into the conceptual and institutional framework of the Alliance a feature that could well have been expected to be a future source of difficulties. I refer to its multilateral character, which clearly meant different things to all parties right from the beginning. To the U.S. it did not mean an abrogation of the donor's right to decide where to put his money. To the large Latin American countries it did not mean a change in their traditional bilateral relations with the United States. To the smaller countries it meant the hope of an OEEC-like

arrangement under which they expected to fare better than if their share in the Alliance funds were to be determined by undiluted bargaining strengths. Although Arnold Toynbee greatly exaggerates when in his account of the Punta del Este Conference he says:

"It was therefore natural and proper that the structure and power of the proposed Committee (the Nine Wise Men) should have been the main focus of the discussion...It is perhaps also ominous that this was the point on which the U.S. delegation met with opposition...and...the wills of the larger Latin American countries prevailed."<sup>1/</sup>

he is quite right in describing the conflict as one between the larger and the smaller countries. But the OEEC-Marshall Plan analogy was not fully relevant in any event, and not only because neither the U.S. Executive nor the Congress were as disposed to accord parity of treatment to Latin American governments in 1961 as they had been vis a vis Europe in 1948. One source of the ambiguity was that the Charter was a commitment of national governments. The IDB, being originally the product of a decision emanating from the same regional association of governments could, of course, be expected to be responsive in some way to the decisions taken. But it was also a bank, with its own charter, terms of reference, decision making mechanism and autonomy, none of which it had either a right or an inclination to give up. So how was the new multilateral review procedure to influence the IDB's lending decisions? The World Bank had even less of a juridical link with the new machinery and was equally bound to keep intact the autonomy of its own Board of Directors in all lending decisions. But these two institutions were expected to provide 30-40 percent of the external official capital requirements of the region.

39. Moreover, they were, by statute, project lenders and even the AID did not at any time abandon project lending as an important instrument for

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<sup>1/</sup> Arnold Toynbee, America and the World Revolution and Other Lectures (Oxford University Press 1962, p.229). See also Raul Saez, op. cit. p.257.

channelling aid. And while conceivably a small body of technicians could make meaningful recommendations on the amounts and terms of program loans required to finance a particular country's development plan, how could this be done in a world of project lending? It is thus difficult to escape the conclusion that the multilateralization of aid decisions could not have been achieved in any case, quite regardless of what the Panel might have done. The most that could be achieved in this direction is probably what is being done now, when the Interamerican Committee for the Alliance for Progress (CIAP) provides a forum at which annually discussions take place that at least can be described as multilateralloid. CIAP, created in 1964, consists of representatives of governments, and it is these who discuss the experiences, problems and prospects of each country with national officials and with the main lending agencies, in an atmosphere which is frankly consultative and, consequently, reasonably realistic.

Some other issues and implications

40. In the preceding section reference was made to the OEEC model. I cannot help feeling that the whole Marshall Plan analogy has been one of the worst sources of intellectual confusion and ultimate frustration in the Alliance for Progress experience. Not only because the expectation of equally rapid and dramatic results was bound to be disappointed and therefore should never have been raised,<sup>1/</sup> but also because of the different nature of the fundamental relation between the aid donor and the aid recipients.

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<sup>1/</sup> It is odd that Kennan feels that "Seen historically, from the perspective of the decades, this distinction between Europe's needs and that of other areas seems too obvious to be challenged. This was, however, not the case at the time." See George F. Kennan, Memoirs 1925-1950 (Little Brown & Co., 1967) p. 353. I can see little evidence that the distinction is widely perceived even now.



41. It seems to me that the Marshall Plan could either not have worked at all, or at least would not have functioned nearly as efficiently as it did, if the West-European governments had not shared with each other and with the United States a vital set of common values, premises and goals. This may not be immediately apparent when one compares the Britain of the Attlee Government with the Germany of Adenauer, the Italy of De Gasperi and the France of the Fourth Republic. Nevertheless, it is probably true that the common ground was immensely important; it included basic attitudes on property rights, on the welfare role of the state, on foreign affairs (except for issues of colonialism) on representative government and major civil liberties; it included all of that and a fairly simple common aim, namely to restore a socio-economic structure that had already existed in the past. It is not too difficult to understand why the relation with the United States was a workable one; the Congress, as well as the Executive, never had to go through agonizing questions regarding the fundamental political aims of the program, or its consistency with the basic preconceptions of the United States' foreign policy.

42. This favorable constellation of circumstances never existed in Latin America, and neither side ever fully came to terms with the implications of this difference. The most familiar illustration of this is the uncertainties of U.S. policy regarding coups and military regimes. In its simplest and most abstract form the dilemma can be summarized as follows:

(a) the decision to extend foreign aid may be motivated by a desire to help countries but its implementation works through governments. Specific acts of extending aid thus imply specific decisions to support particular governments at particular times;

(b) no Latin American countries have ever had governments which corresponded both in form and in substance to the form of government that has evolved in the United States (and which has broad similarities with those of most of Western Europe) but the range of character and orientation of Latin American governments was itself an extremely wide one;

(c) in view of this, what were the concepts of national interest and national purpose that should guide the decision regarding who was to receive aid?

43. When the Charter of Punta del Este was written, it was hoped that the problem could be exorcized by an act of solemn incantation, entitled Declaration to the Peoples of America:

"This Alliance is established on the basic principle that free men working through the institutions of representative democracy can best satisfy man's aspirations...No system can guarantee true progress unless it affirms the dignity of the individual which is the foundation of our civilization...Therefore the countries signing...have agreed...to improve and strengthen democratic institutions through application of the principle of self-determination by the people..."

In the words of Brecht's Mr. Peachum:

"But circumstance, it seems, won't have it so";

the problem did not go away. Nor would any sober analyst at the time have been so fatuous as to maintain that this particular statement of intent was taken seriously by all signatories of the Charter. Rather, two types of answers were given at the time whenever this particular issue was raised, and both have since then been proved wrong. One answer was, that the economic development that would be engendered by the Alliance would eventually bring about political democracy; i.e., that while some governments might plainly be signing in bad faith, they would eventually be the deceived rather than the deceivers. For did not everyone

know that development means the rise of a middle class and a strong middle class means democracy?<sup>1/</sup> The other type of answer, on the face of it more pragmatic but in practice no less illusory, was that while the ideology was valuable for public relations purposes, in fact the sheep would be separated from the goats and governments that evidently did not share the basic value premises of the Alliance, would neither want to, nor be allowed to be closely associated with it; i.e., would be ruled out from receiving much aid because they were not living up to their Alliance commitments.

44. This did not happen, nor could it happen given, on the one hand, the multiple purposes of bilateral foreign assistance and, on the other, the extreme complexity of the political judgements which such a policy would have required. Regarding the first point, Roberto Campos has drawn attention to the fact that the will of Congress, as expressed in the 1961 Act for International Development, commits the U.S. Government to five principles in the allocation of aid:

- (a) to strengthen the economies of the underdeveloped friendly nations;
- (b) to encourage the flow of private investment capital;
- (c) make assistance available in scope and on a basis of an environment in which the energies of the peoples of the world can be devoted to constructive purposes, free of pressures and erosion by the adversaries of freedom;

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<sup>1/</sup> This point is stressed by Veliz: "These wrong models have inevitably been based on the successful industrial experience of some western nations only, less attention naturally being paid to the experience of those with less impressive industrial records. Thus the countries of the Mediterranean make little or no contribution to the construction of these models of growth. For equally obvious reasons the vague identification of political and economic liberalism with the growth of industry and the reform of pre-industrial institutions has been accepted, together with the notion that the central government is at best the passive instrument in the hands of one or other of the modernizing industrializing groupings." Claudio Veliz, op. cit. p.9.

(d) to serve as an instrument in the cold war; and

(e) to stimulate growth and favor the equilibrium of the economy of the United States.<sup>1/</sup>

Clearly the application of these principles was fraught with problems of internal consistency as well as with difficulties regarding their compatibility with the Charter of Punta del Este.

45. But the second point is more fundamental. Does any government have the knowledge, the insight and the wisdom required to make valid judgements on which foreign governments deserve support and which ones do not? It might be argued that such judgements are the essence of all foreign policy decisions, but this would ignore the vital distinction between the foreign aid relation and the conventional relations between governments. Conventional foreign policy does not have to go beyond the question of whether a particular country's form of government enables it to maintain long-term relations with other nations, based on a broad and statesmanlike interpretation of the national self-interest. But the aid-relation is a far more intimate one, and it is here that the question posed above cannot but receive an uneasy reply. It should be noted that such institutions as the World Bank and the Interamerican Development Bank are, in this particular respect, fundamentally different from the U.S. Government's aid giving machinery; while the latter by statute must make such political judgements, the former are, also by statute, forbidden from making them. Or rather, as financial intermediaries who depend on the confidence of the capital market in their loan analysis and creditworthiness judgements, they are obliged to ask their debtors whether particular policies are suitable to foster economic development in a particular country.

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<sup>1/</sup> Roberto de Oliveira Campos, Reflections on Latin American Development (University of Texas Press, 1967) p. 129.

If the answer is clearly negative they can try, by persuasion or - ultimately - by withholding new loans, to induce more constructive policies. This is not easy, but experience shows that it can be done and that it is possible to do it in a way in which the basic propriety of such a posture is not called into question. Even though in particular cases the borderline between economic policies and economic politics may be debatable, the difference in the main thrust of the judgements that the two types of institutions are required to make is, in my understanding, a basic one. However one views the future of the region, the rising trend of a state-centered nationalism in large parts of it cannot be overlooked.<sup>1/</sup> Any visible external assistance effort will have to include a continuing dialogue on innumerable economic policy issues. But to be and remain viable, an approach and a style will have to be developed that is sensitive to the underlying environment and to the limitations of external influence. A program that goes beyond this and that in addition to attempting to influence particular actions, tries to impose from abroad a judgement - enforceable through the withholding of aid - on what kind of government is best suited to a particular people at a particular time, may be expected, at best, to be plagued by the most serious and persistent kinds of frictions. Or it may fail, as is especially likely when the peoples involved are as varied, as complex and as alien as those of Latin America and the United States.

46. In support of this view, let me conclude by citing once more the author who gave me my initial theme for this paper. Ten years before Punta del Este he spelled out his vision of a proper approach to foreign relations:

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<sup>1/</sup> For a strong, but probably not an exaggerated, statement to this effect, see Claudio Veliz, Centralism and Nationalism in Latin America, Foreign Affairs, October 1968.

"...it will mean the emergence of a new attitude among us to many things outside our borders that are irritating and unpleasant today...an attitude of detachment and soberness and readiness to reserve judgement. It will mean that we will have the modesty to admit that our own national self-interest is all that we are really capable of knowing and understanding - and the courage to recognize that if our purposes and undertakings here at home are decent ones, unsullied by arrogance or hostility toward other people or delusions of superiority, then the pursuit of our national interest can never fail to be conducive to a better world. This prospect is less ambitious and less inviting in its immediate prospects than those to which we have often inclined, and less pleasing to our image of ourselves. To many it may smack of cynicism and reaction. I cannot share these doubts. Whatever is realistic in concept, and founded in an endeavour to see ourselves and others as we really are, cannot be illiberal."<sup>1/</sup>

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<sup>1/</sup> "Diplomacy in the Modern World" in American Diplomacy 1900-1950 by George F. Kennan (Mentor, 1951), p. 88.

August 1969.