Folder Title: Irving S. Friedman Chron files - Correspondence 08

Folder ID: 1784926

ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4482S

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Digitized: June 14, 2013

Friedman Presidential Files - Jan. 1 - Feb 29, 1970

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FORM NO. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara DATE: February 16 1970

FROM: Irving S. Friedman

SUBJECT: Ministerial Meeting of IA-ECOSOC, Venezuela

Have you seen this? It was given to me by Mr. Herrera.

Att:

President has seen

FEB 17 1970

IA-ECOSOC
INTER-AMERICAN ECONOMIC AND SOCIAL COUNCIL

OEA/Ser.H/X.15
CIES/1493 (English)
4 February 1970
Original: English

EIGHT SPECIAL MEETING OF THE IA-ECOSOC
AT THE MINISTERIAL LEVEL
February 3 to 6, 1970
Caracas, Venezuela

LETTER FROM PRESIDENT RICHARD M. NIXON TO SIR ERIC WILLIAMS, CHAIRMAN OF THE INTER-AMERICAN ECONOMIC AND SOCIAL COUNCIL, DATED FEBRUARY 4, 1970

February 4, 1970

Sir Eric Williams
Chairman, Eight Special Meeting
Inter-American Economic and Social Council
Caracas, Venezuela

Dear Mr. Chairman:

I send to you and to the other distinguished representatives of th Americas my cordial greetings and my very best wishes for the success of the work which you have begun.

The great concerns that this Eight Special Meeting of the Inter-American Economic and Social Council address lie at the heart of the more mature and more effective relationship among us that we all seek. Yet those concerns--some of them complex, many of them technical, all of them difficult--are only expressions of a still more fundamental concern: the people of the Americas and the quality of their lives.

Today the leaders of the Americas share a historic opportunity--the chance to bring our peoples the benefits of modern science and technology and to give to them and to their children fuller and more productive lives. There is no task which deserves greater effort and attention than the one of securing peace, development and progress for our own hemisphere. There is no subject with which I have been more concerned.

During this first year of my administration, I have devoted a great deal of attention and thought to how the United States can effectively contribute its share of this common responsibility, and to how to redefine and reinvigorate our relationship so as to meet the needs and realities of the 1970's.

As you know, my administration undertook a very careful and systematic study of the problems of the region and of the premises that should underlie our policies. In my address to the Inter-American Press Association last October, I expressed the results of that study in the form of the organizing concepts around which I believe United States policy toward this region should be built. In that speech I proposed that we forge a vigorous new partnership based upon shared responsibility, increased communication and interchange, and respect for each other's national identity and national dignity. In that speech I said that our goal for the 70's should be a decade of action for progress in the Americas.

I reaffirm that goal.

To translate our words into action and to find ways in which the United States can take effective action to carry out its share of the common responsibility toward our peoples--these are now major tasks of my government. We have made a beginning, but only a beginning. We have a long way to go.

Some of the measures which I have already instituted in the fields of trade, development assistance, science and technology have already been described by the United States delegation to the meetings of the Special Committee of this Council which were held in Washington last November and here in Caracas last week. All of you know, for example, of the major effort we are pushing to achieve a liberal system of world-wide generalized trade preferences; of the liberalization of the untying provisions of our assistance loans which I have authorized to give the hemisphere special treatment; of the major steps we are prepared to take to support your efforts to broaden scientific and technological exchange.

I want to take this occasion to report to you an additional action which I have taken to give further substance to my commitment that the United States will do its part.

I have just presented to the Congress my recommendations for the budget for the United States Government for the fiscal year 1971. In constructing that budget, I tried to give special attention to the needs of the hemisphere and to include a number of new elements to carry out the concept of partnership.

I have included in the budget a contingency account of $540 millions to provide for expanded multilateral assistance through the international financial institutions. A very substantial part of these funds is to be available to respond to new proposals for replenishment of the funds of the Inter-American Development Bank.

In the 1971 budget I have also requested $556 millions in aid funds for the hemisphere. This is the largest of the regional aid programs and reflects an increase of about 20 percent over the 1970 appropriation levels. Included in this total is over $100 millions in support of the kinds of programs that have been discussed here. For the most significant of these, we have estimated the following amounts in the budget:

$30 millions for assistance in developing securities markets and securities commissions;

$20 millions for the promotion of tourism, including establishment of essential infrastructure;

$20 millions to support science and technology efforts;

$15 millions to support trade expansion.

In addition to the foregoing, I have decided to advance the request for funds to fill the United States subscription of $206 millions to the callable capital of the Inter-American Development Bank which had originally been planned for 1971. Accordingly, I will shortly submit to the Congress a request for a supplement to the 1970 budget to cover this item.

Obviously, we still face very serious problems and very large obstacles to progress; there are often practical and serious limits and constraints which inhibit our efforts to meet the aspirations that surge out of our societies. I know, for example, that in the field of trade policy there are highly complex, highly technical and often conflicting factors which sometimes make agreement difficult. I cannot guarantee that we will always be able to meet your aspirations. But the point I want to stress is that my administration will continue vigorously and persistently to try to overcome obstacles to satisfactory agreements, and to do all it practically can to assure that our trade policies support the region's development.

Since we are a community of widely diverse peoples, it will not be easy to forge a new partnership. Our perceptions of self-interest and of reality are often different. Our emotional reactions are different. As I said last October, partnership, mutuality of interests, do not flow naturally. We must work at them. The United States for its part will do so energetically and sincerely.

I take this occasion, Mr. Chairman, to pledge to the peoples of America that my administration will strive to demonstrate in action our commitment to progress and to the enhancement of the dignity of life in this hemisphere. I pledge to you that I will continue personally to direct the action of the United States on the problems that all of us confront as we proceed together on this difficult but inescapable task--to give to our peoples and to their children peace, prosperity, justice and dignity.

Richard Nixon

CCS/43

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: February 14, 1970

FROM: P.D. Henderson P.D.H.

SUBJECT: Comments on the President's Draft Speech for the Colombia University Conference.

1. On looking again at the comments that I sent you yesterday on the draft dated February 11 of the President's speech, I think that one of the amendments proposed (number 4, on page 2) contains an ambiguity which should be removed. The following alternative suggestion is therefore made.

Page 9, lines 16-19

Existing text.

"Unemployment is endemic and growing. Approximately 20 per cent of the entire male labor force is unemployed, and in many areas the urban population is growing twice as fast as the number of urban jobs."

Proposed Alternative

"Unemployment is endemic, and may well be growing. It is probable that unemployment and underemployment together amount to the equivalent of over 20 per cent of the entire male labor force in the developing world. In many areas the urban population is growing twice as fast as the number of urban jobs."

I have sent a copy of this note to Mr. Christoffersen.

President has seen

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

Feb. 12 1970

Mr. Henderson:

Please return cover notes as well as original. Thanks

ISF

Irving S. Friedman

(Returned by hand Feb 13th a.m. PDH)

FEB 12 1970
10.30 am

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

2/12

To Mr. Friedman

As we discussed, I would appreciate a check of the accuracy of the facts + statements in this draft by members of your staff. Please let me know if the "check" can not be completed by tomorrow night. - RMcN

Mr. Robert S. McNamara February 6 1970

Irving S. Friedman

Columbia University Conference -- Speech

Attached hereto is the draft speech. There are some language changes suggested in the text. In addition I would like to make the following points:

1. The comparisons on pages 2 and 3 of aid efforts by different countries do not seem to be based on a common definition. At times it seems to be talking about 1% of GNP target which is a resource flow, and at other times speaking only of official aid and in the case of the U.S. the comparison is with the AID alone. This tends, of course, to relatively understate the U.S. In this connection I wonder if the figures on the Marshall Plan at the bottom of page 3 are correct.

I would be happy to explain why some of the inserts or changes are suggested, if they are not self-evident.

I have not asked anyone to do what Kalmanoff did in the past -- namely to check out the accuracy of the facts used, because I was not sure whether you wanted to give the draft any further circulation at this stage. Would you want me to do so now?

Att:

DRAFT 2/11/70

REMARKS OF ROBERT S. McNAMARA
COLUMBIA UNVERSITY CONFERENCE ON INTERNATIONAL ECONOMIC DEVELOPMENT

President Cordier, Lady Jackson, Ladies and Gentlemen:

I am pleased to be here, because your deliberations in this conference on the Report of the Pearson Commission are most timely. They are a preface to the Second Development Decade. They are addressing the issues on which a sound, sensible strategy for the Seventies must be fashioned. After the past quarter-century of experience, governments in the more affluent nations no longer question the general need for global development. What they do question -- and what they have every right to question -- is whether or not the specific programs of the past are still relevant to the problems of the present, and the imperatives of the future.

Decision-makers in these governments -- under the understandable pressures of competing priorities -- need a clear view of development goals, and a workable set of options designed to meet those goals. They need practical, politically-feasible programs that can command and sustain legislative and popular support. What is particularly valuable about the Pearson Commission Report is that it realistically addressed itself to that need, and it is clear from announcements by governments in the past several weeks that already the work of the Commission has had an impact:

- Chancellor Brandt of the Federal Republic in addressing the Bundestag has announced: "The Federal Government will endeavor to attain the aim envisaged in the Report of the Pearson Commission for a public share in development aid by an annual average increase rate of 11 per cent. .... The number of

German development experts and volunteers will be increased with a view to doubling it by the mid-seventies. The Federal Government will continue to improve the quality of German aid."

- Prime Minister Wilson, calling the Report "one of the most important documents of the twentieth century," announced increases in Britain's Aid Program for each of the next three years. And Judith Hart, the Minister for Overseas Development, stated in Parliament: "Taking a high estimate for private flows, we could expect to reach the 1 per cent target not much after the date of 1975 recommended by the Pearson Commission. In any case, the Government intends, unless our balance of payments should preclude it, to reach the target of 1 per cent total flow not later than the end of the Second Development Decade."
- The King of Norway, in his speech from the throne, announced: "The Government has worked out a framework plan for state aid to the developing countries, which will involve a tripling of the amount made available between the years 1968 and 1973."
- Prime Minister Holyoake of New Zealand has pledged that his Government will aim to meet the Pearson Commission target of 1 per cent of Gross National Product in external aid.
- Prime Minister Sato of Japan has stated that economic aid would, in the near future, rise from the present level of $1 billion per year to $2 billion.

France is already providing official development assistance in amounts exceeding the Pearson targets. And Sweden, before the Report was published, announced it was increasing budgetary appropriations for aid by 25 per cent per year which will permit it to achieve the targets by 1975. Similarly, in The Netherlands, the Government has requested Parliament to provide for fiscal year 1970 a 21 per cent increase in foreign aid, and a still further increase in 1971.

All of this lends encouragement to the view that the decline in official foreign aid is now reversing itself. The trend in the richer countries is manifestly to make more official aid available -- with one overwhelming exception. And that is in the richest country of all: the United States. This is, of course, ironical in view of America's performance in the past.

In the whole of history there has probably never been a more thoroughly successful program of assistance than the Marshall Plan. The economic vitality of Western Europe today stands as a witness to its wisdom. The resources the United States committed to this effort were generous, but realistic, and the results in benefits to the entire Atlantic community, including America, have fully justified the investment.

In 1949, at the beginning of the Marshall Plan, American economic aid amounted to 2.79 per cent of its GNP, and 11.5 per cent of its federal budget. In FY 1970, the Aid programs constitute less than one-fifth of 1 per cent of the GNP, and less than 1 per cent of the total federal budget. The United States now ranks ninth in the proportion of GNP devoted to aid.

But despite this present adverse trend in America towards foreign assistance, there are signs that the situation will improve. The President is firmly committed to the principle of development aid, and is supporting it.

When he signed the Foreign Assistance authorization bill, he stated: "It is my personal conviction that such assistance remains vitally necessary if we are to effectively cooperate with less wealthy countries struggling to improve the lives of their citizens." In appointing the Peterson Task Force on International Development, he charged its members to come up with new and creative proposals. The President is seeking renewal, reform, and innovation in U.S. foreign aid policy, not stagnation.

No one can question that American domestic problems -- particularly in the social and environmental fields -- require increased attention and funding. But it is wholly unrealistic to suppose that this can only be achieved at the cost of cutting off aid to desperately poor nations abroad. The argument is sometimes made that rich countries must first take care of their own poor before worrying about the poor of other nations. Charity, after all -- we are reminded -- begins at home.

But I suggest that this argument, while appealing, misses the point. The President has pointed out that in the next ten years the U.S. will increase its wealth by 50 per cent and that the gross national product in 1979, at constant prices, will be $500 billion over last year. The fact is, then, that the American economy is so immense it can readily support a just and reasonable foreign aid program, within the general dimensions outlined by the Pearson Commission Report, and at the same time deal justly and effectively with domestic needs. The country is clearly wealthy enough to afford allocating a realistic percentage of its expanding resources to both tasks: to assist in alleviating underdevelopment both at home, and abroad.

There is no lack of capacity in the American economy to meet this twin set of responsibilities. What may be lacking is a broad commitment of the national will to do so. Or perhaps the deficit is not so much a lack of national will, as a lack of national understanding; not so much a case of a people indifferent to their responsibilities, as a case of understandable confusion over the competing claims on their attention and resolve.

What is certainly true is that the decision to respond both to the pressures of domestic problems, and the urgency of essential foreign assistance is, in the end, dependent on the response to a far more basic and searching question -- a question that must be faced not in the United States alone, but in every wealthy, industrialized country of the world. And that question is this. Which is ultimately more in a nation's interest: to funnel national resources into an endlessly spiraling consumer economy -- in effect, a pursuit of consumer gadgetry with all its senseless by-products of waste and pollution -- or to dedicate a more reasonable share of those same resources to improving the fundamental quality of life both at home and abroad?

The dilemma that faces the wealthy nations of the world is not whether they should devote more of their GNP to solving domestic crises, and less of it to helping eliminate inhuman deprivations abroad; but rather whether they are going to seek a more equitable balance between private opulence and public responsibility. Private wealth cannot be preserved and public responsibility cannot be met by a heedless indifference to common crises that in the end will touch rich and poor alike.

What we must grasp is that gross measures of economic strength and gross measures of economic growth -- for example, levels of GNP or rates of change of GNP -- as necessary as they are, cannot measure the soundness of the social structure of a nation. The United States itself is a classic illustration of this truth. Technologically the most advanced society on earth, it produces the greatest GNP ever recorded in history, and enjoys a per capita income that is 30 times greater than that of the peoples in a quarter of the nations of the world.

But what do such figures mean when we remember that even for the affluent, life is beset by smog, pollution, noise, traffic congestion, urban violence, youthful disaffection and a terrifying increase in the drug problem? Worse still, the wealthiest society on earth has within in its midst 25 million people so poor that their lives verge on mere subsistence. In 1967, 10 per cent of all white families and 35 per cent of all black families in America lived beneath the poverty line -- a line defined in part by the expenditure for food of less than 24¢ per meal.

The poor in America are like the poor everywhere. Statistically their economic condition is improving, but the progress is so slow in relation to the more advantaged groups in society that they are actually growing poorer relative to the rich. The point is illustrative of a phenomenon common throughout the world. Though men have inhabited the same planet for more than a million years, they coexist today in communities that range in the extremes from stone-age simplicity to space-age sophistication.

That degree of inequality would not, perhaps, be as socially and politically explosive as it in fact is, could it remain a well kept secret. For centuries stagnating societies and deprived peoples remained content with their lot because they were unaware that life was really any better elsewhere. Their very remoteness saved them from odious comparisons. But the technological revolution has changed all that. Now, with the transistor radio and the television tube in remote corners of the world dramatizing the disparities in the quality of life, what was tolerable in the past provokes turbulence today.

And what else but turbulence could one expect on a planet linked by instantaneous communication but fragmented by conspicuous inequality. It is inconceivable that one-quarter of mankind, moving forward into a self-accelerating affluence, can succeed in walling itself off from the other three-quarters who find themselves entrapped in a self-perpetuating cycle of poverty.

It is not too much to conclude that the nature of the principal threat to the nations of the world today is internal strife rather than external aggression. In the case of the United States, that is precisely what Dr. Milton Eisenhower did conclude in his final report as Chairman of the National Commission on the Causes and Prevention of Violence. He was clear and emphatic in his analysis: "Our most serious challenges to date," he told the President, "have been external -- the kind this strong and resourceful country could unite against. While serious external dangers remain, the graver threats today are internal."

The outlook for the Seventies is that the fault line along which shocks to world stability travel will shift from an East-West axis to a North-South axis, and the shocks themselves will be significantly less military and substantially more political, social, and economic in character.

In view of this, it is tragic and senseless that the world today is spending $175 billion a year on armaments -- a sum so huge that it is 25 times larger than the total spent in all foreign assistance programs. What is even worse is that defense spending is increasing by some 6 per cent a year, a growth rate in destructive power that is greater than the growth rate of the world's total production of all goods and services. And the final irony in this litany of irrationalities is that arms spending in the less developed countries is rising at the rate of 7.5 per cent a year, as against the world average of 6 per cent.

Prudent military preparedness has its place. Prodigal military proliferation is human folly at its worst.

But to return to the point I started to make a moment ago, growth rates of GNP are entirely valid and necessary economic indicators, but they are not adequate measures of the development of a nation. Nor are they satisfactory terms in which to frame the objectives of development programs.

In the First Development Decade, the primary development objective, a 5 per cent annual growth in GNP, was achieved. This was a major accomplishment. The 5 per cent rate exceeded the average growth rates of the advanced countries during their own early stages of progress in the last century. But this relatively high rate of growth in GNP did not bring satisfactory progress in development. In the developing world, at the end of the decade:

. Malnutrition is common.

The FAO estimates that at least a third to a half of the world's people suffer from hunger or nutritional deprivation. The average person in a high standard area consumes four pounds of food a day as compared with an average pound and a quarter in a low standard area.

- Infant mortality is high.

  Infant deaths per 1000 live births are four times as high in the developing countries as in the developed countries (110 vs. 27).

- Life expectancy is low.

  A man in the West can expect to live 40 per cent longer than the average man in the developing countries and twice as long as the average man in some of the African countries.

- Illiteracy is widespread.

  There are 100 million more illiterates today than there were 20 years ago, bringing the total number to some 800 million.

- Unemployment is endemic and growing.

  Approximately 20 per cent of the entire male labor force is unemployed, and in many areas the urban population is growing twice as fast as the number of urban jobs.

- The distribution of income and wealth is severely skewed.

  In India, 12 per cent of the rural families control more than half of the cultivated land. And in Brazil, 2 per cent of the families control 75 per cent of the land.

- The gap between the per capita incomes of the rich nations and the poor nations is widening rather than narrowing.

> At the extremes that gap is already more than \$3,000. Present projections indicate it may well widen to \$9,000 by the end of the century. In the year 2000, per capita income in the United States is expected to be approximately \$10,000; in Brazil, \$500; and in India, \$200.

Just how much worse these conditions are at the end of the decade than they were at the beginning is difficult to determine. For most of them, even today, we lack satisfactory indicators and data. The result is that trying to plan to improve these conditions, in the absence of such measures and indicators, is like trying to plan price stabilization without price indices. It is an impossible task.

The lesson to be learned is that in setting the objectives, planning the programs, and measuring the progress of development in the Seventies, we must look to more than gross measures of economic growth. What we require are relevant "development indicators" that go beyond the measure of growth in total output and provide practical yardsticks of change in the other economic, social, and moral dimensions of the modernizing process. To limit our attention to expanding GNP, even though it be from 5 per cent per year to 6 or 7 per cent, can only lead to greater political, social and economic disequilibrium. However important an increase in GNP may be as a necessary condition of development, it is not a sufficient condition.

This is not to say that the Pearson Commission and Tinbergen Committee target of reaching a 6 per cent annual growth rate of GNP for the developing world in the Seventies is not both feasible and necessary.

It is feasible if those of us in the wealthier world will complement the growing savings of the developing countries by moving toward the development assistance objectives endorsed by both these distinguished groups. And it is necessary, if the broader objectives of development are to be met.

But if we achieve the "quantity" goals, and neglect the "quality" goals of development, we will have failed. It is as simple as that. We will have failed.

The Second Development Decade gives us the opportunity to establish and pursue "quality" goals of development with new insights, new strategies, and new emphases.

With that in mind, I would like to put before you one or two points on the possible role of the World Bank in this new task of seeking quality in the processes of development. As a Bank we are naturally committed to the continuance and expansion of our role of mobilizing capital and using it for growth of the productive capacity of the developing nations. We plan during the five years 1969-73 to increase our lending by 100 per cent over the level of the previous five years. The very great advances in the developing countries' skills and infrastructure over the last decade have broadened the opportunities for productive investment, and we are determined at the Bank to take full advantage of them.

But -- and I repeat the point -- we cannot content ourselves with the mere quantity of our operations if they are not adding to the genuine quality of man's life on the planet. And if our investments are to meet this wider goal, I frankly admit that we and other investors need to add to the patterns of analysis a new dimension of social concern.

This concern must, of course, be as rigorous, factual and informed as any of our other economic analyses and forecasts.

We do not want simply to say that rising unemployment is a "bad thing" and something must be done about it. We want to know its scale, its causes, its impact and the range of policies and options which are open to governments, international agencies and the private sector to deal with it.

We do not want simply to sense that the "green revolution" requires a comparable social revolution in the organization and education of the small farmer. We want to know what evidence or working models are available on methods of cooperative enterprise, of decentralized credit systems, of smaller scale technology, and of price and market guarantees.

We do not want simply to deplore over-rapid urbanization in the primary cities. We want the most accurate and careful studies of internal migration, town-formation, decentralized urbanism and regional balance.

These issues are fully as urgent as the proper exchange rates or optimal mixes of the factors of production. The only trouble is that we do not know enough about them. I would go further and say that, up to a point, we do not even know how to think about them. Just as the censuses of the 1950's helped to alert us to the scale of the population explosion, the urban and employment crises of the Sixties are alerting us to the scale of social displacement and general uprootedness of populations which are exploding not only in numbers but in movement as well. But we are still only picking up the distress signals. We still do not know how to act.

We should be frank about this. As we enter the Seventies, in field after field, we have more questions than answers. Our urgent need is for new instruments of research and analysis with which to dispel our ignorance of the social dimensions of economic change and help us formulate a more comprehensive strategy for the decade ahead.

We in the World Bank cannot, of course, alone and from our own resources, provide all the new information and expertise demanded by the scale of our ignorance. Our desire is to stimulate and be part of a wider effort of research and education, and to help draw together new resources for the formulation of possible policy. We propose to seek the cooperation of universities, foundations, business research units, other international institutions, and experienced administrators for that purpose.

Further, to provide a more solid foundation for consultation and action by both developed and developing nations, in the whole field of development strategy and administration of development aid, we plan a new and expanded program of Country Economic Missions. These will be regularly scheduled, thoroughly staffed, comprehensive missions whose mandate will be to assist the member government to draw up an overall development strategy which will include every major sector of the economy, and every relevant aspect of the nation's social framework.

One significant innovation in these missions is that the team itself will include representatives from the UNDP, who will play a central role in working out a pre-investment program, so that future development financing may be on a firmer foundation. Where appropriate, the team will include agricultural specialists from FAO, educational specialists from Unesco, medical officers from WHO, and employment experts from ILO, as well as other competent consultants in specialized sectors.

Our own Bank staff on the mission will be looking into not only the traditional problems of economic growth, but the other facets of development as well: questions of population increase, urbanization, unemployment, land reform, income distribution, public health, environmental preservation, and all the related issues. Once the mission is completed, we will promptly produce for use by all of the parties concerned a thorough Economic Report which will serve as a profile of the country's progress, and of its overall development plan.

In our larger member countries -- those containing 80 per cent of the population of the developing world -- we will undertake these new Economic Missions annually; in other member countries, every two or three years. The essential point is that they will be comprehensive in scope, regular in schedule, and will form the basis for strategic rather than merely tactical development financing.

Perhaps one of the most wasteful mistakes that both developing countries and aid agencies can make is to proceed on a random project-by-project basis, rather than first to establish an overall development strategy, and then select projects that mutually support and interlock with one another within that overall plan. Our new program for Country Economic Reports is designed to provide a foundation for such a strategy.

* * *

All of us, within the worldwide community, have a mandate in common. Our ultimate goal is to help build the planet into a more habitable home for mankind, and to help create a political, social and economic environment in which individual men and women can more freely develop their own highest potential.

The funds we require to accomplish this are miniscule compared with the funds the wealthy nations are already devoting to prodigiously disproportionate objectives.

The talents and managerial skills we require to accomplish this are at hand. We only need to organize them.

Finally, the most important ingredient of all -- the dedication, the drive, the determination to see the task through -- is, I believe, within our grasp. If development becomes a social as well as an economic objective, if it aims squarely at an end of grinding poverty and gross injustice, I believe it has a constituency waiting for it in the citizens of tomorrow. These young men and women are looking for goals beyond their own personal affluence. Human development is surely a challenge that can command their dedication, provided it is a development not simply in goods and gadgets but in the self-respect and dignity of man.

This I believe is the true dimension of the goal of the Second Decade of Development.

Let the Second Development Decade be the time, and the place, and the program in which this collective human capacity, this new planetary vision, are given their maximum scope.

E N D

FORM NO. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

Mr McNamara to see cc 2/12

OFFICE MEMORANDUM

TO: Sir Denis Rickett

DATE: February 12 1970

FROM: Irving S. Friedman

SUBJECT: Supplementary Finance and the Third Replenishment

You will be interested to know that I have been receiving a number of inquiries from various Executive Directors -- mostly Part II Directors -- and the Scandinavians, as to what our plans were for discussion of Supplementary Finance by Executive Directors.

In brief, my reply has been as follows:

1. The staff preparation of the promised papers is proceeding towards completion.

2. The highest priority is attached, however, to getting the maximum amount for IDA in the Third Replenishment and we would wish to do nothing that would jeopardize the achievement of this target.

3. Therefore, the question of what we would do with the Supplementary Finance paper or papers when completed was still open, since whatever was done would be greatly influenced by the Third Replenishment objective. It was hoped that as the Third Replenishment exercise proceeded it might become clearer what the wisest course of action would be.

I have informed the President orally of the above and he expressed agreement with this approach.

Incidentally, I would like to make the additional point that I would hope that in one way or another a formal record would not be made within the Third Replenishment exercise that no additional resources of IDA funds could ever be made available for supplementary finance, even though this was being told to you informally during the third replenishment exercise. I appreciate that it may prove impossible to prevent statements to this effect being made by at least some Deputies, but I hope it could be countered by other statements that left options open for the future. If too negative a view is registered and goes unchallenged by others, it may result in creating the basis for increasing the misunderstanding and ill will between our Part I and Part II countries.

In any case, as you know, I have tended to become increasingly an advocate of the viewpoint that in some way or another Supplementary Finance become a policy of the World Bank Group in the forseeable future, without requesting additional resources for this purpose, leaving for the unforseeable future to learn whether practice will indicate that IDA resources ought to be increased beyond otherwise accepted limits to fulfill this function.

ISF

cc: Mr. McNamara ✓

President has seen

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 30, 1970

FROM: Irving S. Friedman

SUBJECT: Local Currency Financing and Program Financing

Mr. Lynch telephoned to say that he had been asked by London to make the following points:

1. On the papers being prepared for the Pearson Commission on local currency financing and program financing they hope it will not be discussed by the Board without ample notice, say, one month.

2. They wondered whether in any case it would be wise to postpone discussion on this subject until the IDA replenishment had been at a fairly advanced stage. They feel that this issue might arise in the course of the IDA discussion.

I promised to pass on these views to those concerned.

ISF

cc: Mr. Demuth
Sir Denis Rickett
Mr. Adler

FEB 2 - 1970

President has seen

FORM No. 58 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara **DATE:** January 29, 1970

FROM: Irving S. Friedman

SUBJECT: Rockefeller Report

Apropos our discussion on the Rockefeller Report and my reported discussions with George Woods, we will be doing a paper (along the lines of our recent paper on the commodity problem) reviewing the issue of the relationship between trade and aid and possible implications for the World Bank group.

ISF

President has seen FEB 3 - 1970

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

SECRET

TO: Files

DATE: January 23, 1970

FROM: Irving S. Friedman

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WBG ARCHIVES

SUBJECT: Debt Rescheduling

Because of inquiries which I had received from the U.S. Government officials with respect to the Bank information and work on external debt and debt rescheduling for all LDC's and the indications that the origin of the strong interest was the implementation of the Rockefeller report, I telephoned Mr. Woods late yesterday afternoon to obtain further background information on the Rockefeller report and its implementation. In brief, Mr. Woods' major points were:

1. He has advocated and it is now agreed that the question of external debt rescheduling cannot be considered in isolation from overall trade policy, development programs and performance of individual countries. The situation of each country must be reviewed separately by highly qualified technical staff to decide where debt rescheduling is appropriate and to make recommendations thereon, including recommendations to the creditor countries on trade policy.

2. On the U.S. side, legislation is being drafted to implement the suggestion that the U.S. unilaterally reduce tariffs and quotas and relax voluntary restraints to enable a large increase in exports of the Latin American countries to the U.S. This is seen as a 3-5 year program that can only be implemented gradually. Foreign aid on the old basis is regarded as virtually a dead issue. Instead, the emphasis is on trade liberalization and obtaining the funds necessary to assisting those in the United States who were disadvantaged by these trade liberalizations while financing development incurred only by multilateral agencies. It was hoped that this would have more appeal to the U.S. Congress in appropriating these said funds than straight foreign aid.

3. Recognizing that foreign trade liberalization could only take place gradually and its effects felt only gradually, immediate help could be obtained for needy countries by willingness to reschedule external debt. This job should, however, not be undertaken by U.S. agencies; instead it should be undertaken by the reorganized CIAP whose name would be changed to the Western Hemisphere Development Committee and by the World Bank. There had been considerable discussion on the question of the role of the World Bank. Mr. Woods felt that the new leadership of the Bank would be sympathetic and willing to undertake this job. Moreover the Bank had the economic staff capable of doing it. Without the World Bank there would simply be a queue of countries lining up for debt rescheduling with overwhelming pressures to make rescheduling a "hand-out" operation. However, he felt that the revised CIAP should also be involved. This approach had been discussed by Governor Rockefeller with Mr. Galo Plaza, the Head of the OAS, who essentially agreed and emphasized that the World Bank must do the job since the CIAP simply did not have the qualified staff. (Moreover, Carlos Sanz de Santa Maria is now in the throes of deciding whether he will stay on for a new term of 5 years; he is taking the position that he will do what the Latin American countries wish him to do.)

4. Last week this matter was discussed with Secretary Kennedy and gone over with President Nixon who agreed with the suggested approach. (I am not sure whether Mr. Woods was present at the discussions with President Nixon.) Secretary Kennedy had emphasized that the World Bank was needed to do the job and understood that Mr. Woods agreed with this. Secretary Kennedy had also agreed that this work should be done on a country-by-country basis in a collaborative effort by the revised CIAP and the World Bank. It was finally agreed that Governor Rockefeller should talk to Galo Plaza again.

5. Today theré will be a lunch with Galo Plaza to discuss how to get the program started.

6. Aside from the above, Mr. Woods had taken the position with Secretary Kennedy that on the U.S. side it was necessary to inform the Ex-Im Bank that their debts would be up for rescheduling in appropriate cases.

7. Mr. Woods thought that the questions for the World Bank were:

(a) Was the World Bank willing to collaborate with the revised CIAP in this work?

(b) If rescheduling is necessary, would the Bank have an open mind as to what would have to be done next, including what role the Bank might play?

I told Mr. Woods that Mr. McNamara appreciated the seriousness of the debt problem, that we were working on the various questions related to debt rescheduling, including the gathering of the necessary data on a systematic and regular basis, and agreed that it could not be regarded in isolation from other major factors affecting the development process. I would expect that the Bank would be glad to be of help; the consultative groups were an available mechanism. I reminded Mr. Woods of what he had said in the past, that he had been reluctant to have the World Bank take the lead in debt rescheduling exercises. He said that he still had qualms but that he now felt that it was virtually inevitable for the Bank to play a leading role in this field. As for the use of consultative groups, he said that this was also what he had suggested in his talks with Governor Rockefeller and others. He indicated that the outline above which had been discussed with various leaders, including George Meeney, had received favorable response.

8. He emphasized the point that in advocating that foreign exchange commitments should be rescheduled, the local equivalent currency should be put up for developmental purposes by the countries without delay. I commented that if this was done in a non-inflationary manner it would be a strict requirement because this would be equivalent to saying that the governments had to find the domestic savings equivalent to the debt rescheduling. Being spared the task of transforming such savings into foreign exchange, could be of critical assistance, but nevertheless the mobilization of savings was also very difficult. Mr. Woods said that he agreed with this but emphasized again that

his approach to debt rescheduling was not to make it easy for countries and that it should not be in any way a "hand-out" but rather a device to meet an external financial problem for a country that was really willing to improve its economic management and get on with the job of development.

9. In response to query he indicated that he did not mind my conveying the above to Mr. McNamara and that he hoped that he would be able to talk to him today, if a tight scheduling of meetings at all permitted.

cc: Mr. McNamara

SECRET

Files January 23, 1970

Irving S. Friedman

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OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 23, 1970

FROM: Irving S. Friedman

SUBJECT: Future of the U.S. Economy

In connection with our discussion on the future of the U.S. economy, I believe you will be interested in the attached two notes prepared by the Development Finance Studies Group and the Economics Department.

ISF

President has seen

FEB 2 - 1970

Rtd 11.45

U.S. Industrial Outlook 1970
U.S. Department of Commerce, Business and Defense Services Administration (BDSA)
January 1970

This report presents projection analyses for 135 industries or industry groups. Background information supporting the projections includes developments during the past decade (technological change, foreign competition and changes in domestic demand and supply). The 1969 data, like the 1970 and 1975 forecasts, are BDSA estimates.

The anticipations presented for 1970 are not uniform:

FREQUENCY DISTRIBUTION OF EXPECTED GAINS IN MANUFACTURING INDUSTRIES 1/ SURVEYED: 1970

EXPECTED GAIN	NO. OF INDUSTRIES
Less than 5 percent	66
5-9 percent	58
More than 10 percent	19
TOTAL	127

1/ Accounts for 85 percent of value of all manufacturing shipments

The BDSA rankings of the 1970 projections for manufacturing and non-manufacturing industries are attached. Two points deserve mention: A number of consumer goods do rank high on this list -- jewelry, luggage, photographic equipment, cosmetics, books and phonegraph records. The industries where anticipated growth in value of shipments is most rapid are those related to housing construction and medical services.

The report provides no analogous presentation of the projections by industry for 1975. It does specify that the projections are trend estimates, developed assuming consistently a $1.4 trillion GNP, a slower rate of Federal expenditure growth, disposable personal income near $10,000 per family unit, high business investment geared to raise productivity and control environmental pollution and, finally, more rapid progress toward national housing goals.

Projections for 1975 do appear throughout the 500 page report, separately in each industry section. However, they are not presented consistently. Sometimes value estimates appear; at others, volume estimates; at still others rates of growth. In some cases, the projection must be inferred from words. Two facts make it difficult to impose consistency and may, incidentally, explain the lack of a tabular presentation in the Report itself: There is no specification of the treatment of price changes, and, because the sections were written by different people, there is no reason to suppose that the treatment was uniform. In consequence, a table currently being prepared, "Prospects for 1975", will merely array the projections by industry given in the Report without attempting to summarize or aggregate the separate results.

Elinor B. Yudin
Development Finance Studies
January 19, 1970

APPENDIX B

Part I Value of Shipments of Selected Manufacturing Industries Ranked by Projected Percent Change 1969-1970 [1]

Rank	SIC Code	Industry Title	Millions of dollars (except as noted) 1969	1970	Percent change
1	3791 (part)	Mobile homes	400 [2]	475 [2]	19
2	3742	Railroad car building	1,575	1,845	17
3	3537	Industrial trucks	995	1,150	16
4	3534	Elevators and moving stairways	334	384	15
5	3831	Optical instruments and lenses	437	500	14
6	3572, 3573, 3574, 3579	Office, computing and accounting machines	8,625	9,750	13
7	3611	Electric measuring instruments	1,530	1,730	13
8	3411	Metal cans	3,540	3,910	11
9	3511	Steam, hydraulic, and gas turbines	1,898	2,108	11
10	3842	Surgical appliances and supplies	1,072	1,190	11
11	3911	Jewelry	925	1,027	11
12	3841	Surgical and medical instruments	541	601	11
13	3536	Cranes, hoists and monorails	456	506	11
14	3661	Telephone and telegraph equipment	3,164	3,480	10
15	3221	Glass containers	1,690	1,860	10
16	2761	Manifold business forms	1,132	1,246	10
17	2813	Industrial gases	653	715	10
18	3161	Luggage	417	460	10
19	3843	Dental equipment and supplies	253	278	10
20	2831, 2833, 2834	Drugs and pharmaceuticals	6,130	6,680	9
21	3861	Photographic equipment and supplies	4,400	4,800	9
22	3585	Air conditioning and commercial and industrial refrigeration equipment	3,900	4,250	9
23	2086	Bottled and canned soft drinks	3,748	4,070	9
24	2844	Cosmetics and toilet preparations	2,970	3,240	9
25	3811	Laboratory and engineering instruments	990	1,080	9
26	2732	Book printing	948	1,033	9
27	3652	Phonograph records	438	477	9
28	2818	Industrial organic chemicals, n.e.c.	8,220	8,870	8
29	3079	Plastics products, n.e.c.	6,380	6,885	8
30	2037	Frozen fruits, juices, and vegetables	2,491	2,686	8
31	2815	Cyclic intermediates and crudes	1,980	2,130	8
32	2087	Flavoring extracts and syrups, n.e.c.	1,379	1,430	8
33	35483, 3623	Welding equipment	610	660	8
34	3961	Costume jewelry	499	540	8
35	2791	Typesetting	415	448	8
36	3334, 3352, 3361	Aluminum	5,350	5,700	7
37	2821	Plastics materials and resins	4,100	4,400	7
38	2731	Book publishing	2,275	2,425	7
39	3642	Lighting fixtures	1,960	2,100	7
40	2022	Cheese, natural and processed	1,967	2,096	7
41	2032	Canned specialties	1,809	1,937	7
42	3555	Printing trades machinery	870	931	7
43	2751, 2752	Commercial printing	7,735	8,199	6
44	2042	Prepared feeds for animals and fowls	5,355	5,673	6
45	2851	Paints and allied products	3,459	3,675	6
46	2721	Periodicals	3,310	3,520	6
47	2841	Soaps, detergents and other cleaning preparations	2,840	3,010	6
48	3561	Pumps and compressors	2,612	2,750	6
49	3494	Valves and pipe fittings	2,495	2,645	6
50	3674	Semiconductors (value of product shipments)	1,575	1,670	6

[1] Estimated by BDSA. Not ranked within percentile. Changes of less than 1 percent are not considered significant.
[2] Thousands of units.
[3] Value of production.
[4] Value of new construction put in place.
[5] Millions of barrels.

APPENDIX B

Part I Value of Shipments of Selected Manufacturing Industries Ranked by Projected Percent Change 1969–1970 [1]—Continued

Rank	SIC Code	Industry Title	Millions of dollars (except as noted) 1969	1970	Percent change
51	2647	Sanitary paper products	1,416	1,507	6
52	2035	Pickles, sauces and salad dressings	989	1,046	6
53	3551	Food products machinery	933	989	6
54	3532	Mining machinery	763	811	6
55	2084	Wines, brandy and brandy spirits	484	512	6
56	3491	Metal barrels, drums and pails	418	443	6
57	3151	Leather gloves and mittens	113	120	6
58	37111	Automobiles (passenger cars)	18,600	19,500	5
59	2011	Meat packing plants	18,176	19,048	5
60	2621, 2631, 2661	Paper, paperboard, and building paper mills	9,275	9,700	5
61	2026	Fluid milk	8,555	8,940	5
62	2711	Newspapers	6,669	7,010	5
63	2511, 2512	Wood and upholstered household furniture	5,144	5,420	5
64	2033	Canned fruits, vegetables, jams, etc.	3,803 [3]	4,003 [3]	5
65	2653	Corrugated and solid fibre boxes	3,415	3,585	5
66	2015	Poultry dressing plants	3,200	3,350	5
67	3731	Shipbuilding and repair	2,840	2,980	5
68	2071, 2072	Confectionery and chocolate products	1,771	1,861	5
69	2085	Distilled liquor, except brandy	1,506	1,578	5
70	3641	Electric lamps (bulbs)	843	885	5
71	2812	Alkalies and chlorine	792	832	5
72	3822	Automatic temperature controls	750	790	5
73	3535	Conveyors	739	772	5
74	2816	Inorganic pigments	690	725	5
75	3542	Machine tools, metal forming types	580	610	5
76	24993	Particleboard	236	247	5
77	3172	Personal leather goods, except handbags & purses	215	225	5
78	2911	Petroleum refining	21,720	22,564	4
79	3662	Radio and television transmitting equipment	9,345	9,719	4
80	2051	Bread, cake and related products	5,476	5,684	4
81	37112, 37113	Motor trucks and buses	5,250	5,460	4
82	3011	Tires and inner tubes	4,700	4,865	4
83	2819	Industrial inorganic chemicals, n.e.c.	4,305	4,500	4
84	3357	Copper, wire drawing and insulating	3,450	3,600	4
85	3351	Copper, rolling and drawing	3,200	3,330	4
86	2082	Malt liquors	3,226	3,370	4
87	2013	Sausages and other prepared meat processing	2,970	3,091	4
88	2052	Cookies and crackers	1,528	1,591	4
89	3941, 3942, 3943	Dolls, games, toys, and children's vehicles	1,462	1,523	4
90	2062	Cane sugar refining	1,446	1,505	4
91	3612	Transformers	1,432	1,491	4
92	2023	Condensed and evaporated milk	1,268	1,322	4
93	2651	Folding paperboard boxes	1,230	1,275	4
94	2024	Ice cream and frozen desserts	1,145	1,190	4
95	2515	Mattresses and bedsprings	842	880	4
96	3552	Textile machinery	696	724	4
97	3639	Household appliances, n.e.c.	646	672	4
98	3635	Household vacuum cleaners	436	453	4
99	3531	Construction machinery and equipment	4,077	4,197	3
100	3651	Radio and television receiving sets	3,830	3,950	3
101	3679	Electronic components, n.e.c. (value of product shipments)	3,205	3,285	3
102	3632	Household refrigerators and freezers	2,241	2,308	3
103	3069	Rubber products, n.e.c.	3,625	3,720	3
104	2871, 2872	Fertilizers	1,856	1,904	3
105	3821	Measuring and controlling instruments (mechanical)	1,771	1,820	3
106	2096	Shortening and cooking oils	1,650	1,700	3
107	3634	Electric housewares and fans	1,398	1,440	3
108	2822	Synthetic rubber	1,050	1,085	3

APPENDIX B

Part I Value of Shipments of Selected Manufacturing Industries Ranked by Projected Percent Change 1969–1970 [1]—Continued

Rank	SIC Code	Industry Title	Millions of dollars (except as noted) 1969	1970	Percent change
109	3949	Sporting and athletic goods, n.e.c.	945	975	3
110	3533	Oilfield machinery	836	861	3
111	3672	Cathode ray picture tubes	640	660	3
112	2121	Cigars	390	400	3
113	3522	Farm machinery	4,108	4,190	2
114	2041	Flour and other grain mill products	2,484	2,536	2
115	2092	Soybean oil mills	2,150	2,200	2
116	2641	Paper coating and glazing	1,510	1,540	2
117	3631	Household cooking equipment	704	718	2
118	2992	Lubricating oils and greases	542	555	2
119	3541	Machine tools, metal-cutting types	1,887	1,906	1
120	3562	Ball and roller bearings	1,395	1,410	1
121	2432	Veneer and plywood	1,180	1,197	1
122	3633	Household laundry equipment	1,151	1,162	1
123	3111	Leather tanning and finishing	890	903	1
124	3713	Truck and bus bodies	624	632	1
125	3021	Rubber footwear	430	435	1
126	3636	Sewing machines	128	129	1
127	3729	Aircraft parts and equipment, n.e.c.	4,700	4,700	0
128	2111	Cigarettes	3,103	3,105	0
129	3544	Tool and die products	2,510	2,525	0
130	2141	Tobacco stemming and redrying	1,146	1,146	0
131	3171	Women's handbags and purses	295	296	0
132	3321, 3322, 3323	Iron and steel foundries	4,985	4,979	0
133	2131	Chewing and smoking tobacco	119	118	0
134	3673	Electron tubes, transmitting (value of product shipments)	395	390	−1
135	35451	Metal cutting tools	745	740	−1
136	3722	Aircraft engines and engine parts	5,585	5,500	−2
137	3671	Electron tubes, radio and TV receiving (value of product shipments)	245	240	−2
138	3723	Aircraft propellers and parts	210	205	−3
139	3312, 3315, 3316, 3317	Steel mill products	18,391	17,410	−5
140	1925	Guided missiles and space vehicles, completely assembled	4,901	4,500	−8
141	3721	Aircraft	12,423	11,317	−9
142	2421	Sawmills and planing mills	5,070	4,385	−14
143	34433	Power boilers	645	495	−23

APPENDIX B

Part II Selected Nonmanufacturing Industries Ranked According to Projected Percent Change 1969–1970 in Sales or Other Measures as Indicated [1]

Rank	SIC Code	Industry Title	Millions of dollars (except as noted) 1969	1970	Percent change
1	80	Medical and other health services—expenditures	63,935	71,475	12
2	4811, 4821	Telephone and telegraph—revenues	19,340	21,727	12
3	5097	Wholesale furniture, home furnishings	5,500	6,100	11
4	501	Wholesale motor vehicles and automotive equipment	18,900	20,800	10
5	5098	Wholesale lumber and construction materials	12,900	14,200	10
6	5311	Department stores, retail	35,989	39,145	9
7	631	Life insurance—premium receipts	33,600	36,400	8
8	82	Educational services—expenditures	65,500	69,900	7
9	504	Wholesale groceries and related products	47,200	50,500	7
10	5095	Wholesale beer, wine, and distilled alcoholic beverages	12,000	12,800	7
11	502	Wholesale drugs, chemicals, and allied products	9,500	10,200	7
12	5096	Wholesale paper and paper products	7,300	7,800	7
13	5611	Men's and boys' clothing and furnishings stores—retail	4,753	5,067	7
14	5722	Household appliance stores, retail	3,715	3,960	7
15	4833	Television broadcasting—revenues	2,769	2,950	7
16	541	Grocery stores, retail	76,047	80,230	6
17	506	Wholesale electrical goods	16,500	17,500	6
18	72	Personal services	13,320	14,200	6
19	5912	Drug stores, retail	11,789	12,470	6
20	507	Wholesale hardware and plumbing and heating equipment	11,000	11,700	6
21	731	Advertising—gross billings	8,245	8,700	6
22	7011	Hotels and motels—receipts	7,800	8,300	6
23	5621, 5631	Women's apparel and accessory stores, retail	7,728	8,176	6
24	753	Automobile repair shops—receipts	4,730	5,000	6
25	4832	Radio broadcasting—revenues	1,110	1,177	6
26	508	Wholesale machinery, equipment, and supplies	28,000	29,400	5
27	5812, 5813	Restaurants and bars	25,854	26,888	4
28	5091	Wholesale metals and minerals, n.e.c.	11,800	12,300	4
29	5331	Variety stores, retail	6,504	6,822	3
30	5093	Wholesale scrap, waste materials	5,000	5,200	3
31	5251	Hardware stores, retail	3,376	3,478	3
32	78	Motion pictures—box office receipts	1,065	1,100	3
33	1311, 1321	Crude petroleum, natural gas, and natural gas liquids	9,200 [5]	9,500 [5]	3
34	503	Wholesale dry goods and apparel	10,000	10,000	0
35	505	Wholesale farm products and raw materials	12,800	12,300	−4

"Prospects for 1975"

The accompanying table, "Prospects for 1975" was prepared by the Statistical Services Division from the Commerce Department Report, U.S. Industrial Outlook 1970. The Report, itself was summarized in an earlier note, dated January 19, 1970.

The same note stated one major obstacle preventing aggregation of the separate projections arrayed in the table: the unspecified treatment of expected price changes.

Note, further, that even the projections presented in the Report itself are derived from different series: production, shipments, sales, demand, etc. And those series are not commensurate. The "comments" column in this table specifies (where possible) the derivation of the estimate for 1975.

1. Stated by the Commerce Department in the Report. (Note a/).

2. Projected by the Statistical Services Division, at a rate based on the recent trend measured in data shown in the Report. (Note b/).

3. Projected by the Statistical Services Division at a rate inferred from comments in the Report. (Note c/).

The Report table showing data for 1969 and projections for 1970 was appended to the earlier note.

EBY:cfr
Development Finance Studies
January 23, 1970

Prospects for 1975
(In millions of U.S. dollars unless otherwise indicated)

Industry	Prospects for 1975	Comments
Aerospace	1,910	Exports a/
Lumber and Wood Products		
Lumber	8,855	10% annual increase from 1969 b/ c/
Softwood Plywood	1,563	5.5% annual increase from 1970 b/
Particlewood	615	20% annual increase from 1970 b/ d/
Paper and Paper Board	12,200	Shipments a/
Paper Coating and Glazing	?	
Paper and Board Mills	?	
Sanitary Paper Products	2,100	Shipments a/
Containers		
Folding Paper Boxes	1,448	3% annual increase b/
Fibre Boxes	4,800	Shipments a/
Glass Containers	2,600	" a/
Metal Cans	5,400	" a/
Metal Shipping Containers	560	6% annual increase shipments
Printing and Publishing		
Newspapers	8,900	Shipments a/
Periodicals	4,500	" a/
Book publishing	3,800	" a/
Book printing	1,600	" a/
Commercial printing	11,500	Receipts a/
Manifold Business Forms	2,000	Shipments a/
Typesetting	650	Demand a/
Food Products	109,000	Shipments a/
Meat and Poultry	32,000	" a/
Canned and frozen fruits and vegetables	9,200	" a/
Bakery products	6,800	" a/
Confectionery	2,300	Sales a/
Beverages	14,925	Shipments a/
Malt liquors	4,200	" a/
Soft drinks	5,800	" a/

a/ Rate stated by Commerce Department in source
b/ Projection of recent trend in Commerce Department data, by Statistical Services Division
c/ Previous growth at 6.5%; raised, due to projected boom in construction, to 10.0%
d/ Average growth 1963-1969 at 20% per year; 1969-70, 5%; used 20% per year

Industry	Prospects for 1975	Comments
Tobacco	3,623	Production a/
Household Consumer Durables		
Home Appliances	8,900	Shipment of household appliances a/
Household furniture	7,400	Production a/
Mattresses and bedsprings	1,100	Production a/
Personal Consumer Goods		
Jewelry	2,000	Shipments a/
Toys, Games, Dolls and Children's Vehicles	2,200	Average shipments a/
Sporting goods	1,100	Production a/
Leather and Leather Products		
Tanning and Finishing	955	Average shipments a/
Shoes and Slippers	3,890	3% annual increase (base 2.98 in 1969) b/
Luggage and Personal Leather Goods	1,500	Shipments a/
Textile Mill Products	28,590	5% annual increase (1969 shipments) b/
Yarns	2,479	4% annual increase (1967 shipments) b/
Fabrics	7,882	2% annual increase (1969 shipments) b/
Apparel	33,055	6% annual increase (1967 shipments) e/
Men's and boy's outerwear	13,687	5% annual increase (1967 shipments and value added) e/
Women's Outerwear	12,102	4% annual increase (1967 shipments and value added) e/
Girls, childrens and infants apparel	1,854	2.5% annual increase (1967 shipments and value added) e/
Man-made fibers	6,249	10% annual increase (1967 shipments) e/
Cellulosic man-made fibers	795	1% annual increase (1967 shipments) b/
Non-cellulosic fibers	5,025	11% annual increase (1967 shipments) b/
Chemicals and Allied Products	74,000	Shipments a/
Industrial chemicals	18,400	" a/
Plastic materials and resins	6,000	" a/
Drugs and pharmaceuticals	10,000	" a/
Soaps, detergents and speciality cleaners	4,000	" a/
Cosmetics and toilet preparations	4,983	9% annual increase (1970 shipments) b/
Paints and allied products	4,917	6% annual increase (1970 shipments) b/
Fertilizers	2,000	Shipments a/
Rubber and Plastic Products	21,300	5% annual increase (1970 shipments) e/
Synthetic rubber	1,407	5% annual increase (1970 shipments) b/
Tires and Tubes	6,500	Shipments a/

a/ Rate stated by Commerce Department in source
b/ Projection of recent trend in Commerce Department data, by Statistical Services Division
e/ Inferred from comments in source, by Statistical Services Division

Industry	Prospects for 1975	Comments
Primary Metals		
Aluminum	7,991	7% annual increase (1970 shipments) b/
Copper	5,040	1970 shipments b/
Steel	23,945	6% annual increase (1969 shipments) b/
Ferrous Foundries	7,047	6% annual increase (1970 shipments) b/
Petroleum	17,800	Demand a/
Crude petroleum and natural gas	?	
Petroleum refining	27,438	4% annual increase (1970 shipments) b/
Lubricating oils and greases	628	2.5% annual increase (1970 shipments) b/
Metal Working Machinery	?	
Machine Tools	3,610	4% average annual increase (1970 shipments) e/
Metal-cutting tools	?	
Tools, dies and fixtures	?	
Welding Equipment	1,000	Shipments a/
Special Industry Machinery		
Farm Machinery	5,197	4% annual increase (1969 shipments) b/
Construction Machinery	5,157	4% " " " " b/
Mining Machinery	1,200	Shipments a/
Oilfield Machinery	998	3% annual increase (1969 shipments) b/
Food Products Machinery	1,200	Shipments a/
Taxtile Machine	880	4% annual increase (1969 shipments) b/
Printing Trade Machinery	1,305	7% annual increase (1969 shipments) b/
General Industrial Machinery		
Materials Handling Equipment	5,477	12% annual increase (1969 shipments) b/
Pumps and Compressors	3,856	7% " " " " b/
Air Conditioning and Refrigerating	7,800	Shipments a/
General Industrial Components		
Valves and Pipe Fittings	3,738	" a/
Ball and Roller Bearings	2,000	" a/
Electronic Equipment and Components		
Consumer Electronic Products	4,500	" a/
Telephone and Telegraph Equipment	5,603	10% annual increase (1970 shipments) e/
Electronic Systems and Equipment	10,500	Shipments a/
Electronic Components	7,235	" a/

a/ Rate stated by Commerce Department in source
b/ Projection of recent trend in Commerce Department data, by Statistical Services Division
e/ Inferred from comments in source, by Statistical Services Division

Industry	Prospects for 1975	Comments
Lighting and Diving Equipment		
Electric Lamps	1,100	Shipments a/
Lighting Fixtures and Diving Devices	3,000	" (lighting fixtures only) a/
Power and Electrical Industrial Equipment		
Transformers	2,200	" a/
Boilers and Nuclear Reactors	5,000	" a/
Engines and Turbines	2,500	" a/
Steam Engines and Turbines	?	
Internal Combustion Engines-Ind.	1,300	" a/
Instruments and Controls		
Electrical Measuring Instruments	2,000	" a/
Laboratory & Engineering Instruments	1,700	" a/
Mechanical Measuring Devices	2,900	" a/
Automatic Temperature Controls	1,200	" a/
Optical Instruments & Lenses	850	" a/
Medical and Dental Instruments and Supplies	2,800	" a/
Photographic Equipment and Supplies	7,000	" a/
Business Machines		
Electronic Computers & Services	12,500	" a/
Motor Vehicles		
Automobiles	24,882	5% annual increase (1970 shipments) b/
Motor Trucks	2.45 (million units)	Value per unit shipped in in 1969 - $5,250 a/
Trucks and Bus Bodies	850	
Truck Trailers	250 (thousand units)	Value per unit shipped in 1969 - $4,500 a/
Railroad Cars	2,838	Shipments a/
Shipbuilding	3,828	5% increase per yr.(1970 shipments) b/
Transportation		
Communications		
Domestic Telephone & Telegraph	35,722	11% annual increase b/
International Telephone & Telegraph	880	15% annual increase b/
Television Broadcasting	4,136	7% " " b/
Radio Broadcasting	1,650	7% " " b/
Wholesale Trade		
Merchant Wholesalers	340,990	6.5% " " b/
Automotive	33,488	10% " " b/

a/ Rate stated by Commerce Department in source
b/ Projection of recent trend in Commerce Department data, by Statistical Services Division

Industry	Prospects for 1975	Comments
Electrical Goods and Wholesalers	24,535	7% annual increase b/
Furnishers and Home Furnishings	8,552	7% " " b/
Construction Materials	19,908	7% " " b/
Business Machines	41,219	7% " " b/
Grocery	70,801	7% " " b/
Drugs	14,300	7% " " b/
Tobacco	7,418	4% " " b/
Dry Goods	12,160	4% " " b/
Farm Products	12,927	1% " " b/
Retail Trade	461,020	4.5% " " b/
Hardware Stores	4,334	4.5% " " b/
Department Stores	58,835	8.5% " " b/
Variety Stores	8,910	5.5% " " b/
Food Stores	102,373	5% " " b/
Apparel Stores	17,286	5.5% " " b/
Household Applicance Stores	5,298	6% " " b/
Restaurants and Bars	31,163	3% " " b/
Drug Stores	15,538	4.5% " " b/
Life Insurance	54,000	Annual premium receipts a/
Selected Services		
Hotels and Motels	10,342	4.5% annual increase b/
Personal Services	18,545	5.5% annual increase b/
Laundries and Dry Cleaners	8,260	5.5% " " b/
Photographic Studies	1,495	9.5% " " b/
Beauty Shops	5,313	10% " " b/
Barber Shops	1,335	3.5% " " b/
Shoe Repair Shops	283	2.5% " " b/
Funeral Homes and Crematories	2,067	4% " " b/
Advertising	13,351	5.5% " " b/
Automobile Repair Shops	6,530	5.5% " " e/
Motion Pictures	1,244	2.5% " " b/
Medical and other Health Services	110,000	Expenditure a/
Educational Services	95,000 a/	
Mobile Homes	1.18 (million units)	20% annual increase (value per unit $6,400) b/

a/ Rate stated by Commerce Department in source
b/ Projection of recent trend in Commerce Department data, by Statistical Services Division
e/ Inferred from comments in source, by Statistical Services Division

Industry	Prospects for 1975	Comments
Building Materials Construction	162,047	10% annual increase e/

Source: U.S. Department of Commerce, U.S. Industrial Outlook 1970

e/ Inferred from comments in source, by Statistical Services Division.

Development Finance Studies
January 23, 1970
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Analysis of 69 tax bill showed effect [illegible] [illegible] [illegible] [illegible]

DRAFT

January 5, 1970

CURRENT TREND AND FUTURE PROSPECTS IN USE OF GNP
IN THE UNITED STATES

Introduction: This technical note examines several aspects of the broad question of how the United States can use its future growth in gross national product to cure its domestic ills. Among the aspects considered are:

How has gross national product grown, both in respect of its quantity and of its distribution between public and private sectors of the U.S. economy?

How have the resources within these sectors been distributed and utilized? How does the fiscal system, particularly taxation, affect resource distribution and use? What, if anything, do patterns of resource use imply about national priorities?

What is the projected growth and distribution of resources in the future? Do such projections envisage surplus resources, a "fiscal dividend", available for expansion of present programs or commencement of new ones? How does the 1969 Tax Law alter these projections? Does the "fiscal dividend" provide an adequate measure of the availability of resources to cure domestic ills?

More detailed information about these and other questions addressed in the Note are contained in the attached folder giving background tables used in preparing this Note.

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Summary and Conclusions:

Individual commentary and research, like numerous official government task-force and study-group reports, insistently argue the urgent need to ameliorate domestic ills. The arguments reflect the dual realization that, first, despite apparent riches, poverty, hunger, poor health and violence remain part of the American scene and, second, that partial remedy for such ills may lie in a different composition of national product, different because it reflects different needs. Hence we hear pleas and proposals for greater government activity -- in education and job training, in employment opportunities, in low income housing, community development and mass transportation -- and we see estimates of their cost totalling billions of dollars annually.

There is little doubt that the United States can produce the resources to solve these problems. Its already vast gross national product, it is projected, will grow to $1.4 trillion by 1975 assuming a 7 percent annual rate of growth (in money terms). On the average, then about $80 billion in additional output would be "available" each year to apply to these problems. But previous commitments and inflation may significantly reduce the funds ultimately available in real terms. And, more important, an essentially political, not economic, decision to allocate funds to those ends rather than others is required.

While talk of urgent domestic problems and "new priorities" has become part of daily life in America, resistance to massive dosages of public funds to remedy these ills is still strong. The resistance to such public-sector activity seems, moreover, to be multifaceted. It stems in part from consumers' reluctance to sacrifice their own current consumption for what they view as the possibility of a probably indirect return at some indefinite future time; in part from the widespread sentiment, not eliminated by the 1969 Tax Law, that the tax burden is already too great; and in part from the traditional American restraint in allowing extensions in the sphere of federal government influence.

Yet underlying all aspects of this resistance may well be a basic misconception: with all its wealth, the United States is able to afford more of everything -- defense, social programs, private consumption and investment. The fundamental economic concepts of budget constraint and opportunity cost -- that to obtain more of one thing, something else must be sacrificed -- are not real unless experienced. It is, however, only recently that Americans have begun concretely to experience obvious and serious price inflation and, now, the prospect of rising unemployment and even recession coupled with that price inflation. Correction of this misconception may bring about a vitally needed and more realistic evaluation of national priorities. However explained to the public, the inherent inability to do everything is being realized and the need to choose has become an inevitable, though disagreeable task.

The 1969 Tax Law may be viewed as a for-the-moment resolution of the country's public-private choice in favor, at the margin, of the private sector. Although a similar trend has been evident in U.S. tax law changes during the postwar period, the for-the-moment characteristic does deserve emphasis. Pressure for greater public social expenditures in the coming years must increase and is likely either to result in tax increases and specific controls designed to yield revenue to finance those expenditures or, even more drastic, changes in the structure of revenues and expenditures designed to reflect social priorities.

A national debate on priorities is in its infancy, but it has begun. Until now, the development of national priorities seems to have occurred by a process of addition. Taking a simplified historical overview, time-honored priorities -- law and order, national defense -- were part of the American system from its birth. As the nation physically spread across the continent new priorities, effectively fostering physical unity -- transportation, communication -- joined the time-honored ones. The events of the twentieth century brought still more: conservation, to protect against exhaustion of natural resources; controls of the economic environment, to assure rising living standards by preventing the aggregate economic phenomena of either inflation or depression and by providing insurance systems to cushion incomes of the temporarily unemployed and the elderly. More recently, space programs and medical care for the aged have gained acceptance to this list of priorities. Other priorities -- restructuring of urban areas, control of pollution, elimination of poverty, even foreign assistance -- have attained some acceptance to the list, but on a temporary basis and with less than top priority. The newer priorities at this point in time still compete with one another for national expenditures: it remains a question of more pollution control <u>or</u> more foreign aid, <u>not</u> more pollution control or more moon flights, or defense expenditures. The debate on priorities will begin in earnest when the latter question is posed, when the newer and newest priorities are measured not against one another, but rather against all priorities, old and new. The 'seventies will largely be preoccupied with this debate.

Economic facts mirror the ambivalence and ambiguities in Americans' view of what mixture of demands or priorities they want to satisfy and how to obtain this mixture -- whether through public or private activity. For example, while gross national product just about doubled between 1950 and 1968, rising to \$708 billion from \$355 billion (in constant 1958 dollars) the private sector's share in it has fallen to 79 percent in 1968 from 85 percent in 1950. Further, almost half of non-defense federal expenditures are now in the broad category of major social programs. The lion's share of state and local expenditures, which are rising faster than federal ones, take place in the same sphere. Nonetheless, there has been a continuous and rapid increase in consumers' durable-goods expenditures on "luxuries," resulting largely from rising incomes, but from expansion of credit as well. Yet consumers' expenditures on services -- particularly on "necessary" services such as personal business, medical care and education and research (at the university level) -- have risen even faster. This conflicting evidence is not easily reconciled into a coherent statement of priorities.

In formal economic analysis, there is a sharp distinction between public and private activities: public sector activities directly or indirectly serve everyone, regardless of his contribution, financial or moral, to their support. Private sector activities, by contrast, serve primarily those with money votes in the market place. However, as discussions of great domestic needs effectively demonstrate, in today's world the public-private dichotomy is often blurred. Where lack of economic opportunity stems from inadequate education, training and employment possibilities, poverty remains virtually congenital. These and the accompanying poor living conditions -- housing, sanitation, nutrition, general health -- may give rise to frustrations, themselves augmented by awareness of others' relative wealth. Such conditions contribute to rising crime rates touching lives well beyond those of the poor. Or, where pollution of air and water impairs health and depletes natural resource, a wide spectrum of people suffer its effects. Rapidly growing urban centers, meccas of commerce, industry and often entertainment, fall particular victim to these and other ills. Much, in other words, that seems on first glance to be in the private sector's province gathers characteristics of its economic analytical complement, public sector activity. This blurring of the two sectors needs to be kept in mind in evaluating the trends within gross national product summarized below:

GNP Growth Experience:1/

The lack of a coherent set of national priorities is implicit in the very record of GNP growth and distribution.

On the one hand, per capita GNP and disposable personal income have risen sharply, the former climbing to 150 percent of its 1950 level by 1968, the latter by a lesser but still large amount (both measured in constant 1958 dollars).

TABLE 1

PER CAPITA INCOME AND DISPOSABLE PERSONAL INCOME: 1950, 1960 and 1968

Current dollars	1950	1960	1968
Gross national product	1,877	2,788	4,304
Disposable personal income	1,364	2,432	2,933
Constant dollars			
Gross national product	2,342	2,699	3,518
Disposable personal income	1,646	1,883	2,474

These imply that personal consumption has been allowed to rise. And, although that rise will be considered more fully later, it is worth noting here that it did: from $1,520 per capita in 1950 to $2,250 per capita by 1968 (again measured in constant 1958 dollars).

1/ Much of the data in this note is not as yet presented as consistently in terms of time covered as would be desirable; it has been necessary to use easily available data sources. Efforts are being continued to correct this situation. Unless otherwise noted, it is believed that trends indicated by the date have continued.

Yet, while the whole income distribution has shifted upward, median money incomes per family unit rising to $7,974 from $4,611 in the same period, the income distribution (by quintiles) and hence, relative positions have remained virtually unchanged. There has, in other words, been no tendency to make income distributions either more or less egalitarian.

The public-private distribution of GNP has, by contrast, changed markedly, in this case favoring public-sector consumption, not private.

TABLE 2

PERCENTAGE DISTRIBUTION OF GNP IN CONSTANT 1958 DOLLARS:
1950, 1960 and 1968

	1950	1960	1968
TOTAL	100.0	100.0	100.0
Private	85.2	80.5	78.9
Personal Consumption	64.9	64.8	63.9
Gross Private Domestic Investment	19.5	14.8	14.9
Foreign Trade	0.8	0.9	0.1
Public Consumption and Investment	14.9	19.5	21.0

Source: Attached, Table IIIB.2 in folder.

Note: May not sum to totals due to rounding.

The relative shares of gross private domestic investment and the public sector had switched by 1960; the further rise in the public sector's share during the 1960's, although smaller, came in about equal amounts from reductions in the shares of foreign trade and personal consumption.

Intra-sector distribution and national priorities:

Public-private resource allocation is but one aspect of the issues inherent in the broad question as to how the United States can use its resources to solve its domestic problems. It does not eliminate questions of distribution within each sector. What goods and services will each supply? By what means? And to whom?

Public Expenditures:

There can be little doubt that certain social needs have attained high priority in the United States Government. A glance at the priority formulation of the fiscal 1970 budget shows this quite specifically. Immediately following national defense in that budget are the major federal social programs: Social Insurance Trust Funds (excluding Medicare), welfare payments and services, health (including Medicare), education and manpower training, low and moderate income housing, community and regional development.

As shown in Table 3, these programs have received an increasing share of federal outlays. Those that did exist in 1950 were small, and it was only in the mid-1960's that official government publications deemed them deserving of separate report.

TABLE 3

PERCENTAGE DISTRIBUTION OF BUDGET OUTLAYS:
1960, 1965-1969

	1950	1960	1965	1966	1967	1968	1969 (est.)
Budget Outlays	100.0	100.0	100.0	100.0	100.0	100.0	100.0
National Defense	32.8	49.8	41.9	42.2	44.3	45.0	44.1
(Southeast Asia)	(n.a.)	(n.a.)	(0.1)	(4.5)	(13.0)	(15.0)	(15.9)
Major Social Programs[1/]	5.8	22.8	25.3	28.6	29.3	30.5	31.8
Interest	14.7	9.0	8.7	8.4	7.9	7.7	8.3
Veterans	16.8	5.9	4.8	4.4	4.4	3.8	4.2
All Other	30.0	15.0	22.0	18.9	16.6	15.5	14.3
Allowances and Undistributed	(n.a.)	-2.5	-2.7	-2.5	-2.5	-2.5	-2.7

Source: 1969 Statistical Abstract, Table 540; data for 1950
1957 Statistical Abstract, Tables 439 and 440

[1/] Major social programs defined as ordinary U.S. Budget Categories: community development and housing; education and manpower, health and welfare; see II.A in accompanying folder.

Note: May not sum to total due to rounding; efforts being made to obtain more recent data.

State and local expenditures, predominantly devoted to social programs like education, have grown even faster than federal expenditures:

TABLE 4

DIRECT GENERAL EXPENDITURES OF STATE AND LOCAL GOVERNMENTS,[1/]
BY FUNCTION: 1950, 1960 and 1967
(percentage, dollars)

	1950	1960	1967	1950	1960	1967
	(percentage of total)			(dollars per capita)		
TOTAL	100.0	100.0	100.0	150	187	472
Education	31.5	36.1	40.6	47	104	192
Public Welfare	13.0	8.5	8.8	19	24	42
Health and Hospitals	7.7	7.5	7.1	12	21	34
Police Protection	3.4	3.6	4.5	5	10	21
Sanitation	3.7	3.3	2.7	6	10	13
All Other	40.7	41.2	36.2	61	118	170

Source: 1969 Statistical Abstract, Table 592

[1/] Partially financed by Federal revenues; see attached Table IIB.

Note: May not sum to total due to rounding; efforts being made to obtain more recent data.

Although, at the Federal level, budgetary pressures (stemming from a combination of defense expenditures and the need to control inflation) have slowed the pace of its increase, the trend in social outlays by all levels of government during the 1960's has been consistently upward.

Public Revenues and Tax Burdens:

Much of the growing expenditures is financed by tax revenues, themselves growing as the economy expands.[1] Though tax revenues have risen continually, examination of the sources of tax revenue makes it quite clear that no consistent philosophy underlies the distribution of tax revenue between the public and private sectors. At the state and local level, for example, individual income tax revenues, though a small percentage of total tax revenues, increased six-fold between 1950 and 1967. This increase occurred at the expense of private consumption. Yet during the same period, corporate State and local tax burdens fell, thereby potentially supporting private investment.

Federal income tax payments have simultaneously exhibited a tendency favoring private consumption rather than public consumption and investment. There are two very distinct ways in which the trends of changes in the federal income tax structure favor private consumption; each operates at a different point in the income distribution. Clearly, those with very low incomes have experienced a marked reduction in tax burden. Continuing a trend begun in the 1950's, under the 1969 Tax Law a family of four earning less than the old federal poverty standard, \$3,500, will pay no tax at all. One can hardly quarrel with these consumption increasing provisions. Just as clearly, however, and more dramatic, is the reduction in tax payments by classes whose income exceed \$10,000.

One would not expect the impact of tax reduction in the higher income groups to be uniform. In the lower ranges of that group, marginal

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[1] The flow of Federal funds to state and local governments has grown steadily, accounting for 17 percent of state and local expenditures in 1967 compared to 12 percent in 1950.

private consumption expenditure out of increased income is likely to be greater than at still higher income levels. To illustrate what this may mean, it may be sufficient to isolate one income group, those whose incomes range between $10 and $15 thousand: In 1950, people with adjusted gross incomes of $10,000 or more accounted for 8.4 percent of the income earning population and paid, on average, 14.2 percent of that income in individual income taxes. By 1967, 22 percent of the population earned from $10,000 to $15,000. They paid only 11.8 percent of that income in taxes. This indeed leaves room for increased consumption.

The progressive 1950 tax system absorbed up to 60 percent at the highest income brackets; after modification it took less than 45 percent of those incomes by 1967. But even these averages mask what have been regarded as more blatant inequities whereby many of the very wealthy pay no tax at all on considerable incomes. Minimum income tax provisions in the new tax law do attempt to redress this situation to some extent.

Consumer Expenditures. Per capita personal consumption, as mentioned earlier, rose rapidly between 1950 and 1968. Perhaps more significant is the breakdown of these increases.

TABLE 5

PER CAPITA PERSONAL CONSUMPTION EXPENDITURES:
1950, 1960 and 1968

	1950	1960	1968
Current dollars			
Personal consumption expenditures	1,259	1,800	2,667
Durable goods	201	251	414
Nondurable goods	647	837	1,146
Services	412	712	1,107
Constant dollars			
Personal consumption expenditures	1,520	1,749	2,250
Durable goods	229	248	401
Nondurable goods	752	828	979
Services	539	673	870

A National Planning Association study published in 1969,[1] notes that in the 1960's consumers' durable expenditures rose 7 percent a year, compared with a 2.7 percent annual increment between 1955 and 1960. Much of the later increase occurred in commodities like televisions, radios, books, maps, sporting goods and other recreational items. The survey (from a different source) arrayed in Table 6 indicates that electrical appliance purchases also grew. The National Planning Association study shows that automobile expenditures, too, although they lagged in 1966-1967, had risen rapidly in 1960-1965 and the report on car ownership by income (Table 7) reiterates the same point in a more specific context. Furniture expenditures have risen steadily since 1961, though there are indications that these have been reduced by the poor conditions in the housing market.

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[1] The data used in this study cover through 1967, but that year's data are the preliminary version.

TABLE 6

HOMES WITH SELECTED ELECTRICAL APPLIANCES: 1953 to 1968

(Wired homes in millions. As of January 1. Percentages based on total number of homes wired for electricity.)

PRODUCT	1953		1960		1968	
	Number	Percent	Number	Percent	Number	Percent
Total number of wired homes	42.3	100.0	50.6	100.0	60.1	100.0
Air-conditioners, room		1.3		12.8		36.7
Bed coverings		8.6		21.3		42.3
Blenders		3.5		7.5		20.0
Can openers		(NA)		(NA)		34.5
Coffeemakers		51.0		53.4		79.6
Dishwashers		3.0		6.3		18.1
Disposers, food waste		3.3		9.5		18.0
Dryers, clothes		3.6		17.8		34.6
Freezers, home		11.5		22.1		27.2
Frypans		(NA)		40.7		51.8
Hotplates and buffet ranges		21.2		23.9		23.4
Irons, total		89.6		88.6		99.3
Steam and steam/spray		19.5		55.7		83.3
Mixers		29.7		53.4		78.5
Radios		96.2		96.1		99.5
Ranges:						
Free-standing		24.1		30.3		34.1
Built-in				5.3		12.9
Refrigerators		89.2		98.0		99.7
Television:						
Black and white		46.7		89.9		98.1
Color		(X)		(NA)		26.2
Toasters		70.9		70.4		87.6
Vacuum cleaners		59.4		72.5		92.9
Washers, clothes		76.2		83.1		94.3
Water heaters		13.8		18.6		26.1

Source: 1969 Statistical Abstract, Table 1088.

TABLE 7

HOUSEHOLD OWNERSHIP OF CARS, BY INCOME: 1960 AND 1968

(Percent of all households in each group.)

INCOME LEVEL	CARS	
	One or more	Two or more
1960		
All households	75.0	16.4
Annual income:		
Under $1,000	24.8	1.8
$1,000-$1,999	42.9	3.1
$2,000-$2,999	61.3	6.4
$3,000-$3,999	75.7	9.0
$4,000-$4,999	82.3	12.3
*$5,000-$5,999	90.2	17.9
$6,000-$7,499	93.3	21.6
$7,500-$9,999	95.1	31.4
$10,000-$14,999	95.4	42.7
$15,000 and over	94.2	58.8
1968		
All households	77.4	26.8
Annual income:		
Under $1,000	30.1	3.9
$1,000-$1,999	38.0	3.1
$2,000-$2,999	58.6	5.4
$3,000-$3,999	70.1	12.8
$4,000-$4,999	75.4	13.4
$5,000-$5,999	83.4	22.6
$6,000-$7,499	88.9	26.7
*$7,500-$9,999	91.8	36.1
$10,000-$14,999	94.7	49.8
$15,000-$24,999	94.2	60.5
$25,000 and over	93.9	63.2

Source: 1969 Statistical Abstract, Table 480.

*Median Income Group.

Put formally, many of these commodities exhibit a high income elasticity of demand: that is, as income rises, such purchases rise, in percentage terms, even more. Nonetheless, before rushing to criticize a picture of a profligately materialistic society, other factors lend balance to the view. First, the most rapid increases in personal expenditure have taken place in purchases from the service sector. More important, many of these -- particularly personal business, medical care, private education and research (largely at the university level) -- cannot be attributed wholly or even largely to rising incomes. Each tends to rank high in the ordering of personal budget priorities. Second, expenditures on high income elasticity goods do not _pari passu_ imply "luxury" purchases. Many, for example, augment efficiency in the home. They substitute capital-intensive activities for labor and time-intensive ones; they may, thereby, "free" women for work outside the home. And the greater number of women employed, part-time or full-time, has contributed significantly to rising family income. Others allow economizing of income, itself: a home freezer can reduce food bills, even a seemingly extravagant electric blanket may substitute for the more costly purchase of several conventional blankets. Third, and perhaps most relevant in this context, certain purchases of consumer durables or services occur because the publicly provided substitute is inadequate. With better public transporation systems, fewer private cars might well be required and more people could afford to obtain employment at what are now relatively distant or inaccessible points. Analogous arguments might be made, particularly for private purchases of medical services and education.

Consumption expenditures are not fully financed by current income. Needless to say, some is financed by drawing down past savings, some by borrowing, and consumer credit has soared.

Prospectives:

National Planning Association projections for the 1967-80 period anticipate only slight modification in the patterns of consumer expenditure observed between 1948 and 1967. These are expected to rise at 6.77 percent a year; compared to the 5.63 percent average annual increase for 1948 to 1967.

Expenditures at all levels of government are also expected to grow -- even without adding to current programs and present Administration proposals. Several authorized federal programs have not yet been fully funded. The 1969 Report of the Council of Economic Advisors estimated that full funding of already approved programs (in January 1969) would cost an additional $6 billion annually, more than half of this amount going to education at all levels. The Report also set out an illustrative estimate for financing new programs or major expansions of existing federal social programs, as derived from task-force and study-group proposals. In fiscal 1972 alone, these would require additional outlays of nearly $40 billion. The estimate illustrates, incidentally, what happens to cost as knowledge of problems and their causes gathers depth. What at first may appear relatively simple becomes quite complex and with complexity, costs grow.

Three major social program proposals have been advanced by the Nixon Administration: revenue sharing with state and local governments, family assistance and urban mass transit. Available estimates indicate that, assuming quick Congressional approval and full funding, these programs would cost on the order of $9 to $11 billion a year by fiscal 1975:

TABLE 8

NEW PROGRAM FUNDING: FY 1975
(billions of dollars)

Family Assistance	4.0-6.0
Revenue Sharing with State and Local Government	4.2
Urban Mass Transit	0.5
TOTAL	8.7-10.7

Of course, should these take time to gain passage or should they fail completely, the estimates would be commensurately reduced.

The financing of fully funding approved programs and of any new programs would come from the "fiscal dividend": the difference between the rise in federal revenue accompanying economic growth and the unavoidable expansion of federal expenditures stemming from increasing wages and prices and from previous commitments. Most estimates place that rise in expenditures at about $30 to $40 billion by fiscal 1975, half of which is in Social Security and Medicare. The rather wide range derives from differing assumptions about the rate of inflation and its impact on federal commitments.

A number of projections of the fiscal dividend have been made: by the Brookings Institution, the 1969 Council of Economic Advisors and the National Planning Association as well as by academic people. We understand that the 1970 Council of Economic Advisors and the Bureau of the Budget may produce their own estimates shortly.[1/] The available estimates of the "fiscal dividend" for fiscal 1975 range widely; from about $15 to almost $60 billion. Again, the assumptions invoked play a key role. In one study, one percent

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[1/] We have just received a tentative and most confidential draft of the relevant portions of this year's Economic Report of the President; they have promised a "better version" for tomorrow. The conclusions of the available draft are similar to our own.

increase in the assumed rate of growth, maintaining all other assumptions augmented the "dividend" by an average of $12 billion a year. Differences in the assumed rates of growth and inflation and, most importantly, in the assumed pattern of post-Vietnam defense expenditures account for these variations in the size of the estimated "fiscal dividend."

Given the low real rate of GNP growth in the past year, 3 percent, and the continuing inflation, in our judgment the dividend without taking account of the projected impact of the 1969 Tax Law would have been much closer to $15 billion. The effect of the recently signed law may reduce that figure even further. Even the $15 billion figure is small, amounting to about one percent of the GNP projected for 1975.

Hence leeway for new priorities is narrow. Solution of the United States' domestic ills cannot be found in the "fiscal dividend" approach which essentially assumes the continuation of current trends in private consumption, unless there is a cut in defense expenditures very much beyond what any forecasters or policy makers are seemingly considering. Instead, what is required to release the resources necessary to combat domestic ills is a change in the trends of private consumption and public savings in the context of an expanding economy. Fortunately, Americans can continue to experience rising living standards and still find the resources to deal much more effectively with their domestic problems. For example: A slowing down of the rising trends in private consumption expenditures would free large resources to be allocated to these ends; at the current GNP level a one percent decline in private consumption would free over $6 billion. Politically, however, it must be recognized that bringing about even small percentage changes in private consumption requires both strong Executive leadership and Congressional acceptance.

Irving S. Friedman/Elinor B. Yudin

NOTE

The attached tables provide background to this technical note. Some present greater data detail than the text; others provide relevant source or supplementary information.

A few prefatory comments are in order:

(1) The supplementary characteristic applies frequently, but it relates most importantly to the tables in the first section; international comparison. No comment on these has, as yet, been incorporated in the text. It is, however, worth noting here that while the source of these data, the latest O.E.C.D. National Accounts, sets out the most internationally comparable figures available, even these fall short of any meaningful standard of international comparability. This is particularly true of Table I.A, comparing relative shares of public expenditures in GNP. The definition of the public sector varies from country to country. Where definition is less of a problem, as in the relative shares of consumer expenditures, the data are generally quite uniform. (Time has not permitted analysis of the comparative tax revenues.)

(2) There is an obvious lack of uniformity in the periods of years surveyed. In some cases more recent data are simply not available. In others there has not been time to obtain either earlier and comparable or very recent data. Efforts to correct these omissions are being continued.

(3) Tables II.C. 1-3 present additional information on only one projection of the fiscal dividend. These were done by Professor Otto Eckstein of Harvard University. With the imminent publication of the 1970 Report of the Council of Economic Advisors and of the 1971 Budget Message, better estimates can reasonably be expected.

President has seen

ATTACHMENT TABLES (Descriptive Titles)

I. INTERNATIONAL COMPARISON: 1960, 1967

- A. Public Expenditures as a Percentage of GNP
- B. Consumer Expenditures as a Percentage of GNP
- C. Tax Revenue as a Percentage of GNP

II. U.S. PRIORITIES

- A. Structure of Budget Outlays: 1960, 1964-1968, 1969, 1970 (est.)
- B. State and Local Expenditures, by Function: 1955, 1960, 1964, 1967
- C.1 Expenditure Projections to 1975
- C.2 Revenue Projections to 1975
- C.3 Fiscal Dividend
- D. Approved Federal Programs (Jan. '69): Full Funding Cost per year
- E. Proposed Programs (Jan. '69): Estimated Cost, FY 1972
- F. Tax Relief and Reform, 1969 Tax Bill: Revenue Effect

III. U.S. RESOURCE ALLOCATION: 1950, 1955, 1960, 1965-68

- A. Rates of Growth, 1958-$, GNP
- B.1 GNP: Current $, 1958-$
- B.2 GNP (1958-$): Percentage Distribution
- C.1 Income Distribution by Quintiles
- C.2 Percentage Distribution of Money Income, by Income Groups
- D.1 Tax Revenue, by Source and Level of Government
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IV. U.S. DISPOSABLE PERSONAL INCOME ALLOCATION

- A.1 Personal Consumption Expenditures (1958-$): 1955, 1960, 1965-68
- A.2 Personal Consumption by Type of Product (current $): Percentage Distribution, 1950, 1955, 1960, 1964-67
- A.3 Average Annual Rates of Change in Personal Consumption Expenditures: Actual (1948-67) and Projected (1967-80)
- B.1 Consumer Credit (current $): 1950, 1955, 1960, 1965-68
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- B.3 Private Philanthropy, by Source and Allocation: 1955, 1960, 1965-68
- C. Savings by Individuals: 1950, 1955, 1960, 1964-1967
- D.1 Stock Market Credit (December): 1955, 1960, 1965-68
- D.2 Net Change in Corporate Securities Outstanding: 1950, 1955, 1960, 1965-68
- D.3 Stock Ownership, by Income and Residence: 1956, 1959, 1965
- E.1 Mortgage Loans Outstanding to Banks, Insurance Companies, and Savings & Loan Associations; 1950-1968
- E.2 New Private Non-Farm One Family Houses Sold: 1965-1968

Current Dollar Government Expenditures Plus Gross Public Fixed Asset Formation, Total and Excluding Defense: OECD Countries 1960 and 1967

	Government Expenditures Plus Gross Public Fixed Asset Formation (percentage of GNP)			Non-Defense Government Expenditures Plus Gross Public Fixed Asset Formation (percentage of non-defense GNP)		
	1960	1967	Change	1960	1967	Change
United States	20.70	23.87	3.17	12.87	16.04	3.17
Canada	18.62	19.67	1.05	14.71	17.02	2.31
Japan	13.29	n.a.	n.a.	n.a.	n.a.	n.a.
Austria	18.25	20.83	2.58	17.28	19.72	2.44
Belgium) n.a. Luxembourg)						
Denmark	15.89	21.43	5.56	13.69	19.23	5.54
Finland	19.41	23.94	4.53	18.23	22.31	4.08
France	15.41	16.73	1.32	10.42	13.20	2.78
Germany	16.88	20.61	3.73	14.15	17.44	3.29
Greece) n.a.						
Iceland	12.18	n.a.	n.a.	12.18	n.a.	n.a.
Ireland	14.52	16.92	2.40	13.59	16.11	2.52
Italy	15.69	16.20	0.51	13.43	14.28	0.85
Netherlands	20.06	24.04	3.98	16.83	21.09	4.26
Norway	17.78	21.21	3.43	15.09	18.38	3.29
Portugal) Spain) Sweden) n.a. Switzerland) Turkey)						
U.K.	19.65	22.90	3.25	14.38	18.11	3.73
Yugoslavia) n.a.						

Source: OECD National Accounts, 1958-1967, Country Tables.

DEVELOPMENT FINANCE STUDIES
December 30, 1969

CURRENT DOLLAR PRIVATE EXPENDITURES RELATIVE TO G.N.P.: OECD COUNTRIES 1960 and 1967

(percentage of G.N.P., market prices)

	Private Consumption Expenditures		Private Consumption Expenditures *plus* Gross Domestic Private Fixed Asset Formation		Private Consumer Durables Expenditure *plus* Residential Construction	
	1960	1967	1960	1967	1960	1967
United States	63.85	61.49	80.65	78.08	11.86	10.43
Canada	64.88	60.90	87.41	85.31	10.45	9.88
Japan	55.70	52.47	86.71	85.36	n. a.	n. a.
Austria	59.88	59.67	83.60	85.06	10.20	11.07
Belgium	68.74	64.25	87.36	85.99	12.42	12.82
Luxembourg	56.20	60.86	78.30	90.53	n. a.	n. a.
Denmark	65.46	63.30	84.82	84.66	14.43	15.29
Finland	58.17	57.15	85.54	81.12	19.66	10.77
France	63.93	63.66	82.57	85.55	10.24	11.83
Germany	57.29	58.15	81.08	80.97	n. a.	n. a.
Greece	76.54	68.30	102.94	90.68	8.29	n. a.
Iceland	66.41	65.56	97.28	99.08	n. a.	n. a.
Ireland	75.14	70.55	88.68	89.10	7.77	9.66
Italy	63.43	63.55	85.58	82.64	8.84	9.71
Netherlands	56.56	57.18	80.13	82.69	10.48	13.41
Norway	58.60	54.44	87.35	85.47	9.91	10.50
Portugal	76.26	69.63	93.50	88.92	n. a.	n. a.
Spain	72.05	70.66	88.57	91.67	10.83	9.62
Sweden	58.23	54.78	80.62	79.18	11.68	12.27
Switzerland	61.96	58.92	85.32	84.28	n. a.	n. a.
Turkey	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
U.K.	65.86	63.84	81.67	81.07	9.08	9.37
Yugoslavia	47.23	49.84	76.21	72.05	n. a.	n. a.

Source: OECD National Accounts, 1958-1967, Country Tables.

I C

INTERNATIONAL COMPARISON TAX REVENUE AS A PERCENTAGE OF G.N.P. 1960 and 1967

(Percent)

Country	1960	1967
U.S.	27.3	28.2
Canada	25.0	29.8
Japan	18.4	18.9
Austria	29.2	35.7
Belgium	25.1	31.4
Luxembourg	30.5	n.a.
Denmark	25.3	32.0
Finland	27.5	32.6
France	33.7	38.7
Germany	33.8	35.3
Greece	17.9	24.1
Iceland	38.8	n.a.
Ireland	21.3	n.a.
Italy	26.3	30.7
Netherlands	30.1	37.0
Norway	32.3	37.8
Portugal	n.a.	n.a.
Spain	n.a.	19.6
Sweden	30.8	40.8
Switzerland	20.2	22.1
Turkey	n.a.	n.a.
U.K.	27.0	32.7
Yugoslavia	n.a.	n.a.

Structure of Federal Budget Outlays: 1960, 1964-70
(millions of dollars)

		Actual						Estimated	
		1960	1964	1965	1966	1967	1968	1969	1970
BUDGET OUTLAYS		92.2	118.6	118.4	134.6	158.4	178.9	183.7	195.3
National Defense		45.9	53.6	49.6	56.8	70.1	80.5	81.0	81.5
Southeast Asia		n.a.	n.a.	.1	6.1	20.6	26.8	29.1	25.7
Major Social Programs	(a)	21.0	28.4	30.0	38.5	46.4	54.6 1/	58.3	65.6
	(b)	(n.a.)	(30.4)	(n.a.)	(n.a.)	(n.a.)	(53.7)	(59.8)	(67.8)
Interest		8.3	9.8	10.4	11.3	12.6	13.7	15.2	16.0
Veterans		5.4	5.7	5.7	5.9	6.9	6.9	7.7	7.7
All other	(a)	13.9	24.0	25.9	25.5	26.4	27.8	26.5	27.0
	(b)	(n.a.)	(22.1)	(n.a.)	(n.a.)	(n.a.)	(28.6)	(25.0)	(24.9)
Allowances		*	*	*	*	*	*	.1	3.2
Undistributed		-2.3	-2.9	-3.2	-3.4	-4.0	-4.6	-5.1	-5.7

Sources: 1970 Budget Message, p.27; Annual Report, 1969, Table B-61; 1969 Statistical Abstract, Table 539.

(a) Major social programs defined as ordinary U.S. Budget Categories: Community development and housing, education and manpower, health and welfare.

(b) Major social programs defined as in the President's Budget Message for FY 1970: Social insurance trust funds (excl. Medicare); Welfare payments and Services; Education and manpower training, health (incl. Medicare); Low and moderate income housing community and regional development.

1/ Community development and housing rises by $1.5 million in 1968 and falls by $1.7 million in the 1969 estimate.

DEVELOPMENT FINANCE STUDIES
December 30, 1969

STATE AND LOCAL EXPENDITURES BY FUNCTION: 1955, 1960, 1964 and 1967 (millions of dollars)

	1955	1960	1964	1967
DIRECT EXPENDITURES				
TOTAL	40,375	60,999	80,579	105,978
Social Programs	18,098	27,775	38,104	54,246
Education	11,907	18,719	26,286	37,919
Public Welfare	3,168	4,404	5,766	8,218
Health	471	559	739	1,081
Hospitals	2,053	3,235	4,171	5,559
Housing and Urban Renewal	499	858	1,142	1,469
Highways	6,452	9,428	11,664	13,932
Sanitation and Sewerage	1,142	1,727	2,267	2,523
Utilities	3,023	4,066	5,067	6,006
Other	11,660	18,003	23,477	29,211

Source: 1969 Statistical Abstract, Table 590.

Note: REVENUE FROM FEDERAL GOVERNMENT

	1955	1960	1964	1967
Public Welfare	1,432	2,070	2,973	4,234
Education	512	950	1,371	3,920
Social insurance administration	209	325	415	564
Highways	596	2,905	3,628	4,059
Other and unallocable	382	724	1,615	2,593
TOTAL	3,131	6,974	10,002	15,370

DEVELOPMENT FINANCE STUDIES
December 30, 1969

Expenditure Projections

(Billions of Dollars)

Agency	1970	1971 Medium	1971 Low	1972 Medium	1972 Low	1973 Medium	1973 Low	1974 Medium	1974 Low	1975 Medium	1975 Low
Agriculture	7.6	8.0	7.5	8.1	7.5	8.2	7.5	8.3	7.5	8.4	7.5
HEW	51.1	57.0	56.2	60.4	58.8	67.8	65.2	71.8	68.4	80.1	75.8
OASDI	28.6	32.7	32.7	34.1	34.1	39.3	39.3	41.1	41.1	47.2	47.2
Medicare	7.1	7.7	7.7	8.4	8.4	9.2	9.2	10.0	10.0	10.9	10.9
Medicaid	3.4	3.9	3.6	4.4	3.8	5.0	4.0	5.6	4.3	6.0	4.5
Other (education, welfare, health, etc).	12.0	12.7	12.2	13.5	12.5	14.3	12.7	15.1	13.0	16.0	13.2
HUD	2.7	2.7	2.7	2.9	2.8	3.0	2.8	3.1	2.9	3.2	2.9
Labor, OEO	5.5	6.7	6.2	7.0	6.4	7.4	6.7	7.9	6.8	8.2	7.0
Unemployment insurance		4.0	3.6	4.2	3.7	4.5	3.9	4.8	4.0	5.0	4.1
Transportation	6.5	6.5	5.9	6.9	6.1	7.4	6.4	7.7	6.5	8.2	6.7
Veterans Administration	7.9	8.1	8.0	8.6	8.3	9.1	8.6	9.5	8.9	9.8	9.2
Interest--net to public	14.6	15.0	15.0	15.1	15.1	15.2	15.2	15.4	15.4	15.6	15.6
Post Office	.8	1.4	.9	1.4	.9	1.4	.9	1.4	.9	1.4	.9
All other civilian	16.4	17.8	17.6	18.4	17.8	18.9	18.1	19.5	18.4	20.1	18.6
	113.1	123.2	120.0	128.8	123.7	138.4	131.4	144.6	135.7	155.0	144.2
Military	79.8	79.1	76.3	78.6	74.4	80.1	72.0	81.8	72.3	85.3	74.3
	192.9	202.3	196.3	207.4	198.1	218.5	203.4	226.4	208.0	240.3	218.5
New programs											
Revenue sharing		0.5	0	1.5	0	2.2	0	3.2	0	4.2	0
Welfare reform		1.7	1.7	3.8	3.6	4.0	3.7	5.0	3.8	6.0	4.0
New urban mass transit		.1	0	.2	0	.3	0	.4	0	.5	0
Total	192.9	204.6	198.0	212.9	201.7	225.0	207.1	235.0	211.8	251.0	222.5

Source: O. Eckstein "The outlook for the Federal Budget in 1975" September, 1969 (paper given at 11th Annual Meeting of the National Association of Business Economists.)

FEDERAL BUDGET REVENUE PROJECTIONS
1970-75

(Billions of Dollars)	1970	1971	1972	1973	1974	1975
MEDIUM						
Individual income taxes	91.1	91.5	98.9	108.2	118.4	129.5
Corporation income taxes	38.5	41.1	44.2	47.0	49.1	53.5
Payroll taxes	42.1	45.1	48.1	52.2	56.0	63.0
Excise taxes and customs	18.1	18.9	20.0	21.1	22.4	23.7
All other	9.0	9.6	10.3	11.0	11.8	12.6
Total	198.8	206.2	221.5	239.5	257.7	282.3
LOW						
Individual income taxes	91.1	90.4	96.5	104.3	112.8	121.8
Corporation income taxes	38.5	41.1	43.0	44.8	46.1	48.2
Payroll taxes	42.1	45.1	47.7	51.8	54.9	63.0
Excise taxes and customs	18.1	18.9	20.0	21.0	22.5	23.5
All other	9.0	9.6	10.3	11.0	11.8	12.6
Total	198.8	205.1	217.5	232.9	248.1	269.1

Source: Same as Table II C-1

II C-3

SUMMARY OF PROJECTIONS
FEDERAL BUDGET, 1970-1975

	1970	1971	1972	1973	1974	1975
SOLUTION I (probable)						
Medium expenditures						
Military	79.8	79.1	78.6	80.1	81.8	85.3
Civilian	113.1	125.5	134.3	144.9	153.2	165.7
Total	192.9	204.6	212.9	225.0	235.0	251.0
Low revenues	198.8	205.1	217.5	232.9	248.1	269.1
Probable Surplus or Deficit	+5.9	+0.5	+4.6	+7.9	+13.1	+18.1
SOLUTION II						
Medium expenditures	192.9	204.6	212.9	225.0	235.0	251.0
Medium revenues	198.8	206.2	221.5	239.5	257.7	282.3
Surplus or Deficit	+5.9	+1.6	+8.6	+14.5	+22.7	+31.3
SOLUTION III						
Low expenditures	192.9	198.0	201.7	207.1	211.8	222.5
Low revenues	198.8	205.1	217.5	232.9	248.1	269.1
Surplus or Deficit	+5.9	+7.1	+15.8	+25.8	+36.3	+46.6
SOLUTION IV (improbable)						
Low expenditures						
Military	79.8	76.3	74.4	72.0	72.3	74.3
Civilian	113.1	121.7	127.3	135.1	139.5	148.2
Total	192.9	198.0	201.7	207.1	211.8	222.5
Medium revenues	198.8	206.2	221.5	239.5	257.7	281.3
Surplus or Deficit	+5.9	+8.2	+19.8	+32.4	+45.9	+58.8

Source: Same as Table II C-1

II D

FULL FUNDING COST: APPROVED FEDERAL PROGRAMS (JANUARY 1969)

Estimated gap between amounts currently authorized and funded

Program	Billions of dollars per year
Total full cost	6.0
Elementary and secondary education	2.0
Higher education	1.3
Housing and community development	.6
Water and air pollution control	.5
Crime control and prevention	.2
Area redevelopment	.5
Health training and research, etc	.4
Agricultural conservation and adjustment	.5

Source: Economic Report of the President, 1969, p.202.

II E

Illustrative new programs or major expansions of existing Federal civilian programs, fiscal year 1972 (derived from proposals of task forces and study groups (January 1969)

Program	Hypothetical expenditures (billions of dollars)
Total expenditures	39.7
Education	7.0
Preschool	1.0
Elementary and secondary	2.5
Higher	3.0
Vocational	.5
Health	3.8
Kiddie-care	.5
Medicare for disabled	1.8
Comprehensive health centers	1.0
Hospital construction and modernization	.5
Nutrition	1.0
Community service programs	.8
Jobs and manpower	2.5
Public jobs	1.8
Manpower Development Training Act	.5
Employment service	.2
Social security and income support	9.5
Unemployment insurance	2.0
Public assistance	4.0
Social security improvements	3.5
Veterans	.3
Economic, area, and other special development programs	2.2
Entrepreneurial aid	.5
Area redevelopment	.5
Rural development	1.0
Indian assistance	.2
Crime, delinquency, and riots	1.0
Violence and riot prevention	.1
Safe streets programs	.3
Rehabilitation of offenders and delinquents	.3
Prevention of delinquency and crime by special measures for delinquency-prone youth	.3
Quality of environment	1.7
Air pollution prevention and control	.1
Public water supply construction programs	.3
Water pollution control and sewage treatment	1.0
Solid waste disposal	.1
Natural beautification, environmental protection, and recreational development	.2
Natural resource development and utilization	1.4
Land and forest conservation	.2
Water resources and related programs	.5
Mineral and energy (excluding hydroelectric) development	.2
Natural environmental development	.5
Urban development	5.5
New cities	.5
Land acquisition and financial planning (suburban)	.5
Urban mass transportation	.5
Model cities	2.0
Other urban facilities and renewal	2.0
Transportation	1.0
Airway and airport modernization	.4
Rapid interurban ground transit	.1
Modernization of merchant marine	.2
Motor vehicle and transportation safety research and safety grants	.3
Science and space exploration	1.0
Post-Apollo space program	.5
Scientific research in oceanography, communications, social and behavioral sciences, and natural sciences	.5
Foreign economic aid	1.0

II E (Cont'd)

TABLE 9.—*Illustrative new programs or major expansions of existing Federal civilian programs, fiscal year 1972 (derived from proposals of task forces and study groups)*—Continued

NOTES

Education. The preschool program, an extension of Head Start, would provide full-time preschool education for about 500,000 children. The elementary and secondary education funds would about double the Federal support in that area. The funds proposed for higher education would more than double current Federal support. The vocational education funds would raise Federal support about halfway toward the recommendation of the 1968 Advisory Council on Vocational Education.

Health. The "kiddie-care" proposal would provide health care for needy mothers and infants. Medicare offered to beneficiaries of social security disability insurance on a contributory basis would potentially reach 2.2 million persons in 1972. About 350 additional comprehensive neighborhood health care centers a year could be established for the amount shown. The added funds for health facilities would enable the Federal Government to double the rate of output of such facilities, in line with estimates of national needs.

Nutrition. Nutritional supplements for needy pregnant women, nursing mothers, and small infants account for about $250 million, while the remainder would allow a doubling of existing food assistance programs.

Community service programs. This would provide for expanded daycare centers for children of needy working mothers and for expansion of coordinated services through neighborhood centers.

Jobs and manpower. The funds for jobs in the public sector would permit expansion of about 500,000 jobs to provide public service employment for the chronically disadvantaged; this program would reinforce expansion in education, health services, and urban and area redevelopment. The increase in MDTA training would support expansion of the JOBS program and would reinforce efforts to lower unemployment while improving the Nation's price performance. It would also provide trained manpower for construction. The growth in employment service operations envisions strengthening, decentralizing, and computerizing manpower activities; developing a rural manpower service; and enlarging services to the disadvantaged.

Social security and income support. The unemployment insurance funds would provide for higher benefits, extended benefits during recessions, and aid to the unemployed through retraining and mobility assistance. The public assistance funds could permit revision of benefit standards and extended coverage, or the adoption of a modest new program of income aid with objective standards. The added expenditure could fill as much as 40 percent of the current poverty income gap. Expansion of the WIN program would provide more job and training opportunities for welfare recipients. The social security expenditure could provide a higher minimum benefit for those dependent on social insurance benefits as the main source of income, and liberalization of eligibility requirements for disability insurance, as well as some general improvement in benefit levels.

Veterans. The higher priority recommendations made by the Veterans' Advisory Commission in March 1968 could be instituted with these funds.

Economic, area, and other special development programs. The entrepreneurial assistance program could help minority groups—so-called "black capitalism." Area redevelopment programs would assist growth centers in less populated areas, while rural redevelopment programs would concentrate on small communities, providing community facility development, special housing, and family farm assistance.

Crime, delinquency, and riots. Federal aid to State and local governments could be provided to help prevent violence and riots and permit a higher degree of Federal readiness to cope with such emergencies. The safe streets program funds would be used to work towards the objectives of the National Crime Commission with respect to strengthening the police and courts. Rehabilitation of offenders and delinquents would be pursued by intensive retraining and other services.

Quality of environment. Federal funds for pollution abatement may be required to enforce standards, investigate claims, or abate pollution caused by government or not readily attributable to particular private individuals. Assistance in expanding the Nation's water supply system would provide a small fraction of the $7.5 billion annual requirement over the next 10 years. Provision of more recreational areas near population centers would be made possible.

Natural resource development and utilization. Department of the Interior, Corps of Engineers, and Department of Agriculture programs relating to land, mineral, energy, forest, recreational, and other fields have large backlogs of useful projects, many already planned and authorized but held back for budgetary reasons.

Urban development. Metropolitan development assistance would support improved planning and coordinated advance land acquisition. Each of these programs emphasizes these requirements, whether in new communities, suburbs, or older central cities. The allowances represent only a fractional contribution to the reconstruction and development of the cities.

Transportation. Such expanded investments in the improvement of the principal elements of the Nation's transportation system would serve the objectives of economic development, safety, and national defense.

Science and space exploration. The allowances would permit the science and space agencies to fund some of the research opportunities not covered in the stringent budgets of recent years.

Foreign economic aid. This additional amount would help to meet growth targets in Southeast Asia and under the Alliance for Progress as well as to cover other aid requirements. Even this increase would leave our foreign assistance program below levels of a few years back.

Source: Economic Report of the President, 1969, pp. 204-205.

II F

REVERSE EFFECT: 1969 TAX BILL

(In millions of dollars)
Calendar Years

	1970	1971	1972	1973	1974	Long run
Tax Relief (revenue lost)	-1,441	-4,900	-7,250	-9,100	-9,100	-9,100
Tax Reform (revenue gained)	+3,645	+4,415	+4,650	+4,950	+5,285	+6,620
Net Revenue Effect	+2,204	- 485	-2,600	-4,150	-3,815	-2,480
Surcharge and Excise Extension	+4,270	+ 800	+ 800	+ 400	.....	.....
Total Revenue Effect	+6,474	+ 315	-1,800	-3,750	-3,815	-2,180

Source: Washington Post, 20 December 1969.

III A

RATES OF ECONOMIC GROWTH
1950-1968

Percent. Figures represent average annual compounded rates of change in national product, based on estimates by Department of Commerce of real gross national product expressed in 1958 dollars.

	Initial Year				
	1950	1955	1960	1965	1967
1951	7.9	(X)	(X)	(X)	(X)
1956	3.9	1.8	(X)	(X)	(X)
1961	3.1	2.1	1.9	(X)	(X)
1966	3.9	3.8	5.1	6.4	(X)
1967	3.8	3.6	4.7	4.4	(X)
1968	3.9	3.8	4.7	4.6	5.0

Source: 1969 Statistical Abstract, Table 460.

III B.1

GROSS NATIONAL PRODUCT IN CURRENT AND CONSTANT (1958) DOLLARS: 1950 TO 1968

(In billions of dollars)

Item	1950	1955	1960	1965	1966	1967	1968
Current Dollars							
Gross national product	284.8	398.0	503.7	684.9	747.6	793.5	865.7
Personal consumption expenditures	191.0	254.4	325.2	432.8	465.5	492.3	536.6
Durable goods	30.5	39.6	45.3	66.3	70.5	73.0	83.3
Nondurable goods	98.1	123.3	151.3	191.1	206.7	215.1	230.6
Services	62.4	91.4	128.7	175.5	188.3	204.2	222.8
Gross private domestic investment	54.1	67.4	74.8	108.1	120.8	116.0	126.3
Fixed investment	47.3	61.4	71.3	98.5	106.1	108.6	119.0
Nonresidential	27.9	38.1	48.4	71.3	81.3	83.7	88.8
Residential structures	19.4	23.3	22.8	27.2	24.8	25.0	30.2
Change in business inventories	6.8	6.0	3.6	9.6	14.7	7.4	7.3
Net exports of goods and services	1.8	2.0	4.0	6.9	5.1	5.2	2.5
Exports	13.8	19.8	27.2	39.2	43.1	46.2	50.6
Imports	12.0	17.8	23.2	32.3	38.1	41.0	48.1
Government purchases of goods and services	37.9	74.2	99.6	137.0	156.2	180.1	200.3
Federal	18.4	44.1	53.5	66.9	77.4	90.7	99.5
National defense	14.1	38.6	44.9	50.1	60.6	72.4	78.0
State and local	19.5	30.1	46.1	70.1	78.8	89.3	100.7
Constant (1958) Dollars							
Gross national product	355.3	438.0	487.7	617.8	657.1	674.6	707.6
Personal consumption expenditures	230.5	274.2	316.2	397.7	417.8	430.3	452.6
Durable goods	34.7	43.2	44.9	66.6	71.3	72.8	80.7
Nondurable goods	114.0	131.7	149.7	178.6	186.9	190.3	196.9
Services	81.8	99.3	121.6	152.5	159.5	167.2	175.0
Gross private domestic investment	69.3	75.4	72.4	99.2	108.8	100.8	105.7
Fixed investment	61.0	69.0	68.9	90.1	94.9	93.9	99.1
Nonresidential	37.5	43.9	47.1	66.3	73.8	73.6	75.8
Residential structures	23.5	25.1	21.9	23.8	21.1	20.3	23.3
Change in business inventories	8.3	6.4	3.5	9.0	13.9	6.9	6.6
Net exports of goods and services	2.7	3.2	4.3	6.2	4.0	3.6	.9
Exports	16.3	20.9	27.3	37.4	40.1	42.1	45.6
Imports	13.6	17.7	23.0	31.2	36.1	38.5	44.7
Government purchases of goods and services	52.8	85.2	94.9	114.7	126.5	140.0	148.4
Federal	25.3	50.7	51.4	57.9	65.2	74.8	78.9
State and local	27.5	34.4	43.5	56.8	61.3	65.2	69.5

Source: 1969 Statistical Abstract, Table No. [illegible]

PERCENTAGE DISTRIBUTION OF G.N.P. IN CONSTANT (1958) DOLLARS
1950 - 1968

	1950	1955	1958	1960	1965	1966	1967	1968
Gross National Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Personal consumption expenditure	64.9	62.6	64.9	64.8	64.3	65.5	63.8	63.0
Durable goods	9.8	9.9	8.5	9.2	10.8	11.0	10.8	11.5
Nondurable goods	32.1	30.0	31.3	30.7	28.9	29.1	28.2	27.8
Services	23.0	22.7	25.0	24.9	24.7	25.4	24.8	24.7
Gross private domestic investment	19.5	17.2	13.6	14.8	16.1	15.1	14.9	14.9
Fixed investment	17.2	15.0	14.0	14.1	14.6	14.2	13.9	14.0
	10.6	10.0	9.3	9.7	10.7	11.2	10.9	10.7
Residential structures	6.6	5.7	4.7	4.5	3.9	3.0	3.0	3.3
Change in business inventories	2.3	2.5	-0.3	0.7	1.5	0.9	1.0	0.9
Net export of goods and services	0.6	0.7	0.5	0.9	1.0	0.4	0.5	0.1
Exports	4.6	4.8	5.2	5.6	6.1	6.4	6.2	6.4
Imports	3.8	4.0	4.7	4.7	5.1	6.0	5.7	6.3
Government purchases of goods & Ser.	14.9	19.5	21.1	19.5	18.6	21.4	20.7	21.0
Federal	7.1	11.6	12.0	10.5	9.4	11.4	11.1	11.2
State and local	7.7	7.9	9.1	8.9	9.2	10.0	9.6	9.8

Source: Data as in Table III B-1.

PERCENT DISTRIBUTION OF AGGREGATE INCOME RECEIVED BY
EACH QUINTILE AND TOP 5 PERCENT OF FAMILIES:
1950 to 1967

	1950	1955	1960	1964	1965	1967
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0
Lowest Quintile	4.5	4.8	4.9	5.2	5.3	5.4
Second Quintile	12.0	12.2	12.0	12.0	12.2	12.2
Third Quintile	17.4	17.7	17.6	17.7	17.6	17.5
Fourth Quintile	23.5	23.7	23.6	24.0	24.0	23.7
Highest Quintile	42.6	41.6	42.0	41.1	40.9	41.2
Top 5 percent	17.0	16.8	16.8	15.7	15.2	15.3

Source: 1969 Statistical Abstract, Table 472

MONEY INCOME - PERCENT DISTRIBUTION OF
FAMILIES BY INCOME LEVEL IN CONSTANT (1967) DOLLARS:
1950 to 1967

	1950	1955	1960	1965	1966	1967
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0
Under $3,000	27.8	22.0	18.9	14.8	13.7	12.5
$3,000 - 4,999	28.4	21.3	17.2	14.6	13.6	12.8
$5,000 - 6,999	21.1	23.2	21.1	17.2	16.8	16.1
$7,000 - 9,999	14.4	20.9	23.0	24.4	24.3	24.3
$10,000 - 14,999)	8.4	(9.4	14.1	19.7	21.5	22.4
$15,000 and over)		(3.2	5.8	9.2	10.1	12.0
Median income	$4,611	$5,531	$6,350	$7,357	$7,651	$7,974

Source: 1969 Statistical Abstract, Table 474

TAX REVENUE, BY SOURCE AND LEVEL OF GOVERNMENT:

1950 to 1967
(In millions of dollars)

Source and Year	Total	Federal	State and Local: Total	State and Local: State	State and Local: Local
Individual Income:					
1950	16,533	15,745	788	724	64
1955	29,984	28,747	1,237	1,094	143
1960	43,178	40,715	2,463	2,209	254 2/
1965	52,882	48,792	4,090	3,657	433 2/
1966	60,206	55,446	4,760	4,288	472 2/
1967	67,352	61,526	5,826	4,909	916
Sales, gross receipts, and customs:					
1950	12,997	7,843	5,154	4,670	484
1955	17,221	9,578	7,643	6,864	779
1960	24,452	12,603	11,849	10,510	1,339
1965	32,904	15,786	17,118	15,059	2,059
1966	33,726	14,641	19,085	17,044	2,041
1967	36,336	15,806	20,530	18,575	1,956
Property:					
1950	7,349	(n.a.)	7,349	307	7,042
1955	10,735	(n.a.)	10,735	412	10,323
1960	16,405	(n.a.)	16,405	607	15,798
1965	22,583	(n.a.)	22,583	766	21,817
1966	24,670	(n.a.)	24,670	834	23,836
1967	26,047	(n.a.)	26,047	862	25,186
Other taxes, including licenses:					
1950	3,140	1,110	2,030	1,643	387
1955	4,527	1,402	3,125	2,490	634
1960	6,411	2,191	4,220	3,530	692
1965	9,191	3,670	5,521	4,715	807
1966	10,123	3,935	6,188	5,177	1,011
1967	10,188	3,818	6,370	5,354	1,016
Corporation income: 1/					
1950	11,081	10,488	593	586	7
1955	18,604	17,861	744	737	7
1960	22,674	21,494	1,180	1,180	2/
1965	27,390	25,461	1,929	1,929	2/
1966	32,111	30,073	2,038	2,038	2/
1967	36,198	33,971	2,227	2,227	2/
Total: 1/					
1950	51,100	35,186	15,914	7,930	7,984
1955	81,072	57,589	23,483	11,597	11,886
1960	113,120	77,003	36,117	18,036	18,081
1965	144,953	93,710	51,243	26,126	25,116
1966	160,836	104,095	56,741	29,380	27,361
1967	176,121	115,121	61,000	31,926	29,074

1/ Federal amounts include excess profits tax, normal tax, surtax.
2/ Corporation included with individual income tax collections.
Source: 1969 Statistical Abstract, Table 584.

III D-2

DISTRIBUTION OF TAX REVENUE: 1950-1967
(percent)

	Total	Federal	State and Local (total)
Individual income / Total Tax Revenue			
1950	32.3	44.7	5.0
1955	37.0	49.9	5.3
1960	38.2	52.8	6.8
1965	36.5	52.0	8.0
1966	37.4	53.2	8.4
1967	38.2	53.4	9.6
Corporate income / Total Tax Revenue			
1950	23.0	29.8	3.7
1955	22.9	31.0	3.2
1960	20.0	27.9	3.3
1965	18.9	27.2	3.8
1966	20.0	28.9	3.6
1967	20.6	29.5	3.7

Source: Table III. D-1

III D 3

PER CAPITA TAX REVENUE, BY SOURCE
AND LEVEL OF GOVERNMENTS: 1950
1960 and 1967

(Dollars)	Total 1950	Total 1960	Total 1967	Federal 1950	Federal 1960	Federal 1967	State and Local 1950	State and Local 1960	State and Local 1967
Total	337	628	890	232	428	582	105	201	308
Individual Income	109	240	340	104	226	311	5	16	29
Corporation Income	73	126	183	69	119	172	4	7	11
Sales, gross receipts, customs	86	136	184	52	70	80	34	66	104
Property	48	91	132	-	-	-	48	91	132
Other	21	36	51	7	12	19	13	23	32

Source: 1969 Statistical Abstract, Table 584

INDIVIDUAL INCOME TAX RETURNS BY ADJUSTED GROSS INCOME CLASSES: 1950, 1960 AND 1967 1/

	1950			1960			1967 1/		
	Number of Returns (000's)	Adj. Gross Income (millions of dollars)	Tax after Credits (millions of dollars)	Number of Returns (000's)	Adj. Gross Income (millions of dollars)	Tax after Credits (millions of dollars)	Number of Returns (000's)	Adj. Gross Income (millions of dollars)	Tax after Credits (millions of dollars)
TOTAL	52,656	179,874	18,375	60,593	316,558	39,464	71,317	506,605	62,854
Under $1,000	1,570	1,311	40	1,353	1,123	39	623	586	5
$1,000 - 1,999	5,997	9,200	610	4,170	6,222	490	4,997	7,445	373
2,000 - 2,999	8,718	21,943	1,539	5,034	12,677	1,096	4,350	10,901	792
3,000 - 3,999	8,669	30,155	2,177	5,794	20,307	1,886	4,904	17,168	1,384
4,000 - 4,999	5,740	25,558	2,044	6,401	28,812	2,764	4,972	22,396	1,917
5,000 - 9,999	6,115	39,046	3,984	19,998	138,455	15,362	23,469	172,957	16,632
10,000 - 14,999	679	8,149	1,157	3,637	42,752	6,159	10,384	124,423	14,657
15,000 - 49,999	616	14,933	3,261	1,549	35,278	7,283	4,696	101,358	16,791
50,000 - 99,999	63	4,193	1,517	101	6,648	2,273	259	17,073	5,032
100,000 - 499,999	20	3,205	1,545	23	3,808	1,607	63	10,279	3,988
500,000 - 999,999	1	419	240	1	486	226	2	1,345	590
,000,000 and over	2/	433	261	2/	584	281	1	1,550	692
Non-Taxable	14,469	21,329	-	12,532	19,405	-	12,597	19,123	-

ource: 1969 Statistical Abstract, Table 557.

/ Preliminary.
/ Less than 500.

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III D 5

INCOME TAX AFTER CREDITS AS A PERCENTAGE OF ADJUSTED GROSS INCOME 1950, 1960 and 1967

	1950	1960	1967 1/
Under $1,000	3.0	3.5	0.8
$1,000-1,999	6.6	7.9	5.0
2,000-2,999	7.0	8.6	7.3
3,000-3,999	7.2	9.3	8.0
4,000-4,999	8.0	9.6	8.6
5,000-9,999	10.2	11.1	9.6
10,000-14,999	14.2	14.4	11.8
15,000-49,999	21.8	20.6	16.6
50,000-99,999	36.2	34.2	29.5
100,000-499,999	48.2	42.2	38.8
500,000-999,999	57.4	46.6	43.9
1,000.000 and over	60.4	48.2	44.7

Source: Attachment Table III D.3.

1/ Preliminary

PERSONAL CONSUMPTION EXPENDITURE
BY MAJOR TYPE OF PRODUCT:
1955, 1960, 1965 - 1968

(Billions of Dollars)

	1955	1960	1965	1966	1967	1968
			Current Dollars			
TOTAL	254.4	325.2	432.8	466.3	492.3	536.6
Non-Durables	123.3	151.3	191.1	206.9	215.1	230.6
Food, exc. alcoholic bvg.	58.1	70.1	98.8	105.8	108.1	115.0
Clothing & shoes	23.1	27.3	35.9	40.3	42.5	46.3
Gas and oil	9.0	12.3	15.3	16.6	17.7	19.1
Other	33.1	41.6	41.1	44.4	46.8	50.1
Durables	39.6	45.3	66.3	70.8	73.0	83.3
Autos & parts	18.4	20.1	30.3	30.3	30.5	37.0
Furniture & household eqt.	16.6	18.9	26.9	29.9	31.3	34.2
Other	4.6	6.3	9.1	10.5	11.2	12.1
Services	91.4	128.7	175.7	188.6	204.2	222.8
Housing	33.7	46.3	63.5	67.5	71.8	77.4
Household operation	14.0	20.0	25.6	27.1	29.1	31.2
Transportation	8.2	10.8	12.6	13.6	14.7	16.1
Other	35.5	51.6	73.8	80.4	88.6	98.1
			Constant Dollars, 1958 = 100			
TOTAL	271.8	317.0	397.8	418.2	430.3	452.4
Non-Durables	131.6	149.7	178.8	186.9	190.4	197.0
Food, exc. alcoholic bvg.	n.a.	70.5	92.2	94.2	95.4	98.4
Clothing & shoes	n.a.	26.5	33.4	36.4	36.8	37.9
Gas and oil	n.a.	11.8	14.4	15.3	15.8	16.8
Other	n.a.	40.5	38.7	41.2	42.4	43.8
Durables	41.5	44.6	66.6	71.7	72.8	80.6
Autos & parts	n.a.	19.7	30.4	30.9	30.6	36.7
Furniture & household eqt.	n.a.	25.1	27.3	30.4	31.4	33.3
Other	n.a.		8.8	10.3	10.7	11.3
Services	96.4	122.7	152.6	159.4	167.2	175.0
Housing	n.a.	45.0	58.0	60.8	63.5	66.7
Household operation	n.a.					
Transportation	n.a.	19.3	23.2	24.5	25.7	27.0
Other	n.a.	48.5	60.2	62.7	66.0	68.7

PERSONAL CONSUMPTION EXPENDITURES, BY TYPE OF PRODUCT: 1950 to 1967

	1950	1955	1960	1964	1965	1966	1967	CHANGE 1950-1967	1960-1967	1964-1967
TOTAL										
Billions of dollars	191.0	254.4	325.2	401.2	432.8	465.5	492.2	301.2	167.0	91.0
Percent 1/	100.0	100.0	100.0	100.0	100.0	100.0	100.0	-	-	-
Food	24.1	23.0	21.7	20.2	19.9	20.0	19.4	-4.7	-2.3	-0.8
Clothing	11.8	10.4	9.6	9.5	9.4	9.7	9.7	-2.1	0.1	0.2
Housing and Household Operations	25.2	26.8	27.5	28.4	28.1	28.0	27.8	2.6	0.3	-0.6
Personal Business	3.6	4.0	4.6	5.0	5.1	5.2	5.4	1.8	0.8	0.4
Transportation	12.9	14.0	13.3	12.8	13.4	13.0	12.9	0	-0.4	0.1
	6.6	7.2	8.5	9.1	9.3	9.4	9.9	3.3	1.4	0.8
Medical Exp.	4.6	5.0	5.9	6.4	6.5	6.6	6.9	2.3	1.0	0.5
Education Exp.	0.8	0.9	1.1	1.3	1.4	1.4	1.6	0.8	0.5	0.3
Religious and Welfare	1.2	1.3	1.5	1.4	1.4	1.4	1.4	0.2	-0.1	0
	15.6	14.7	14.8	15.0	15.0	14.6	14.8	-0.8	0	-0.2
Alcoholic Bvg.	4.1	3.5	3.1	3.0	3.0	2.9	2.9	-1.2	-0.2	-0.1
Tobacco	2.2	1.9	2.1	1.9	1.9	1.8	1.8	-0.4	-0.3	-0.1
Jewelry, Watches	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0	0	0
Personal Care	1.3	1.4	1.6	1.8	1.8	1.7	1.7	0.4	0.1	-0.1
Domestic Service	1.3	1.2	1.1	0.9	0.9	0.8	0.8	-0.5	-0.3	-0.1
Recreation	5.8	5.5	5.6	6.1	6.1	6.1	6.2	0.4	0.6	0.1
Foreign Travel	0.3	0.6	0.7	0.7	0.7	0.7	0.8	0.5	0.1	0.1

Source: 1969 Statistical Abstract, Table 462

1/ Figures may not add to totals due to rounding.

CHANGES IN PERSONAL CONSUMPTION EXPENDITURES 1948-1967 AND JUDGEMENT PREDICTIONS, 1967 - 1980 (BASED ON CURRENT PRICES)

	Average Annual Rate of Change	
	1948 - 1967 1/	1967 - 1980 2/
Total	5.63	6.77
Non-Durable Commodities	4.34	5.67
Food, Tobacco, Alcoholic Beverages	3.81	5.12
Clothing and Shoes	3.96	6.29
Gasoline, Oil	7.67	6.72
Household Operations	4.12	5.96
Other	6.93	6.18
Durable Commodities	6.30	7.04
Automobiles and Parts	7.67	7.41
Furniture and Household Equipment	4.44	5.80
Radio, TV, Sport goods, etc.	8.16	8.40
Other	5.49	6.27
Services	7.17	7.71
Housing	7.63	7.38
Utilities	6.95	6.83
Personal Business	8.21	9.10
Medical	8.33	8.53
Transportation	5.18	7.70
Private Education, Research	9.55	8.95
Other	5.40	6.71

Source: National Economic Projections to 1978/79. Figure 1

1/ National Planning Association data for 1967 are preliminary; revised appear in Table III B-1, IV A-1.
2/ Judgment predictions invoke the N.P.A.'s moderate, rather than target assumptions, for specification see source.

IV B-1

CONSUMER CREDIT:

1950-1968

- Millions of dollars -

TYPE OF CREDIT	1950	1955	1960	1965	1967	1968
Credit outstanding	21,471	38,830	56,141	90,314	102,132	113,191
Installment	14,703	28,906	42,968	71,324	80,926	89,890
Automobile paper	6,074	13,460	17,658	28,619	30,724	34,130
Other consumer goods paper	4,799	7,641	11,545	18,565	22,395	24,899
Repair and modernization loans [1]	1,016	1,693	3,148	3,728	3,789	3,925
Personal loans	2,814	6,112	10,617	20,412	24,018	26,936
Noninstallment	6,768	9,924	13,173	18,990	21,206	23,301
Single-payment loans	1,821	3,002	4,507	7,671	8,428	9,138
Charge accounts	3,367	4,795	5,329	6,430	6,968	7,755
Service credit	1,580	2,127	3,337	4,889	5,810	6,408
Installment credit:						
Extended	21,558	38,972	49,793	78,586	84,693	97,053
Repaid	18,445	33,634	46,073	69,957	81,306	88,089
Net change	3,113	5,338	3,720	8,629	3,387	8,964
Policy loans by life insurance companies [2]	2,413	3,290	5,231	7,678	10,059	11,306

Source: 1969 Statistical Abstract, Table 664.

NATIONAL HEALTH EXPENDITURES: 1950 TO 1968

[In millions of dollars, except percent. For years ending June 30. Prior to 1960, private expenditures exclude Alaska and Hawaii]

TYPE OF EXPENDITURE	1950	1955	1960	1965	1966	1967	1968 (prel.)
Total	12,130	17,924	26,367	38,901	42,268	47,910	53,122
Percent of gross national product	4.6	4.7	5.3	5.9	5.9	6.2	6.5
Private expenditures	9,064	13,503	19,972	29,366	31,464	32,182	33,693
Health and medical services	8,849	13,178	19,448	28,198	30,305	31,056	32,356
Direct payments	7,146	9,448	13,057	17,590	18,856	19,005	19,696
Insurance benefits	879	2,344	4,698	8,280	8,935	9,343	9,750
Expenses for prepayment	274	596	792	1,212	1,348	1,492	1,633
Industrial in-plant services	150	210	265	330	345	360	380
Philanthropy	400	580	606	786	822	854	897
Medical-facilities construction	215	325	524	1,168	1,159	1,127	1,327
Public expenditures	3,065	4,421	6,395	9,535	10,803	15,727	19,429
Percent of total	25.3	24.7	24.3	24.5	25.6	32.8	36.6
Health and medical services	2,470	3,862	5,346	7,636	8,684	13,403	16,905
Health insurance for the aged (OASDHI) [1]	(X)	(X)	(X)	(X)	64	3,395	5,347
Temporary disability insurance (medical benefits) [2]	2	20	40	51	54	54	53
Workmen's compensation (medical benefits) [2]	193	315	420	580	630	700	770
Public assistance (vendor medical payments)	51	212	493	1,367	1,714	2,408	3,511
General hospital and medical care	886	1,298	1,973	2,515	2,720	2,792	2,551
Defense Dept. hospital and medical care	336	745	820	858	1,030	1,322	1,432
Military dependents' medical care	(X)	(X)	60	78	76	110	160
Maternal and child health services	30	93	141	224	262	312	344
School health (educational agencies)	31	66	101	132	135	140	145
Other public health activities	351	384	401	670	727	832	1,000
Veterans' hospital and medical care	582	722	879	1,121	1,175	1,259	1,332
Medical vocational rehabilitation	7	9	18	34	48	67	100
OEO [3] health and medical care	(X)	(X)	(X)	6	48	103	111
Medical research	73	130	471	1,229	1,376	1,521	1,664
Medical-facilities construction	522	419	575	670	744	804	870
Defense Department	1	33	40	31	41	50	26
Veterans Administration	102	34	60	81	86	51	50
Other	300	352	478	557	616	703	795
Personal health care expenditures: [4]							
Total amount	10,578	15,906	23,357	33,402	36,380	41,411	45,872
Percent from:							
Private expenditures	80.1	78.2	78.9	79.3	78.4	70.2	65.9
Public expenditures	19.9	21.8	21.1	20.7	21.6	29.8	34.1

Source: 1969 Statistical Abstract, Table 79.

PRIVATE PHILANTHROPY-ESTIMATED FUNDS, BY SOURCE AND ALLOCATION: 1955 to 1968

(In millions of dollars). Estimates for sources of funds based largely on reports of the Internal Revenue Service for itemized deductions, corporate profits, and bequests. Data adjusted for non-itemized IRS deductions and after comparison with levels of gross national product, personal income, population, and publicly reported large bequests. (For bases of allocation of funds, see source)

ITEM	1955	1960	1965	1966	1967	1968
TOTAL	6,202	8,912	12,210	13,894	14,522	15,825
SOURCE						
Individuals	5,100	7,150	9,276	10,530	11,144	12,100
Foundations	450	710	1,125	1,250	1,250	1,500
Business Corporations	415	482	785	805	865	925
Charitable bequests	237	570	1,024	1,309	1,263	1,300
ALLOCATION						
Religion	3,102	4,545	5,983	6,690	6,839	7,400
Education	682	1,426	2,076	2,370	2,500	2,650
Welfare	1,426	1,337	855	808	931	1,100
Health	558	1,070	2,076	2,509	2,610	2,740
Foundations	186	356	(2)	(2)	(2)	(2)
Civic and Cultural Activities	(2)	(2)	488	558	621	710
Other	248	178	732	959	1,021	1,225

Source: <u>1969 Statistical Abstract.</u> Table 449

IV C

SAVINGS BY INDIVIDUALS: 1950, 1955, 1960, 1964-67

		Increase in Financial Assets							Net Investment in			Less: Increase in Debt in		
					Securities									
Year	Total	Total	Currency and Demand Deposits	Savings Accounts	Gov't Bonds	Corp. and Foreign Bonds	Corporate Stock	Insurance and Pension Reserves	Nonfarm Homes	Cons. Durables	Other Tangible Assets	Mortgage Debt	Cons. Debt	Other Debt
1950	26.8	12.9	1.8	2.5	.1	-.9	.7	6.9	15.2	10.2	4.9	7.5	4.1	4.9
1955	30.1	25.0	.8	8.8	4.2	.9	1.1	8.1	18.4	9.9	2.7	12.3	6.4	7.2
1960	23.9	24.6	-1.6	12.4	1.2	--	-.3	11.3	15.7	5.1	.8	10.9	4.5	7.0
1964	41.9	51.1	6.6	23.9	4.1	-.8	.1	15.5	16.2	11.2	1.0	15.8	8.0	13.7
1965	47.4	55.0	7.2	26.5	5.0	-.3	-1.7	16.5	15.8	14.8	3.1	16.1	9.4	15.7
1966	48.6	51.6	1.9	19.2	10.2	1.2	-.5	17.9	14.1	14.9	1.3	11.4	6.9	15.0
1967	54.9	63.5	12.5	32.4	-.8	1.6	-4.1	19.0	12.5	12.1	.8	10.9	4.4	18.6

Source: Economic Report of the President, 1969, Table B-19

IV D-1

STOCK MARKET CREDIT
1955 to 1968:

(Millions of Dollars; end Dec. data)

	Customers net debt balances	Customers net free credit balances	Net credit extended by brokers
1955	2,825	894	1,931
1960	3,317	1,135	2,182
19[illegible]	5,543	1,666	3,877
19[illegible]	5,387	1,637	4,750
1967	7,948	2,763	5,185
1968	9,790	3,717	6,073

Source: Federal Reserve Bulletin, various issues.

SECURITIES - NET CHANGE IN CORPORATE SECURITIES OUTSTANDING: 1950 to 1968

In millions of dollars. Covers estimated cash transactions only. New issues exclude foreign and investment companies, and includ sales of securities held by affiliated companies, special offerings to employees, and also new stock issues and cash proceeds connected with conversions of bonds into stocks. Retirements include the same types of issues, and also securities retired with internal funds or with proceeds of issues for that purpose.

YEAR	ALL TYPES			BONDS AND NOTES			STOCKS		
	New issues	Retire-ments	Net change	New issues	Retire-ments	Net change	New issues	Retire-ments	Net change
1950..........	6,692	3,223	3,469	4,804	2,800	2,004	1,888	423	1,465
1955..........	11,190	5,108	6,081	7,571	3,383	4,188	3,619	1,725	1,893
1960..........	10,797	4,107	6,690	8,072	3,078	4,994	2,725	1,029	1,696
1965..........	15,952	7,891	8,061	12,747	4,649	8,098	3,205	3,242	-37
1966..........	19,799	7,541	12,258	15,629	4,542	11,088	4,169	3,000	1,169
1967..........	25,964	7,735	18,229	21,299	5,340	15,960	4,664	2,397	2,267
1968	25,439	12,377	13,062	19,381	5,418	13,962	6,057	6,959	-900

Source: 1969 Statistical Abstract, Table No. 661

STOCK OWNERSHIP - INCOME AND RESIDENCE CHARACTERISTICS OF SHAREOWNERS1/: 1956 - 1965

(Thousands)

SUBJECT	1956	1959	1962	1965
Total	8,630	12,490	17,010	20,120
Income:				
Under $3,000	983	1,106	1,002	1,087
$3,000 - $5,000	2,212	2,469	2,072	2,096
$5,000 - $7,500	2,243	3,145	3,592	3,223
$7,500-$10,000	)	(2,776	3,959	4,369
$10,000-$15,000	)3,042	(1,769	3,258	5,199
$15,000-$25,000	)	(700	2,021	2,649
$25,000 and over	)	(319	802	1,147
Residence by city size:				
500,000 and over	1,688	3,370	3,728	3,953
100,000-500,000	1,357	2,063	2,935	3,374
25,000-100,000	1,187	2,357	3,660	4,531
2,500-25,000	2,654	2,429	4,351	5,949
Rural areas (farm and nonfarm)	1,594	2,172	2,193	2,156

1/ Excludes small number not classified.

Source: 1969 Statistical Abstract, Table No. 662

MORTGAGE LOANS OUTSTANDING OF BANKS, INSURANCE COMPANIES, AND SAVINGS AND LOAN ASSOCIATIONS: 1950 to 1968

Millions of Dollars

ITEM	1950	1955	1960	1965	1966	1967	1968 (prel.)
Commercial banks:							
Nonfarm residential..........	10,431	15,888	20,362	32,387	34,876	37,642	41,433
FHA-insured	(NA)	4,560	5,851	7,702	7,544	7,709	7,926
VA-guaranteed..............	(NA)	3,711	2,859	2,688	2,599	2,696	2,708
Conventional...............	(NA)	7,617	11,652	21,997	24,733	27,237	30,800
Mutual Savings Banks:							
Nonfarm residential..........	7,053	15,568	24,306	40,096	42,242	44,641	46,748
FHA-insured................	1,615	4,150	7,074	13,791	14,500	15,074	15,569
VA-guaranteed..............	1,457	5,773	8,986	11,408	11,471	11,795	12,033
Conventional...............	3,982	5,645	8.246	14,897	16,272	17,772	19,146
Life Insurance Companies:							
Nonfarm......................	14,775	27,172	38,789	55,190	59,369	61,947	64,177
FHA-insured................	4,573	6,395	9,032	12,068	12,351	12,161	11,984
VA-guaranteed..............	2,026	6,074	6,901	6,286	6,201	6,122	6,000
Other......................	8,176	14,703	22,856	36,836	40,817	43,664	46,193
Savings and Loan Association:							
Loans outstanding (end of year).........	13,657	31,408	60,070	110,306	114,427	121,805	130,782
FHA-insured................	848	1,404	3,524	5,145	5,269	5,791	6,658
VA-guaranteed..............	2,973	5,883	7,222	6,398	6,157	6,351	7,012
Conventional...............	9,836	24,121	49,324	98,763	103,001	109,663	117,112

Source: 1969 Statistical Abstract, Table 643

NEW PRIVATE NONFARM ONE-FAMILY HOUSES SOLD
1965 to 1968

(Based on monthly interviews with builders or owners of a national probability sample of 1-family homes to which building permits have been issued or, in nonpermit areas, on which construction has started. For detail see source. For definition of median, see preface)

TYPE OF FINANCING AND PERIOD	Number of Homes (1,000)						Median sales price (dollars)
	Total	Sales price					
		Under $15,000	$15,000-$19,999	$20,000-$24,999	$25,000-$29,999	$30,000 and over	
Homes sold, total:[2]							
1965	575	115	160	121	81	75	20,000
1966	461	62	127	90	68	82	21,400
1967	487	52	122	98	81	105	22,700
1968	490	37	101	101	85	142	24,700
FHA-Insured:							
1965	134	47	56	22	6	2	16,500
1966	88	23	37	15	6	3	17,500
1967	99	20	45	20	8	4	17,800
1968	93	15	37	26	10	4	19,200
VA guaranteed:							
1965	40	10	16	9	4	1	17,900
1966	51	10	22	12	4	1	18,000
1967	71	12	30	16	7	4	18,700
1968	63	6	26	17	8	4	19,800
Conventional mortgage:							
1965	339	48	76	80	63	65	22,700
1966	273	24	56	55	51	71	24,400
1967	265	15	40	53	58	86	26,000
1968	290	13	31	52	60	121	28,500

Source: 1969 Statistical Abstract, Table 1077.

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Members of the President's Council **DATE:** January 21, 1970

FROM: Irving S. Friedman

SUBJECT: Commodity Problem

Mr. McNamara has suggested that the paper on the Commodity Problem, distributed to you on January 20, be discussed at a forthcoming meeting of the President's Council.

ISF

cc: Mr. Christoffersen

Rtnd from Grand 12 noon

11-21 To Mr. Friedman

Form No. 57 | INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

a first-class paper. Please distribute to members of the President's Council for discussion at a Monday meeting. RMcN

TO: Mr. Robert S. McNamara

DATE: January 20, 1970

FROM: Irving S. Friedman

SUBJECT: Commodity Problem

JAN 21 1970
11:55

You will recall our discussion about preparing a paper on the commodity problem which would try to take a new look at the problem and what the Bank might do. We are also committed to do something on this subject as part of our Pearson review. The attached paper goes beyond what might be done for the Pearson review but hopefully will also serve this purpose. The paper tries to restate the problem and suggest what the Bank might do including a suggestion on financing of international buffer stocks and a proposal for a new approach to the commodity problem within the Bank, referred to herein as "commodity programs" which would be related to our 5-year programs on developing countries.

We have benefited from comments received from Mr. Demuth.

ISF

Attachment

cc: President's Council

January 16, 1970

THE WORLD BANK AND THE COMMODITY PROBLEM

A number of questions have arisen about the nature of the commodity problem and the role of the Bank with respect to it. In particular, the question has been raised as to whether the Bank should stand ready to provide more direct support for international buffer stock operations than is implied in the decision taken last June by the Executive Directors. The purpose of this paper is to deal briefly with these issues and to indicate where the future emphasis of Bank policy should be with respect to the commodity problem.

I. Nature of the Commodity Problem

The commodity problem consists of two related but separate aspects: adverse long-term trends in prices and export earnings and wide short-term swings in these same variables. The Rio Resolution, which prompted the Bank decision of last June, is entitled "Stabilization of Prices of Primary Products," but it actually is addressed to both aspects of the problem since it refers to the need for a "remunerative level" of prices as well as to the need for stabilization.

Although we speak of the "commodity problem" in general, not all primary commodities produced and exported by the developing countries can be placed in the problem category. The commodities posing the main difficulties are for the most part agricultural and are characterized by sluggish growth in export markets as well as by short-term instability.

The basic cause of fluctuations lies in the interaction between, on the one hand, an inelastic demand with respect to price and, on the other hand, unplanned changes in supply due to natural causes such as weather and pests. This interaction induces wide fluctuations in prices and earnings in a direction inverse to the changes in production. Changes in demand in the industrial countries can also trigger market fluctuations but for agricultural commodities, as opposed to metals, these are generally of lesser importance. Even for metals the severity of demand-induced instability is less than it was prior to the second World War because the amplitude of business fluctuations in the advanced countries has been substantially moderated.

The basic cause of adverse longer-term trends in certain primary commodities is the slow growth in world demand relative to the ease with which output can be increased at existing prices. While a variety of forces underlies the sluggish growth in demand, competition from synthetics affects some of the most difficult cases such as rubber, cotton, jute and abaca.

Ignoring for the moment the interconnections between short-term instability and longer-term trends, it is fair to say that by far the more important of the two problems is that of adverse longer-term trends. For those countries lucky enough to be exporting commodities, such as petroleum and most of the metals, with favorable recent and prospective trends in prices and earnings, the fact that these earnings are subject to wide short-term fluctuations is a secondary problem. Similarly, those countries whose exports are concentrated in commodities with adverse long-term trends in prices and earnings are primarily concerned about the fact that their export earnings are not growing at an adequate rate rather than about the fact that, whatever the trend in those earnings, the latter are realized in widely varying amounts from year to year.

It is true that highly unstable prices may to some extent accentuate adverse longer-term trends in commodity markets. Instability in prices may exert a depressant effect on the demand for natural products when close synthetic substitutes are available with more stable and predictable price behavior. On the supply side, temporary high prices due to natural phenomena, such as drought or pests, may induce uneconomic investment in new productive capacity for commodities with long gestation periods (e.g., coffee, cocoa). When the new production ultimately comes onto the market, it accentuates the underlying adverse longer-term trend.

It is generally agreed, however, that instability is only contributory to the major problem of adverse trends and that, in order to deal with the latter, the forces determining the trends need to be dealt with more directly.

II. Role of Buffer Stocks and Commodity Agreements

For many years prior to the first UNCTAD Conference in 1964 the conventional wisdom in the Western world was that, if commodity arrangements were to be undertaken, they should be designed simply to moderate price fluctuations but should seek to avoid interfering with longer-term trends.

The rationale for this distinction was that excessive price fluctuations serve no economic purpose and could even impart the wrong economic signals as when temporary high prices stimulate excessive investment in new production. Both importing and exporting countries could agree on the objective of stabilization since they had an identity of interest in lopping off the peaks and troughs in prices. No transfer of real income from one group to the other over the long-term was implied in pure stabilization arrangements.

What was generally taboo, however, was any arrangement which through conscious interference with free market forces would attempt to alter the long-term trend of prices from what it would have been in the absence of an agreement. In this line of thinking, the trend in prices was simply a reflection of the underlying conditions of supply and demand, which in time would change and establish a new equilibrium. Importing countries might be willing to cooperate in measures to assist the process of orderly adjustment to the new conditions. But they were generally unwilling to conceive of commodity arrangements as devices to alter over an extended period of time the terms of trade of the primary producing countries and thereby to accomplish through the market a real transfer of resources to the developing countries.

Given the traditional negative attitude of the industrialized countries toward commodity arrangements of the latter variety, the question may nevertheless be raised as to why greater success was not achieved in negotiating more limited price-stabilization agreements whose objectives, after all, commanded general support. The answer is well put by Gerda Blau of the FAO in a study prepared for the first UNCTAD Conference: "The fact that the conclusion of price-stabilizing commodity agreements has proved so difficult in practice appears to indicate that neither exporters nor importers were prepared to pay a substantial premium for this kind of insurance ... And as to the interests of exporters, their main concern, of course, has been with the prospects for their total export proceeds (depending on volume as well as price) and with the average level of export proceeds over a number of years, measured in terms of import purchasing power, not merely with short-term fluctuations in money terms."[1/]

International buffer stocks are one device for moderating short-term fluctuations in prices and earnings from commodity exports and do not, by themselves, alter longer term trends and earnings. Therefore, where a buffer stock exists (tin) or has been seriously discussed (cocoa), it has been as

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1/ Gerda Blau, "International Commodity Arrangements and Policies," Proceedings of 1st UNCTAD Conference, Volume III, page 142 (1964) part of a broader attempt to improve the longer-term prospects for the commodity through controlling supplies offered on the world market. For the latter purpose, export quotas have been the principal instrument, and buffer stocks the subsidiary instrument. Since the main impetus for international action in the commodity field arises from structural disequilibrium between production and demand, it is unlikely that international buffer stocks can be negotiated in the future except in the context of more comprehensive arrangements for dealing with the disequilibrium through export quotas and diversification programs. Without such arrangements, moreover, a buffer stock would not be a practicable proposition since its financial resources would be quickly exhausted as it attempted to maintain a floor price in the face of unlimited supplies thrown on the market.

From what has been said above, it follows that a major limitation on the prospects for establishing international buffer stocks is the willingness and ability of the international community to negotiate commodity agreements which encompass the longer-term objective of achieving, in the words of the Rio Resolution, a "remunerative level" of prices for exports of primary products. Or stated another way, the main interest of the developing countries is in improving their terms of trade and thereby accomplishing a transfer of resources from the rich importing countries to the low-income countries.

Since supply limitation is the key to achieving this objective, international buffer stocks could even work at cross-purposes to it by relieving individual countries of some of the pressures to reduce production. With export quotas but without _international_ buffer stocks, the necessity to carry and finance large _national_ stocks operate as a powerful lever to induce producing countries to curtail investment and output. This consideration is undoubtedly among those that account for the absence of a buffer stock arrangement in the coffee and sugar agreements.

Another consideration points toward possible conflict between buffer stocks and the achievement of the longer-term goals of commodity policy. The problem arises from the fact that, when a buffer stock is included as an integral part of a commodity agreement, ceiling and floor prices must be included in the agreement in explicit terms. This can prevent widely desired international commodity agreement from coming into being. It was the protracted controversy surrounding the negotiation of a price range as a basis for buffer stock operations that prolonged the negotiation of a cocoa agreement to the point where the market situation had undergone important changes so that some of the principal participants were no longer willing to go ahead on the previously agreed basis. By way of contrast, the price objective in the 1962 coffee agreement, which does not provide for an international buffer stock, could be stated in more general terms since it was to be achieved entirely through export quotas without the need for market intervention. Given the enormous difficulties of negotiating a commodity arrangement even under favorable circumstances, it is hard to escape the conclusion that such difficulties are accentuated when specific prices must be agreed upon in advance of the arrangement coming into effect. Experience under the coffee agreement has also demonstrated that, without recourse to an international buffer stock, export quotas are capable of yielding a substantial degree of price stabilization in addition to an orderly growth of export earnings in excess of what would have taken place in the absence of the agreement.

III. Buffer Stocks and the World Bank

Nevertheless, well-designed international buffer stocks could in certain cases make a contribution to the stabilization and strengthening of primary commodity markets when part of a comprehensive international commodity arrangement. It is natural therefore that the World Bank and the IMF should have attempted to facilitate their establishment as part of the affirmative response of the two institutions to the call of the less developed countries for additional mechanisms to deal with the commodity problem.

In the discussion which preceded the Rio Resolution, however, the importance of buffer stocks *per se* tended to escalate and eventually took on an almost symbolic character as indicative of the willingness of the international community to do something tangible about the commodity problem. Somehow the idea took hold that, if only adequate sources of finance were available, a major obstacle to the establishment of buffer stocks would be eliminated and the way would then be cleared for the negotiation of broader commodity agreements.

As already explained, the true sequence runs the other way. The main constraint on the prospects for establishing international buffer stocks lies in the complex of obstacles that stand in the way of commodity arrangements involving limitations on exports and production. Among such obstacles are conflicts between producers and consumers as to the long-run price objectives underlying the size of total quotas; conflicts among producers as to the basis for allocating country quotas; the need to reconcile the desire for higher prices with the threat of encouraging substitution; the need to build into the agreement strong incentives for diversification and disincentives for perpetuating overproduction; and a variety of negotiating and enforcement problems.

It is doubtful, moreover, that, if the other conditions were satisfied, finance would turn out to be a serious obstacle to the inclusion of buffer stocks as part of international commodity agreements. In the cocoa negotiations, for example, the plan was to finance the buffer stock through an export levy of one cent per pound. To the extent that, over the relevant price range, demand is less elastic than supply, the incidence of such a tax would fall mainly on the importing countries. Where such self-financing is contemplated, the need for outside funds would arise primarily to pre-finance the buffer stock in order to enable it to buy in the market prior to the build-up of internal funds. For this purpose medium-term commercial financing might well be available, but the new financial facility established by the recent IMF decision provides greater assurance and cheaper access to funds, while the Bank decision takes care of the exceptional cases in which the Fund decision may not cover.

Whatever inhibition may have been imposed in the past by the absence of an established source of financing for international buffer stocks, the problem has been largely dissipated. This view has been confirmed in a statement made in July 1969 by the Advisory Committee to UNCTAD: "The Committee felt that the provision of pre-finance was no longer the most important obstacle to the setting up of a buffer stock scheme."1/

Although the pressure for new international machinery to finance buffer stocks has been relieved, the question has, nevertheless, been raised as to whether the Bank's contribution could not have been more forthcoming, particularly in willingness to provide financing directly for international buffer stocks either to countries or international agencies or both. In order to place this matter in perspective, something needs to be said about the relationship between the IMF and the Bank in the financing of buffer stocks and about the possible magnitude of calls upon the Bank for this purpose.

1/ UNCTAD, "Report of the Advisory Committee to the Board and to the Committee on Commodities on its Third session," 25 July 1969.

International stocking operations should be envisaged strictly for cushioning short-term disturbances. Any long-term holding of stocks for the purpose of facilitating the structural adjustment of production to demand under international commodity agreements should be primarily the responsibility of national governments on whom the cost of stockholding will exert additional leverage to hasten the adjustment. If this premise is accepted, it follows that the burden of financial assistance to international buffer stocks should properly be carried mostly by the IMF, the agency primarily concerned with short-term stabilization, and that the Bank's role should be supplementary as explained below.

Under the recent Fund decision, a member may draw up to 50 per cent of its quota in order to meet obligations assumed under an international buffer stock scheme. This amount may be drawn in a single year, but will be subject to an overriding limit of 75 per cent of quota governing drawings under the IMF's compensatory financing facility and buffer stock scheme together. As in the case of drawings for compensatory finance, drawings under the buffer stock scheme will not be charged against a member's ceiling on regular fund drawings. (Unlike the former, however, drawings under the buffer stock scheme will affect the degree of automacity of the availability of regular drawings.) When IMF quotas are increased in January 1971, drawing rights under the buffer stock scheme will be enlarged proportionately.

Given the sizable resources which will be available through the Fund, particularly after the proposed quota increases, the question arises as to what role the World Bank might play in the financing of international buffer stocks. Two possibilities may be envisaged. One would be to assist countries in cases where their drawing rights under the Fund's buffer stock scheme prove insufficient in relation to their need to contribute to international buffer stocks. The other would be to refinance Fund drawings if, when repurchase becomes due at the end of three to five years, the buffer stock has not yet been able to liquidate its stock and repay member countries.

Let us look at the refinancing loan first. The purpose of such a loan would be to relieve the buffer stock agency of the need to sell when the market for the commodity is depressed. The loan should not, however, encourage the agency to hold stocks over an excessively long period of time since a reasonably rapid turnover of stocks is of the essence of efficient buffer stock operations. If the stocks were not to be liquidated for as long as say ten years, it would signify that the agency was not conducting a buffer operation designed to smooth out short-term price fluctuations and that its market intervention rules should have been adjusted. On the assumption that proper intervention rules are followed, it would be rather the exception for a buffer stock agency to hold stocks for more than even five years. To the extent that the IMF would be prepared to roll over its drawings, the likelihood of a need for World Bank refinancing would be reduced, and the amounts involved for the balance likely to be small.

This conclusion is reinforced, moreover, to the extent that future international buffer stock schemes provide for internal financing such as the export tax that was accepted in principle and included in the draft cocoa agreement. Such internal financing could substantially eliminate the need for outside assistance beyond a build-up period of five years. As a matter of fact, had the draft cocoa agreement been in effect during the period 1960-68, the hypothetical proceeds of the export levy would have been more than sufficient to finance both the acquisition of stocks and their carrying costs without any external assistance from the IMF or from any other source. Even if the Agreement had come into force in 1965 when there would have been an immediate need to make large stock purchases, the export levy would have obviated the need for short-term assistance beyond two years.[1/]

1/ IMF, "Some Aspects of Fund Liquidity and Buffer Stock Financing," 28 March 1969.

While the foregoing considerations suggest a probable minimal need for World Bank refinancing of IMF drawings, one cannot be certain that the Fund will in fact roll over its buffer stock drawings, nor that future international buffer stocks will necessarily provide for internal financing, nor that such self-financing, if provided, would fully satisfy the need for funds. If we assume no roll-overs by the Fund and no self-financing, what is the extent of possible claims on Bank resources for refinancing fund drawings? And what additional claims would arise from countries whose buffer stock drawing rights under the IMF scheme prove insufficient from the start.

An assessment of the magnitude of these potential demands for Bank assistance over a future period can in the nature of the case only be highly speculative. Among the relevant variables are: the probability of international agreements being negotiated for particular commodities; the prospect that such agreements would provide for the establishment of buffer stocks; the size of the buffer stock; the width of the agreed price range; the relative emphasis placed in the agreement on buffer stock operations as against other stabilization techniques; the extent to which only partial payment would be made upon the acquisition of buffer stocks (e.g. the half-payment provision in the cocoa agreement); the degree to which countries' drawing rights under the IMF buffer stock scheme may have been reduced through prior drawings under the compensatory financing scheme in excess of 25 per cent of quota; the lag of disbursements behind commitments (the timing of the former depending on the precise state of the market, while the latter become effective when the agreement enters into force).

An enumeration of the foregoing factors is perhaps sufficient to convey the high degree of uncertainty that necessarily attaches to any effort to estimate possible calls for Bank assistance in the financing of buffer stocks. Nevertheless such an attempt has been made by the Bank staff in a quantitative analysis covering fourteen commodities identified by the UNCTAD Secretariat as candidates for international buffer stocks: coffee, cocoa, tea, sugar, pepper, lauric oils and seeds, rubber, jute and allied fibers, hard fibers, copper, tin, lead, zinc and tungsten.[1] The principal assumptions underlying the analysis concern the probability of a buffer stock agreement being signed for each of the commodities by 1972; the most likely size of the buffer stock for each commodity; and the probability distribution of disbursements expressed as a fraction of commitments. In order to safeguard against understatement, it was assumed that the recent commodity stabilization decisions of the Fund and the Bank would encourage international commodity agreements involving buffer stocks.[2]

The findings of the study point to an exceedingly modest residual role for the Bank in financing capital contributions to international buffer stocks. Among the members of the Bank, 61 developing countries are exporters of the commodities for which international buffer stocks either exist or may conceivably be established. If the IMF did not roll over its drawings and if the IBRD decided to refinance them, the magnitude of net cumulative disbursements for refinancing purposes by the Bank over the period 1973-77 would be of the order of \$100 million and would be unlikely to exceed \$200 million.[3]

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[1] In the case of tin an international buffer stock exists, but serious consideration has been given to increasing its size from 12 per cent to perhaps 18 per cent of world exports.

[2] IBRD, "Financing of International Buffer Stocks", Part Two, draft dated November 28, 1969.

[3] The quantitative analysis indicated that the mean disbursement would be \$162 million and that, with 90% probability, disbursements would not exceed \$326 million (line 1, Table 1, page 39, draft November 28, 1969, op. cit.). As noted in para. 69 of the cited paper, these figures provide an upper limit of the amount which the Bank might have to disburse. However, some of the buffer stocks would have liquidated their holdings in less than five years and reimbursed the member countries. The latter would therefore be in a position to pay back the Fund, thus reconstituting their drawing rights. Bank disbursements would therefore be substantially lower than the figure shown in Table 1.

When account is taken of the prospective increase in IMF quotas, the 61 countries will have access to drawings under the Fund's buffer stock facility amounting to \$3.2 billion. Nevertheless, the required net cumulative disbursements of some countries over the period 1973-77 could, according to the study, exceed their drawing rights under the IMF's facility, but only to a maximum extent of \$62 million, and the maximum number of "problem countries" requiring assistance supplementary to their IMF buffer stock tranches would be six. These small figures define the probable extent of the total net call upon Bank resources over the five-year period on the assumption that no Bank refinancing of Fund drawings takes place.

In sum, if the Bank undertook both to refinance buffer stock drawings from the Fund and to assist the "problem countries", the net cumulative call upon the Bank resources in the period 1973-77 would be unlikely to exceed about \$250 million, and the most probable figure would be of the order of \$100 million. While the full amount could conceivably be requested in a single year, the average annual call upon Bank resources for both purposes over the five-year period would probably amount to about \$20 million per year.

The foregoing estimates are predicated on the assumption that the full 50 per cent of IMF quotas would be available for buffer stock financing. Up to half of this amount, however, could be used up if full prior access had been had to a country's drawing rights under the Fund's compensatory financing facility. But actual use of the latter facility has been modest: outstanding drawings are approximately \$200 million and have never exceeded \$300 million. Nevertheless, if consideration is given to the possibility that half of the IMF buffer stock financing might have been used up, a few additional countries might need recourse to Bank financing, but the amounts involved would still remain small.

Despite the modest role anticipated for the World Bank in the financing of international buffer stocks, its willingness to cooperate in this field has taken on a certain additional significance of a symbolic character. It might therefore be desirable to remove the ambiguities in the present Board decision which would permit the Bank, "while maintaining its normal lending standards", to take into account additional borrowing needs of members arising from participation in appropriate international buffer stock arrangements. The decision has been construed by some to mean that the vehicle for Bank assistance for buffer stocks would only be its normal project loans. While this interpretation is unduly restrictive, it might nevertheless be helpful to state simply that the Bank is ready to lend to member countries directly for the purpose of assisting them to participate in international buffer stocks. Confirmation by the Executive Directors of this interpretation of their decision would be helpful.

IV. Diversification and the World Bank

The traditional western view that international commodity arrangements should moderate short-term fluctuations in prices and earnings but should not disturb long-term trends has in the last half-dozen years given way to the more activist view that the improvement of long-term trends is in itself a legitimate and indeed, a more compelling, objective of international cooperation. Whether or not the vehicle consists of commodity agreements, an essential element of such broader cooperation is the diversification of developing countries' economies away from primary commodities with unfavorable export prospects to other activities with a more favorable outlook. Part of the rationale for diversification is that it will improve the price trends for less developed countries exports and thereby bring about a transfer of resources from developed to developing countries.

Diversification occupied a central place in the Board's discussion of the commodity problem, and a decision was taken to give special consideration to projects which restrain or reduce over-production of primary products. The discussion did not, however, explore fully the possible implications of a more activist role in the commodity field for the Bank's normal techniques of project evaluation.

Normally, when the Bank considers a commodity project for country A, it calculates a rate of return by comparing the opportunity cost of production in that country with an estimated future world price. The project's impact on countries other than A would ordinarily be ignored. Although account is taken of the impact of the project on world markets, this is done only as it affects country A itself by lowering world prices. Since the project's exportable output is usually small in relation to the volume of world exports, the impact of country A's project on world prices remains generally well within the margin of error of the projected world price. Consequently, this correction factor is unimportant for country A, but for country A only. The accumulated losses of all developing countries other than A can be many times greater than the gain to country A.

There are circumstances, however, when the Bank does take into account the impact of an investment in country A on other developing countries. If there were a commodity agreement, for example, the Bank might well hesitate to finance a project in a country that had not signed the Agreement even if the rate of return were high. In this case the Bank realizes that by financing the project it would be undermining the Agreement and thereby damaging the interests of other developing countries.

Similarly, even in the absence of a commodity agreement, the Bank would hesitate to lend to increase the production of a commodity anywhere when a sharp decline in price has taken place. Although this policy may be destabilizing in the case of commodities with long gestation periods, it does provide another illustration of Bank policy being governed implicitly by a concern for the repercussions of its operations beyond the country in which the project may be located.

In general, however, the Bank's approach to project evaluation is still highly country-oriented, with little attention ordinarily given to the interaction between countries. This tendency can perhaps be explained by the traditional heavy concentration of Bank lending in the power and transport sectors, both of which produce non-tradeable goods. With the expansion of Bank operations into other fields, and particularly into primary commodities, it becomes essential to take account of the impact on other countries of policies adopted toward a given country.

The distinction drawn between national and international effects is analogous to the distinction between private and social rate of return. Government subsidies are legitimate where private returns are low but social returns are high, e.g., conservation and pollution. Similarly international financing should stimulate activities, such as research on improved grain varieties, which yield high international rates of return even though the returns may be modest to the country where the research is carried out. Contrariwise, an international institution whose function is assisting developing countries should not provide a loan for research on synthetic cocoa, regardless of how high the return to the recipient country or to high-income consuming countries might be.

By affirming its support last June for projects which would help restrain overproduction of primary products, the Bank has implicitly recognized the importance of an improvement in the terms of trade for the developing countries. As a source of additional resource transfers, more favorable export price trends may be of greater significance than an increased volume of aid. In order to pursue this objective in a more systematic way, however, it would be necessary for the Bank to develop and articulate an overall commodity strategy that clearly recognized the importance of maximizing the "social rate of return" for the developing world as a whole.

V. A New Role for the World Bank

A new role for the Bank in the commodity field can be envisaged by analogy with its role in assisting individual countries in their development efforts.

Following a country-by-country approach, the Bank is now preparing, subject to annual revision on the basis of full-scale country economic missions, five-year country programs of probable developments in each country, an indication of the direction along which these developments should be modified, and an outline of the actions to be taken by the Bank to facilitate the modifications. Formulation of such programs does not mean that the Bank believes that it should or could control the development policies of any given country. It simply reflects the Bank's conviction that, if it wishes to exert some leverage on a country's development policy, it must have a development strategy for that country.

Following a commodity-by-commodity approach, the Bank could also prepare and revise at yearly intervals "commodity programs" for the major primary commodities. The"commodity programs" could be established in three steps:

1. Perspectives would be established of the most likely developments in demand, production and prices for those commodities of importance to developing countries. Particular attention would be given to the projection of production, which is generally the weakest element in commodity forecasts. This would require a review of production policies and investment plans and an analysis of the response of production to prices. This first step should lead to a picture of what would be most likely to occur in the different commodity markets in the absence of any Bank action.
2. An analysis would then be made of how the most likely evolution could be improved. In making this assessment the Bank would take into account both demand and supply elasticities as well as opportunity costs in the various producing countries.
3. The Bank would define its strategy for the commodity concerned on a global basis. It would be expressed both in terms of overall policies and in terms of specific investment targets for Bank lending in individual countries.[1/]

The country and the commodity approaches are not independent but are only two different ways of looking at the same problem. By using the two approaches simultaneously and by insuring consistency between them, an optimum Bank strategy can be developed which takes account of the interaction between countries throughout world commodity markets as expressed in a social rate of return for the developing world as a whole.

1/ For a draft technical paper on this subject see "Diversification Benefits and Criteria for Project Selection," 25 September 1969.

To carry out its "commodity programs," the Bank could exert leverage in a number of ways: through its lending operations and, in particular, through the conditions stipulated in Bank loans; through its general policy advice either directly or through consultative groups chaired by the Bank; through the role it may be asked to play in commodity diversification funds; through advice to international commodity councils, particularly with respect to relative opportunity costs as a basis for the reallocation of quotas;1/ and, where appropriate, by suggesting to the competent U.N. body that a conference be called on a particular commodity and by presenting suggestions as to the nature of desirable arrangements.

None of these actions would be in conflict with the Board decisions on commodities. Within those guidelines the Bank could play a leading role in influencing world commodity trade if it wished to do so. The prerequisite, however, would be for the Bank to establish "commodity programs" along the lines proposed in this paper.

In view of the novelty of this approach, it is suggested that it be done initially for a few commodities on an experimental basis.

I. S. Friedman
I. Frank
L. Goreux

1/ For example, if Burundi could export nothing but coffee, while Brazil had a choice between coffee and something else, the relative opportunity cost would be lower in Burundi than in Brazil, even if market costs were higher. Under such conditions, the Bank could make a case for revising Burundi's quota upward.

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 21, 1970

FROM: Irving S. Friedman

SUBJECT: Remarks made by Secretary Kennedy

Thank you for sending me a copy of the remarks made by Secretary Kennedy before the Council on Foreign Relations.

If these remarks are not considered "off the record", could we suggest that they be circulated by Mr. Wiezorowski to the Executive Directors for their information?

ISF

JAN 22 1970

4:10

Mr. Robert S. McNamara January 21, 1970

Irving S. Friedman

Remarks made by Secretary Kennedy

Thank you for sending me a copy of the remarks made by Secretary Kennedy before the Council on Foreign Relations.

If these remarks are not considered "off the record", could we suggest that they be circulated by Mr. Wiezorowski to the Executive Directors for their information?

1/21 To Mr. Friedman
Irving, I believe you will be interested in reading this
Dave

REMARKS OF THE HONORABLE DAVID M. KENNEDY

SECRETARY OF THE TREASURY

JAN 21 1970
11:05

BEFORE THE COUNCIL ON FOREIGN RELATIONS IN NEW YORK

MONDAY, JANUARY 19, 1970

FINANCING DEVELOPMENT IN THE LESS DEVELOPED COUNTRIES

EIGHT QUESTIONS FOR THE SEVENTIES

THIS IS A TIME OF CONCERN ABOUT THE FUTURE OF INTERNATIONAL EFFORTS TO FINANCE ECONOMIC DEVELOPMENT IN THE LESS DEVELOPED NATIONS. THERE ARE MANY VIEWS ON THE SUBJECT.

THIS IS AN APPROPRIATE TIME, THEN, TO DISCUSS WITH YOU SOME OF MY VIEWS ON QUESTIONS INVOLVING ECONOMICS AND FINANCE. TREASURY IS HEAVILY INVOLVED IN THIS FIELD THROUGH THE SECRETARY OF THE TREASURY'S POSITION AS THE U.S. GOVERNOR OF EACH MULTINATIONAL BANK.

ONE QUESTION IS HOW MUCH EMPHASIS SHOULD BE PLACED ON MULTILATERAL FINANCIAL INSTITUTIONS, AS CONTRASTED WITH BILATERAL PROGRAMS?

MY ANSWER IS THAT WE SHOULD SHIFT TOWARD INCREASED RELIANCE ON THE MULTILATERAL APPROACH AS RAPIDLY AS OTHER COUNTRIES ARE PREPARED TO MOVE AND AS THE MULTILATERAL INSTITUTIONS THEMSELVES ARE CAPABLE OF HANDLING AN EXPANDED LEVEL OF ACTIVITY. AT THE SAME TIME, WE MUST

RECOGNIZE THAT BILATERAL PROGRAMS WILL CONTINUE TO BE NEEDED IN ORDER FOR US TO PROVIDE ADEQUATE LEVELS OF AID AND TO MEET THOSE POLITICALLY SPONSORED AID OBJECTIVES.

THERE HAS BEEN A CLEAR SHIFT TOWARD MULTILATERALISM IN THE PAST DECADE. A STRONG FRAMEWORK OF REGIONAL AND WORLD-WIDE DEVELOPMENT BANKS HAS EVOLVED.

PRESIDENT NIXON HAS MADE CLEAR HIS SUPPORT FOR THE MULTILATERAL APPROACH TO DEVELOPMENT. LET ME MENTION SOME OF ITS MAJOR ADVANTAGES:

-- IT PERMITS EACH DONOR COUNTRY TO CONTRIBUTE ACCORDING TO ITS FINANCIAL STRENGTH, WITH ALL COUNTRIES CONTRIBUTING ON THE SAME TERMS.

-- IT PERMITS A POOLING OF KNOWLEDGE AND EXPERTISE ON DEVELOPMENT PROBLEMS WHICH NO SINGLE COUNTRY CAN MUSTER.

-- IT PROVIDES FOR ALLOCATION OF ASSISTANCE ON THE BASIS OF DEVELOPMENT NEED RELATIVELY FREE FROM POLITICAL TIES OR COMMERCIAL FACTORS, THEREBY MINIMIZING POLITICAL MOTIVATION FOR AID.

-- THE MULTILATERAL INSTITUTIONS ARE FORUMS FOR BRINGING INTERNATIONAL INFLUENCE TO BEAR ON DONOR COUNTRIES IN CONNECTION WITH THEIR AID POLICIES, AND ON RECIPIENT COUNTRIES TO FOLLOW GENERALLY ACCEPTABLE DEVELOPMENT POLICIES.

-- A NUMBER OF THE INSTITUTIONS HAVE THE LEGAL AUTHORITY AND THE FINANCIAL STANDING TO MOBILIZE PRIVATE AS WELL AS PUBLIC CAPITAL FOR THE DEVELOPMENT TASK.

BUT THERE ARE IMPORTANT LIMITATIONS ON THE EXTENT AND THE SPEED WITH WHICH WE CAN SHIFT THE EMPHASIS FROM BILATERAL TO MULTILATERAL CHANNELS OF DEVELOPMENT FINANCING. SOME DONOR COUNTRIES HAVE BEEN LESS THAN CONVINCED OF THE ADVANTAGES OF THE MULTILATERAL APPROACH AND HAVE BEEN

RELUCTANT TO INCREASE RELIANCE ON -- AND CONTRIBUTIONS TO -- THESE INSTITUTIONS. SOME HAVE SUGGESTED THAT THE UNITED STATES, OR OTHER INDIVIDUAL COUNTRIES, MAKE ADDITIONAL CONTRIBUTIONS TO THE MULTILATERAL INSTITUTIONS SEPARATE FROM AND INDEPENDENT OF THE CONTRIBUTIONS MADE BY ALL DONORS TOGETHER. I DO NOT SHARE THIS VIEW. I BELIEVE THAT WE MUST BE CAREFUL NOT TO DEVIATE FROM THE FUNDAMENTAL PRINCIPLE OF BURDEN SHARING, BY APPEARING TO USE THESE INSTITUTIONS AS CHANNELS FOR BILATERAL PROGRAMS. THUS WHILE I THINK WE SHOULD ACTUALLY MOVE FURTHER TOWARD GIVING AID VIA MULTILATERAL INSTITUTIONS, WE CAN PROCEED ONLY AS RAPIDLY AS THERE IS AN INTERNATIONAL CONSENSUS TO MOVE, AT THE SAME TIME, WE HAVE A RESPONSIBILITY TO ENCOURAGE OTHER COUNTRIES TO JOIN US IN ADVANCING THIS

MULTILATERAL APPROACH.

A SECOND QUESTION IS THE POSITION OF ECONOMIC ASSISTANCE IN AN ENVIRONMENT OF SEVER BUDGET STRINGENCY.

A GREAT DEAL IS BEING HEARD TODAY ABOUT COMPETING PRIORITIES, ABOUT THE DEMAND FOR BUDGETARY FUNDS AND THE EXCESS OF EXPECTATIONS OVER RESOURCES. THE PRESIDENT AND BUDGET DIRECTOR MAYO HAVE A VERY DIFFICULT TASK OF ALLOCATING THESE FUNDS AMONG AGENCIES AND AMONG PROJECTS. I SHARE WITH THEM THE RESPONSIBILITY OF TOTALING UP ALL THE COSTS AND MEASURING THEM AGAINST THE REVENUE AND OUR FISCAL OBJECTIVES.

NOW THERE IS NO QUESTION THAT ECONOMIC ASSISTANCE HAS FELT THE BUDGETARY ENVIRONMENT, BUT IT HAS BEEN FELT PRIMARILY ON CAPITOL HILL. FORTUNATELY THE MULTILATERAL

INSTITUTION HAVE FARED WELL THERE.

MANY OTHER DONOR COUNTRIES WHO HAVE DONE LESS IN THE WAY OF SOCIAL CAPITAL INVESTMENT OVER THE YEARS THAN WE HAVE. ARE NOW PARTICULARLY CONSCIOUS OF THEIR RESPONSIBILITIES TO THEIR OWN PEOPLE, AND I EXPECT THAT MANY COUNTRIES IN THE YEARS AHEAD WILL BE FACING THE DIFFICULT CHOICE OF DIVIDING UP THE BUDGETARY DOLLAR BETWEEN SOCIAL CAPITAL OBJECTIVES AT HOME AND ECONOMIC ASSISTANCE OBJECTIVES ABROAD. THERE IS NO NEED FOR ME TO ELABORATE UPON THE VERY IMPORTANT DOMESTIC POLITICAL CONSIDERATIONS THAT OTHER COUNTRIES AND OUR OWN WILL BE FACING ON THIS SUBJECT IN THE DECADE OF THE 70'S.

A THIRD QUESTION IS THE POSSIBLE LINKAGE OF RESERVE CREATION WITH ECONOMIC ASSISTANCE THROUGH THE SPECIAL

DRAWING RIGHT. PEOPLE FREQUENTLY OVERLOOK THE FACT THAT THE DEVELOPING COUNTRIES RECEIVED ALMOST A BILLION DOLLARS A COUPLE OF WEEKS AGO IN THEIR SDR ALLOCATION OF THE INTERNATIONAL MONETARY FUND AND WILL RECEIVE ABOUT $800 MILLION IN EACH OF THE NEXT TWO YEARS. I BELIEVE WE MUST CONCENTRATE OUR EFFORTS UPON MAKING SPECIAL DRAWING RIGHTS A FULLY ESTABLISHED, HIGHLY VALUED RESERVE ASSET.

A FOURTH QUESTION IS: -- SHOULD THE INTERNATIONAL DEVELOPMENT EFFORT BE RESTRUCTURED TO CENTRALIZE ALL EFFORTS WITHIN A SINGLE TIGHTLY KNIT ORGANIZATION FRAMEWORK?

COORDINATION OF DEVELOPMENT EFFORTS CAN AND CERTAINLY SHOULD BE STRENGTHENED AND IMPROVED. TO DO THIS I BELIEVE WE MUST BUILD ON PRESENT COORDINATING PROCEDURES. THERE IS A SUBSTANTIAL PATTERN OF JOINT EFFORT UPON WHICH TO BUILD. BUT, WE MUST FURTHER DEVELOP AND IMPROVE THE FOCUS OF OUR CONSORTIA, CONSULTATIVE GROUPS, AND OTHER COORDINATING BODIES.

BUT THERE IS A DANGER IN TRYING TO PRESS THIS TOO FAR.

WITH THE WORLD'S DEVELOPMENT EFFORTS GROWING IN MAGNITUDE, COMPLEXITY AND COMPREHENSIVENESS SUGGESTIONS ARE INCREASINGLY HEARD OF THE NEED FOR A SORT OF "SUPER COORDINATION" -- THAT IS BRINGING TOGETHER THE TOTALITY

OF THE DEVELOPMENT EFFORTS OF ALL COUNTRIES AND INSTITUTIONS INTO AN OVERALL ENDEAVOR OPERATING ACCORDING TO SOME MASTER PLAN.

I HAVE STRONG DOUBTS THAT ANY SUCH EXCESSIVE CONCENTRATION WOULD BE EITHER POSSIBLE OR DESIRABLE. IT SEEMS TO ME UNREALISTIC TO THINK THAT ALL AID-GIVING ENTITIES AROUND THE WORLD COULD BE BROUGHT AROUND AT ONE POINT OF TIME TO SUBSCRIBING TO ONE POINT OF VIEW, OR ONE SCHEME OF THINGS, EITHER IN HOW THEY LOOK AT A SINGLE DEVELOPING COUNTRY OR ALL OF THE LESS DEVELOPING WORLD TAKEN TOGETHER. INDIVIDUAL NATIONS AND INDIVIDUAL INSTITUTIONS HAVE SEPARATE INTERESTS, INDEPENDENT

POINTS OF VIEW, AND I THINK THE WORLD GAINS RATHER THAN LOSES BY ALLOWING THE EXISTING MULTIPLICITY OF COORDINATED APPROACHES AND FLEXIBILITY OF PROGRAMS.

MY NEXT QUESTION IS WHAT IS THE APPROPRIATE BALANCE BETWEEN OUR ENERGETIC PURSUIT OF DEVELOPMENT OBJECTIVES, AND THE U.S. ROLE IN ADVANCING AND STRENGTHENING THE WORLD-WIDE MULTILATERAL TRADE AND PAYMENTS SYSTEM? ARE THEY COMPLEMENTARY OR ARE THERE LIMITS IN OUR PURSUIT OF GENERALIZED TRADE PREFERENCES OR INVESTMENT INCENTIVES IN THE LDC'S WHICH ARE ENCOUNTERED BECAUSE OF OUR NECESSITY TO STRENGTHEN THE GLOBAL TRADING SYSTEM?

AS THE DEVELOPMENT ASSISTANCE EFFORT BECOMES MORE COMPREHENSIVE, DEVELOPMENT POLICY MOVES OUT FROM STRICTLY FOREIGN AID MATTERS INTO BROADER POLICY AREAS AFFECTING ALL TRADE AND INVESTMENT. THE OPPORTUNITIES FOR SOME CONFLICT BETWEEN DEVELOPMENT POLICY AND THESE OTHER GLOBAL POLICIES INCREASE MANIFOLD.

OUR FOREIGN TRADE AND INVESTMENT POLICIES ARE BASED ON THE BROADEST OBJECTIVE: A WORLD OF CONVERTIBLE CURRENCIES, FREER TRADE, INTER-DEPENDENT, MULTILATERAL WORLD -- WHICH MAXIMIZE LEVELS OF TRADE AND INVESTMENT, AND MAXIMIZED ACCESS TO MARKETS BY ALL COUNTRIES. OUR DEVELOPMENT POLICIES MAY DEPART FROM THESE GRANDER OBJECTIVES,

WHEN LOCAL PROCUREMENT PREFERENCES, PREFERENTIAL TRADE AND INVESTMENT PRIVILEGES ARE COUNTER TO THE MOST FAVORED NATION PRINCIPLE. BUT IN ACCEPTING SUCH PREFERENCES, WE SHOULD NOT LOSE SIGHT OF OUR BROADER, INTERNATIONAL INVESTMENT AND TRADE OBJECTIVES. SIMILARLY, IN THE APPLICATION OF OUR TAX POLICIES, INVESTMENT GUIDELINES, BALANCE OF PAYMENTS POLICIES. WE WOULD ESTABLISH ONE SET OF RULES IF OUR OBJECTIVE WERE SOLELY TO FIND WAYS TO TRANSFER RESOURCES TO THE DEVELOPING COUNTRIES. BUT THESE RULES FREQUENTLY NEED TO BE MODIFIED WHEN WE TAKE ACCOUNT OF OBLIGATIONS TO THE MULTILATERAL TRADE AND PAYMENTS SYSTEMS.

<u>THE SIXTH QUESTION I WILL MENTION IS WHAT APPROACH SHOULD BE FOLLOWED ON THE DEBT SERVICING PROBLEMS WHICH THE LESS DEVELOPED COUNTRIES ARE LIKELY TO FACE OVER THE COMING YEARS</u>?

THE EXTERNAL PUBLIC DEBT OF THE DEVELOPING COUNTRIES HAS INCREASED AT A VERY RAPID RATE IN RECENT YEARS. TOTAL OUTSTANDING DEBT OF THE DEVELOPING COUNTRIES HAS GROWN FROM LESS THAN $20 BILLION IN 1960 AND IS APPROACHING $50 BILLION NOW. THE BURDEN OF SERVICING THIS DEBT HAS ALSO INCREASED SHARPLY AND ON THE BASIS OF DEBTS ALREADY OUTSTANDING IT IS APPARENT THAT A NUMBER OF THE DEVELOPING COUNTRIES COULD BE FACED WITH DEBT SERVICING PROBLEMS IN VARYING DEGREES OVER THE COMING YEARS.

GIVEN ON THE ONE HAND THIS SHARP INCREASE IN THE BURDEN OF DEBT SERVICING, AND ON THE OTHER THE INCREASING DIFFICULTY OF OBTAINING APPROPRIATED FUNDS FOR DEVELOPMENT ASSISTANCE, ATTENTION HAS BEEN GIVEN TO THE POSSIBILITY OF NEW APPROACHES TO DEBT RELIEF, AS A TECHNIQUE NOT SO CLOSELY TIED TO THE APPROPRIATIONS PROCESS.

IN RELEASING THE ROCKEFELLER REPORT IN NOVEMBER, THE PRESIDENT ASKED ME TO CONSIDER THE GOVERNOR'S RECOMMENDATION REGARDING A POSSIBLE RESCHEDULING OF DEBT SERVICE REQUIREMENTS IN APPROPRIATE CASES WHERE ACTION IS INDICATED.

MANY OF US FEEL THAT IN THE YEARS AHEAD THE BURDEN OF DEBT AMORTIZATION MAY NOT ONLY SERIOUSLY IMPEDE ECONOMIC GROWTH, IT COULD ALSO LEAD TO CASUALTIES IN THE DEVELOPMENT PROCESS.

WE ALREADY HAVE THE SITUATIONS OF DEBT RESCHEDULING WHEN A CRISIS IS IMMINENT, AND WE HAVE A COMPREHENSIVE EXERCISE GOING ON NOW IN INDONESIA, FOR EXAMPLE. IS THERE A WAY IN INDIVIDUAL CASES TO ANTICIPATE THE PROBLEM IN A BALANCED MANNER, WHICH KEEPS THE FINANCIAL DISCIPLINE AND THE CREDIT OF THE COUNTRY INTACT AND PERMITS ACHIEVEMENT OF A REALISTIC DEVELOPMENT PROGRAM? THIS SUBJECT WILL BE COMMANDING OUR ATTENTION IN THE MONTHS AHEAD.

MY SIXTH QUESTION IS - WHAT SHOULD BE OUR ATTITUDE TOWARD AID TYING?

OUR OBJECTIVE IS CLEAR -- THE U. S. SHOULD GIVE AS MUCH GOOD QUALITY AID AS POSSIBLE AND ENCOURAGE OTHER DONORS TO DO THE SAME, SINCE THE DEVELOPING COUNTRIES CAN EFFECTIVELY USE

AMOUNTS SUBSTANTIALLY IN EXCESS OF WHAT THEY ARE RECEIVING.

ORIGINALLY, IN THE MARSHALL PLAN DAYS, THE U.S. ACTIVELY ENCOURAGED USE OF ITS AID FUNDS FOR OVERSEAS PROCUREMENT. SINCE 1959 STEPS HAVE BEEN TAKEN TO REDUCE THE FOREIGN EXCHANGE COSTS OF OUR AID PROGRAM BY TYING IT TO U. S. PROCUREMENT, BOTH BECAUSE OF MOUNTING CONCERN OVER THE U.S. BALANCE-OF-PAYMENTS POSITION, AND BECAUSE OF THE VIEW THAT THERE WAS NO REASON WHY U.S. SUPPLIERS SHOULD NOT BENEFIT FROM THE SALES, PARTICULARLY IF IT WOULD MODERATE PUBLIC AND CONGRESSIONAL CRITICISM OF AID. SUBSEQUENTLY, IN ORDER TO IMPROVE THE EFFECTIVENESS OF TYING, STEPS WERE TAKEN TO ASSURE THAT AID-FINANCED EXPORTS WERE "ADDITIONAL" AND DID NOT SUBSTITUTE FOR COMMERCIAL EXPORTS THAT WOULD

HAVE BEEN SOLD ANYWAY.

ALL OF THESE REQUIREMENTS RELATED ONLY TO OUR BILATERAL PROGRAMS. THE MULTILATERAL INSTITUTIONS HAVE SOUGHT WHERE POSSIBLE TO PRESERVE COMPETITIVE BIDDING, WORLD-WIDE OR AMONG MEMBERS, THOUGH THERE ARE CERTAIN SPECIAL RULES IN THE REGIONAL BANKS.

LAST APRIL PRESIDENT NIXON BEGAN A DISMANTLING OF SELECTIVE BALANCE-OF-PAYMENTS CONTROLS, BEGINNING WITH THE PRIVATE SECTOR. LAST SUMMER HE REMOVED THE "ADDITIONALITY" REQUIREMENTS, WHICH HAD BECOME A POLITICAL LIGHTNING ROD FOR THE FRUSTRATIONS INHERENT IN A DEBTOR-CREDITOR RELATIONSHIP, AND IN THE FALL HE RELAXED AID TYING FOR LATIN AMERICA, IN THE CONTEXT OF OUR POLITICAL RELATIONSHIPS IN THE HEMISPHERE.

WE WILL BE MAKING FURTHER PROGRESS IN THIS DIRECTION OF LESS TIED AID SHOULD WE BE SUCCESSFUL IN OBTAINING A SUBSTANTIAL REPLENISHMENT OF INTERNATIONAL DEVELOPMENT ASSOCIATION WHERE BIDDING IS ON A WORLD-WIDE COMPETITIVE BASIS. WE WOULD HOPE THAT OVER TIME FURTHER STEPS WILL BE POSSIBLE, KEEPING IN MIND OUR BALANCE OF PAYMENTS POSITION AND THE TYING PRACTICES OF OTHER DONOR COUNTRIES.

MY NEXT QUESTION IS: -- CAN MORE EFFECTIVE AND MORE EQUITABLE BURDEN SHARING ARRANGEMENTS BE DEVELOPED?

I THINK WE SOMETIMES FAIL TO APPRECIATE THE PROGRESS WHICH HAS BEEN ACHIEVED THUS FAR. IN THE PAST TEN YEARS THIRTEEN OF THE FIFTEEN DONOR COUNTRIES IN THE DEVELOPMENT ASSISTANCE COMMITTEE OF THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT HAVE MORE THAN DOUBLED THE LEVELS OF THEIR ASSISTANCE.

IN LOOKING AT WHAT MORE CAN BE DONE TO ASSURE THAT AID BURDENS ACCURATELY REFLECT DONORS' ABILITY TO PROVIDE ASSISTANCE, I AM CONCERNED AT THE INADEQUACY OF SOME OF THE TECHNIQUES FOR MEASURING AID BURDENS.

IN PARTICULAR I AM CONCERNED BY THE HEAVY RELIANCE ON THE USE OF AID AS A PERCENT OF GROSS NATIONAL PRODUCT AS THE GUIDE.

PROVIDING AID AND DEVELOPMENT FINANCE IS NOT SIMPLY A FUNCTION OF GROSS NATIONAL PRODUCT.

MOST IMPORTANTLY, THESE TARGETS TAKE NO ACCOUNT OF "NON-AID" BURDENS OF SOME DONORS -- IN PARTICULAR THE HEAVY BURDENS OF FREE WORLD DEFENSE AND WORLD STABILITY BORNE BY THE UNITED STATES. THE TARGETS IGNORE THE BALANCE OF PAYMENTS CONSTRAINTS OF PROVIDING AID -- WHICH CAN BE A

GREATER OBSTACLE THAN GROSS NATIONAL PRODUCT CONSTRAINTS -- AND CONVERSELY THEY IGNORE THE TRADE ADVANTAGES WHICH SOME DONOR COUNTRIES RECEIVE FROM THE WORLD-WIDE AID EFFORT. THEY IGNORE THE POLITICAL REASONS FOR PROVIDING AID AND OTHER "NON-GROSS-NATIONAL-PRODUCT" REASONS. THEY OVERLOOK DIFFERENCES IN THE QUALITY OF AID, AND TEND TO PUT TOO MUCH EMPHASIS ON AMOUNTS AS OPPOSED TO TERMS.

ANOTHER IMPORTANT QUESTION IS HOW PRIVATE ENTERPRISE CAN PLAY ITS FULL ROLE IN THE DEVELOPMENT TASK.

INCREASINGLY THE WORLD RECOGNIZES THAT DEVELOPMENT GOES MUCH DEEPER THAN AID. IT IS NO COINCIDENCE THAT MANY OF THE DEVELOPMENT SUCCESSES OF THE PAST TWO DECADES ARE THOSE COUNTRIES WHICH HAVE EMPHASIZED FREE MARKETS, AND

HAVE ADOPTED POLICIES TO STIMULATE PRIVATE ENTERPRISE DOMESTICALLY AND ATTRACT PRIVATE INVESTMENT FROM ABROAD.

PRIVATE ENTERPRISE CAN BE A POWERFUL STIMULUS TO GROWTH. IN TOO MANY DEVELOPING COUNTRIES THE APPROACH HAS BEEN ONE OF OPPOSITION TO PRIVATE ENTERPRISE, BASED ON POLITICAL CONCEPTS, OR SOME BAD HISTORICAL EXPERIENCE WITH FOREIGN FIRMS. FOR OUR PART WE HAVE EMPHASIZED THE ROLE OF FOREIGN INVESTMENT WHILE A MAJOR QUESTION IS TO BRING LOCAL ENTERPRISE AND INITATIVE INTO FOCUS.

PRESIDENT NIXON HAS MADE AS A CORNERSTONE OF U. S. AID POLICY A LARGER ROLE FOR PRIVATE ENTERPRISE AND INDIVIDUAL INITIATIVE IN DEVELOPMENT. THIS IS NOT A REPEAT OF A TIRED SLOGAN BUT A GUIDE TO BOTH ORGANIZATIONAL AND PROGRAM

EMPHASIS. IN MY OWN EXPERIENCE WITH ADELA I HAVE SEEN MONEY, IMAGINATION, AND HARD BUSINESS SENSE COMBINED TO MAKE AN IMPORTANT CONTRIBUTION IN LATIN AMERICA. WE NEED MORE ACTIVITY C THIS KIND AND THINKING OF THIS KIND -- OF COURSE THE KEY IS DEVELOPING MANAGEMENT CAPABILITY IN THE DEVELOPING COUNTRIES AND THIS IS A SCARCE COMMODITY ANYWHERE. BUT THERE IS POTENTIAL IN THE DEVELOPING COUNTRIES IN THEIR BUSINESS AND IN THEIR BANKING SYSTEM AND IMAGINATIVE WAYS HAVE TO BE CONCEIVED TO BRING THIS POTENTIAL OUT.

IN CLOSING, I AM SURE YOU SHARE WITH ME THE REALIZATION OF HOW DIFFICULT IT WILL BE TO RESOLVE THESE ISSUES. BUT I AM SURE YOU AGREE THAT IT IS TO THE BENEFIT OF MANKIND THAT WE DO SOLVE THEM. WE ALL SHARE IN THE

CONSCIENCE OF ALL NATIONS, DEVELOPED AND DEVELOPING,

TO GIVE HOPE AND TO HELP BRING PROGRESS TO

TWO-THIRDS OF MANKIND.

oOo

Mr. Robert S. McNamara

January 29, 1970

Irving S. Friedman

Rockefeller Report

Apropos our discussion on the Rockefeller Report and my reported discussions with George Woods, we will be doing a paper (along the lines of our recent paper on the commodity problem) reviewing the issue of the relationship between trade and aid and possible implications for the World Bank group.

FORM No. 89
(2.66)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

ROUTING SLIP

Date Jan. 26, 1970

OFFICE OF THE PRESIDENT

Name	Room No.
1.* Mr. Hawkins to handle	
Mr. Kamarck to see	
Mr. Friedman to see	
Mr. Wm. Clark to see	

	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On

Remarks

* As we agreed you would let me know by the end of the week when your outline would be available to Mr. McNamara.

From

L. E. Christoffersen

The Rockefeller Foundation

111 WEST 50th STREET, NEW YORK, N. Y. 10020

OFFICE OF THE VICE-PRESIDENT

CABLE: ROCKFOUND, NEW YORK
TELEPHONE: COLUMBUS 5-8100

January 20, 1970

Dear Mr. McNamara:

In preparation for the Population meeting at the Villa Serbelloni on April 6 to 8, we are arranging for some resource papers to provide background information and a starting point for the discussions of each item on the agenda. A copy of the tentative agenda is attached.

We want to give particular emphasis to the implications of population growth to economic development and propose to start the conference on this subject. My purpose in writing is to determine whether or not it would be possible to have the resource paper prepared by staff members of the Bank. If so, we would appreciate it if you would make the necessary arrangements for it.

Following the pattern of the Agriculture meeting last year, we would like to distribute the resource papers in advance so participants will have had an opportunity to read them prior to the conference. If it would be convenient, the paper could be distributed direct by the Bank, in which case we will provide later an up-to-date list of participants and addresses. If you prefer, however, we will be pleased to include it with some of the other papers that we will be mailing from the Foundation. In that case, we would appreciate having copies of the Bank paper by March 18.

I will anticipate hearing from you regarding whether or not this paper can be prepared by your staff.

Sincerely yours,

Bill

W. M. Myers

Mr. Robert S. McNamara, President
International Bank for Reconstruction
and Development
1818 H. Street, N.W.
Washington, D. C. 20005

WMM:msl
Enclosure

POPULATION CONFERENCE - VILLA SERBELLONI

Tentative Agenda

April 6	9:30 a.m.	Resource Paper - World Bank Population Growth: Implications for Economic and Social Development
	2:30 p.m.	Resource Paper - Gavin Jones Population Growth: Implications for Investment in Education: Case Studies
	4:30 p.m.	Resource Paper - (?WMM) (?Arne Tiselius) Population Growth: Implications for the Environment: The Problem of Industrialized Countries
April 7	9:30 a.m.	Resource Paper - O. Harkavy and J. Maier Research in Reproductive Biology and Contraceptive Technology: Present Status and Needs for the Future
	2:30 p.m.	Resource Paper - ?Ronald Freedman Research in the Social Sciences: Present Status and Needs for the Future
April 8	9:30 a.m.	Resource Paper - B. Berelson Population Growth: Family Planning at the Crossroads: Where Do We Stand; Where Do We Go from Here?

Mr. Robert S. McNamara January 24, 1969

Irving S. Friedman

Speech to Bankers

I attach hereto the draft Speech to Bankers with some suggestions. I have tried to indicate,where it seemed necessary, why a change was being suggested.

I am also attaching a memorandum from Mr. Kalmanoff who undertook to organize the checking of the economic data. Of particular importance is reference to page 3, paragraph 3, where he has suggested some re-writing for your consideration. I believe his redraft is an improvement.

The only point which I would like to make to you orally is on page 5 on why we had run down the Bank's balances of cash and liquid securities in the past. This can be done very briefly.

I think that the proposed draft speech is convincing and useful.

Mr. Robert S. McNamara January 24, 1969

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DRAFT 1/22/69
All figures subject to check.

Speech to Bankers

It is a real pleasure to be here at the heart of the financial community of this country. I appear before you with a certain trepidation because you are all much more experienced in this field than I am. But, nonetheless, I want to take this opportunity to discuss with you our plans for the future lending operations of the World Bank and the relationship between those plans and our borrowing program.

First, let me emphasize a point that my predecessors Mr. Eugene Black and Mr. George Woods have made over and over again: the Bank is not merely a financial institution -- it is a development agency which, according to its Articles, is to operate in such a way as to ensure that the projects which it finances make their maximum contribution to the economic development of its member countries.

I enjoy the opportunity which service with the Bank offers to participate in the great campaign for world development. Since long before I came to the Bank, I have thought this to be one of the most crucial problems of our time. It was the opportunity for association with such an institution which attracted me to the Bank. But having said that, I must make equally clear that the World Bank is a development investment institution, not a philanthropic organisation giving away money for human betterment, nor a welfare organisation subsidizing the poor.

Our money is invested on two absolute criteria:

First, the investment project must demonstrably have a high economic return.

Second, the economy of the country, to which the project is contributing, must be capable of fully repaying the loan and interest -- the borrower must be creditworthy.

I have no intention of departing from those criteria. Indeed, I am certain that with twenty years of accumulated experience the Bank's appraisal of the economic value of new project investments is today more intensive, more sophisticated, and more reliable than it has ever been before.

In examining the creditworthiness of our clients, I am fully aware that the difficulties are growing as the debts of the developing countries grow, so I have set in train a special study of this problem to ensure that our loans have a firm basis for repayment.

Our studies of creditworthiness are not just passive examinations of how a country is managing its economic affairs. They are, increasingly, designed to make suggestions about the improvement of those policies, and, as you well know, changes in economic policies once accomplished can work near miracles in improving the creditworthiness of governments and nations.

As I have said the World Bank will continue to lend only on the sound financial principles of economic viability and creditworthiness, but I am convinced that within the limits of these principles we can and should greatly expand our lending program, if we are to fulfill our obligations to our member states.

I would like to share with you the conclusions that made me so decide.

First, let me emphasize that the IBRD arm of the World Bank, in contrast to the International Development Association, is essentially a hard lender. It takes a hard look at the countries who wish to borrow from it; a hard look at the purposes for which they want to borrow; and a hard look at the prospects of servicing their loans -- when it makes a loan it expects to be repaid.

The question is: do the developing countries need more loans of this type? Based on a careful analysis, we believe the answer is yes.

As we look around the world we see an expanding world economy. The industrial economies are, of course, in the forefront of this expansion. But in the developing world, too, many of the nations -- Malaysia, Singapore and Brazil, to name but a few -- are experiencing dramatic growth which is being fueled by the transfer to them of modern technology, modern management and development capital.

The dramatic breakthrough in wheat and rice cultivation in India and Pakistan, where agricultural production, after adjustment for changes in weather, has risen over one-third, demonstrates the potential of the agricultural revolution.

The phenomenal growth of industrial production and industrial exports in Taiwan and Korea, where increases have averaged over 20% per annum in recent years, leads one to conclude that Japan's transition from a less developed to a developed country within a space of two decades may not be an isolated phenomenon.

Each of these nations and many others like them require development capital -- huge amounts of capital -- capital to expand the irrigation systems, capital to build the fertilizer plants, capital to construct the storage facilities that are all required for full realization of the potential of the new agriculture; and equivalent amounts of capital to realize the potential of the mushrooming markets for industrial goods.

The facts are clear: the needs of the developing countries for capital have not grown less; indeed the opportunities for economically valuable investment are greater than ever before. As in the past, 80% of the funds required will come from savings within the developing countries themselves. The other 20% must be supplied from abroad.

Yet, just at the moment when the need for external capital is greatest, the supply of such capital has begun to dry up. Why it has begun to dry up is a long story, which I do not intend to pursue today, beyond saying that the disenchantment with economic aid seems to spring from two assumptions which I believe to be erroneous: first, that the richer countries through either public or private investment, or both, cannot afford to finance development abroad, and second, that aid for development has showed a record of waste, incompetence and failure.

Soon after I came to the Bank, therefore, I was faced with a choice: was it the path of prudence to follow the existing trend and cut back the Bank's operations, or should the Bank try, within the limits of its capacity, to lead in the opposite direction, taking advantage of the new opportunities for economic growth which lay before us.

It was only after a rigorous survey of the prospects for the Bank and for its developing members that I came to the conclusion that we should, that we must accept the challenge and move against the tide towards greater assistance for development.

Frankly, neither I nor the members of my staff know precisely what the new investment opportunities, when matched against the Bank's lending criteria, will justify in total lending per year. The best estimate we have been able to make so far is that the demand for Bank loans for the next five years, on standards as high or higher than those of the past, will require an increase of at least 100% in the level of Bank lending.

Taking all of this into account, we decided that the Bank could and should double its lending program over the next five years. A program, I emphasize, which is designed to help countries to improve their economic performance and so their creditworthiness; a program to improve the economic performance of the world as a whole.

What was this going to mean in terms of Bank finance? I was fully conscious that the crucial question was this: were the targets which appeared desirable, and even necessary, attainable in terms of the Bank's relations with the financial world. Not only did we have to borrow more if we were to lend more, but it appeared wise to borrow as well to improve our liquidity position. For in recent years the Bank's balances of cash and liquid securities had been drawn down by about $400 million, because of the difficulties of borrowing in world capital markets, and we needed to reverse that process to gain ourselves flexibility.

Was the target of a 100% increase in loans, plus the increase in liquidity which appeared to desirable possible in terms of our bond sales? It was a big jump and I confess neither I, myself, nor some of my colleagues were sure of our capacity to make it.

But on the whole I was optimistic. In fact, as I examined the proposal more thoroughly I became more and more convinced that it was a reasonable and moderate target. I was proposing, in broad terms, to increase lending by the IBRD from approximately $800 million per annum to perhaps $2 billion and in addition to add perhaps one-half billion dollars to our cash reserves.

This would require net borrowing of about $750 million per annum which amounts to just about 1% of the total of long term funds raised in the money markets of the industrialized countries. That did not seem, and does not now seem, an indigestibly large amount of borrowing for the world-wide capital market.

It is one of the advantages of the World Bank that it can raise money in any member country which can provide convertible currency, and thus share the financing amongst a large number of nations. In recent months, therefore, we have looked around the world for new sources of funds; and we have not looked in vain. We have found new sources of finance, for instance, in the oil rich states of Saudi Arabia and Kuwait, and even more importantly in the one country with an abounding balance of payments surplus -- the Federal Republic of Germany.

What is more, within Germany, we tapped a totally new source of finance for the World Bank. It is the Westdeutsche Landesbank, a clearing center for 1000 savings banks, and now the largest bank in the Federal Republic with deposits of over $9 billion. Moreover, our German bonds were last month, for the first time, accorded the highest credit rating in the Federal Republic when they were designated as "mundelsicher" or trustee securities suitable for purchase by Guardian Funds. This is simply the latest proof of the high esteem with which our securities are regarded.

Another similar indication is the fact that the Central Banks of the world now hold as reserves slightly over $1 billion of our debt, approximately 30% of the total. Their holdings have been increasing during this fiscal year, and I expect that they will continue to increase in the future.

It is in no way surprising that our securities should be purchased by guardians for trust funds or by Central Bankers for reserve accounts. The combination of assets and guarantees which provides the security behind our bonds is unique:

. A portfolio of loans for projects which bring high economic returns to the borrower -- returns running as high as 100% per annum and averaging well over 10% per year;

. A 100% guarantee of repayment of each loan by the government of the country in which the project is located;

. Cash and liquid security balances equal to 45% of the outstanding Bank debt;

. Paid-in-capital and retained earnings amounting to 100% of our debt;

. Uncalled subscribed capital guaranteeing the debt and equal to 600% of the amount outstanding.

Because of the strength of this security, we have been able to place recent bond issues at extremely low rates. An issue of World Bank bonds, with 8 to 15 year maturities, was sold in January in Germany to yield 6.54%. By comparison, an issue of a major European government, of comparable maturities, was sold recently in the same market to yield 6.92%.

In essence, World Bank bonds are backed by the full faith and credit of the World's monetary system. Yet we at the Bank have traditionally acted as if this outside protection of our bonds did not exist, and we have sought, successfully, to ensure that the guarantors shall never be called on.

The best guarantee of our bonds, in my view, is the prudent operation of the Bank by its skilled and experienced staff. I intend to ensure that this guarantee is the only one which will ever be exercised.

The record of the Bank's operations under my predecessors is excellent by any standards. Profits have been good and have risen steadily in recent years. In fiscal 1969, they should exceed $160 million (compared to average annual profits during the past five years of $145 million), and they can be expected to continue to rise in the future. This is true even though Bank interest rates in the future will be set at concessionary levels as they are at present.

Today a typical 25-year Bank loan, which carries an interest rate of 6.5%, contains a free grant element of approximately 20% of the face value of the loan. The combination of concessionary interest rates to our borrowers and operating profits to our stockholders is made possible by the high ratio of interest-free capital to funded debt -- at present a one-to-one relationship. Currently, the average interest rate paid by the Bank on its total funded debt and paid in capital and retained earnings amounts to 3.1%. Essentially, it is the difference between this rate and the Bank's lending rate, currently 6.5%, which permits the Bank to cover its administrative costs and to earn a substantial profit.

But, though profits have been good, it is, of course, on the choice and supervision of our overseas investments that our reputation rests. I have been deeply impressed since I came to the Bank by the accumulated skill with which the staff analyzes both the specific project and the economy of the borrower before each loan is made, and, after it is made, the immensely careful supervision of the disbursements as the project proceeds. Such deep involvement in the domestic economies of independent (often newly independent) countries is only tolerable because the recipients know that the Bank staff genuinely have the economic welfare at heart. The security of our investment is identified with the reality of their development.

It is on these very strict standards of appraisal and supervision that the high reputation of the Bank has rested, and, I am determined, shall continue to rest even during the forthcoming period of expansion. This can be achieved because in twenty-two years we have learned so much about the techniques of development planning, of supervising projects in distant and often primitive surroundings, that we can now handle efficiently a larger volume of work. It is, however, clear that if our work is to increase our staff must increase, and, consequently, I have set in motion a world-wide recruiting drive to find professional economists, engineers, and financial analysts who can be trained up to our existing standards of excellence. We hope to expand our staff by about 20% this fiscal year. This is not going to be easy, but the attraction of the Bank's reputation makes it possible, and the results to date give every indication that we will achieve this goal.

At the same time that we are expanding, we are finding it necessary to diversify our effort and change our emphasis as the needs of development change. It is no longer sufficient to invest in infrastructure -- in power, transport, highways -- the need and the opportunity is shifting to agriculture, to education, and to population control. But I must emphasize that in these relatively new areas of our activity the same rigorous standards of economic profitability for the project and creditworthiness for the borrower will be applied.

Of course, it is not so easy to quantify the economic benefits of a school as of a hydro-electric plant; and it is clear you have something more impressive and solid to show when you build a highway than when you sink a lot of tubewells. But I can assure you that the economic benefit derived from a good irrigation system, allied to the use of new strains of seeds, can be of the order of 100% per annum. I am in fact quoting an actual instance from Pakistan.

When you reflect that at present the less developed countries pay out $4 billion in foreign exchange each year to import food, it is clear also that agricultural development can tremendously benefit their balance of payments situation and so their creditworthiness.

Our economists at the Bank have been working on methods to quantify the financial returns derived from social investment -- such as education. Their conclusions demonstrate that the benefits vary enormously, a liberal arts college in a primitive unschooled area, can be a dead loss; a technical high school in an expanding economy in which available capital is not matched by qualified labor can pay huge dividends. It is our job to find out what sort of education contributes most to steady economic growth and to place our investments accordingly. That is what we are doing today, and what we shall continue to do increasingly.

In developing countries with high birth rates, loans for population control have perhaps the highest economic benefits of all. This can be shown by detailed calculations of financial returns. As a matter of fact, in many such countries, unless the rate of population growth declines, not only will there be no economic betterment for their people, but their capacity for repaying foreign loans will be destroyed within a decade or two.

As I have said, the Bank conducts its affairs as though the only security behind its bonds was the financial soundness of the projects represented in its loan portfolio. But beyond that assurance stands a very favorable ratio of equity to debt, currently approximately one-to-one (on July 1, 1968 total debt amounted to $3.5 billion compared to capital and retained earnings of the same amount) and two unique guarantees by the governments of the world: 1) each loan is guaranteed 100% by the country in which the investment is made and 2) the total of all Bank debt is guaranteed by the uncalled capital subscriptions of the member governments which can be used for no other purpose.

In the twenty-two year history of the Bank, there have been no defaults on its loans -- no borrowing government has failed to honor its guarantee. The Bank has not been a target for debt repudiation as have bilateral aid agencies and private credit corporations. The reason is clear: there is a recognized need everywhere in the developing world for keeping good relations with the Bank. It is no accident that even in extreme situations, such as the latter years of Nkrumah's regime in Ghana or when the UAR defaulted on bilateral creditors and even on the IMF, they did not default on World Bank loans. And the advantage to the borrower of continuing to meet its obligations to the Bank will increase as we become a more and more important source of development capital.

The final security behind our bonds is the full faith and credit guarantee of the member states represented by their uncalled subscriptions to Bank capital. These amount at present to $20.7 billion, approximately six times the total of the funded debt. The $20.7 billion includes the U.S. share of $5.7 billion and the Common Market, U.K. and Canadian share of $6.6 billion.

The guarantee represented by the uncalled subscriptions may not be eroded. It can be used solely as a protection for the obligations of the Bank; it cannot be drawn upon for loans or administrative expenses. Moreover, the uncalled subscriptions are expressed in U.S. dollars of the weight and fineness in effect on July 1, 1944, and, therefore, are not subject to fluctuation as a result of changes in the value of currencies. And because the loans of the Bank are dispersed in the denominations and amounts of the currencies which it borrows, in relation to borrowed funds the Bank faces no devaluation risks -- its obligation to its creditors is matched by the repayment of the borrower.

* * * * *

All that I have said adds up to one thing: development can be conducted on sound financial principles; it is so conducted by the World Bank.

It is the realization that the World Bank is in this Development business, world wide, on strictly professional lines which has earned it its reputation, and which has made so many people around the world turn to us as the acknowledged leaders in the field. The program I have outlined is designed to extend that leadership into the future.

It is too early to report in any definitive way on how well we are meeting that program. But I can tell you that during this fiscal year to date we have borrowed more than in any previous year; our lending operations, both in number and amount, are up substantially over last year; and our cash balance is up $400 million over the level at the beginning of the year. I believe you will agree these are signs of a vigorous, expanding organization with a sound and secure base.

Thank you, and goodnight.

cc Wm. Clarke 13/1
Sir Denis Rickett 21/1

CONFIDENTIAL

IRVING S. FRIEDMAN

January 10, 1969

Some Effects of the Bank's Expansion Program on Its Standing in Capital Markets

1. Introduction

The Bank's announced plans to double its lending in five years and to step up financing of relatively new and difficult areas of agriculture and education, combined with its intended increase in bond sales, have raised questions with respect to its position in capital markets. In part this is a natural reaction to any institution or corporation which announces a sharp increase in borrowing; but there are some issues raised due to the unique features of the Bank as an inter-governmental institution. We know that there are a number of factors that influence the investing public. These include their evaluation of the management of the Bank, the financial position of the Bank, the existence of uncalled subscribed capital which acts as a guarantee fund, the size and composition of its portfolio, the state of the capital markets, expectations of inflation and deflation, the experience of other large borrowers, the political attitude of governments towards the World Bank, etc. It is virtually impossible to say which of these motives or considerations are the weightiest, although it is possible to have some judgment as to which of these factors ought to be the weightiest from an objective financial viewpoint. This memorandum tries to discuss some of the questions which have been raised or which are likely to be raised in the future by members of the financial community and by prospective purchasers of World Bank bonds. It does not accept the philosophy that these viewpoints should dominate Bank actions, but rather tries to contribute to finding ways and means to reconcile a very large expansion of the Bank's role with the need to raise capital in private markets.

In the present form, the memorandum is merely intended for you personally. Some points made in this memorandum could be used in public if you agreed with them, but I have taken the liberty to raise certain points which are too sensitive to be discussed in public. Much of this material is hopefully relevant to the "white paper" on finance which I plan to continue to work on, together with Mr. Rotberg, as requested.

2. The Nature of the World Bank - is it a Development Bank or is it becoming a Development Aid Institution?

Most bilateral development agencies are regarded as political institutions. They are designed to give aid on concessionary terms for a great variety of reasons. Frequently they are not too concerned with repayment and give great weight to national political interests. Their public image in certain countries and among certain groups, including the financial community, is poor, much worse than their actual performance.

The World Bank is a peculiar institution. It is inter-governmental but supposedly non-political. It is expected to apply at least the standards of objectivity and competency found in major private corporations, leading banks in all countries, research institutes, and first-rate academic universities everywhere. It must have the guarantee of governments for its loans, yet it is assumed that these loans will be made on economic grounds. It is not permitted under its Articles to make loans which can be financed from other sources on reasonable terms, yet it is supposed to make loans which the world will applaud as highly desirable and of first-rate quality. Being inter-governmental it is supposed to be concerned about the external financial position of its borrowing countries and, therefore, presumably charge rates of interest as low as possible, but at the same time it is expected to earn handsome profits and show that any private investor looking at its balance sheets or financial statements will be most favorably impressed by what he reads. Despite the fact that it is inter-governmental, it is expected to raise most of its funds for lending purposes in private capital markets without even knowing in advance whether countries concerned will give permission to raise funds in their capital markets. Of course, there are advantages, such as large capital resources free of interest and dividends, the possibility of going back for increases in capital subscriptions, the use of uncalled capital as guarantee authority and the ability to recruit an international staff from all over the world. The Bank has tried to reconcile these contrary aspects by being guided essentially by the following sound banking principles:

(a) The Bank lends at conventional interest rates, higher than the average borrowing rate. (In this respect the Bank differs from most aid agencies and IDA.)

(b) It lends only to creditworthy countries (unlike IDA).

(c) It generally finances only specific projects and attaches several economic, financial or management conditions to secure the soundness of the projects (unlike bilateral aid organizations).

The above principles operated with little difficulty or questioning as long as the Bank remained a relatively small institution. The bond issues it sold were not large and fairly infrequent. The amounts loaned to any country may have looked large to some but were really relatively small, and particularly small in relation to the financial resources of the Bank, including its uncalled capital subscriptions. It could select so-called high priority projects, and not pay attention to what other investments the country was making. The fact that Bank financing of these projects might have facilitated mighty poor investments in these countries pricked the conscience of some people within the Bank but seemed to have had virtually no impact on the investment community. Creditworthiness under these combined circumstances was not a thorny issue, at least until the 1960's.

It is when the Bank begins to think of becoming a major lender to the developing countries that its basic internal inconsistencies become much more difficult to resolve successfully, particularly in a manner satisfying to the financial community. For example, if we are a major lender to a country then our lending terms will obviously become a major factor in its debt servicing. Its creditworthiness becomes something which is being greatly influenced, if not made or destroyed by our activities. The projects we are financing can no longer be confined to things that look good in pictures. Yet the moment we step into other fields, as discussed in more detail below, major questions arise in the minds of the financial community -- particularly because of the nature of the investments, prticularly because the Bank itself has highly popularized its past "high quality" investments as a major indicator of its being a soundly managed institution. As long as countries are in great need of infrastructure, it is easy to look good, but in many developing countries the great needs are investments in agriculture, industry, population planning, education, etc. The total amounts to any one country may look large to a skeptical investor and the total portfolio look more vulnerable to defaults (and less marketable), while the Bank's total funded debt no longer is picayune compared with uncalled capital.

In making the transition to becoming a major institution, the Bank is likely to have to rely heavily in the foreseeable future on the support of the financial community and the support of the governments concerned. Without these governments the Bank, in the first instance, cannot approach the financial community, and in the longer run will not get the increased capital subscription which seems likely to be inevitably required in the not too distant future.

The financial community can, however, be assured that the basic principles of sound finance outlined above will continue to be maintained in the future. Insistence that the Bank shall continue to maintain sound banking principles may on the surface seem inconsistent with our announced policy to actively seek for opportunities to expand Bank lending. They need not be. The increase in our lending is made possible by increased efforts to help countries improve their economic performance, which is basic for their creditworthiness, and by helping to prepare and execute good projects worthy of Bank financing. We don't make loans unless we expect to be repaid and we don't invest for purposes that future governments are likely to repudiate as not having been in the interest of their countries. The Bank gives the highest priority to good economic policy performance. Fortunately, good development policies lead to financial strength; by insisting on the former we help obtain the latter.

3. Country Composition of Portfolio

It must be admitted that from the point of view of private investors, the country composition of the Bank's portfolio may become increasingly less attractive than at present. This is due to a combination of two factors:

(a) Phasing out of repayments for "reconstruction" loans to European countries;

(b) Phasing out of development loans to some semi-industrialized countries, such as Japan and Australia, which have excellent credit ratings in capital markets. It is probably worth mentioning that by making sizable loans to these countries in the 1950's the World Bank actively helped to establish their subsequent strong creditworthiness in capital markets.

We aim to do the same for at least some of our present major borrowers. On the other hand, it must be recognized that some major future borrowers from the Bank, including Brazil, Argentina, Colombia, Chile, Peru, Turkey and Yugoslavia, have a history of rescheduling and rescue operations, and their credit ratings at present in capital markets are low. Some of these countries have also a continuous record of political instability. It is fair to say that most investors in World Bank bonds would not be willing to purchase bonds of these countries, except possibly at prohibitive interest rates. This is one of the most difficult issues involved in the question of the Bank's future position in capital markets -- we lend to countries which are considered very risky by market standards yet they are expected by all to be our borrowers. (Further work must, of course, be done both to evaluate the creditworthiness of these countries, as well as to help improve their creditworthiness. Creditworthiness is a dynamic variable and virtual miracles can be accomplised by policy changes.) Fortunately, the market really does not expect us to have the same standards as a private investor. They accept the intermediary role of the Bank -- which involves finding the vague and shifting line between what is regarded as sharing good judgment by the financial community and what is regarded as unsound -- on which, of course, there is no uniform opinion among private investors! At the present time, however, a case can be made that our loans to these countries are considered to be well within the limits of Bank creditworthiness by standards nearly, if not all, will accept, if we pursue them consistently.

(a) Export prospects appear reasonably good, as measures are taken to increase incentives for traditional exports and to boost non-traditional ones;

(b) Use of short-term and suppliers' credits has been brought under control;

(c) Management of fiscal affairs is improving, and public savings are raised;

(d) Inflation is being slowed down by stronger emphasis on monetary policy;

(e) The ability to prepare and execute development programs and projects has been greatly improved;

(f) Relations are being established in cooperation with the IMF with such countries to help them sustain and adapt intelligently their economic policies to changing circumstances; they are being told that good economic policy performance is a prerequisite for loans.

In addition, there seem to be some signs of greater political stability in these countries. Coups in many governments are liable to occur at any time. The Bank has, however, the added protection not only of our guarantee funds but the recognized need everywhere in the developing world of keeping good relations with the Bank. These countries have come to accept our standards and judgments as objective and reliable -- often tough to live with but in the interests of the country concerned. The World Bank has not been a target for repudiation as bilateral aid agencies and private credit corporations. It is no accident that even in extreme situations, such as the latter years of Nkruma's regime in Ghana or when Nasser defaulted on bilateral creditors and even on the IMF, they did not default on World Bank loans. Barring a mjaor world-wide depression or a political revolution in a major debtor country, there is little risk of a significant number of actual defaults on World Bank laons. It may well be that we won't have any -- developed countries as well as borrowing countries have such deep interests to avoid this -- irrespective of the type of loans made or even the borrower's financial position. We cannot minimize the psychological effects of political and financial difficulties in our major debtor countries on the Bank's image as a financial institution, but these difficulties do not significantly diminish the attractiveness of the World Bank bond for the private investor.

4. Project Composition of Portfolio

Doubts have been expressed and are likely to be expressed in the future that more vigorous lending for agriculture, education and population control as well as more program financing might dilute the "sound" project content of the Bank's portfolio. Purchasers of Government bonds do not generally pay much attention to the uses of funds by central or local governments because they simply rely on the ability of governments to raise taxes whenever necessary. This is not the case with the Bank, which not only has no taxing power, but also makes clear that it considers the guarantees of member governments only as a "last resort". As said before, when the Bank lends it expects to be repaid. Efforts designed to bring about a better understanding of what consistitutes a good project particularly in respect to the concept of economic returns, as distinct from financial are essential and a priori there are reasons to believe this could be fruitful.

Although in the past most of the Bank's loans were for infrastructure, (transportation facilities, power and irrigation) they were not limited to so-called "self-liquidating" loans in the sense of revenue-producing investments, the proceeds of which were partly used for loan servicing. The Bank has financed many highway projects which (except in rare cases of toll roads) are not revenue-producing, but undoubtedly have high economic returns.

Although we pay attention to the financial return whenever appropriate, it is the economic return which is the major test of the benefits and soundness of a project. By this yardstick, loans for agriculture, education and population control are likely to show high returns. Agricultural loans are carefully chosen to raise food production, and thus to increase the intake of food and its nutritional content. In view of recent breakthroughs in technology and readiness of governments to provide proper incentives to domestic farmers, quick results can be expected, which would almost certainly lead to higher productive capacity of the LDC's. In addition, the LDC's presently spend over $4 billion a year for imports of food and agricultural materia . Agricultural development could result in considerable foreign exchange savings, and thus directly strengthen their balance of payments.

Loans for education carefully scrutinized to raise the skill potential in developing countries will also make a direct contribution to raise their productive capacity. Modern industry virtually everywhere recognizes the key importance of skilled personnel to improve productivity. It has long been recognized that the lack of skills in the developing countries is perhaps as strong a constraint on productivity growth in these countries as the shortage of capital. Loans for population control have perhaps the highest benefits of all per dollar spent or loaned. This can be shown by well-known calculations as to economic benefits from prevention of births. What is needed is to know more how to convince governments of the need to act and how to act effectively. We are working on this and hope to do more. In the meantime, we are probably not likely to be making large loans for family planning purposes.

To the extent that program loans are made from Bank sources (as distinct from IDA), they are exceptional cases, in which they economic returns from increased capacity utilization need to be, and can be clearly demonstrated. However, program loans to certain countries seem to be more acceptable to the financial community than others. The worst cases from this viewpoint are possibly those countries which have received program loans from the U.S. aid program, e.g. Colombia and Chile. The attention which is given to unfavorable developments in these countries in the press plus the disillusionment with aid generally may well make program loans to these countries appear to be substitutes for hand-outs and disincentives to good government. We have an educational job to do and, in the meantime, project and sector loans (together with local currency financing) is probably better advised than program financing in such countries, even though economically program lending to some extent is more sensible. This would argue for an intensive educational effort to bring this Alice-in-Wonderland situation to an end as quickly as possible. It seems important to educate the public that we would not have a Bank (or IDA) program unless we were favorably impressed with the government's economic policy performance and investment program. If our assessment disagrees with conventional attitudes on a country in the financial community, it should be our aim to achieve the kind of reputation for assessing over-all performance and implementing it, that our judgment will be considered superior by most. The Fund has done this in the monetary and short-term balance of payments management field; we can do the same in the development finance field.

In all project loans, including those made for agriculture and education, the Bank insists on strict conditions in order to secure efficient management and organization, high technical standards and proper supervision. These "institution building" aspects of projects have long-lasting effects. Projects financed by the Bank are generally considered examples of good investments and often help to raise standards of other projects as well.

In order to secure the maintenance of project standards at an increasing rate of lending, the Bank makes special efforts to extend technical assistance to its borrowers in preparation and execution of projects. The Bank does plan to make many more investments but is taking the steps to ensure that this greater volume of activity can be processed without lowering of its high standards and without excessive delays.

5. The Bank's Financial Position

In Standard and Poor's, which rates the Bank's U.S. dollar bonds as AAA, the following data (brought up to date) are noted:

The Bank has a paid-in capital of $2,300 million[1/] at the end of 1968. In addition, it has a "special reserve" of $291 million, which has been accumulated from commissions received. According to the Articles of Agreement, the Special Reserve is to be held in liquid form and to be used only for the purpose of meeting liabilities of the Bank on its bonds and guarantees. In addition, the Bank has a Supplemental Reserve of close to $1,000 million, accumulated from retained earnings against losses on loans and guarantees and

[1/] The following figures are as of the end of November 1968.

from currency devaluations. Altogether the Bank has paid up capital and reserves of over $3,580 million. In terms of liquidity, the Bank presently holds cash and securities worth over $1,500 million.

The Bank has a consistent record of high net earnings, as follows:

FY 1962	$98 million
1963	113 "
1964	131 "
1965	138 "
1966	140 "
1967	170 "
1968	147 "

According to the five year plan the basis of conservative projections, net earnings are expected to amount to an annual level of some $160 million in the next five years. The Bank plans to retain up to a half of such earnings, in order to strengthen its financial position.

Although the present financial strength of the Bank rests mainly on the above amount of paid-in capital and reserves, it has also capital subscribed but not called of $20.6 billion, which forms a guarantee of all major governments to holders of Bank bonds and obligations. This includes not only the guarantee of the U.S. Government, but also of all major industrial governments which have a strong financial position in internaional markets.

The uncalled capital is, however, considered by the Bank only as a guarantee to be used as a last resort. The Bank's financial strength does not depend on this guarantee fund. It relies primarily on the care with which investment decisions are made; its interest rate policy on loans; its willingness to pay competitive rates of interest for funds in reasonably normal capital markets; its continuous presence in such markets; its maintenance of an adequate cushion of liquidity to cover contingencies, including disturbed capital market conditions, possibilities of default, however remote, and unexpected large needs for disbursements; its flexibility in the forms of investments, e.g. private placements, sales to central banks and other forms still unused; its initiatives in seeking new sources of supply of loanable funds; its maintenance of an active intelligence network with financial leaders to obtain the benefit of their knowledge, etc. These factors give reason to believe that the Bank can expand its lending and borrowing activities without impairing the Bank's financial position and reputation and its ability to sell the needed amount of bonds. It might well enhance the financial reputation of the Bank if we pointed less to its guarantees and more to its management as the bulwark of its financial strength. Banks in the United States display on their windows that they are covered by the F.D.I.C., but when they speak of their soundness, they refer to liquidity, assets, reserves, management, etc. If the Bank could convince investors that the guarantee was really not a vital part of the attractiveness of its bonds the arguments heard in financial circles about the uncertainty of governments fulfilling their guarantee obligation would disappear or become nearly meaningless.

Another aspect with respect to the Bank's financial position as viewed by the financial community is the lending rate. There may well be a weakness in the present lending rate. Our rate looks quite low considering both our borrowers and what the governments and first-rate corporations and official entities in industrial countries are paying. The "subsidy" element in our Bank lending rate is becoming increasingly obvious, which doesn't "look right", and there may be concern about our future net earnings. If the present unusually high levels of interest rates continue to prevail, there may be no choice but to raise our lending rate. The real costs for the Bank borrowers would not be too high. For example, at an annual rate of Bank lending of $1,750 million, a rise of ½% in the interest rate would increase total annual interest payments by $8.25 million when these loans are fully disbursed.

The latter question is of course closely related to the general level of interest rates and especially with the costs of our borrowing. Moreover, with the rate of inflation of almost 5% in 1968 in the U.S., corporations are ready to pay high nominal interest, since the "real" interest rate in terms of purchasing power is greatly reduced by inflation. In addition, interest payments are expenses for tax purposes, and thus the real cost of borrowing for tax-paying corporations is greatly reduced. Under such conditions, interest rates in the U.S. may well remain at high levels, although not necessarily at the present levels. They are likely, on balance, to recede somewhat, but they could go higher, unless an effective anti-inflationary policy is pursued.

6. The Size of Bank Borrowing in Relation to Bond Markets

The increased sales of World Bank bonds are bound to raise questions with respect to the "absorptive capacity" of bond markets. However, this increase does not take place in static markets. The planned increase should be seen against the background of rapidly expanding sales of new bonds in major markets, which increased 75% from 1965 to 1967 (from \$36.9 billion to \$64.5 billion), and again rose considerably in 1968. Not only has the volume expanded rapidly, but new types of bonds have quickly spread, as evidenced by the outstanding increase of sales of Euro-bonds from a negligible amount in 1963 to about \$3.5 billion in 1968.

In estimating their share, a question arises as to what categories of bond sales can World Bank bonds be compared. For statistical and legal purposes, they are generally classified as "international bonds." If measured as a part of issues of "foreign and international bonds" (as distinct from domestic bonds), issues of World Bank bonds accounted for about 12% which is a fairly high percentage. However, this classification is not really meaningful from the point of view of investors: World Bank bonds are generally denominated in domestic currencies, backed by financial resources held in domestic currencies and by a guarantee of the domestic government (in addition to other governments). In the U.S. they have been made by legislative action eligible investments for various classes of institutional investors in virtually all States. To the investor they are actually domestic bonds for all practical purposes. If this is not the case, our promotional efforts need to be directed to this end.

Issues of Bank bonds in all markets are planned at about $750 million gross a year, excluding placements with Central Banks and other official institutions, which accounts for less than 1% when compared to total sales of bonds in major capital markets (see attached tables)[1/] Issues are placed through well-established underwriters in various countries. Occasional errors by all borrowers in judging markets are almost inevitable, particularly if there are significant time lapses between terms agreed with underwriters and actual placements. The more abnormal conditions are, as now, the shorter these time periods need to be. As every investment banker knows, the "book" of anticipated orders may shrink or vanish by the time an issue is placed, but these are the reasons underwriters are paid commissions and some are more reputed than others!

7. Concluding Remarks

As indicated above the Bank can succeed in preserving its reputation as a sound financial institution while greatly expanding its lending and borrowing operations. Indeed, to the extent that it succeeds in doing so it can become even more effective in carrying out what may be regarded as its non-banking functions, e.g. advocating a larger IDA, coordinating bilateral aid, promoting new kinds of roles between developing countries and developed countries, advocating greater attention to critical but sensitive issues, like the need for political stability and family planning, etc.

1/ Bonds sold to the Bundesbank and other central banks, or other official institutions, are private placements with governmental institutions and held exclusively by them. They are not placed in capital markets. We might do well to make a very clear distinction between these different categories of bonds, thus reducing considerably the figures used to calculate the Bank's share in capital markets.

DOMESTIC CAPITAL MARKETS: NET ISSUES

Billion U.S. Dollar Equivalent

	1965	1966	1967	1968
Belgium	.90	.80	1.17	
Denmark	.68	.58	.61	
France	1.45	1.77	1.68	
Germany/1	3.46	1.72	4.04	
Italy/2	.32	.45	.39	
Netherlands	.36	.38	.36	
Spain	1.02	.96	1.11	
Sweden	.53	.93	1.42	
Switzerland/3	.61	.67	.76	
United Kingdom/4	2.32	2.58	3.53	
United States/5	19.40	24.40	40.35/8	42.30/9
Canada/6	1.56	2.22	2.84	
Japan/7	4.26	7.16	7.00	———
TOTAL	36.87	44.62	64.54	70-75 (Est.)

Total net issues exclude shares of the private market (private market includes issues of semi-public credit institutions and nationalized industries).

/1 Includes issues sold to foreigners. Change in market holdings of bonded loans and medium-term notes of public issues.
/2 Public issues include indirect Treasury borrowing.
/3 Includes privately placed issues.
/4 Change in marketable debt (excluding Treasury bills) in public hands.
/5 Based on Federal Reserve Flow-of-Funds data, excluding mortgage loans. State amount is direct issues, including Agency issues and participation certificates. Foreign issue amount is a gross figure.
/6 Foreign issue amount is a gross figure.
/7 Private bond figure includes public corporation bonds.
/8 Figure revised upward due to latest revised data of Morgan Guaranty Trust Co.
/9 Preliminary data provided by Federal Reserve.

Source: Bank for International Settlements Annual Report, June 10, 1968.

INTERNATIONAL BOND ISSUES, INCLUDING NORTH AMERICA

(in millions of U.S. dollars)

	Euro-Bonds	Foreign Bonds			Grand Total
		Europe	Canada	United States	
1963	164	350	-	1,400	1,914
1964	719	234	-	1,200	2,153
1965	1,079	256	23	1,600	2,958
1966	1,140	339	9	1,700	3,188
1967	1,999	317	19	2,500	4,889
1968	3,502	1,171	14	2,100 (Jan.-Nov.)	6,787 /1

/1 Incomplete; includes issues of foreign bonds in the United States only through November 1968.

Source: Morgan Guaranty Trust Company, World Financial Markets, December 27, 1968.

Mr. Robert S. McNamara

January 14, 1970

Irving S. Friedman

"Scientific American"

If you have not already seen it, I thought you might like to see the attached issue.

CONFIDENTIAL

Mr. John H. Adler

January 7, 1970

Irving S. Friedman

IDA Replenishment -- U.S. Position

In your memo to Files of December 30, 1969, I was, of course, interested to read that the U.S. Treasury had indicated that it would want to have some balance of payments safeguards and you had agreed that some time in January you would get together with Mr. Stern to explore how this could be followed up.

In view of this I would like to stress the point that the argument being made that the balance of payments impact on a large IDA replenishment would come after a delay of several years only, was one that was thoroughly explored with the Treasury over a number of years. Indeed, it was only on that basis that we were able to get them to agree to the \$600 million-\$800 million-\$1 billion in the second replenishment, and it finally resulted in the agreed balance of payments safeguards which took advantage of this delay in disbursements and balance of payments impact. I think, therefore, that if you wish to convince the Treasury that no balance of payments safeguards are necessary, then the delayed effect argument will strike them as old hat, even if it sounds new to other members of the Administration who have not dealt with IDA replenishment before. On the other hand, <u>if</u> we have to have some balance of payments safeguards, we may be able to think of other ways of doing it, if the postponement feature is not acceptable either to the United States and/or other countries for the third replenishment.

cc: Messrs. McNamara, Knapp, Aldewereld and Rickett