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ECONOMIC COMMITTEE **DECLASSIFIED**

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EC/O/66 - 189

December 28, 1966

Problems of Developing Countries

1. The attached paper, "Some French Economists' Ideas on the Problems of Developing Nations", is a slightly revised version of one originally prepared earlier this year within the Economics Department. Mr. Kamarck thought that it might be of wider interest and it is distributed accordingly.

C. F. Owen
Secretary

Attachment

Secretary's Department

D I S T R I B U T I O N

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Director, Economics Department
Director, Special Economic Studies
Director, EDI
Special Adviser to the President (Mr. Rist)
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OFFICE MEMORANDUM

To: Mr. A. M. Kamarck

December 20, 1966

From: Rosalind Gilmore

Subject: Some French Economists' Ideas on the Problems of Developing Nations

INTRODUCTION

1. On June 26, 1965, l'Institut de Recherche et de Formation en vue du Developpement harmonise (IRFED) held a one-day conference of some 30 academics and national and international civil servants to review the progress made in the year following the Geneva Trade and Development Conference, and to recommend future courses of action. The conference papers and conclusions were published in the IRFED review "Developpement et Civilisations", No. 24, December 1965.

2. The following six papers were presented to the conference:

Professor Andre Philip: Developing countries' balance of payments. (Facts, choices and equitable solutions.)

M. Henri Janton: The present state of affairs in the commodity markets.

M. Paul Tran-van-Thinh: EEC proposals for a general cereals agreement.

Unsigned article: Industrial Preferences.

M. Rene Debono: Developing countries imports pose as many problems as their exports.

M. Giulio Fossi: Regional organizations and development.

3. The discussion on each of these papers, which was contributed to by Messrs. A. Razafindrabe, M. Bye, J. Durieux, R. Buron, H. Younes, A. Marchal, E. Papanicolaou, J. Austruy, P. Schrupf and A. Adjari, is grouped into a series of short pieces at the end. There is also an introduction by H. E. Armand Razafindrabe (Madagascan Ambassador to the EEC) "The Outcast Nations", an editorial by Professor Austruy, two individual studies (Professor Maurice Bye on the Franco-Algerian oil agreements and M. Henry Bazin on economic cooperation within the Tiers-Monde) and a summary of conclusions by Andre Philip.

CONFERENCE RECOMMENDATIONS

4. To begin at the end, Professor Philip concludes by isolating seven lines of action to be followed in solving the problems of the developing world (Les impératifs actuels, p. 81). They are these:

- (i) all excise taxes (as opposed to customs duties) should either be removed from tropical products, or their proceeds should be made over to the country of origin;
- (ii) an International Insurance Fund should be provided to compensate for decreases in export receipts;
- (iii) in the medium term, markets for products or groups of products should be organized, though without consolidating out-of-date patterns and structures;
- (iv) in the long term, a balance of consumption and production must be sought by major categories of products;
- (v) a preferential tariff system for the manufactured exports of developing countries must be set up, tied to multilateral or bilateral agreements for financial and technical assistance to set up new industries;
- (vi) development must be seen in the round by setting up multipurpose publicly owned enterprises, taking in production from the primary ingredients to delivery to the consumer, and participated in by the selling and buying states;
- (vii) an International Development Plan ("Droit International de Developpement") must be constructed gradually, basing itself on successive precedents and embodying a complex of joint decisions, taken co-operatively, about siting industries and orienting world production.

TWO STRATEGIES

5. Professor Philip's seven recommendations are presented as an attempt to derive agreed conclusions from the conference; but the more concrete recommendations come from his own paper and contributions, and in the more general ones he has to try to harmonize two different ideas about the best economic strategy for developing countries which run through the papers and debate, and are not easily reconciled even when considered as a short term and a long term solution. One school of thought sees a fundamental need to change the present economic structure of the developing countries and make them more self sufficient, particularly by industrialization. The other school is interested in building on existing economic patterns, mainly by improving the prices paid for primary exports. Representatives of the industrializing school are Messrs. Bye, Durieux, Younes, Austruy, and Philip (the metropolitan Frenchmen); the others are Messrs. Razafindrabe, Papanicolaou, Schrumpf, Adjari, Bazin, Janton

and Tran-van-Thinh. Professor Philip reconciles the two in his conclusions by regarding the second as an interim objective, subordinate to the first as an ultimate goal, with whose attainment it must not be allowed to interfere.

INDIVIDUAL CONTRIBUTIONS

Industrialization

6. Several of the speakers at the conference, notably Professors Philip, Bye and Durieux, consider that the developing countries should not try to improve their present economic structures, but radically to alter those structures. Improvements within the framework of their existing patterns of production and trade may be undertaken as short term palliatives, but only in so far as they do not prejudice a long term reconstruction of the economy. They should not concentrate on better production and better prices for primary commodities, but should diversify out of their existing production. Above all, they should industrialize. Only thus can they get away from the unreal economic pattern imposed upon them by the colonial regimes.

7. It is recognized that the developing countries cannot hope to create competitive industries on their own. Direct financial aid to industrial development is, however, hardly mentioned. Instead two other ways of encouraging their industrial efforts are considered; namely, tariff preferences for their manufactured exports, and a scheme for uniting the governments of the producing and consuming countries in jointly owned, jointly financed and jointly managed production and distribution enterprises.

(i) Tariff Preferences

8. Those members of the conference who dealt with the subject were almost uniformly in favor of selective tariff preferences along the lines proposed in the Brasseur Plan. An unsigned paper on the Australian decision to give selected less developed countries preferential quotas on a limited list of the products most important to them rejects both the American view that tariff preferences will not greatly benefit the less developed countries, and the 77's own declared wish for global and unselective preferences coming into operation over a period of years. The Americans, it is said, are too negative in their insistence on the value of the most-favored-nation principles of GATT (which they have in any case themselves breached in the motor vehicle arrangements with Canada), and do not understand that although a world of competition may increase trade, in it the less developed countries' industries cannot survive. The rest of the Anglo-Saxon countries rest on their acceptance of the principle of general tariff preferences, subject to conditions (that the developing countries should agree to give up all other existing preferential

arrangements, and that all industrial countries should agree in the new preferences) which in practice nullify it. By contrast with these attitudes, the Australian decision is praised as a breakthrough.

9. Specifically, the proposal in this paper seems to be to establish a list of manufactured and semi-manufactured goods of actual or potential importance in the export earnings of the less-developed countries, and for the industrial countries then to make bilateral arrangements for the free entry of all or a part of these exports into their own markets, discriminating however against exports which are already competitive (e.g. Hong Kong textiles) and countries whose level of development is already high enough to make them dangerous competitors of the least developed countries. Such bilateral arrangements could gradually be generalized into a comprehensive preferential tariff system, in which countries might lose their favored position as one by one they became competitive.

(ii) Cooperative Production

10. An article by Professor Bye analyzes in detail the agreements between the French and Algerian governments on the exploitation of Algerian petroleum. This agreement carries with it sufficient financial participation by each of the states to ensure, not a public monopoly, but public international control of the principal export of the country of origin and one of the key imports of the consuming country: moreover, although private companies in France take part in the enterprise, and others may be allowed to buy themselves in, they do so as delegates of the French Government which remains responsible for the obligations undertaken in the agreement. Although in this particular case the agreement deals with the exploitation of a rather special natural resource, a general conclusion about industrial and commercial enterprises in the developing countries is drawn. It is suggested that agreements of this type, cutting out not private company participation but private control of the fundamental production and marketing decisions, and uniting the consuming and producing states in a cooperative enterprise which would be jointly managed from the initial stages of production to the consumption of the finished product, would be the most satisfactory way to bring about the necessary industrialization in the less developed countries. Such a process is offered as an alternative either to increased direct financial aid or the expansion of the less developed countries' trade, to both of which theoretical and practical objections are seen.

11. The underlying argument is that, in the technological world, the developing countries will continue to fall behind if they retain their role of primary producers supplying food and raw materials to the industries and peoples of the developed world. Only by getting the growing industries within their own frontiers will they achieve adequate growth rates and secure their share in the economic benefits of technological progress. They have not themselves, however, the financial resources

to switch to industrial production, and the question is how to provide and control the finance. For private enterprise to provide it is not enough, since in that way the profits will be returned to the international companies. This is already true of many agricultural tropical products, where the price to the consumer is many times that of the selling price in the country of origin. Moreover, in times of high prices the extra profit goes to the merchants in the towns, while when prices fall it is the peasant producer who suffers. Schemes of cooperative production, on the lines of the Franco-Algerian Agreement, would secure the finance necessary to create industries in the underdeveloped countries, while ensuring reasonable prices both to producer and consumer by controlling all stages of the market between them. It would, of course, leave a reasonable profit to the private capital involved, but also ensure that a fair share of the benefits went to the producing state. Joint enterprises of this sort should be a key to generating self-perpetuating growth and development in the poorer countries.

Balance of Payments

12. The representatives of the developing countries, Messrs. Razafindrabe and Bazin, insist that although the introduction of manufacturing industry may be a satisfactory long term solution, the immediate need is to secure much better returns for the primary commodities which compose 90% of the less-developed countries' exports. They and Messrs. Philip, Tran-van-Thinh and Janton discuss exports. All oppose the free play of market forces and free trade, and suggest mechanisms to raise prices, increase sales and stabilize markets. There is also a paper by M. Debono considering the developing countries' imports.

(i) Compensatory Finance

13. There is little enthusiasm for compensatory or supplementary finance, and M. Younes doubts their feasibility. Professor Philip accepts that in the very short term such schemes may have a value in providing the stability in external receipts necessary for planning. If accepted in principle, then compensatory finance might be provided along the lines of the International Insurance Association suggested by the United Nations, with contributions from the industrialized countries applied to compensate automatically and quickly for balance of trade deficits, and repayable in two or three years. But it would be a dangerous mistake to think of this as an alternative to long term development aid designed to bring about structural changes. Such aid cannot be automatic, nor tied to the fact of balance of payments disequilibrium, since compensation for a structural deficit merely consolidates the status quo, the market domination of international companies, and a pattern of production unadapted to the evolution of local demand.

(ii) Access to Markets

14. Another solution almost wholly rejected is that of increasing sales through greater access to markets arising from the suppression of consumption taxes, quantitative restrictions and tariffs (as

discussed at Geneva). Only three ideas of this sort are suggested, and two of those only in passing. These two are to channel surpluses into food aid (mainly for temperate foodstuffs) and to increase consumption (mainly of tropical products) in the Sino-Soviet Bloc (where it is suggested that demand is much more elastic than in the west, provided these countries can find from other trade the resources to finance such purchases). The third idea is the suppression of all internal consumption taxes in developed countries, especially those on tropical products such as coffee, tea and cocoa. Professor Philip argues that all consumption taxes should be removed immediately, both because it is unjust to finance an industrial country's budget by a tax on producers in developing countries, and because these taxes restrain consumption. If the taxes cannot be suppressed, at any rate their proceeds must be returned to the producing countries. On the other hand, he argues that the proposal to suppress tariffs and quantitative restrictions is a mistaken one. Industrial countries cannot jeopardize their whole development plans by withdrawing necessary protection from their own producers in favor of international competition, and the only people to benefit from such a change would be the big international companies who control the so-called free market and the developing countries already strong enough to look after themselves such as Australia, New Zealand and Argentina. It is mistaken, he argues, to concentrate on selling more when what really matters to the producers is price. Quantity may increase, and receipts continue to fall; and anyway the producers should not increase the quantities put out from their one or two product economies but develop their own subsistence sector to nourish their population, diversify their export sectors into new products more adapted to world demand, and begin their industrialization by using their own minerals and raw materials.

(iii) Prices

15. All were agreed that the present prices paid to primary producers are inadequate and unfair. But most considered that prices should not be raised much above the level of the early 1950's, not only because of the dangers of over-production but above all because of the danger of encouraging the less developed countries to continue the pattern of dependence on one or two products. In the long term the ideal should be to seek an equilibrium between production and consumption, partly by increasing consumption through the methods described above, partly through production controls (insofar as these are unavoidable), but most of all by the developing countries changing their present patterns of production. In the medium term the right course is to revalue prices and stabilize earnings through the organization of markets, including commodity agreements and control of production plans and marketing from the producer to the eventual consumer.

(iv) Organization of Markets

16. All were agreed that different products must be treated in different ways: the underlying distinction drawn was largely that between

goods produced in both developed and developing countries, and those coming from the less developed countries alone. Professor Philip distinguishes:-

- (a) temperate foodstuffs;
- (b) tropical products;
- (c) primary industrial materials and fuels, including petroleum.

17. There is little difficulty about (c), and (b) may in part be solvable through increases in consumption, especially in the east. Temperate foodstuffs pose the real problem, since the industrial countries protect their own producers and the world market is marginal and volatile.

(a) Temperate Foodstuffs

18. Ambassador Razafindrabe argues for mechanisms (unspecified) to restrict the pursuit of national interests by the developed countries.

19. M. Tran-van-Thinh discusses the EEC proposal, within the Kennedy Round, for an agreement on wheat, maize, rye, millet, barley, oats and wheat flour, aimed at achieving an equilibrium between world supply and demand, establishing and stabilizing of world prices at an equitable and remunerative level, increasing access to markets, and extending world trade with particular attention to the interests of the developing countries.

20. Such an agreement would involve great changes. Initially supply would be limited, and equitable and remunerative prices would be established by a combined effort founded on buffer stocks and disciplined marketing of surpluses. A world price of reference would be agreed, below which a compensating tax would be imposed on imports. This price must be remunerative, taking account of the need not to provoke new surpluses. A precondition of improving the market in this way would be an agreement on the global effect of the different types of national support for agriculture. Parties to any agreement should be ready to receive requests from low revenue countries for food aid, and these countries should not be required to enter into agreements about the level of support (the list of such exempted countries would be determined in consultation with FAO). Other types of concession might also be considered, such as returning to producers the proceeds of any compensating tax levied by consuming countries when prices fell below the international price of reference. But if receipts of this type were returned to the developing countries some mechanism would have to be devised to ensure that they were used only for development. The broader question of import taxes being applied in this way for the benefit of the less-developed countries was worth further study.

(b) Tropical Products

21. Most of the rest of the discussion of the organization of commodity markets seems to be related mainly to tropical products, for which, says Professor Philip, the need is to stabilize prices at a higher level by increasing demand, giving away surpluses, and containing production.

22. Two specific proposals for study are made:-

(i) Price Mechanisms. Ambassador Razafindrabe suggests a study of the price fixing mechanisms for tropical products, since the price to the consumer seems always to be many times greater than that paid to the producer.

(ii) Buffer Stocks. M. Janton suggests a study of the ways of financing the retention of commodities by developing countries in the interests of market stabilization, since, given long term equilibrium, short term surpluses can be withheld if it is possible to finance them.

23. Apart from these two proposals for study, there was general discussion of organizing markets, not only through commodity agreements, but also through new types of arrangement for marketing and even for production.

(v) Commodity Agreements

24. MM. Janton and Razafindrabe refer back to the 1961 Baumgartner-Pisani Plan and elaborate on its advantages, especially the idea that freedom of trade and access to markets should only be pursued within an organization of markets, i.e. as a means within an overall plan instead of as the final objective which is sometimes made of it. Such schemes must be applied flexibly according to the different nature of each commodity. It is important that commodity agreements should aim at equilibrium between production and demand in the long term, as well as eliminating short term fluctuations (which should be done particularly by increasing demand and extending the international market, restricting sales and, if necessary, production only insofar as this is unavoidable). Recent developments in the International Coffee Agreement are hopeful; for instance, the ICO's decision to use quotas geared to prices and its recognition that such a quota system is not enough and that the present skeletal coffee agreement must be given flesh and blood. The cocoa and sugar conferences to come might also take a wider view, and the cereals negotiations in the GATT have produced a number of interesting ideas (such as the United Kingdom proposal of a minimum price of entry system, a tax being applied when suppliers' prices fell below an agreed level).

25. While these all represent some progress, it is argued that technical and theoretical disagreements have still to be resolved if progress is to be made. The last twenty years have demonstrated the force of the French view that prices respond very rapidly to small quantitative changes, as had been particularly evident in the sugar market during the Cuban crisis when a difference of 2 million tons either way was decisive in a total world consumption of 60 million tons. Yet the problem of equilibrium between production and consumption is still not given enough priority. It should be resolved first by seeking to increase the demand which could be financed, secondly by using food aid mechanisms to supply consumers who could not pay, and thirdly, if necessary, through some limitation of production. Stabilization can only be achieved over a long period, and not without sacrifices by both producers and consumers prepared to subordinate short term preoccupations to long term interests.

(vi) Production and Marketing

26. It was generally argued that even the most successful commodity agreements carry their undesirable elements, imposing unreal restraints on production and sales, and allowing international entrepreneurs to take an unrestricted share of the profits. The ultimate goal must be a structural transformation of world trade, as well as of the patterns of production of the less developed countries. Structural change is here seen quite differently from Dr. Prebisch's conception of a one-way tariff wall protecting the developing countries, with a complementary net of preferential tariff arrangements for them in the markets of the industrialized countries. Successful structural change, in these papers, calls for regional economic plans embracing several developing countries and financed by a number of industrial countries, in particular through cooperative production and distribution arrangements for both manufactured and primary products. Rather than go on trying to free markets, one should on the contrary think of creating public, or mixed public and private, international enterprises, integrating all stages of production and consumption, so that the producers do not continue to feel that they have no control over the fate of their products.

(vii) Imports

27. M. Debono argues that the high prices which developing countries have to pay for their imports are responsible for at least as many problems as the low prices of their exports. Development is impossible while import prices are so out of phase with those of exports, and the considerable amount of infrastructure aid which is given only makes matters worse by creating new needs.

28. This is particularly true in the countries of West Africa, whose terms of trade have been deteriorating, particularly since they felt the effects of the 1958 French devaluation. The Francophone African

countries naturally buy from France, but the prices they pay are often twice the French domestic price and much higher than the prices of equivalent foreign goods. Some easement has occurred since 1963 and 1964 from purchases of rice, sugar and wheat outside the franc zone, but these countries are still buying concentrated milk, margarine, other foodstuffs, cotton and synthetics from France at prices which are as much as 58.4% higher for foodstuffs and 17% higher for materials than the prices in African ports of similar goods from cheaper sources such as India, Hong Kong, Belgium, Britain and Italy. The CFA countries could, of course, buy from outside the franc zone, but tradition and monetary constraint are against it. Practically all their exports go to France, and though their reserves are in theory freely convertible, such conversions would have to go through Paris, as those of the sterling African countries have to go through London, and can therefore always be subjected to control or short-term restriction.

29. Many people suggest that bilateral trade treaties would solve this problem. But the best bilateral treaties are those which regulate existing trade patterns, and it is unlikely that the developing countries could find bilateral partners who would buy enough from them to balance the imports which they need. Nor could they draw heavily upon the convertibility of their own currency via francs without risking the stability of their own monetary zone. It is within each African country that the patterns of consumption must be changed. Some changes are already taking place (since quotas were given to the EEC countries, under the Convention of Yaounde, and for sterling and dollar imports), and this process will be helped as the privileges and responsibilities of France in these countries are shared with the whole of the EEC. But if this happens the EEC must be liberal too, for EEC goods are often much dearer than comparable products from Asia and the Middle East. Articles 19 and 35 of the GATT have allowed the exclusion from a great part of the underdeveloped world of cheap goods from other developing countries.

30. The problem is one which can be solved by the importing countries. Their franc reserves are freely convertible, but they have not yet developed a deliberate policy of seeking the cheapest sources for their consumer imports. In this way they are themselves losing one of the great advantages of belonging to the franc zone. But a contribution must be made by the developed countries also, within the whole context of aid for development and in their own long term interest. At present the consumers of the less developed world are being exploited. If world opinion has at last taken account of the problem of their primary exports it must also attack the obverse problem of imports, helping the developing countries to use profitably and successfully the tools provided by the monetary systems to which most belong, and putting an end to closed circuits of trade.

Cooperation Among the Developing Countries

31. In tackling the problems of imports, exports and industrial planning there was discussion of the efforts which the less developed countries should make to organize among themselves, and so provide a stronger base for a dialogue with the developed countries. In general the conference saw this as a matter of increased cooperation to promote trade and harmonize development plans within regional groupings. Measures to promote trade throughout the whole of the underdeveloped world were also advocated.

(i) Cooperation by Regional Groups

32. M. Fossi argues that cooperation must be sought first at the regional level, because any attempt to unite the less developed countries must conform to the pattern of a "true and viable economic organization," i.e. one in which there are not only common and immediate economic aims to be served, but also a common desire for political integration: geographical proximity is almost always a precondition of this sort of true organization. The European Economic Community, for instance, is a real, viable and effective organization, while EFTA is not since it lacks political instress. In Africa the League of Arab States is a real organization, and in America the OAS may also prove to be one. Political and economic organization can only begin on a base of real and immediate interest; and even then, only by undertaking specific projects which promote successful cooperation, can African countries develop the necessary political will to long term strategic cooperation and become willing to harmonize their development plans and policies.

33. M. Fossi considers it the duty of aid donors to do everything in their power to promote this co-operation. He suggests that studies should be undertaken to determine all possible concrete lines of action by both aid donors and developing countries which will promote unity, and specifically proposes:-

(a) studies by sector and product across all the countries of a geographical or economic area, to show the advantages of coordinating production and marketing policies vis-a-vis the outside world and to promote cooperation in agriculture, export policy and mining (these would be designed to help such decisions as the location of a new steel works and the establishment of production objectives for important commodities);

(b) the use of World Bank and European Development Fund influence in favor of cooperation by their preferring to finance projects which involve inter-country cooperation.

By consistent and specific action along these lines, states will ultimately be brought to accept the political constraints necessary to bring about fruitful economic cooperation.

(ii) Cooperation Throughout the Third World

34. M. Bazin deals with cooperation between all the less-developed countries of the world. He discusses both tariff preferences to promote trade among themselves, and means of coordinating their economic planning.

35. Preferences, he says, must be studied carefully, since if these countries wish to develop they must industrialize and sell their industrial products to each other as well as to the developed nations. But unless adequate compensating arrangements are made, those developing countries which already have preferential arrangements with industrialized countries cannot afford to lose them. The disparity of development among the less developed countries must also be borne in mind, so that within a preferential system even the least developed is able to play a part.

36. But it is not only existing tariff arrangements which hamper trade between the less developed countries of the world. One of the greatest obstacles is the lack of transport and communication, since past communications systems have been designed, consciously or otherwise, to foster north-south trade. Another impediment is the diversity and very limited convertibility of developing countries' currencies. Equally, the developing countries' export receipts must be mainly applied to finance imports of capital equipment, consumer durables and sometimes food, which can be got on easier terms from the industrialized countries than from other developing countries. The first needs therefore are to improve every form of communication between them, and to ensure that they have their share of any new reserve unit created in the international monetary system. Such cooperation would not replace the developing countries' relations with the industrial countries, but would be a precondition of putting them onto the right basis through a structural transformation of world trade.

37. As well as improving trade patterns, developing countries must also harmonize their investment plans, to avoid so far as possible both duplication and pure prestige investment. In short, trade, transport, communication and industrial and agricultural investment must be coordinated, and so far as possible payments agreements must be established. Certain regional organizations are already striving towards these objectives, but what is needed is a superstructure to coordinate their efforts. A conference of heads of state or their representatives, with a permanent secretariat, representing all countries of the developing world, could give life to such economic cooperation. It would not duplicate the work of the regional organizations, such as the OAU, OAS and the League of Arab States. These would still have an important role, since cooperation would gain from being organized first at the regional and continental level - the only level at which plans can be made for complementary production. But the new organization could form a framework for defining the principle objects of common concern, developing a strategy,

and pooling the efforts of the third world by helping harmonize regional development plans, intensifying trade, and exchanging experience in solving development problems. At Geneva the less developed countries laid aside their differences to reach a series of agreements on precise points: the greatest danger now is to underestimate their ability to continue this cooperation, difficult though it will be.

Problems of Information

38. In his covering editorial Professor Austruy suggests control over the information media, so that the greater sophistication of the developed countries is not allowed to distort the pattern of trade and production in the world market. Biased trade, in which the goods and services produced by the less developed countries are misvalued and unjustified surpluses and shortages are created because information is partial, can only lead to an undesirable uniformity. Trade enriches so far as there is diversity, and communication should increase this diversity, not promote the transplantation of anachronistic industrial society to the less developed countries, at the price of destroying certain actual or potential resources which could provide the wealth and well-being of the future. From this viewpoint aid should be seen neither as pure generosity, nor as a selfish stratagem. Development should encourage a flowering of many different aspects of life; but this cannot be obtained unless each society is judged by its own inherent values. This means that sufficient financial resources must be provided, and that while the givers may judge the compatibility of projects with objectives, these latter must be chosen by the responsible local powers, and represent an expression of the values of each individual society. The universal transmission of information should be controlled to avoid erosion of independent judgment. But two sides are needed to communicate, and a rigid censorship would be as dangerous as the present practical domination of one side.

GENERAL THEMES

39. The basic theme which seems most clearly to underlie the greater part of this discussion is the need to move towards a world which would be at once more fragmented and more regulated than at present.

(i) Regulation

40. Most papers look toward more economic control and management, and stress the dangers of free market forces. It is implied that in a managed world economy the developing countries will be more free than without such regulation. In her introductory note Mlle. Trebous distinguishes as the leading principle to emerge from the conference the conclusion that the age of free trade and free competition is over, and that

each country must see itself as "the artificer of the concerted management of the world for the greater well-being of every human".

(ii) Fragmentation

41. But such regulation is to be applied to fairly small units - cooperation by developing countries in subregional projects; harmonizing their agricultural and industrialization plans by regions; control of world trade by commodities; and regulation of the patterns not only of trade but also of production through bilateral treaties. In general the relations between developing countries are seen as regional, and those between developed and developing as bilateral, or as between one industrialized country and a group of developing countries.

42. Some of the concepts discussed are universal: the International Insurance Fund, the commodity stabilization schemes and to some extent the idea of an International Development Plan. These are, however, mainly seen as creating a loose framework for regulating economic relationships in smaller packages, in a world based on a network of related but individual agreements. The unilateral and selective tariff concessions of the Australians are approved and the arrangements between France and the Francophone African countries are seen as models. The duty to promote economic development is stressed, but it is assumed that the wealthier countries will feel varying degrees of obligation towards the different developing countries, which will be reflected in a series of special measures and bilateral relationships.

(iii) Criticism of GATT and UNCTAD

43. This preference for regional or bilateral arrangements is accompanied by criticism of such organizations as GATT and UNCTAD for attempting to apply multilateral and universal patterns to international economic relations. GATT is said to be opposed to a necessary transformation in the structure of world trade, and UNCTAD is said to be mistaken in advocating world-wide, non-selective preferences since they will work against the weakest of the less developed countries. Preferences, as an extension of the principle of protection of nascent industries, should discriminate in favor of the newest and weakest of all.

(iv) The Role of France

44. Finally, a number of the participants, both from developing and developed countries, expressed their hope that France would take a new international initiative towards ensuring the application of these solutions to the problems of developing nations, especially since most of the high hopes generated at the first United Nations Conference on Trade and Development had yet to be translated into practical action.

dec - 9 m
Alpha - Drinker
Biddle & R

December 19, 1966

Dear Mr. Ryan:

Mr. George D. Woods has handed me your
letter of December 14, 1966.

After having read the Proposal I shall
be in touch with you again.

Sincerely yours,

A. Broches
General Counsel

Mr. Robert S. Ryan
Drinker Biddle & Reath
1100 Philadelphia National Bank Building
Broad and Chestnut Streets
Philadelphia, Pennsylvania 19107

ABroches:cml
cc: Mr. Woods

Dec. - 5 en.

December 19, 1966

Dear Mr. Song:

Thank you for your note of December 14[✓] inquiring into our "Estimates of External Financial Needs."

We have not as yet a document which we could make available but we shall be glad to discuss these estimates with you.

Mr. de Vries of the Economics Department will be happy to pursue this further with you.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mr. Chung Pui Song
Alternate Executive Director
International Bank for
Reconstruction & Development
Washington, D. C.

BAdeVries:rme
December 19, 1966

BW.

ROUTING SLIP

Date

Dec. 16 1966

OFFICE OF THE PRESIDENT

Name

Room No.

Mr. de Vries

800

Action

Note and File

Approval

Note and Return

Comment

Prepare Reply

Full Report

Previous Papers

Information

Recommendation

Initial

Signature

Remarks

What can I give him, if anything?

From

Irving S. Friedman



To de Vries - what can I give him
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

1818 H Street, N.W., Washington, D. C. 20433, U.S.A.
Area Code 202 • Telephone - EXecutive 3-6360 • Cable Address - INTBAFRAD

*if anything,
15F*

Alternate Executive Director

December 14, 1966

Mr. Irving S. Friedman
Economic Adviser to The President
International Bank for
Reconstruction and Development
Washington, D.C.

Dear Mr. Friedman,

With reference to your lecture on December 12th,
regarding "Estimates of External Financial Needs" of develop-
ing countries, if it is possible I would appreciate a copy of
the global study document on development needs in the fore-
seeable future, but the country by country estimate, I under-
stand, is to be treated with confidence. The global study
would be very useful for my own personal use.

Sincerely yours,

Chung-Pum Song

DATE RECEIVED

DEC 15 1966

ack. Dec. 19/66

WILLIAM R. HEWLETT
1501 PAGE MILL ROAD
PALO ALTO, CALIFORNIA 94304

December 13, 1966

Dev. - 9 m.
[Handwritten signature]

Mr. Richard H. Demuth
Dir. Development Services Dept.
World Bank
718 18th Street-Rm. 845
Washington, D. C.

Dear Mr. Demuth:

I would like to thank you, a little belatedly,
for the most enjoyable luncheon we had in
Washington on my recent visit. I found the
information which you were able to give me ex-
tremely helpful and valuable.

I am most appreciative.

Sincerely,

William R. Hewlett

WRH:mfs

December 6, 1966

Mr. H. J. Meiser
6 Frankfurt/Main
Reuterweg 14
West Germany

Dear Mr. Meiser:

Many thanks for your letter of November 23, 1966,
enclosing Mr. Casper's recent article on development aid.

I had read the article with great interest when it appeared in
the Frankfurter Allgemeine Zeitung; I appreciate your thought-
fulness of sending it to me, which enables me to pass it on to
some of my colleagues who are interested in the subject.

With kind regards,

Sincerely yours,

L. von Hoffmann

LvH/eh

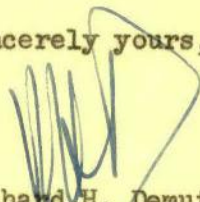
December 5, 1966

Dear Arthur:

Many thanks for your letter of November 30, [✓] reporting on your tour of Germany. I have read it with great interest and have sent a copy, together with a copy of the attachment, to Mr. Woods and the members of the President's Council.


With kind regards,

Sincerely yours,



Richard H. Demuth
Director
Development Services Department

Mr. Arthur Karasz
Deputy Special Representative
in Europe
International Bank for Reconstruction
and Development
4, avenue d'Iéna
Paris 16^e, France

 Roskey:tsb

Mr. Kamarck

December 1, 1966

Michael L. Hoffman

Several times recently in Europe, I have been faced with the statement that only 5 or 6% of development aid passes through multilateral channels. When I have challenged this figure, using very rough arithmetic, I have never been able to pin down its source except that *it* seems to originate with DAC. I can imagine ways in which such a figure might be produced but I am sure it is a very misleading indication of the relative importance of multilateral and bilateral aid in any true sense.

I would be very grateful for an opportunity to discuss this with someone in your Department so that I can either stop worrying about the 5 or 6% figure or have some reasonable basis for saying that it is wrong.

MLHoffman/pnn

MLH

HEADQUARTERS:
WASHINGTON 25, D.C.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CABLE ADDRESS-INTBAFRAD



INTERNATIONAL DEVELOPMENT ASSOCIATION

CABLE ADDRESS-INDEVAS



EUROPEAN OFFICE:
4, AVENUE D'IÉNA
PARIS (16^E) - FRANCE
TELEPHONE: KLEBER 25-10

November 30, 1966

Dear Dick:

On my return from a two-week tour of Germany, I would like to report briefly.

1. One of the purposes of my trip was to meet with government people in Germany who I had not seen for some time. I paid visits to the Bundesbank (Dr. Blessing), to the Kreditanstalt (Guth), as well as the Deutsche Bank(Abs).

I also intended to expound Bank problems in lectures and I gave seven in different cities, in an area covering Berlin in the east and Hamburg-Kiel in the north. Everything went very smoothly, thanks to the excellent preparation by Viggo Christensen who accompanied me on the trip.

The audiences at the lectures were quite diversified: government people, scholars, as well as businessmen and bankers. As you certainly know, "development aid" is a widely discussed matter in Germany and it was very useful for me to meet with a number of influential people and understand its administrative set-up (private and official) in Germany.

An astonishing number of people attended the lectures, even on Saturdays when one would expect them to prefer a football game to development aid. My last meeting, a "seminar" in Hamburg, was on Saturday and it lasted from noon until 7 p.m....!

2. It is no secret, I think, that the general attitude towards development aid is not good in Germany. The reasons for this are manifold:

..//..

Mr. Richard H. Demuth
Director
Development Services Department
International Bank for Reconstruction
and Development
Washington, D.C.

ack. Dec. 5/66

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Cable Address: INTBARD

INTERNATIONAL DEVELOPMENT ASSOCIATION

Cable Address: INDEVAS

EUROPEAN OFFICE:

4, AVENUE D'ENNA
PARIS (16^e) - FRANCE
TELEPHONE: KLEBER 52-10



November 30, 1966

Dear Dick:

On my return from a two-week tour of Germany, I would like to report briefly.

1. One of the purposes of my trip was to meet with government people in Germany who I had not seen for some time. I paid visits to the Bundesbank (Dr. Blessing), to the Kreditanstalt (Guth), as well as the Deutsche Bank (Aas).

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2. It is no secret, I think, that the general attitude towards development aid is not good in Germany. The reasons for this are manifold:

...

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Mr. Richard H. Demuth
Director
Development Services Department
International Bank for Reconstruction
and Development
Washington, D.C.

November 30, 1966

- 2 -

- (a) Attacks against development aid, such as the recent article by P.T. Bauer, London. He talks about "Development Aid - A Singular Failure". The article was given a prominent place in the Frankfurter Allgemeine (translation enclosed).
- (b) The domestic political situation. There is no government and therefore no one to take decisions. A "Grand Coalition" of Christian Democrats and Socialists, if realized, will give a curious mixture of people. There is talk of Mr. Strauss (Bavaria) being future Minister of Finance; I do not think this would be very promising for us. Schiller (candidate for Economy) is a very good man. Socialist, former Berlin Senator for Economy, he has known the Bank for a long time. He visited with me several years ago in Bangkok and I also met him in Berlin when he was still Senator.
- (c) The domestic economy is in bad shape. Spending has been too high during the "economic miracle" and there will be a need for severe austerity measures. I wonder, however, whether a "Grand Coalition" would be able and willing to start with austerity measures? (Maybe they should invite Messrs. Kaldor and Balogh to give them advice!)

One of the reasons for the over-spending is to be found in the federal constitution of Germany. The Federal Government has no control over the financial policies of the States and the cities and these two have got into debt beyond all limits. The only difference between the present period and 1929 is that at the moment most of the indebtedness is in domestic currency and not in foreign exchange (although I am told there are cities which have raised important amounts in dollars from U.S. banks...).

To summarize: the Germans have always had a certain propensity to nervousness and uncertainty. Both are more pronounced now, and there is little objective hope for us in the German market.

Kind regards.

Sincerely yours,

Ath.

Arthur Karasz

Enc.: (1)

Suggested distribution:
President and his Council

Translation from "Frankfurter Allgemeine" of November 16/17, 1966.

DEVELOPMENT AID - A SINGULAR FAILURE.

by Professor P.T. Bauer, London

This essay by a liberal, British economist, who spoke on the same subject at the last meeting of the Mont Pelerin Society in Tokyo, attacks development policy as practised up to now with particular vigour. His ideas will elicit anything but approval from the politicians now in power. At any rate they are set down with that unsparing sobriety which should mark all scientific writing.- Editor's note.

In many parts of the underdeveloped world, and particularly in India, development planning is the core of economic policy. Since such a planning policy is widely considered a prerequisite for economic progress, governments working in this direction, are favoured where apportionment of foreign aid is concerned. They are helping themselves, and therefore deserve aid, goes the argument. Comprehensive development planning signifies that it is the government rather than individuals who determine what is to be produced. Economic wealth, however, does not increase. There is only a concentration of power. All-inclusive economic planning paralyzes economic progress rather than fostering it; for the achievement of an economy is in the final analysis always determined by the qualities, the mental attitudes and the motivations of human beings. Where these factors are missing, the peoples of the underdeveloped countries cannot count on working up to the high standard of living of the West. Requirements for achieving it are diligence, a spirit of economy and of enterprise and the ability to recognize opportunities. The differences in economic efficiency nearly always hide a different social and institutional background, and the latter has for thousands of years favoured the West rather than Asia or Africa, primarily because the West was less authoritarian.

The contemporary concept that development depends mainly on investment is to blame for the enormous waste in the underdeveloped world. By terming all expenditure as investment the desire for spending was stimulated. Other factors connected with development were pushed into the background, such as the bringing out of economic qualities, the foundation of appropriate institutions, or progress in technical knowledge. The overemphasis put on investment neglects, for instance, the development of human potentialities through education and teaching.

Another justification given for economic planning is that it is necessary for rapid industrialization. However, even without economic planning, massive industrialization has taken place both in rich and in poorer countries. Moreover, rapid industrialization is not indispensable for economic progress.

It is rumoured that development countries are condemned to stagnation without massive external aid, mainly because poverty prevents the necessary formation of capital. This is considered an example of the vicious circle: Poverty itself is an obstacle to overcoming poverty. This idea is obviously untenable; witness the innumerable individuals and groups in the whole world - in rich as well as in poor lands - who rose from poverty to riches. The very existence of the already developed countries also proves the fallacy of this idea; for they were all underdeveloped to begin with. Besides a great many underdeveloped countries have made considerable progress in the last half century. This is particularly important in this connection.

It has to be made quite clear that in general foreign aid is not an essential prerequisite to economic progress. This is to be learned from the history of the already developed countries, who achieved prosperity without the help of foreign states. Even after more than a decade, development aid has been unable to raise the standard of living in poor countries. This is generally admitted in discussion. Emphasis is given to the continued low standard of living in the aid-receiving countries and to the fact that development aid at the present or even an increased volume will have to continue indefinitely. India is perhaps the best known example of this. Other countries which also have to struggle with acute economic difficulties inspite prolonged foreign assistance are Algeria, Burma, Ceylon, Ghana, Indonesia, and the United Arab Republic. Granting of foreign aid, therefore, is not indispensable for economic development; at any rate, in its present form, it probably retards progress more than it helps it along. This conclusion seems paradoxical because foreign aid reinforces the economic potential of the receiving country. This does, however, not mean that the rate of development increases in these countries. The rate of development depends much more on the influence aid has on the factors which generally determine economic progress. Often the reactions aid provokes are harmful to the developing countries, and overshadow the advantages which an inflow of capital might produce. This is why foreign aid, although it has sometimes improved the economic situation of recipient countries, has in general not encouraged their development.

The success of the Marshall-Plan in Europe is not a counter argument. It is often cited as an example of the potential value of external aid to poor countries. However, it must be considered that the economy of Western Europe merely needed to be restored, while ^{the economy} it has to be developed in today's recipient countries. After 1945, Europe suffered chiefly from a lack of food and raw materials, but it lacked neither qualified workers nor markets. Thus Western Europe could quickly return to prosperity, and it was possible to terminate the Marshall plan aid programme after only four years. Practically all the aid consisted of food and raw materials. In striking contrast stand India and many other aid-receiving countries, who after more than four years of aid, are in dire economic need.

A continuous and endless stream of aid helps to impoverish the recipient countries. The indigent relies for his subsistence on public support. The supposition, that material progress is tied to foreign aid, results in the belief that the chief determinants of development may be acquired for nothing. This supposition is false. The influx of foreign funds moreover, increases the government's role in the economy. Thus the concentration of power increases in these countries, particularly because the donor countries insist on economic planning for the recipient countries. Their governments are encouraged or even forced to prepare comprehensive development plans for as long a time ahead as possible. They are encouraged to carry on inflationary policies which then bring about balance of payments difficulties or crises. These again are an excuse for renewed appeals for aid and for extensive economic controls.

In my opinion, the defects of official external aid could be removed, chiefly through radical changes in the criteria for granting aid; these criteria should be more selective than heretofore. They should chiefly benefit governments which try to fulfill the major tasks of government and at the same time keep away from strict state control of the economy. Such criteria for the distribution of aid would chiefly benefit relatively liberal recipient countries.

Mr. A. M. Kamarch

November 29, 1966

Vinod Dubey

Protection of "Intellectual Property"

1. I attach a draft of a reply from Mr. Friedman to Mr. Merchant, to the latter's memo on protection of "Intellectual Property". I have discussed the matter with the Legal Department who are not aware of any initiative of the Bank in this field. They have also checked the accuracy of the statements in the draft regarding the Convention on the Settlement of Investment Disputes. You will see that paragraph 2 of the draft refers to several national and international bodies that are actively considering the question, the implication being that there is no special need for the Bank to enter this field.

2. The problem of the attitudes of governments of developing countries to the rights of the "intellectual property" of foreign nationals is however important from the viewpoint of their economic growth and, therefore, the Bank may consider more study of it. In developed countries the recognition of private ownership rights on new products and processes acts as an incentive to discovery and technological progress. In the developing countries, however, where development is based on technology "imported" from the developed countries, it is often felt that the existence of rights to intellectual property restricts the possibilities of "imitation", and therefore hampers their technological progress. That there is something in this point of view cannot be denied. Various suggestions have been made over the years about devices to facilitate the adoption of modern technology by developing countries. A moratorium on copyrights and patents has often been mentioned in this connection. In the OECD at the Second Meeting of the National Directors of the Pilot Teams Project on Science and Economic Development in 1964 the idea of Technological Bank, which would act as a storehouse of technological know-how and make it available freely to LDCs was mooted. A similar proposal was made by Dr. Rao at the recent Conference on Technology and Foreign Trade at Gaithersburg.

There appears to be an essential weakness in this line of argument. It implicitly assumes that the developing countries are in a position to "exploit" modern technology once the knowledge of patented products and processes is made freely available to them. Actually this is not so. Technological know-how can be transferred successfully to developing countries only concomitantly with assistance in skill formation, in men and materials, and in finance. Consequently, a more rapid transfer of technology to the developing countries would require a more

November 29, 1966

favorable treatment by them of foreign intellectual property in order to provide an incentive to firms from overseas. In this connection it is interesting that the Soviet Union last year ratified the Paris Convention - the 83 year old international agreement on patents - in order to encourage patentees in western countries to license their processes in the Soviet Union.

3. The relative importance of licensing as a method of transfer of technological know how to developing countries should be determinate from balance of payments data. Unfortunately, as Mr. Rao pointed out in his memo to Mr. Leon on the Reverse Flows from LDCs (October 10, 1966): "The Fund balance of payments format provides only for the reporting of copyright and patent royalties but the actual reporting is seldom in that detail; it is concealed in the catch-all "Other Services"." According to Mr. Rao's guess, payments for copyright and patent royalties from LDCs totalled about 250 million dollars in 1964. By comparison direct investment income payments were 2.5 billion dollars.

It is reported that OECD is working on the construction of a "technological" balance of payments, of royalty payments and receipts for OECD countries, within the framework of the "International Statistical Year on Research and Development". These, when available, may throw some light on the relative importance of licensing as opposed to direct investment in the transfer of technological know-how to LDCs.

VDubey:yd

HANS-JOACHIM MEISER

6 FRANKFURT A. M. 23 Nov., 1966
REUTERWEG 14
TEL. 59 09 777

Mr. Ladislaus von Hoffmann
International Finance Corp.
1818 H. Street N.W.
Washington 25 D.C. /USA

Dear Mr. von Hoffmann,

As you know Mr. Casper devotes some of his time to problems concerning development aid and in particular to all questions concerning personal development aid. As head of the German Development Service he is actively engaged in this field.

At the beginning of this month the " Frankfurter Allgemeine Zeitung " published an article which was written by Mr. Walther Casper in which the subject "Development Policy and University" is intensively discussed. You will find a copy of the article in the enclosure.

Since the article is in German a short synopsis has been prepared in English which you also find in the enclosure and which gives a summary of the ideas expressed in the above mentioned article.

No doubt, Mr. Casper has found an inspiration in his personal experiences with American Universities which are contributing so much to the American Development Aid Policy through their research and teaching work in this field. This work includes also the encouragement to prepare professors, students and young graduates for practical duties within the field of development aid.

I am convinced that the presentation of the ideas expressed in the article will bring the discussion concerning development policy a step further in the right direction over here, and it is to be hoped that the German Universities in the future are going to include in a generous way development policy into their research and teaching programs.

With best regards and all good wishes, I remain,

Sincerely yours,


(H.-J. Meiser)

P.S. I have also enclosed a copy of the Engineering and Mining Journal with an interview which Mr. Casper gave over actual economic problems.

Encl.

acc. Dec. 16/66

Walther Casper: "Lawyers shouldn't build Canals"

Article in the Frankfurter Allgemeine Zeitung of November 1, 1966
over Development Policy and Universities.

S y n o p s i s

Walther Casper developed as the nucleus of his address the manifold relations between investigation and teaching in the higher educational institutions and the duties of the development policy. The solution of development problems demands on the one hand scientific foundations and the personal engagement of students and professors. On the other hand such initiative on the part of the universities would in turn prove beneficial to the universities. It would aid in overcoming the ever present vestiges of provincialism and would breath a new strong intellectual spirit into the universities as well as open new fields of academic endeavor to future students.

Casper suggested that Germany in personal development aid - in so far as the participation of persons from academic life is concerned - lags far behind in comparison to its contribution to capital aid, in which it stands in fourth place among the western industrial nations. He emphasized the central role that personnel plays in the different forms of development aid: "A country is not a development nation only because it lacks in capital and technical fundaments, but also because it lacks the capability to utilize capital and technology."

Up to now the personnel for Germany's development aid have been drawn in the main from technicians, largely by practitioners. Therefore a strengthened participation of students and young academicians must be brought forth. Casper calls upon the leaders in politics, administration and the economy to help encourage this development. Above all provision must be made that service in a developing nation finds the deserved recognition in Germany.

JURISTEN SOLLEN KEINE KANÄLE BAUEN

Wie die Entwicklungshilfe junger Akademiker wirksamer gemacht werden kann / Von Walther Casper

„Die deutsche Universität ist herausgefordert, die Probleme der Entwicklungsländer und der Entwicklungspolitik zum Gegenstand ihres Forschens und Lehrens zu machen.“ Dieser Satz umschließt, was Dr. Walther Casper, Vorsitzender des Verwaltungsrats des Deutschen Entwicklungsdienstes, in einem Vortrag an der Universität München der akademischen Jugend und ihren Lehrern ans Herz legen will. Casper, Erziehungswissenschaftler und Vorstandsmitglied der Metallgesellschaft AG in Frankfurt, ist ein Mann von internationalem Weitblick. Entwicklungshilfe ist für ihn, der den „Deutschen Entwicklungsdienst“ nach dem Vorbild des

amerikanischen „Peace Corps“ ins Leben gerufen hat, eine Sache des persönlichen, praktischen Engagements. Sie sollte aber — so meint er — nicht den Praktikern allein vorbehalten bleiben, wie es bisher in der Bundesrepublik allzu sehr üblich geworden sei. Casper, ein enger Vertrauter des Kreises um den ermordeten amerikanischen Präsidenten Kennedy, hat mit seiner ehrenamtlichen Tätigkeit für den Deutschen Entwicklungsdienst gezeigt, was ein Privatmann in diese große Aufgabe einbringen kann: Ideenreichtum und Unermüdlichkeit, und er sagt in seinem Vortrag, wie hier der Einsatz junger Akademiker sinnvoller werden kann.

Wenn wir über Entwicklungspolitik sprechen, so braucht nicht ausgeführt zu werden, welche weltweiten und vielschichtigen Probleme sich hinter diesem Begriff verbergen. Wir alle wissen, daß es um soziale, politische und wirtschaftliche Fragen allererster Ordnung geht. Von ihrer Lösung wird nicht nur das Wohl der im Aufbruch stehenden jungen Nationen abhängen, sondern auch die Stellung der Industrienationen in der Weltgemeinschaft der Völker.

Zwei Drittel aller Menschen leiden unter dem Mangel am Notwendigsten und haben kaum Aussicht, diesen Zustand zu ändern. Ihre Bildungs- und Berufsmöglichkeiten sind limitiert. Es fehlt ihnen an Kapital, an qualifizierten Arbeits- und Führungskräften. Wir kennen das Ringen zwischen Ost und West um die sogenannte „dritte Welt“ — die Anstrengungen, die China unternimmt, um die Entwicklungsländer unter seiner Führung zu einer Front gegen die industrialisierte Welt — einschließlich der Sowjetunion — zu einigen. Sie kennen die Empfindsamkeit und das Mißtrauen, denen die westlichen Industrien, vor allem die früheren Kolonialstaaten, in den jungen Nationen begegnen.

Angesichts dieser Situation, die sich noch durch eine Reihe weiterer Beispiele belegen ließe, wollen wir uns darauf beschränken zu fragen, was Universität, Studenten und Akademiker in unserem Lande tun können, um zur Lösung der Entwicklungsprobleme in Afrika, Asien und Lateinamerika beizutragen.

Humanitäre Gesinnung und karitative Einzelaktionen sind zwar begrüßenswert, jedoch nicht ausreichend, das Dilemma der Entwicklungsländer zwischen politischer Selbständigkeit und wirtschaftlichem und sozialem Fortschritt zu bewältigen.

Vielmehr muß sich zur humanitären Gesinnung ein Höchstmaß an Sachgerechtigkeit und solidarisch-partnerschaftlicher Haltung gesellen; den karitativen Einzelaktionen aber haben eine umfassende geistige Aufarbeitung des Problems und eine wirksame Organisation gezielter und zur Selbsthilfe anregender Maßnahmen zur Seite zu treten.

Neue Aufgaben

Der Universität als Stätte von Forschung und Lehre stellen sich durch das Erwachen der Entwicklungsländer ganz neue Aufgaben. Die schnell fortschreitende Internationalisierung des politischen und wirtschaftlichen Lebens, der kulturellen und sozialen Kommunikation tritt in einer Zeit an uns heran, da die Universitäten und Hochschulen in eine Periode des Wandels eingetreten sind.

Man redet nicht mehr nur von Hochschul- und Studienreform, sondern legt

Pläne zu ihrer Verwirklichung vor, die den Bedürfnissen moderner Forschung, den Anforderungen des heutigen Wirtschaftslebens und den Bedingungen unserer Gesellschaft gerecht zu werden versuchen; man wagt bei der Errichtung neuer Hochschulen die ersten Experimente. Ich denke an Bochum; besonders aber an Konstanz, wo die Fakultäten nicht mehr autonome, in sich geschlossene Forschungs-, Lehr- und Studienbereiche darstellen, sondern rein organisatorische Einheiten geworden sind, um das interdisziplinäre Forschen und Lehren zu fördern. Es ist zu erwarten, daß im Verlauf dieses Wandlungsprozesses der deutschen Hochschule auch jener Gehalt der traditionellen Idee der deutschen Universität endgültig relativiert wird, der den Rückzug aus allen gesellschaftlichen Bindungen empfahl; und es ist zu hoffen, daß ein Eingehen des Forschenden auf die konkreten Anforderungen der Zeit nicht länger als Bedrohung der objektiven, zweckfreien Erkenntnis bewertet wird.

Einsamkeit und Freiheit als Vorbedingung unvoreingenommener Erkenntnis wird weiterhin ein Lebensprinzip des Wissenschaftlers bleiben müssen — doch sollte immer mehr die Einsicht wachsen, daß die Universität an den großen Themen der Zeit nicht vorbeigehen darf, sondern sich auch als Dienerin der gegenwärtigen Lebensfragen der menschlichen Gesellschaft verstehen muß. Sie darf nicht nur Interpret der Vergangenheit und Anwalt der Zukunft sein — sie muß auch Helfer der Gegenwart werden.

Die Gegenwart von heute und morgen aber wird mehr und mehr von dem Gegenüber der im Aufbruch stehenden „jungen“ Völker und der „alten“ Staaten der industrialisierten Welt geprägt. Kann es die Universität verantworten, die geistige Durchdringung dieser Fragen und ihre praktische Bewältigung allein der Politik, der Verwaltung und Wirtschaft zu überlassen?

Die deutsche Universität ist vielmehr herausgefordert, die Probleme der Entwicklungsländer und der Entwicklungspolitik zum Gegenstand ihres Forschens und Lehrens zu machen. Sie muß durch eigene, personelle Beiträge die staatlichen Maßnahmen der Ausbildungshilfe und der personellen Hilfe für die Entwicklungsländer ergänzen.

Wenn heute das Selbstverständnis der deutschen Universität neu durchdacht wird, so sollte das auf dem Hintergrund größerer Weltoffenheit und im Hinblick auf die großen Entwicklungslinien der menschlichen Gemeinschaft erfolgen. Eine Modifizierung der Forschungs- und Lehrprogramme muß — wenn ich so sagen darf — zu einer „Internationalisierung“ der Fragestellungen führen. Und die Studienpläne müssen den Studenten und späteren Akademikern über jede Provinzialität zu internationaler Verantwortung führen.

welcher Weise die Entwicklungspolitik zu einem vollgültigen Gegenstand von Forschung und Lehre werden kann. Lassen Sie mich dazu nur ein paar der möglichen Initiativen skizzieren.

Zum einen wäre wünschenswert, daß das Beispiel Bochum (ich meine die Schaffung eines Lehrstuhls für Entwicklungspolitik) an anderen Universitäten Schule macht. Es genügt nicht, daß am Lehrstuhl für Wirtschaftstheorie die Frage des Wirtschaftswachstums, am Lehrstuhl für Soziologie die Frage des sozialen Wandels und am Lehrstuhl für Politik die Frage der Herrschaftsformen in Entwicklungsländern je für sich er-



Dr. Walther Casper
Foto Heiding, Frankfurt

forscht werden. Zu der Erforschung der Teilprobleme muß die Erkenntnis der Gesamtzusammenhänge treten. Ein Lehrstuhl für Entwicklungspolitik könnte Kristallisationspunkt des interdisziplinären Gesprächs und Heimat der Erforschung des Gesamtphänomens werden.

Der Erweiterung der Forschungstätigkeit müßte eine Ausdehnung der Lehr- und Lehrtätigkeit auf diese Probleme entsprechen. Die Vorlesungen und Seminare über Einzelprobleme könnten vermehrt werden. Neben sie sollten interdisziplinäre Lehrveranstaltungen und Arbeitsgemeinschaften treten, in denen die Forschungsergebnisse der verschiedenen Fachrichtungen zusammen gesehen, diskutiert und ausgewertet werden.

Zum andern dürften sich auch bei uns die Hochschulen nicht scheuen, den Studenten auf eine spätere konkrete Tätigkeit in den Entwicklungsländern vorzubereiten. Das könnte wiederum durch Vorlesungen, Seminare und Arbeitsgemeinschaften geschehen, die dem Studenten innerhalb seines Faches eine zusätzliche — auf eines der Entwicklungsländer und -projekte ausgerichtete — Kenntnis und Befähigung vermitteln.

Die Universität würde damit zu einem der Zentren geistiger und personeller Entwicklungshilfe. Das läßt sich indes nur erreichen, sofern Rektorenkonferenz, Professoren- und Dozentenchaft voll für die Idee der Entwicklungshilfe gewonnen werden, insbesondere auch von der wissenschaftlichen und pädagogischen Relevanz einer Mitarbeit von Akademikern in Entwicklungsländern überzeugt würden.

Die Aufnahme von entwicklungstheoretischen und -politischen Fragestellungen in Forschung und Lehre sollte keineswegs als „einseitiges Geben“ der Universität an die jungen, im Aufbau begriffenen Nationen verstanden werden. Mit der notwendigen Hilfe für diese Völker verknüpfen sich positive Rückwirkungen auf die Universität selbst.

Ich denke an die Überwindung eines da und dort noch fühlbaren Provinzialismus, an eine verstärkte internationale Öffnung der akademischen Welt, an eine bewußtere Hinordnung der Auf-

gaben und der Struktur der Universität auf die weltweiten Entwicklungstendenzen unserer Zeit.

Der akademischen Jugend würden neue Bildungschancen erschlossen. Neue Gesprächspartner aus Übersee, der Kontakt mit anderen Kulturen, vermehrte Auseinandersetzung mit einer von der europäischen sich abhebenden Geistigkeit und mit uns fremden Denksätzen könnten nicht zuletzt wertvolle Impulse für die Hochschulreform geben.

Ich verspreche mir aber nicht nur positive Rückwirkungen auf den akademischen Raum selbst, sondern auf die Haltung der breiten Öffentlichkeit zu der weltpolitischen Situation unserer Zeit.

Deutschland im Rückstand

Eine verstärkte Mitarbeit der Universität als Institution an den Aufgaben der Entwicklungspolitik muß begleitet werden von einem größeren Engagement der einzelnen Studenten und Jungakademiker. Neue Lehrstühle, Vorlesungen und Seminare haben nur Sinn, sofern die Bürger der Universität zur geistigen Durchdringung dieser Probleme beitragen und sich selbst für eine Tätigkeit in der personellen Entwicklungshilfe verpflichten.

Auch der massive Einsatz von Kapital und technischer Hilfe muß vervollständigt werden, so daß gleichzeitig — oder noch besser vorher — in den Empfängerländern die Voraussetzungen geschaffen werden, daß das Kapital richtig angelegt und die technische Ausrüstung optimal eingesetzt wird. Das aber ist gerade die Aufgabe der personellen Entwicklungshilfe.

Haben wir nicht in unserem Lande das beste Beispiel, was fachliches Können, Erfindungsgeist und Schulung vermag? Glauben Sie, daß der Marshallplan so großen Erfolg gehabt hätte ohne diese Voraussetzungen? Ein Land ist eben nicht vor allem dadurch ein Entwicklungsland, daß ihm Kapital und technische Ausrüstung fehlen, sondern dadurch, daß ihm die Möglichkeiten fehlen, Kapital und Technik zu nutzen.

Deutschland hat auf dem Gebiet der personellen Entwicklungshilfe bisher relativ wenig geleistet. Den 1357 deutschen Experten, die 1964 in Übersee tätig waren (hierin sind bereits eingeschlossen die Freiwilligen des Deutschen Entwicklungsdienstes und anderer Organisationen der personellen Hilfe), standen 44 194 französische, 12 699 englische, 14 188 amerikanische und 29 000 Experten aus dem Ostblock gegenüber. Diese Zahlen sprechen für sich. Steht Deutschland im Hinblick auf seine Kapitalhilfe an vierter Stelle der großen Industrieländer, so liegt es auf dem Gebiet der personellen Hilfe noch hinter Italien, Israel und Jugoslawien. Die Situation hat sich in der Bundesrepublik inzwischen gebessert. Immerhin sind zur Zeit etwa 2500 deutsche Fachleute in Entwicklungsländern, wobei hiervon etwa 600 durch den Deutschen Entwicklungsdienst entsandt wurden.

Ist der relative deutsche Anteil an der personellen Entwicklungshilfe insgesamt schon gering, so ist der Anteil der deutschen Studenten und Akademiker noch viel kleiner. Unter den deutschen Freiwilligen, die heute in einem Entwicklungsland arbeiten, finden sich kaum 5 Prozent Studenten und Akademiker — wiederum im Gegensatz zu dem Verhältnis in den kanadischen, englischen, französischen, japanischen und amerikanischen Freiwilligenorganisationen.

Von den Freiwilligen, die das Peace Corps bisher entsandt hat, haben 80 von 100 eine College- oder Universitätsausbildung, und ein großer Prozentsatz der Rückkehrer setzt zu Hause sein Studium fort.

Die Gründe

Wo liegen nun die Ursachen dafür? Warum steht der deutsche Student und Jungakademiker abseits, wo die Jugend aus aller Welt — akademisch oder nicht — sich in einem Gefühl wirklicher Solidarität verbindet und am Umbau der uralten und doch sich erneuernden Entwicklungswelt mitarbeitet?

Die Gründe dafür sind einerseits darin zu suchen, daß von deutscher Seite bisher vorwiegend Projekte aufgegriffen wurden, die sich für eine Mitarbeit von Studenten und Akademikern wenig oder gar nicht eignen. In den Projekten des Deutschen Entwicklungsdienstes, aber auch in denen anderer deutscher Organisationen dominierten bis heute die Praktiker: der Landwirt, Mechaniker und Bauhandwerker; die Kranken-

schwester und Sozialhelferin. Nicht Lehrtätigkeit wie beim Peace Corps, sondern „Fachdienst“ steht an erster Stelle der deutschen personellen Entwicklungshilfe, die sich damit vorwiegend auf die „middle level manpower“ stützt.

Andererseits liegen die Gründe für die Zurückhaltung der Studenten und Akademiker in der Organisation des Studiums und den Bedingungen der akademischen Berufe. Man muß realistisch genug sein, um zu verstehen, daß der deutsche Student sein Studium kaum für längere Zeit unterbrechen kann, um in ein Entwicklungsland zu gehen. Wir haben nicht — wie die angelsächsischen Hochschulen — eine Zäsur während der vier bis sechs Jahre Studienzeit, die es dem Studenten erlauben würde, nach dem vierten oder fünften Semester für zwei oder drei Jahre eine Aufgabe in einem Entwicklungsland zu übernehmen und danach wieder überangangslos das Studium fortzusetzen oder aber sofort im Beruf tätig zu werden.

Wer länger als ein Jahr sein Studium unterbricht, verliert den Anschluß an den Lehrstoff, die Studienkollegen, die Dozenten. Der Student muß in den meisten Studienfächern das in den Anfangssemestern erworbene Wissen bis zum Examen speichern. Er will bei seinen Dozenten bekannt bleiben. Und er ist häufig darauf angewiesen, seinen Platz in Arbeitsgemeinschaften, die der Examensvorbereitung dienen, zu behalten.

Ein weiterer Grund dafür, daß es den deutschen Studenten nicht nach Afrika

oder Asien zieht, mag darin zu sehen sein, daß er einfach nicht genügend über Aufgaben und Möglichkeiten der Entwicklungspolitik informiert ist — aber auch darüber, wie positiv sich seine Tätigkeit in einem Entwicklungsland auf seine künftige wissenschaftliche und berufliche Entwicklung auswirken kann.

Beim Jungakademiker dagegen, der sich nach vergleichsweise langer und kostspieliger Ausbildung mit dem bestandenen Examen endlich an der Schwelle seines beruflichen Lebens sieht, sprechen andere Gründe dagegen, sich in der persönlichen Entwicklungshilfe zu verpflichten.

Er will den Anschluß an seine Kollegen nicht verpassen und möglichst schnell in seinem Beruf vorankommen. Ob ein Einsatz in Asien oder Afrika ein ausreichendes Äquivalent an gewonnenen Erfahrungen für die zwei „verlorenen“ Jahre bietet, bezweifelt er.

John White, ein Angehöriger des britischen Überseeministeriums, drückt das in einer Analyse der deutschen Entwicklungspolitik treffend aus: „Für den deutschen Experten stellt sich eine längere Überseetätigkeit wie ein Glücksspiel dar; mehr sogar, es ist ein Glücksspiel, in dem die Gewinnchancen gegen ihn stehen; denn es scheint für ihn völlige Abgeschnittenheit von den Quellen seines Wissens, von seinen künftigen Vorgesetzten und von der Bühne seines beruflichen Ehrgeizes zu bedeuten. Immer wieder wird als Argument gegen eine Überseetätigkeit die Bedrohung der eigenen Karriere angeführt.“

In enger Beziehung zum Studienfach

Aus der Betrachtung der Gründe, die bisher einer Beteiligung von Studenten und Jungakademikern in der personellen Entwicklungshilfe im Wege stehen, ergeben sich einige Forderungen für Art, Dauer und Bedingungen des Einsatzes akademischer Freiwilliger, für die Vorbereitung auf die Tätigkeit im Entwicklungsland und für die Abstimmung des Einsatzes auf die jeweilige Studien- und Berufssituation.

Erstens: Die Projekte für Studenten und Jungakademiker müssen so ausgewählt werden, daß die Tätigkeit im Entwicklungsland engen Bezug zum Studienfach des Studenten oder zum Beruf des Jungakademikers hat. Der Freiwillige darf in seinem Studienfach oder Beruf gegenüber seinen Kommilitonen zu Hause nicht in einen Rückstand kommen; vielmehr sollte er bei und durch die Erfüllung seiner Aufgabe neue Erkenntnisse und spezielles Wissen erwerben können, das ihm nützlich ist, wenn er an seine Hochschule oder in seinen Beruf zurückkehrt. Der Aufenthalt in Übersee muß ihn zu einem bewußteren Weiterstudium und einer tieferen und umfassenderen Kenntnis seines Faches führen.

Für den Einsatz eines Studenten denke ich etwa an folgende Möglichkeiten. Zum einen könnte er für seine Zulassungs- oder Diplomarbeit ein Thema wählen, das aus dem speziellen Fragenkreis eines Entwicklungslandes genommen ist: Der Mediziner untersucht die hygienischen Gegebenheiten im Kongo, der Volkswirt die Außenhandelsituation von Peru, der Jurist das Stammesrecht in Botswana, der Ingenieur den Kanalbau in Syrien, der Soziologe die soziale Schichtung in Argentinien, der Psychologe Verhaltensmuster in Indien. Die Möglichkeiten für Geographen, Ethnologen, Geologen und Biologen sind evident.

Zum andern wäre denkbar, daß derartige wissenschaftliche Arbeiten unter Anleitung eines bereits promovierten Akademikers von einem unter Umständen interdisziplinär zusammengesetzten Team von Studenten auf Grund eines Forschungsauftrages durchgeführt werden. Dabei könnte eine Finanzierung aus den Forschungsmitteln des Bundesministeriums für wirtschaftliche Zusammenarbeit gedacht werden. Ferner bestünde für höhere Semester die Möglichkeit, sich einige Zeit als Assistent an einer Hochschule in Afrika, Asien oder Lateinamerika zu verpflichten. Schließlich könnte der Student die ohnehin erforderliche Praktikumszeit — anstatt zu Hause — in einem Entwicklungsland absolvieren. Das wäre mindestens für Mediziner, Wirtschaftler, Soziologen und Techniker denkbar.

Für den Einsatz eines Jungakademikers bietet sich ebenfalls eine Reihe von Aufgaben, die Bezug zu seiner beruflichen oder weiteren wissenschaftlichen Arbeit haben. Er kann gleichfalls als Assistent tätig werden sowie Lehr- und Forschungsaufträge ausführen.

Es fehlt in den Entwicklungsländern also keineswegs an Aufgaben, die von Studenten oder Jungakademikern aufgegriffen werden könnten, ohne daß sie von ihrem Fach abgelenkt würden. Im Gegenteil: Es gilt nur, das Angebot an akademischen Kräften in Einklang zu bringen mit dem großen Bedarf in der Entwicklungswelt. Und dafür ist — neben der Information der in Frage kommenden akademischen Kreise — eben Voraussetzung, daß die Arbeit des Studenten oder Jungakademikers in einem Entwicklungsland nach seiner Rückkehr die ihr zukommende Anerkennung findet. Beim Studenten müßte die in Übersee verbrachte Zeit auf eine durch den Studienplan vorgeschriebene Familien- oder Praktikumszeit angerechnet werden. Der Einsatz im Entwicklungsland sollte es ihm gestatten, nebenher Material für eine Diplomarbeit oder Dissertation zu sammeln.

Dem Jungakademiker dagegen, der seinen Blick vorwärts ins Berufsleben richtet, sollte eine berufliche Auswertung seiner entwicklungspolitischen Erfahrungen ermöglicht werden.

Es wäre zu überlegen, ob es möglich wäre, eine Beamtenlaufbahn für Entwicklungsexperten zu schaffen, die nach Absolvierung ihres Fachstudiums und nach Ablegung der entsprechenden Examina als „Entwicklungsfachreferendare“ zwei Jahre in einem Entwicklungsland arbeiten. Nach ihrer Rückkehr wäre ein weiteres Referendatsjahr vorzusehen, das in einer staatlichen oder halbstaatlichen Organisation der deutschen Entwicklungspolitik geleistet werden könnte. Das sich daran anschließende Assessorexamen würde eine Übernahme in das höhere Beamtenverhältnis garantieren. Auf diese Weise könnte sich allmählich in der Bundesrepublik ein qualifizierter Stab von Entwicklungsfachleuten bilden, der sowohl für die Vorbereitung von Projekten der Kapital- als auch der technischen Hilfe und für deren Überwachung und Durchführung zur Verfügung stünde.

Das bestehende Mißverhältnis zwischen dem Kapitaleinsatz und dem personellen Engagement deutscher Fachkräfte bei den Maßnahmen der deutschen Entwicklungshilfe sollte zu denken geben, besonders angesichts der in den letzten zwanzig Jahren gemachten Erfahrungen, daß eine finanzielle Hilfe nur dann wirksam werden kann, wenn sie gleichzeitig von der partnerschaftlichen Beratung und tatkräftigen Mitarbeit entsprechender Experten begleitet wird.

Zweitens: Die Dauer eines Einsatzes von Studenten und Jungakademikern muß der konkreten Tätigkeit im Entwicklungsland angepaßt sein. Sie darf nicht nach einem für alle Freiwilligen gleichen Schema festgelegt werden. Beim Studenten sollte die Dauer seiner

(Fortsetzung auf der folgenden Seite)



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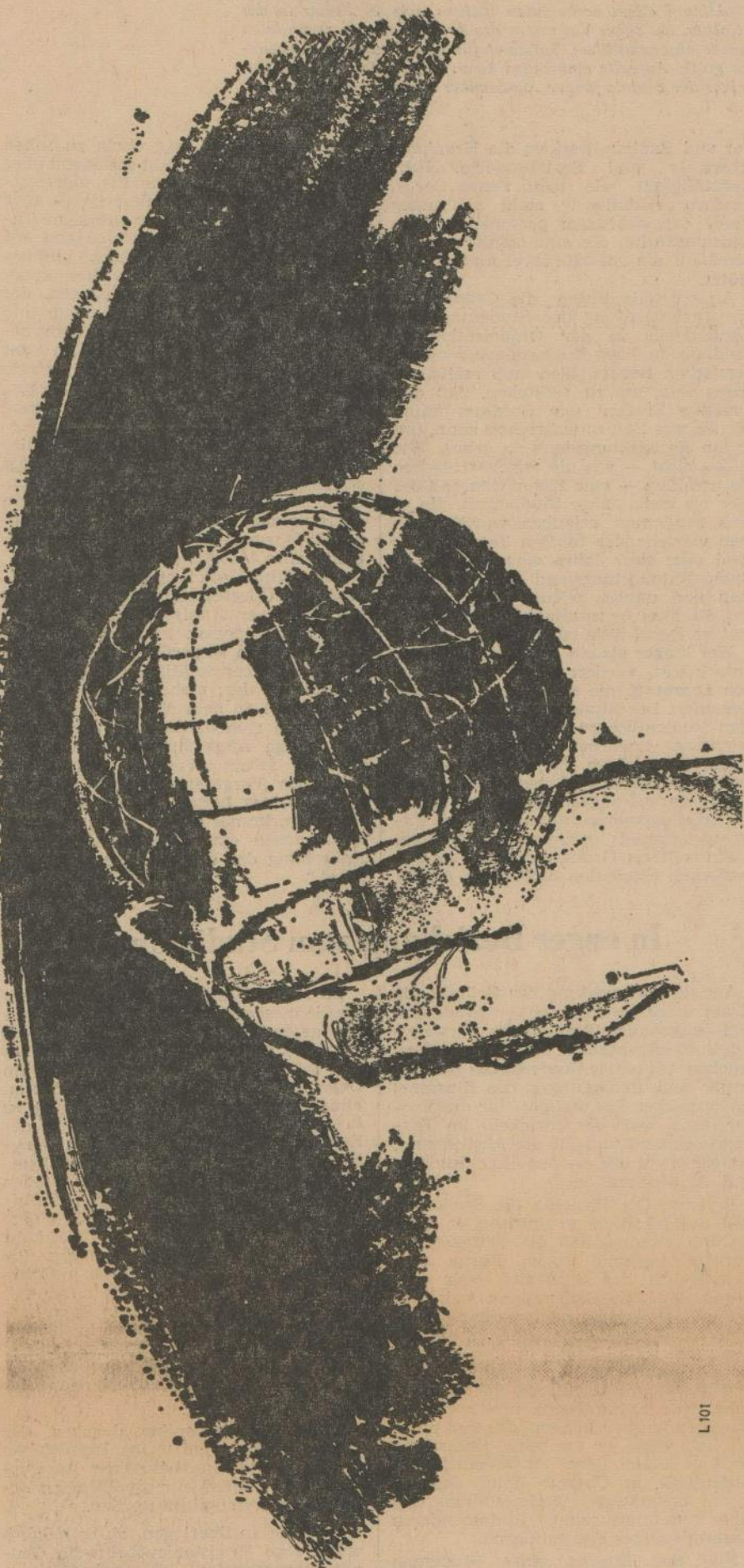
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Überseetätigkeit grundsätzlich beschränkt sein. Ich glaube, daß eine Unterbrechung des Inlandstudiums von zwei Semestern das Äußerste darstellt, was vertretbar ist; denn es ist zu beachten, daß ein Student, der sich an seiner Hochschule für zwei Semester beurlauben läßt, nicht nur diese zwei Semester „verliert“, sondern zusätzlich vorher und nachher zur Vorbereitung seiner Tätigkeit und Wiedereingliederung in den Studienbetrieb beansprucht ist.

Drittens: Der Student und Jungakademiker darf keine nennenswerten finanziellen Nachteile erleiden, wenn er sich entschließt, sich für eine Aufgabe der personellen Entwicklungshilfe zu verpflichten. Der Freiwillige soll zwar durch seine Mitarbeit nichts zusätzlich verdienen — ganz ohne Idealismus und primäres Interesse an der Aufgabe geht es nun einmal nicht —, doch soll er gegenüber den Kommilitonen und Kollegen zu Hause auch nicht ungebührlich benachteiligt werden.

Deshalb müßte der Student im Anschluß an seine Überseetätigkeit für so viele Semester eine Studienbeihilfe erhalten, wie er durch diese Tätigkeit sein Studium unterbrochen hat. Wer also nach zwei Semestern Beurlaubung an seine Hochschule zurückkehrt, sollte für die folgenden zwei Semester auf seinem Konto das Geld zu ihrer Finanzierung vorfinden. Beim Jungakademiker müßte eine ähnliche Regelung getroffen werden.

Viertens: Für die Vorbereitung des Studenten und Jungakademikers auf seine Arbeit in Übersee muß ein besonderes Ausbildungsprogramm geschaffen werden. Dieses Programm sollte zum einen dem Niveau seiner Bildung angemessen sein, zum anderen muß es organisch in den Studienablauf eingepaßt werden, damit der Freiwillige für die Vorbereitung auf seine Tätigkeit nicht unnötig Zeit verliert.

Wird heute die Ausbildung für den Handwerker, den Techniker und die Krankenschwester in einem geschlossenen Zeitraum von drei bis sechs Monaten durchgeführt, so müßte ein Teil der Vorbereitung des Studenten und Jungakademikers durch Selbststudium während der regulären Studienzeit erfolgen. Das gilt vor allem für die sprachliche Ausbildung sowie die Aneignung allgemeiner entwicklungspolitischer Probleme und grundlegender länderkundlicher Kenntnisse. Die Vorschaltung eines Selbststudiums vor die eigentliche Ausbildungszeit, in der die Freiwilligen zu Seminaren zusammengefaßt werden müßten, hätte verschiedene Vorteile: Zum einen würde es möglich, diese reine Ausbildungsperiode auf einen oder zwei Monate zu beschränken, zum anderen wären die abschließenden Vorbereitungsseminare fruchtbarer, da die Teil-

Juristen sollen keine Kanäle bauen

Fortsetzung von der vorigen Seite

nehmer bereits mit soliden Kenntnissen über die Probleme und Lebensverhältnisse in den Entwicklungsländern beginnen würden. In dieser abschließenden Vorbereitungszeit könnten dann spezielle Kenntnisse über das einzelne Land und das besondere Arbeitsfeld vermittelt werden.

Um ein solches eigenständiges Ausbildungsprogramm für Studenten und Jungakademiker zu schaffen, ist es umgänglich, daß Professoren, Dozenten und Universitätsassistenten sich an der Planung und Durchführung der Ausbildung der akademischen Freiwilligen beteiligen können und wollen. Außerdem würde es notwendig, die Ausbildungsseminare im Raum der Hochschule abzuhalten.

Flexible Einsatzdauer

Ich bin überzeugt, daß das Interesse und die tatsächliche Mitarbeit von Studenten und Jungakademikern an Entwicklungsprojekten in Übersee schnell ansteigen würde, wenn die vier genannten Grundforderungen erfüllt würden, nämlich

1. der studien- und fachbezogene Einsatz,
2. die flexible und studiengerechte Einsatzdauer,
3. die finanzielle Sicherung des akademischen Freiwilligen und schließlich
4. die eigenständige und universitätsnahe Ausbildung.

Wir müssen in nächster Zukunft konkrete Schritte tun, um die Voraussetzungen dafür zu schaffen. Die Entwicklungspolitik kann auch in Deutschland nicht länger auf das personelle und wissenschaftliche Potential der Akademiker- und Studentenschaft verzichten; vermittelt doch gerade die Wissenschaft in großem Maße jene intellektuellen Tugenden, ohne die der Aufbau der jungen Nationen und ihr Verhältnis zur industrialisierten Welt nicht zu bewältigen ist: Sachlichkeit, Nüchternheit und geistige Redlichkeit; Bereitschaft zur Selbstkritik und zum Dialog mit Andersdenkenden; kritische Distanz gegenüber Vorurteilen und Ideologien.

Im übrigen müssen wir uns bewußt sein, daß bei einer Verpflichtung des Studenten und Jungakademikers in Übersee hinter dem Helfen das Lernen steht; ja, daß vor allem für den Studenten der Gewinn an geistiger, moralischer und fachlicher Erfahrung die Investition von Zeit und Kraft weit übersteigt. Wo findet sich in unserer Gesellschaft mit ihren engbegrenzten Funktionsfeldern eine ähnliche Chance für den einzelnen, Verantwortung zu tragen, selbständig zu planen und zu arbeiten, Phantasie zu entwickeln, alle seine Kräfte in Dienst zu nehmen, seine Begabung voll auszuschoöpfen?

Neben der wirkungsvollen Hilfe für das Entwicklungsland, der fachlichen Bereicherung des Freiwilligen und der beruflich verwertbaren Erfahrung kann eine Verpflichtung in der personellen Entwicklungshilfe also auch Chance zur Ausformung der eigenen Persönlichkeit werden.

Drei Institutionen

Zum Schluß soll auf drei Institutionen hingewiesen werden, in denen positive Ansätze für eine Mitarbeit von Studenten und Jungakademikern gegeben sind.

Zunächst mag der Deutsche Entwicklungsdienst in Bad Godesberg genannt werden, der vor bald drei Jahren gegründet wurde und im Sommer 1964 die ersten Freiwilligen nach Übersee entsandt hat. Inzwischen arbeiten fast 600 von ihnen in 20 Ländern Afrikas, Asiens und Lateinamerikas, während 165 Freiwillige sich in den beiden Ausbildungsstätten des DED in Berlin und Wächtersbach auf die Ausreise Anfang Juli vorbereiten. Ende dieses Jahres werden es 1000, Ende 1967 voraussichtlich 2000 Freiwillige sein, die im Rahmen des DED in Übersee arbeiten. Stütze sich der DED bisher überwiegend auf den Praktiker, so werden doch seit einigen Monaten konkrete Schritte unternommen, um ein Programm für Studenten und Akademiker aufzubauen.

Aus dieser ersten Übersicht ergab sich ein konkreter Projektplan für die Entsendung von 17 Freiwilligen an das University College Nairobi, das zu der angesehenen University of East Africa gehört. Dieser Plan ist insofern ein interessantes Experiment, als Studenten der Ingenieurwissenschaften und der Naturwissenschaften zusammen mit Handwerkern, Laboranten und Technikern eingesetzt werden sollen. Während die Studenten vor allem die Aufgabe haben, die Dozenten bei der Ausbildung der jungen afrikanischen Studenten zu entlasten, sollen die Praktiker bei der Pflege und Reparatur von Geräten, aber

auch bei der praktischen Anleitung von Anfangssemestern und Hilfskräften mitwirken.

Einen weiteren Ansatz für die Einführung von Studenten in Probleme und Aufgaben der Entwicklungspolitik bietet die Arbeit des „Studienkreises Kontinente und Kontakte“ in Hamburg. Dieser Studienkreis entstand aus einem Programm des Internationalen Studentebundes — des ISSF —, das 1960 auf Grund einer studentischen Initiative entwickelt wurde.

Für dieses Programm werden jährlich 70 bis 80 Studenten aus Werberrn aller Fakultäten ausgewählt. In sechsmonatiger Vorbereitung, die in enger Zusammenarbeit mit der Deutschen Stiftung für Entwicklungsländer durchgeführt wird, werden die Studenten auf ihren dreimonatigen Aufenthalt in Übersee vorbereitet. Von diesen drei Monaten entfallen sechs Wochen auf einen Arbeitsaufenthalt, je drei Wochen auf einen Aufenthalt an einer Universität und eine Informationsfahrt. Nach der Rückkehr wird der Aufenthalt an den Hochschulen in Arbeitsgruppen des Studienkreises ausgewertet.

An diesem Programm des Studienkreises nahmen bis jetzt etwa 380 Studentinnen und Studenten teil, von denen die meisten nach Beendigung ihres Studiums im Aufgabenbereich der Entwicklungspolitik tätig geworden sind — sei es in Wirtschaft, Wissenschaft oder Verwaltung.

Lassen Sie mich schließlich noch das Deutsche Institut für Entwicklungspolitik in Berlin erwähnen, das unter der Leitung zweier bewährter Entwicklungspraktiker steht. Dieses Institut bereitet jeweils etwa 30 Jungakademiker der verschiedensten Fachrichtungen in einjährigen Spezialkursen auf die Übernahme von Aufgaben in der Entwicklungspolitik vor.

Die Lehrgangsteilnehmer verbringen im Verlauf des Kurses drei Monate in einem Entwicklungsland, wo sie in kleinen, interdisziplinär zusammengesetzten Gruppen konkrete Forschungsaufträge bearbeiten. Die Ausbildung selbst umfaßt neben Vorlesungen in allen relevanten Fachgebieten sogenannte Plan- und Studienreisen, in denen eine angenehme Situation — etwa eine imaginäre Libanon-Krise oder eine Erziehungsreform in Taiwan — nachvollzogen wird.

So sehr das Engagement des einzelnen in Aufgaben der Entwicklungspolitik und Entwicklungshilfe wünschenswert ist, so bleibt doch als letztes Ziel der lebendige, der dauernde Dialog mit der Universität und Hochschule selbst. Die Universität soll nicht nur eines der Streufelder einer „Werbung“ um Experten und Freiwillige sein — die Universitäten und Hochschulen müssen Gespächspartner in allen Fragen der Entwicklungspolitik werden.

Politische Bücher

Der Zeit auf den Fersen

DER FISCHER WELTALMANACH. Herausgegeben und verfaßt von Gustav Fodler-Hauke, Fischer Bücherei GmbH, Frankfurt, 412 Seiten, 4,80 DM.

Wie bei manchen sogenannten hochwertigen Gebrauchsgütern, findet sich auch auf dem jetzt bereits vorliegenden „Fischer Weltalmanach“ das „Baujahr“ 1967, obwohl die Herstellung auf den September 1966 datiert ist. Das nützliche Buch, mit dem schon vor einer Reihe von Jahren der Verlag dem Taschenbuch die Sphäre des „Staats- und Handbuchs“ erschloß, enthält wie immer eine Übersicht über die Staaten der Erde mit den allerwichtigsten Angaben und einen Katalog der politischen Zusammenschlüsse. Der Band 1967 nennt auch die größten Industrieunternehmen der Welt. Weiter finden sich Daten aus der Sozial-, Kriminal- und Kultur-

statistik (worunter Angaben über Zeitungen, Rundfunk, Kunstpreise und ähnliches verstanden werden). Daten über Wirtschaft, Verkehr und Welthandel folgen. Eine kurze Chronik der Weltereignisse seit Herbst 1965, gegliedert nach Staaten, zwischen die sich an der ihnen vom Alphabet zugewiesenen Stelle die großen Bündnisse schieben, schließt das Werk ab. Bei den Skizzen der einzelnen Staaten war man den Ereignissen hart auf den Fersen: das seit dem 4. Oktober unter dem Namen Lesotho unabhängig gewordene frühere Basutoland hat bereits seinen Platz in der Reihe der Staaten zugewiesen bekommen. Die Ereignisse nicht einholen konnte man bei der Nennung des Namens des „Chefs des Bundeskanzleramts“; hinter der Amtsbezeichnung ist immerhin schon ein leerer Raum gelassen, den der Benutzer eines Tages wird ausfüllen können. Die Namen der FDP-Minister nimmt der Almanach mit ins Jahr 1967, obwohl sie schon jetzt, vor Ablauf des Jahrs davor, so, wie sie dort verzeichnet sind, der Welt des Vergangenen angehören. fr.

Skizze der Katastrophe

HELGA GREBING: Der Nationalsozialismus. Ursprung und Wesen. Taschenbuchreihe „Geschichte und Staat“, Nr. 103, Günter Olzog Verlag, München, 106 Seiten, 2,90 DM.

Helga Grebing erklärt den Ursprung und das Wesen dieser unheilvollen Bewegung in einer anschaulichen und überzeugenden Sprache. Die Darstellung, die sich auf zahlreiche zeitgeschichtliche Quellen stützt, ist knapp und geradlinig, dabei im allgemeinen keineswegs oberflächlich. Die Autorin schildert die Anziehungskraft des Nationalsozialismus in den letzten Jahren des Staates von Weimar mit diesen Worten: „Zuletzt galt der Nationalsozialismus als Allheilmittel gegen alle Nöte und Schäden der Zeit. Je grauer der Alltag wurde, desto dringender verlangten die Menschen nach der erhellenden Befreiung durch die nationalsozialistische Bewegung und ihren Führer, der allen, die in ihrem persönlichen Leben die Sinnentleerung des Daseins so erschreckend erfahren, eine radikale Bereinigung aller ihrer Schwierigkeiten versprach und ihnen eine neue überpersönliche Existenz in dem Mythos von der Volksgemeinschaft verhieß. Schon jetzt — inmitten einer völlig hoffnungslosen Zeit — schien der Nationalsozialismus eine neue, unerschütterliche Wertwelt aufzurichten.“

An einer Stelle des kleinen Buches wird — wie übrigens auch in anderen Studien über die Weimarer Republik — die Meinung geäußert, daß es die SPD nach 1918 versäumt habe, mit Hilfe der Arbeiterschaft, des gemäßigten Teiles der Rätebewegung und der auf Sozialisierung drängenden Kräfte zur staats-tragenden Partei zu werden und eine volkstümliche Republik zu schaffen. Es spricht aber doch wohl für die demokratische Gesinnung und staatsmännliche Haltung Friedrich Eberts und seiner Mitarbeiter, daß sie von Anfang an die bürgerlichen Schichten am Aufbau der Republik beteiligten. Das kaiserliche Regime hatte gegen die Arbeiter-

schaft regiert. Sollte man jetzt den umgekehrten Fehler machen, gegen das Bürgertum regieren und damit einen linksorientierten Klassenstaat schaffen?

Freilich war es ein Verhängnis, daß, wie Helga Grebing erneut nachweist, weite Kreise des Bürgertums gegen die demokratische Republik eingestellt und im autoritären Denken befangen waren. Vermutlich hätten sich aber diese Kreise früher oder später mit dem neuen Staat ausgesöhnt, wenn sie nicht durch eine tragische Verkettung von Umständen gegen das „System“ getrieben worden wären. Die durch Krieg und Inflation entwurzelten Deutschen hatten kaum Zeit gefunden, ihre Existenz neu aufzubauen, als die Weltwirtschaftskrise sie mit der Gewalt einer Naturkatastrophe überfiel. Vielleicht hätten sich aber die radikalen Bewegungen der zwanziger Jahre eines Tages totgelaufen oder gegenseitig zermüht, wenn nicht — und hierin lag wohl das große Verhängnis — ein „Trommler“ alle Unzufriedenheiten, Unbesonnenheiten und Ungeduldigkeiten hinter seiner Fahne gesammelt hätte. „Hitler war“ — so schreibt Helga Grebing — „vielen Deutschen, den in ihrer Existenz bedrohten kleinen Gewerbetreibenden, Kaufleuten, Handwerkern, Bauern, Beamten, den stellunglosen Angestellten und Akademikern, den entlassenen Offizieren und Unteroffizieren der alten Armee, den in ihren Erwartungen enttäuschten Jungen von Anfang an ähnlich genug, um von ihnen als ihr Stellvertreter empfunden zu werden, in ihren Leiden ebenso wie in ihren Forderungen nach Ansehen, Bedeutung und Erfolg.“

Geschichtliche Katastrophen sind nie aus einer Ursache allein zu erklären. Aber notleidende Massen sind immer und überall wundergläubig. Wenn zum Zeitpunkt ihrer größten Misere der rede-gewaltige Wunderdoktor mit dem Allheilmittel auftritt, dann kann nur ein Wunder sie — vor seinen „Wundertaten“ retten. WILLI SCHICKLING

Abrüstung als Forschungsgegenstand

SECURITY IN DISARMAMENT. Edited by Richard A. Falk and Richard J. Barnett. Princeton University Press, Princeton, 440 Seiten, 10,00 Dollar.

Die bisherigen Versuche, umfassende Abrüstungsmaßnahmen zu vereinbaren, sind nicht gerade erfolgreich verlaufen. Die bereits nach Hunderten zählenden Sitzungen der Achtehn-Mächte-Abrüstungskonferenz in Genf finden in der Öffentlichkeit kaum noch Beachtung. Es wäre jedoch verhängnisvoll, wenn der bisherige geringe Fortschritt dazu führen würde, Bemühungen um Abrüstung von vornherein als utopisch oder sinnlos abzutun. Es ist deshalb zu begrüßen, daß in den USA, in geringerem Maße auch in Großbritannien, Abrüstung zu einem Objekt breiter wissenschaftlicher Forschung geworden ist. In der Bundesrepublik ist es demgegenüber bei den ersten Ansätzen geblieben.

Die Autoren des vorliegenden Sammelbandes beschäftigen sich mit drei großen Fragenkomplexen der Abrüstung. Der erste Teil ist den Fragen gewidmet, die das Ingangkommen der Abrüstung betreffen. In erster Linie geht es dabei um die Inspektion. Bei allen Verhandlungen hat sie eine zentrale, eine hemmende Rolle gespielt. Die Verfasser versuchen deshalb, Funktion und Möglichkeiten der Inspektion neu zu durchdenken, um diesen Hemmblock zu überwinden. Sie stellen fest, daß die Inspektion manchmal fast vom Mittel zum Zweck wurde. Sie bemühen sich, sorgsam abgestufte Kontrollmaßnahmen aufzustellen, die fortschreitend die gewünschte Sicherheit bieten, den kontrollierten Staaten andererseits keine zu schweren Eingriffe in ihre Souveränitätsrechte zumuten. Dabei sollten vorhandene Möglichkeiten, etwa durch Militärattachés und technische Mittel, voll ausgenutzt werden. Eine wirksame Kontrolle dürfte danach in bestimmten Bereichen auch ohne eine internationale Behörde möglich sein. Die Kuba-Krise zeigte, daß unter bestimmten Umständen tatsächlich eine einseitige Inspektion auch gegenüber der Weltöffentlichkeit wirksam sein kann. Jedoch läßt sich diese Erfahrung nicht auf umfassende Abrüstungsvereinbarungen übertragen. Hier dürften in einem gemischten System von nationaler und internationaler Kontrolle die meisten Vorteile und Verwirklichungschancen liegen.

Inspektion ist nur der erste Schritt; sie soll sicherstellen, daß die Vereinbarungen eingehalten werden. Sie soll aber auch die Informationen liefern, um bei Verstößen Sanktionen einleiten zu können. In einer Welt souveräner Staaten stellen Sanktionen ein besonders dorniges Problem dar. Welcher Staat ist schon gern bereit, sich Anordnungen zu unterwerfen, die seine nationale Sicherheit berühren könnten? Die Verfasser zeigen eine Reihe von Möglichkeiten auf, die Abrüstungsvereinbarungen durchzusetzen. Dafür kommt die nationale Strafgesetzgebung in Frage; wichtiger dürfte jedoch die Tätigkeit einer internationalen Polizei sein. Diese wirft allerdings wieder neue Probleme auf, da sie nicht nur kontrollieren soll, son-

dern auch selbst kontrolliert werden muß. Einigen Autoren scheint es zweckmäßig, Zwang eher gegen Individuen — Politiker, Beamte, Offiziere — als gegen Regierungen auszuüben, da er sich leichter durchsetzen ließe und nicht so sehr nationale Empfindlichkeiten verletzen würde. Letztlich dürften Sanktionen stets nur die Ultimo ratio sein; stärker würde wirken, wenn die Abrüstung selbst einen solchen positiven Anreiz bieten könnte, daß Verstöße aus wohlverstandenen Eigeninteresse unterbleiben. Schließlich ist von Bedeutung, in welchem Maße der Respekt für ein weiterentwickeltes Völkerrecht zu einer Selbstverständlichkeit in den zwischenstaatlichen Beziehungen wird.

Die letzten Beiträge befassen sich mit Aspekten, die in der aktuellen Diskussion kaum auftauchen. Sie betreffen das Endstadium einer abgerüsteten Welt — offensichtlich kein Zustand, der kurz bevorsteht. Jedoch sollten zumindest die Verantwortlichen sich darüber klar sein, wie eine Welt ohne Armeen überhaupt aussehen kann und soll. Krieg ist kein Naturereignis; es sollte nicht unmöglich sein, den Krieg durch friedliche Mittel — Verhandlungen, Rechtsprechung, Eingriffe einer internationalen Exekutivgewalt — zu ersetzen. Das wird aber nur gelingen, wenn man frühzeitig erkennt, welche Möglichkeiten bestehen, um die Dynamik der internationalen Politik in neue Bahnen zu lenken. Zwei Grundmodelle bieten sich hier an: eine mit gesetzgebender und exekutiver Macht ausgestattete internationale Behörde. Das würde das Ende der souveränen Staaten und eine Art Weltregierung bedeuten; da diese Version jedoch aus politischen und psychologischen Gründen in absehbarer Zeit ausscheidet, bleibt als Alternative der Versuch, durch Maßnahmen der Rüstungskontrolle, des Schiedsgerichtswesens, der Stärkung der UN und ihrer Friedensstreitkräfte kriegerische Auseinandersetzungen auszuschalten, ohne die Souveränität der Staaten zu beseitigen.

Der Sammelband hat eine große Spannweite. Die Themen reichen von grundlegenden politischen Problemen bis zu technischen Details. Zahlreiche Möglichkeiten werden durchgespielt, wobei sich zeigt, daß die einfachen Modelle nicht immer für die komplexe politische Realität ausreichen. Die Verfasser sind Wissenschaftler, die sich bereits in anderen Arbeiten mit Abrüstungsfragen befaßt haben. Mehr oder weniger intensiv befürworten sie Abrüstungsvereinbarungen; gelegentlich läßt das den Eindruck entstehen, daß sie in ihrer Grundhaltung etwas zu optimistisch sind. Trotz der vielfältigen Hemmnisse und Schwierigkeiten, die die Verfasser nicht übersehen, halten sie vernünftige und wirksame Abrüstungsmaßnahmen für möglich. Auch wer nicht allen Vorschlägen und Überlegungen folgt, muß anerkennen, daß hier wertvolle Anregungen und neue Ansätze für die Abrüstungsdiskussion erarbeitet wurden. HANS KLUTH

M&MM interview

Metallgesellschaft's Walther Casper

The market: A view

Mr. Casper, we have all been told that 1967 will be an off year for Germany, as well as Great Britain. How severe a downturn will there be in the German economy?

I would not use the word downturn, but rather slow-down. The economy had been expanding too fast so certain monetary steps have been taken to slow things down. Specifically, the Bundesbank has raised the discount rate to discourage borrowing for capital expansion.

Has there been any noticeable effect yet?

Yes, quite definitely. The rate of decline in the purchasing power of the mark has been brought to a standstill in the last few months.

Could we switch our attention to Geneva for a few moments? Why has there been so little progress in the Kennedy Round of tariff negotiations?

Well, there are many reasons that progress has been slow. First, the EEC had to overcome its own difficulties before it could present its package. Actually, there has been considerable progress within EEC during the last year, especially in developing an agricultural policy. I think the agricultural package that EEC finally presented at Geneva was quite good. It called for reductions on \$4.1-billion-worth of products out of a total volume of \$7.3-billion. There were other difficulties contributing to the slow progress as well. I might mention such US import restrictions as quotas by way of example.

How do you think it will all turn out?

If I might dare make a prognosis, the Kennedy Round will not end up as intended by the late President Kennedy, with an over-all reduction in tariffs of 50%. I think about half of this can be attained, which, all considered, still constitutes great progress, in my opinion.

Getting down to the metals industry now, how has Germany fared during the last few years of copper shortage? First, how did the split price affect you?

Germany was among those countries hurt the most during the time of dual and even triple prices because a much smaller percentage of its copper intake was at the producer price.

Was production actually curtailed because of the scarcity?

Not to my knowledge. Fabricators could get the copper they needed, but at a price.

Did this place German fabricators at a disadvantage in the export market?

Definitely. The export position became extremely difficult. In fact imports of copper products into Germany have risen sharply in the past few years for this very reason.

How has copper's competitive position, especially with aluminum, been affected by the shortage?

There has been a distinct slowdown in the growth rate of copper consumption in the Western World over the



from Frankfurt

last 18 months or so, while the growth rate of aluminum has continued at a steady and high level. It also ought to be stated that extremely high prices of LME, or so-called free copper, and the hectic price movements have again made copper, in the eyes of the public, a speculative metal. As a result, whoever can switch to aluminum or another substitute material has been doing so. To cite an example, I should refer to the electrical cable industry. A fair percentage of this market will be lost to aluminum. And the wheel of history can't be turned back. However, owing to its extraordinary qualities in electrical transmission, copper will always hold a major position in this field.

In view of this growing threat to copper's markets from aluminum, has Metallgesellschaft taken any steps to, shall we say, hedge its position as a metal producer?

We have made an arrangement with Alusuisse combining our interests in certain fields and also contemplating a joint venture in the production of aluminum metal. So, you can say we have taken care to protect our interests in the field.

There are reports that some primary producers are again considering a return to a stable producer price. What is your reaction?

It is a rather complex thing. As the past has shown, it is difficult to maintain a producer price if a substantial amount of metal is being dealt with outside of producer-price group. The laws of supply and demand simply cannot be ignored. Besides, the desires of the so-called developing nations also play an important role. They, of course, are being more and more tempted to try to get out of the market all that they can, especially when the spread between producer and open-market prices becomes too pronounced. As we all know, some of these countries rely on the income they get out of copper for their economic development.

There has been a sharp increase in Western European sales of copper products, lead, and zinc in the US. To what do you attribute this? First, copper and brass semifabricated products.

It is quite understandable. Fabricators in the EEC have always been exporters, and with the urgent need for these products in the US, it is no wonder imports have increased.

How about lead and zinc?

It is simply a matter of a stronger market. As recent statistics show, lead and zinc consumption in the US has risen substantially again in the first six months of this year, whereas in some other parts of the Western World it has come to a standstill or actually gone down. If you take West Germany, for instance, there will be an estimated decrease in zinc consumption of about 8% during 1966. This will be because of the deliberate slowing down of the economic growth rate, as I mentioned earlier.

(Continued on p 13)

How does a busy executive manage to handle all of his heavy business responsibilities and at the same time undertake a volunteer project like establishing a Peace Corps? Well, Walther Casper is the man to ask, but if you do, you won't be given any secret formula. Short of admitting that he has been getting a little less sleep than he used to, "especially at the beginning," Casper tends to shrug it off and get the conversation onto another subject.

The formula probably isn't too complicated, however—one part penchant for hard work, one part good administrative talent, and two parts overwhelming desire. A lot of men have the first two ingredients, the third is considerably more rare.

Casper was born in Frankfurt am Main in 1915. He grew up in that city during the shaky days of the Weimar Republic and, at the age of 19, joined Metallgesellschaft. He worked his way into the international ore trade, and this gave him the chance to work and study abroad—particularly in the US and France. Casper traces many of his ideas for the necessity for greater international cooperation and understanding to these years of living abroad.

In 1956 Casper was appointed to the board of managing directors of Metallgesellschaft and his areas of responsibility were extended beyond the ore trade. He was appointed to the central councils of two other Metallgesellschaft companies; "Berzelius"—Metallhütten-Gesellschaft in Duisburg, and Unterweser Reederei in Bremen. Metallgesellschaft's activities in the Common Market and the developing countries were also put into his area.

Outside of the Metallgesellschaft family, Casper was elected to the control council of the Dutch zinc smelting firm, NV Kempensche Zinkmaatschappij, and to the Dutch-German chamber of commerce.

During his years of dealing with the underdeveloped nations of the world, a desire began to grow in Casper to help these countries move ahead. Inspired by the creation of the American Peace Corps, Casper began drumming up support for a similar German project.

His ideas came to fruition in June 1963, when, during President Kennedy's visit to Germany, the German Development Service was launched and Casper was named Chairman of its Administrative Council. Casper is a great admirer of the late President, a fact attested to by his membership on the German Committee for the John F. Kennedy Memorial Library in Boston.

Casper does not confine his public service activities to the Development Service either. He is also a member of the Development Policy Council of the German government, the Board of Directors of Carl-Duisberg-Gesellschaft—which devotes itself to the care of trainees from the developing countries in Germany—the German UNESCO Commission in Cologne, and the Committee for the German Farm Youth Academy Klausenhof in Dingden.

In June 1964, together with another Kennedy, then-Attorney General Robert F. Kennedy, Casper was awarded an honorary Doctor of Laws degree by Marquette University for his service to the developing nations and his efforts to strengthen political, cultural, and economic relations with the US.

When he's not traveling around the world for Metallgesellschaft or the German Development Service, Casper tries to spend as much time as he can with his wife and three children at their home in Koenigstein, outside of Frankfurt.



Some US producers may resent this market penetration.

Let me say this without dealing specifically with lead and zinc. As long as we in the Western World believe in the principles of free enterprise it is inadvisable to adapt methods which resemble a directed economy. As the late President Kennedy said, "Problems are created by men, and, therefore, should be settled by men." The increasing complexity of the world situation in our industrial age demands and challenges leadership in business as well as government. This means that our business leaders should more and more realize that we are a worldwide business community. Loss to one does not necessarily mean gain to the other. We must try to solve our problems together in a true sense of business statesmanship.

When we last spoke, about two-and-a-half years ago, the German Development Service—or as we call it, the German Peace Corps—was just getting rolling. How has it progressed?

We now have 700 men and women serving in 20 countries—11 in East and West Africa, five in Asia, and four in South America. Another 150 will follow in a few days, and a like number is currently in training. They will leave in about three months, bringing the total serving in the field to 1,000. The breakdown is about 60% men,

40% women. Most of the men are blue collar workers with particular skills. Our projects are selected accordingly. The women are mostly social workers, nurses, and teachers.

Is this the size at which the Service will remain?
No, our goal is to have 2,000 in the field. We will reach 1,400 to 1,500 by the end of next year. Our plan is to move slowly and to take advantage of the experience being gained by the US Peace Corps—with which we are still closely cooperating—and our own volunteers who have started to return in the second half of this year after completing their two-year tour in the field.

Are there other Peace Corps in Western Europe?
Yes, in the last few years a general movement has emerged. France, Great Britain, the Netherlands, the Scandinavian countries and even some developing countries have similar projects in action. Including the US Peace Corps, there are now about 30,000 volunteers serving around the world. And I think the Peace Corps idea will have long-range effects on the internal social structures of our countries when these volunteers return and gradually move up into positions of responsibility in their own countries. Traveling around the world and mastering difficult situations sometimes opens your eyes to the problems that need solving in your own surroundings.

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Mr. Andrew M. Kamarck

November 9, 1966.

A. Karaosmanoglu A.K.

Technological Gap

1. The October 24, 1966 issue of the International Edition of the Journal of Commerce reported from Rome that the Italian Ministry of Foreign Affairs has sent the member governments of North Atlantic Alliance a study of the technological gap existing today between the U.S. and its partners, and has suggested a project which would help Western Europe to catch up scientifically and technologically. Although the exact nature of the project is not disclosed, it is described as a "Marshall Plan for Technology."
2. According to the report, the Italian project indicates possible sectors that would be considered as having priority interest: electronic calculators, desalination of water and purification, aeronautics, space research, building of satellite for scientific, industrial and commercial use, and research in atomics and energy.
3. This is one of the many expressions of concern among the European countries resulting from the increasing scientific and technological gap between the U.S. and Europe. OECD is involved in a series of studies on this particular subject.
4. It is not only Western European countries which are concerned about the problems of science and technology in connection with their ever widening gap with the U.S.A. The less developed countries are also increasingly concerned with the problems of science and technology. Lesser developed countries of Europe (Ireland, Portugal, Spain, Greece and Turkey), some Asian countries (like Thailand) and some African countries (Lagos International Conference on the Organisation of Research and Training in Africa in Relation to the Study, Conservation and Utilization of Natural Resources), have either already started or are about to start public action towards the planning of scientific and technological activities and their application in their countries. These efforts result from a clear understanding of the fact that development means a higher level of technology which must be adapted in many cases to the local resources or conditions of the countries and which in turn presupposes a considerable achievement level in the field of science.
5. It may not be too hypothetical to expect, for the near future, requests from developing countries regarding financial and technical assistance in this field.

c.c. Messrs. de Vries
Sacchetti

WILLIAM R. HEWLETT
1501 PAGE MILL ROAD
PALO ALTO, CALIFORNIA 94304

November 2, 1966

2H0
85B

Mr. Richard H. Demuth
Director
Development Services Department
Int'l. Bank-Reconstruction & Development
1818 H Street N.W.
Washington, D. C. 20433

Dear Mr. Demuth:

My apologies for the tardiness of my acknowledgment
for the receipt of the material which you so kindly
sent me on the subject of multilateral vs. bilateral
aid.

It has proven most helpful and I very much appreciate
your assistance.

Enclosed herewith are the copies of the Clay report
and the Patel study which you requested.

Time permitting on one of my trips to Washington, I
would like to accept your kind invitation to lunch
and will drop you a line well in advance.

Sincerely,



WRH:mfs
Enc.

Nov 2, 1966

Tam Dalyell, Esq., M. P.
House of Commons
London S.W.1, England

Dear Mr. Dalyell:

Mr. Schweitzer has sent me a copy of your interesting letter of September 28, 1966, together with his reply of recent date.

There certainly is a prima facie case for trying to find ways in which a comparatively rich country with the combination of a balance of payments problem and some unused industrial capacity can utilize some of that capacity for producing needed goods for the developing countries. The mixture frequently includes also a difficult budgetary situation.

I can see from your letter that you are fully aware of the difficulties created for recipient countries by what is known as tied aid. Of course, to meet the particular kind of situation which faces your constituency even aid tied in the ordinary manner to national procurement would not do. It would have to be tied to those particular items for which excess capacity exists within the country. This gets pretty close to aid-in-kind. As you will readily appreciate, it would be extremely difficult for multilateral development finance agencies like the Bank Group of institutions to contribute anything significant to working out such a scheme.

While we have, therefore, no special expertise on the basis of which to offer you guidance, we are aware of a number of bilateral, and a few multilateral programs that do in effect offer aid-in-kind. So far as I know, these programs deal mainly with fungible commodities such as grains, dried milk, medicines and the like. Some of them have been on a very large scale such as the U.S. bilateral food aid program. Some are on a smaller scale such as a program organized by the FAO for the supply of fertilizers. There is also the World Food Program which is a multilateral approach to supplying food as an input to support particular development schemes in various parts of the world. I am advised that the overhead cost of mobilizing, distributing and supervising the use of these various kinds of aid-in-kind through a multilateral agency is very high in relation to the value of the inputs to the recipients. I imagine that this difficulty would be vastly increased if one attempted to extend the method to such items as trucks or other manufactured products.

It may be, however, that on a national scale it would be possible to identify particular unused capacity situations which fitted exactly into the requirements of a particular developing country, as you suggest in connection with Scottish trucks and Indonesia. The problem would then be to find a means of administering a program for bringing the two together that was efficient. I think you are certainly right that in any event only a small fraction of what ought to be flowing out of the industrial countries as aid, in the broad sense, could ever be tied exclusively to unutilized industrial capacity. My own view, which I know is fully shared by Mr. Schweitzer, is that it should be possible for the industrial countries, particularly if they act in concert, to find means of expanding greatly the flow of investment and development assistance to the developing countries without any intolerable strains on either their balances of payments or their budgetary positions. Some of my thinking on this subject is contained in my address to the recent Annual Meetings of our Board of Governors which I see Mr. Schweitzer has kindly sent to you already.

Yours sincerely,

(Signed) George D. Woods

George D. Woods

MLH

MLHoffman/pnn

cc: Mr. Schweitzer) I.M.F.
 Mr. Sturc)
 Mr. Kamarck

[Signature]

CROSS REFERENCE SHEET

COMMUNICATION: Memo SecM66-342

DATED: October 31, 1966

TO:

FROM:

FILED UNDER: ANNUAL MEETING

SUMMARY: SALIENT POINTS MADE BY GOVERNORS AT 1966 ANNUAL MEETINGS

ROLE OF BANK GROUP IN ECONOMIC DEVELOPMENT

XL. (a) That the Bank take the lead in organizing a concerted development effort of the industrialized countries and international lending agencies (Turkey); (b) that the industrialized countries establish a new Marshall Plan for the developing countries (Chad); (c) that the Bank take the initiative in promoting a "crash" international program for economic assistance (Israel); and (d) that consideration be given to such solutions as an international welfare community and the principle of international taxation as a method of the international distribution of income, including international income taxation for worldwide welfare programs (Israel).

XLI. (a) That the Bank attempt to work out a plan for lessening the burden of existing indebtedness on the developing countries (Yugoslavia); and (b) that the Bank and Fund help to create a stable monetary climate that would encourage a greater flow of capital to the developing countries at lower rates of interest (Jamaica).

XLII. That the Bank join with FAO in carrying out a study of measures for increasing food production in developing countries (Pakistan).

XLIII. That the Bank encourage diversification of economies dependent on commodities in chronic oversupply (United States).

XLIV. (a) That the Bank act as advocate of the developing countries before the wealthier nations (Jordan); (b) that international institutions increasingly become the medium of development assistance (Korea); and (c) that a careful evaluation be made of the results of past assistance to developing countries (Turkey).

XLV. That the Bank invite and cooperate in an investigation of the inadequacy of its structure as a development institution, especially in view of its obsolete Articles of Agreement and the insufficient level of its current activities (United Arab Republic).

Mr. Stanley P. Johnson

October 27, 1966

Paolo Leon and Attila Karaosmanoglu

Your proposal on examining social aspects of development

1. The proposal is a step towards a more comprehensive approach to development problems. However, it is possible to lose the beneficial effects of adopting a new viewpoint if attention is directed towards too many aspects. Therefore, rather than formalizing the various social-economic relationships indicated in Mr. Johnson's paper, it may be more fruitful to concentrate on those relationships which become evident in our project work. The Bank is in a unique position to spot some of these relationships.
2. Feasibility studies for major projects usually pay only lip service to the social aspects of projects under consideration. A systematic inventory is hardly ever carried out on the socio-economic structure of the regions where the projects are constructed. Also, the social developments following the establishment of a project, and their effect on economic and financial aspects of the project itself, are not assessed.
3. What seems necessary, if this type of analysis is to be carried out, is to have an abstract social-economic model making explicit all the variables and their mutual relationships so as to arrive at a detailed inventory of all those social-economic aspects which may interact significantly with the establishment and the running of a project. Such inventory must be significant: i.e. it must have a bearing on the project. The experience which can be gained by comparing the abstract inventory with actual cases, may give an insight ^{not} only of the social phenomena per se, but also of the costs and benefits - beyond the direct ones - which a project causes. These analyses will require a follow-up during the construction of the project (particularly for big projects) and further studies after the completion of the project.
4. We do not agree with certain other ideas of your paper (e.g. educational TV, etc.) mainly because the Bank has yet to fully cover more traditional investment sectors (education proper, government-owned industry, etc.). Unless the developmental returns of the new sector possibilities are proved to be very high, sectors among which to establish a priority are still the traditional ones.

cc: Messrs. Friedman
Kamark
Owen

pl/jb
ak

Mr. Irving S. Friedman

October 21, 1966

D. S. Ballantine

DSB
10/19/66
Paper EC/O/66-160: An Approach to Social Problems and Economic Development

I am strongly in favor of having the young professionals work out in areas where they can bring forward the points of view of a new generation. I am also sympathetic to the general point of view expressed in this paper and would add that some points have been well made.

However, I do not consider the paper to be a solid piece of work. It alludes to a number of studies, issues, and presumed facts without going into any depth or further explanation and leaves me, at least, with an uncomfortable feeling that this may all be "off the top". This feeling is reinforced by reference to two matters within my immediate experience. On pages 6 and 7, Mr. Johnson states "If the work program does not already exist - education by TV in developing countries seems so far to have been only marginally discussed - there seems no reason why the Bank, given its role as potential leader, should not instigate and inspire it in some sister agency." A study of the possibilities and cost factors of new educational media, including TV, is currently being conducted by the International Institute for Educational Planning in Paris. Eighteen country case studies have been made and a general report is being prepared. This study is being directed by Professor Wilbur Schramm, a recognized authority in this field. The Bank did participate in the discussions leading up to this study at a conference at Bellagio several years ago. I have discussed its progress with the Director of the Institute last week in Paris. This Division also attempts to be on the alert for other significant studies in this field because we are quite confident that in the years to come financing of hardware for educational TV may be an important part of the Bank's business. However, as most experts in this field insist hardware is the simplest and perhaps the last problem to be solved before the use of such new media is generally applicable.

On page 3, the paper refers to "the question of teacher incentives in the Jamaica education project". I am not aware that there ever has been such a "question". Except for a very brief reference to teacher salaries during the presentation of the Jamaica project to the Board, I cannot imagine what might have inspired the inclusion of this so-called question among examples cited where the Bank has, willy-nilly, become involved in human assessments.

It is regrettable to find such evidence of superficiality in the paper because it does deal with a matter of considerable importance and I am sure that many of the social factors or questions referred to deserve study. I would also be sympathetic to the employment of several "resident" sociologists in the Bank who could direct their attention to the many important non-economic factors which influence economic behavior.

DSBallantine:js

ECONOMIC COMMITTEE

DECLASSIFIED

AUG 30 2011

WBG ARCHIVES

EC/O/66 - 160

October 19, 1966

An Approach to Social Problems and Economic Development

1. Attached hereto is a draft of a suggestion made by Mr. Stanley Johnson who has been working with Mr. Friedman.
2. Mr. Friedman thought that this matter might be of general interest to members of the Economic Committee. He has asked for any reactions, including whether the suggestion was worth a discussion by the Economic Committee.
3. Any comments may be sent either to Mr. Friedman, Mr. Johnson (extension 3437), or myself.

C. F. Owen
Secretary

Attachment

Secretary's Department

D I S T R I B U T I O N

Messrs.	Friedman	Bell	Maiss
	Kamarck	Edelman	McDiarmid
	Adler	Gilmartin	Sacchetti
	Avramovic	King (B.B.)	Sadove
	Rist	Larsen	Thompson
	de Vries	Lipkowitz	Weiner
	Collier		Wright

IBRD: A NEW PROPOSAL

"If better methods of cultivation are freely available, why do peasant farmers not adopt them? Why does education contribute to urban unemployment, to revolutionary rather than economic activity, to discontent rather than self-fulfillment? What are the reasons for the excessive growth of towns and shanty towns? Why has expenditure on health, birth control and irrigation had so little impact on development? Why does one cooperative succeed while another fails? How should extension services be conducted to get farmers to respond? What are the functions of trade unions in developing societies? To many of these questions we do not know the answers."

Paul Streeten, First Fellow of the Institute for Development Studies, Sussex University, England.

1. It has long been realized - and publicly proclaimed - that economic and social development go hand in hand. In recent months, leaders in the field of development assistance such as Philippe de Seynes have re-emphasized this. U Thant himself, in his introduction to his annual report, stated on September 15, 1966:

"Perhaps as a result of this increased awareness of the complexity and unity of the development process, a larger concern for the interrelationships of the economic and social questions is replacing the often

invidious distinction previously drawn between economic and social affairs."

This "larger concern" was abundantly reflected in the U.N. Social Commission's report on the World Social Situation 1965. It is reflected in the work of the UNDP and the U.N. Research Institute for Social Development in Geneva. The question arises, though, is it yet reflected or reflected systematically enough in the work of the Bank?

2. It is perhaps only in recent years - with the Bank's interest in education and agriculture - that this systematic appreciation of the interaction between the economic and the social has attained a critical importance. Before, it could be argued - perhaps rightly - that the hard core infrastructure projects, in electricity and transportation, etc. were essentially technical, not human achievements. Much goodwill existed; there was ready recognition of the importance of understanding human and social factors in development, of the necessity for popular participation and motivation. But there was, at the same time, a certain skepticism about how all this related to the Bank's operational activities.

3. But the Bank has, willy-nilly, become involved in human assessments. A handful of almost random recent examples makes the point: Should the Bank take a sociologist along on the Gezira Study; Mr. de Wilde's book on Tropical Agriculture and the separate study of "Animation Rurale" in the Bouake region of the Ivory Coast; the Land Reform project in Colombia; the agricultural cooperative operation in Tunisia; the whole farmer-oriented emphasis of the Indus Basin Study; the Projects Department's paper on "Conscript Labour" for road-building and

this month's discussion by the Executive Directors of labor intensive methods of construction; the question of teacher incentives in the Jamaica education project; the question of habits and traditions in water use in the Dacca and Chittagong water supply projects, or of managerial limitations there.

4. Thus there has, in a piece-meal way, been informal recognition of the need for research into this interaction of the social and the economic. A case in point is the mandate given to the Institutional and Quantitative Research Group in the Economics Department to consider, inter alia, these "avant-garde" topics. Of particular interest is the Bank's involvement, albeit remote, in the FAO Study of Financing of Agrarian Reform in Latin America and the emphasis of that project on the "social and indirect benefits which are particularly important, yet often ignored in project evaluation."

5. This piece-meal recognition has perhaps an institutional as well as an historical cause. Some area between the microeconomic project studies and the macroeconomic country studies is left untouched. But whatever the cause, the situation should be remedied. Piece-meal recognition is no longer enough for an organization of the Bank's standing. Because of the scale of its activities the Bank is in a position to make a unique contribution to the literature and practice of development. It is in a position to rescue this huge and vital statement, "The economic and the social go hand in hand," from becoming merely a cliché. There exists in the files of the Bank - and, perhaps more importantly, inside the heads of those intimately concerned - a wealth of knowledge and experience of precisely this interaction.

Mr. Chadenet's memo about the water in Dacca was an excellent example. Synthesis and evaluation should be possible, and should result in a study of immense value. The UNRISD has already attempted this in its Report No. 2, Methods to Induce Change at the Local Level, (Geneva, November 1965). UNRISD, in the course of its study, garnered the opinions of almost 400 national and foreign experts who had worked on local development projects in ten countries of Latin America, sub-Saharan Africa and the Mediterranean. The Bank would have wider experience of bigger projects to draw upon. And perhaps its experts are more expert.

6. But, apart from the contribution to the literature of the subject, there is the contribution to practice. The very act of enquiry, of defining (or attempting to define) what the human and social difficulties were in any loan or credit operation, what steps had to be taken to overcome them; or, alternatively, what human and social factors contributed to the success of any such operation - this act must inevitably incalculable different attitudes to project appraisals and country studies, which would be reflected in on-going and future work.

7. There might, for example, be an increased awareness of technical assistance possibilities, a subject which has recently been reviewed in the Bank (see Mr. Hoffman's memo of May 10 and the Economic Committee report of June 27) and was the subject of comment at the Annual Meeting. This could at the same time bring about in the Bank a far more comprehensive knowledge of persons and institutions whose services could be used in a technical assistance capacity in the same way, for example, as the Bank already uses management consultants, universities, etc. This might result, eventually, in a systematic computer-programmed listing of human resources available in both the developed and the developing world for

development purposes. Particularly, perhaps, in the developing world - as this year's Bank Annual Report recognizes in its review of the technical assistance efforts of India, Israel, etc. There are already numerous catalogs of this kind compiled both on a national and an international basis (e.g. by the Overseas Development Institute, the International Council of Voluntary Agencies, the Society for International Development, etc.). The Bank catalog would, however, have the merit of being an evaluative and critical document, rather than a merely exhaustive one.

8. It might also become apparent that there was a case for the experimental recruitment of one or two resident sociologists whose advice, direction and encouragement would be sought. This would be a reflection not upon the broadminded and "generalist" qualities of existing staff, but upon the heavy work load which they already bear.

9. The listing or other listings might ultimately be extended in other directions. They might cover, also, Bank collaboration or potential collaboration with business groups such as CED, IBEC, BCIU, or H. J. Heinz II, and others outside the U.S.A. Thus an investment need of a private enterprise character, e.g. the supply of seed or the organization of marketing, would be met by a ready response. The time is ripe.

Work on SID and the Multilateral Investment Guarantee scheme has progressed far enough. If the call for more private capital is to be more than a formality, this sort of cooperation between business and the international financial agencies has to come about in increasing measure. IFC has, admittedly, had bad experiences with its attempts to interest private concerns in feasibility studies which it has itself conducted. But this approach is not rendered invalid by two or three failures. Nor

is it the only possible approach.

10. It is possible that this study and any operational changes that resulted from it would result in a net saving to the Bank of its resources. It might become apparent that a small sum spent wisely on social research (e.g. into the Ejido system in Mexico), would save much larger sums from being wasted or misused.

11. These are the present implications of the proposal. The future implications are, in many ways, far more dramatic. If we admit the possibility, however long term, that the Bank will at some point consider lending money for land reform, for population control, for health, for education via television-satellite or other forms of TV-borne extension work, or for as yet undefined labor intensive industrial projects, we should also admit the prudence of knowing in advance about some of the problems which might arise in this sort of operation.

12. This is the second half of the proposal. The Bank, having hopefully been a contributor to knowledge, now draws upon that of other people and other institutions. Mindful of the recent appeals by UNESCO, WHO, ITU, etc. that it should in fact finance satellite-borne education, health centers, and population control, the Bank should avail itself formally and in some centralized way of the research and documentation on these subjects which is already available or presently being undertaken within the United Nations family. The FAO study, already mentioned, is one example. Another, of great interest for the country economic work of the Bank, is the study about to be undertaken by UNRISD on the budgetary implications of population projection. If the work program does not already exist - education by TV in developing countries seems so far

to have been only marginally discussed - there seems no reason why the Bank, given its role as potential lender, should not instigate and inspire it in some sister agency.

13. This might conceivably involve the Bank in a wider or different network of cooperative arrangements than it at present has. Each proposed contact, e.g. with the Social Commission, UNRISD, ITU or UNOID would have to be examined closely. But, given safeguards, this wider collaboration should surely be fruitful. A deeper sense of kinship is being constantly advocated by the other members of the U.N. family. The ECOSOC itself is reviewing its whole role. Greater Bank collaboration within the U.N. family is hardly out of keeping with the spirit of the age.

14. It would, furthermore, have an important budgetary implication for the Bank. Avant-garde thinking and research on these topics would be conducted largely outside the Bank, by agencies best qualified to conduct it and with no danger of duplication. The Bank should, with little difficulty, be able to make its own personality felt because it would have a continuous involvement with the study. It would be able to emphasize constantly that it is hard-headedly interested in social questions only insofar as they affect the economic aspects of projects in which it may be involved. Judging by the oft-stated desire of other U.N. bodies to see paper output translated into practical achievement, this distinctive Bank emphasis should be warmly welcomed.

15. Finally, there has on all sides - at DAC, at ECOSOC, at the Annual Meeting - been a call for bold new proposals. At the same time, the Bank has been congratulated as being in the vanguard of all development thinking. Here then is one proposal - which perhaps contains in itself the germs of many other proposals - which might both help the Bank

to maintain that position and itself meet the demand for something new.

Mr. J. H. Collier

Oct 18, 1966

A. Karaosmanoglu

List of Literature in the Field of International Aid

You have asked for a list of literature in the field of international aid.

Attached are a few, relatively recent titles which you may find interesting.

AK/GW

A.K.

INTERNATIONAL AID

Adelman, Irma and Hollis B. Chenery, "Foreign Aid and Economic Development: the case of Greece." The Review of Economics and Statistics, Vol. XLIII, February 1966, No. 1, pp. 1-19.

Agency for International Development. Foreign Assistance and Economic Development, AID Discussion Paper No. 7 (rev.). Washington, D. C., Office of Program Coordination, AID, U.S. Department of State, June 1965.

Arnold, H.S.P., Aid for Development. Badley Head, U.K., 1966.
Joint Library call no. 338.93 Ar 6 ad.

Asher, Robert E., "How to Succeed in Aid Without Really Trying." Public Policy, Vol. XIII (J. D. Montgomery and A. Smithies, ed.).

----- Multilateral Versus Bilateral Aid: An Old Controversy Revisited. Washington, D. C., The Brookings Institution, 1963.

Bandera, V. N., "Tied Loans and International Payments Problems." Oxford Economic Papers, Vol. 17, July 1965, No. 2, pp. 299-309.

Berrill, Kenneth, "Foreign Capital and Take-off." The Economics of Take-off into Sustained Growth, (W. W. Rostow, ed.). London, 1963.

Chakravarty, Subhamoy and Paul N. Rosenstein Rodan, "The Linking of Food Aid with Other Aid". Rome, U.N. and F.A.O., 1965, 39 pp.

Cooper, R. W., A Note on Foreign Assistance and the Capital Requirements for Development. The Rand Corporation, February 1965.

Feis, Herbert, Foreign Aid and Foreign Policy. New York, St. Martin's press, 1964.

Friedman, Wolfgang G., George Kalmanoff and Robert E. Mergher, International Financial Aid. New York, Columbia University press, 1966, pp. xiv and 498.

Halbik, K., "West German Development Aid - the Means and Ends." Quarterly Review of Economic Business, Winter 1965, pp. 5-19.

Hayter, Teresa, "French Aid to Africa - Its Scope and Achievements." International Affairs (OUP for Royal Institute of International Affairs), April 1965.

Johnson, R. E., The Effects of Savings and Foreign Aid on National Growth Rates. The Rand Corporation, 1965.

International Aid

- Kravis, Irving B. and Michael W. S. Davenport, "The Political Arithmetic of International Burden-sharing." The Journal of Political Economy, Vol. LXXI, No. 4. August 1963.
- Little, M.I.D. and J. M. Clifford, International Aid. London, George Allen and Unwin. 1965. Joint Library call no. 338.93 1 72 i.
- Lovell, A. H., "How Should Overseas Aid Be Given?" Lloyds Bank Review, April 1966, pp. 19-32.
- MacDougall, G.D.A., "The Benefits and Costs of Private Investment from Abroad: A Theoretical Approach." Bulletin of the Oxford University Institute of Economics and Statistics, Vol. 22, No. 3, August 1960.
- Mason, E. S., "On the Appropriate Size of a Development Program." Occasional Papers in International Affairs, No. 8. Cambridge, Mass., Harvard University, August 1964.
- McKinnan, R. I., "Foreign Exchange Constraints in Economic Development and Efficient Aid Allocation." The Economic Journal, Vol. LXXIV, June 1964, No. 294, pp. 388-409.
- Ohlin, G. A., Foreign Aid Policies Reconsidered. Paris, OECD Development Center Studies, 1965, 120 pp.
- Pincus, John A., "The Cost of Foreign Aid." The Review of Economics and Statistics, Vol. XLV, No. 4. Cambridge, Mass., Harvard University press, November 1963.
- Economic Aid and International Cost Sharing. Baltimore, Johns Hopkins University press, July 1965. Joint Library call no. 338.93 p 65 e.
- Ranis, Gustav (ed.), The United States and the Developing Economies: An Introduction to a Current Issue of Public Policy. New York, W. W. Norton & Co. Inc., pp. xx and 174. Joint Library call no. 338.93 R 16 u.
- Rosenstein-Rodan, P. N., "International Aid for Underdeveloped Countries." The Review of Economics and Statistics, Vol. XLIII, May 1961, pp. 107-138.
- Rubin, Seymour J., The Conscience of the Rich Nations: the Development Assistance Committee and the Common Aid Effort. New York, Harper & Row, 1966. Joint Library call no. 338.93 R 82 c.

International Aid

Schmidt, Wilson E., "The Economics of Charity Versus Grants." Journal of Political Economy, Vol. LXXII, August 1964, p. 346.

United States Senate Special Committee to Study the Foreign Aid Program. Foreign Aid Programs and U.S. Economy. Washington, U.S. Government Printing Office, 1957.

Ward, Barbara and Bauer, P. T., True Views on Aid to Developing Countries, Occasional Paper 9. Institute of Economic Affairs, 1966. Joint Library call no. 338.93 W 21 t.

Ward, R. S., "Foreign Aid and the Moral of Compulsory Imports (the Case of Jordan)." Indian Journal of Economics. January 1965, pp. 267-76.

Wolf, Charles, Jr., Foreign Aid: Theory and Practice in Southern Asia. Princeton, New Jersey, Princeton University press, 1960. Joint Library call no. 338.93 W 83 f.

GW/-

October 18, 1966

Dev - 9 en
Alpha - Hewe

Mr. Barend A. de Vries

October 18, 1966

Paolo Leon

Mr. M.W.A. Hewe's Chapter on Trade and Aid (American Foreign Assistance)

1. This is an exceedingly clear and balanced exposition of the problem. Although nothing new is said, the accent on the comparison of trade with aid is very useful.
2. I really do not have comments, except for three suggestions. (1) The author discusses inter alia the relative merits of foreign investment and aid, but omits discussing the fact that (loan) aid carries fixed service payments obligations irrespective of the circumstances of the economy, while foreign investment's transfer of earnings follows the economy's cycle, and in this sense it is superior; (2) A straight comparison of trade and aid should specify that (loan) aid carries interest and repayments: the author gives the impression of comparing net gains of trade with face amounts of lending, which is unfair. Of course, this does not really affect the substance of the author's conclusion only the degree of its relevance. (3) Maybe the chapter should briefly describe the IBRD's supplementary financial scheme as one of the compensatory mechanisms.
3. I wonder if the book will discuss terms of aid, and the need for soft vs. hard assistance.
4. Could I circulate the draft in my Group?

CC: Mr. G. Kalmanoff

PL/jb

ROUTING SLIP

Date
Oct. 28, 1966

OFFICE OF THE PRESIDENT

Name

Room No.

Mr. Hoffman

845

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 per our conversation.

JM

J. Burke Knapp

ROUTING SLIP

Date

Oct. 20, 1966

OFFICE OF THE PRESIDENT

Name

Room No.

Mr. Knapp

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

Reference Mr. Woods's talk with you at this morning's President Council. As I understand it, a reply will be coming for Mr. Woods to send to Mr. Dalyell.

G.C. Wishart

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

Ms. Woods,

To see this exchange
of letters between Mr.
Schwartz and a Scots M.P.

Do you wish to take any
further action on this, please?

Jim
1404.

Mr Woods
PC
October 14, 1966

Dear Mr. Dalyell:

9-28-66
I am gratified at the constructive concern which you display in your recent letter to me over the problem of reconciling longer-term aims of development assistance with the immediate pressures on the balance of payments of donor countries. My views on this subject have been expressed both in my opening speech at our Annual Meeting and in a statement which I made last July to the Development Assistance Committee of the O.E.C.D. I enclose a copy of each text.

Despite an obvious preference for "untied" aid over "tied" aid, I have no difficulty in agreeing with your proposition that "tied" aid is better than no aid at all. But you will see from a reading of my statements that my principal concern, and indeed the only aspect of this problem which strictly falls within the competence of the Fund, is to the extent to which the granting of aid should be subject to adjustment in order to correct disequilibrium in the budget of the balance of payments. The methods by which aid is extended, and the uses to which it is put, are more directly the concern of the World Bank and of my colleague, Mr. George Woods. I think you may find it valuable to see the text of his speech to the recent Annual Meeting, which I enclose.

I propose therefore to transmit to Mr. Woods copies of your letter and this reply, and to say that we are ready to study your ideas together with him, with a view to seeing how far they may be applied in the advice which we each give to our member governments.

Yours sincerely,

P.-P. Schweitzer

Tam Dalyell, Esq., M. P.
House of Commons
London, S. W. 1, England

cc: Mr. George Woods ✓
Mr. Sturc

Dev. - gen
x Alpha - Th. H. Bot

October 10, 1966

(salutation by hand)

Thank you very much for your kind letter of September 30th, with which you enclosed a copy of your recent statement to the Dutch Parliament regarding assistance to the lesser developed countries.

I read this statement this week-end with a great deal of interest, and I compliment you on the thorough way in which this very important subject has been dealt with.

It was a great pleasure having dinner with you when you were in Washington not so long ago, and I hope we can repeat this in the near future either here in Washington or in The Hague.

(signed) S. Aldewereld

S. Aldewereld

His Excellency
Mr. Th. H. Bot
Minister zonder portefeuille, belast met
de aangelegenheden betreffende de hulp aan
ontwikkelingslanden
Plein 23
Den Haag

SAldewereld:mc

*Dev. - Gen
x Alpha - Booz-
Allen & P.*

OFFICE MEMORANDUM

TO: Files

DATE: October 6, 1966

FROM: Marinus van der Mel *MvM*SUBJECT: Visit of Mr. Glantz

I talked today to Mr. Glantz of the firm of Booz-Allen Applied Research, Inc., which is making a study for the U.S. Government on likely major economic trends in selected less developed countries during the next 20 years. The visit had been arranged at the request of Mr. Zagorin, U.S. Alternate Executive Director with the Bank. Mr. Glantz said that earlier in the day he had seen Mr. Tolbert of the Asia Department. A colleague of Mr. Glantz, Mr. Whitby, apparently had some interviews in the Bank on the same subject for other countries.

Mr. Glantz explained that he was concentrating on the Middle East and we discussed at some length the economic situation and prospects of the countries for which this Department is responsible. Since I did not know beforehand which countries Mr. Glantz wanted to cover and the discussion was quite general there was no occasion or need to draw in other staff members of the Department.

I got the impression that the study lacked focus. Apparently it is intended to be more qualitative than quantitative. Mr. Glantz was not able to indicate clearly which were the key questions he wanted to concentrate on nor what would be the degree of detail and depth of study; he only said that time and resources available for the project were quite limited. In short, I was not much impressed by the visit.

cc: Mr. Cope/Mr. Fontein
Mr. Thompson
Mr. Bart/Mr. de Wit
Mr. Hornstein

MvanderMel:oe

Dev. - gen
x Alpha - Hewlett
Packard Co.

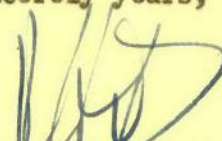
October 4, 1966

Dear Mr. Hewlett:

The OECD Development Centre study by Goran Ohlin, to which I referred in my letter of September 22, has just come in from Paris. I enclose it, in the hope that you will find it of interest.

With kind regards,

Sincerely yours,



Richard H. Demuth
Director
Development Services Department

Mr. William R. Hewlett
President
Hewlett Packard Company
1501 Page Mill Road
Palo Alto, CALIFORNIA

(Enclosure)

813
SEBoskey:tsb

acc. 11-2-66

Aangeboden door het

Ministerie

van Buitenlandse Zaken

Minister zonder Portefeuille.

met beleefd verzoek
te gaaude brief van
12.10. Minister Bot wel
te willen doen affeven.

den Haag, 3 Oktober 1966.



Mr. Th.H. Bot

's-Gravenhage, 30 september 1966.

Leer heer Aldewereld

Als "revanche" voor de Uwerzijds ontvangen exemplaren van de door U tijdens Uw laatste bezoek aan Nederland gehouden lezingen, moge ik U bijgaand een exemplaar van de onlangs door mij aan de Nederlandse Staten-Generaal aangeboden "Nota hulpverlening aan minder ontwikkelde landen" doen toekomen.

Een Engelse vertaling wordt momenteel verzorgd; wel is intussen een Engelse vertaling van inhoudsopgave, inleiding en uitvoerige samenvatting (pp.5 t/m 6, 7 t/m 9 en 114 t/m 124) beschikbaar, waarvan ik eveneens een exemplaar insluit.

*Met vriendelijke groet en
godelieve in langzamer.*

Stroom

Mr. S. Aldewereld,
Vice-President of the International
Bank for Reconstruction and Development
1818 H Street, N.W.
WASHINGTON, D.C. 20433

acc. 10/10/66

MEMORANDUM ON DEVELOPMENT AID

Introduction

I. The Problem

- a. Introduction
- b. Background
- c. Aid policy in the fifties;
criticism and levelling off
of aid
- d. Reorientation

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INTRODUCTION

The first Memorandum on aid to developing countries was submitted to the Second Chamber of the States-General in 1950; the Minister for Foreign Affairs presented another more detailed Memorandum on the subject to Parliament in 1956 and a third in 1962.

Since then there have been many new developments in development aid and there is now a different approach to the problem both internationally and in the Netherlands. One point has become abundantly clear: that conditions in developing countries are indissolubly bound up with social, economic and political development of the world at large.

Pursuing a policy with regard to aid to developing countries means co-operating in solving a global problem that is actually the social and economic complement of post-war political decolonization. Ultimately, the object is to integrate by rapid and evolutionary means about 80 new states that constitute the poorer two-third of the world's population into a system that is itself constantly involving as a consequence of the tremendous progress made since the war in science and technology.

A strong, highly co-ordinated policy, both national and international, is essential if that is to be achieved.

Therefore the Government now considers it desirable to submit to the States-General another Memorandum on development policy and its background, describing the position in the middle of 1966.

I have endeavoured to avoid repeating what has been said in previous Memoranda and have concentrated mainly on recent developments and on current problems and tasks. Dutch policy outlined against this background is then seen in proper perspective.

For just as multilateral international co-operation is becoming an ever more important complement to "conventional"

bilateral foreign policy, so an analogous process of multilateralization is seen to be going on at an accelerated rate in the sphere of financial and technical aid to developing countries. Here, too, the motive is clearly the desire thus to increase the efficacy of one's own contribution.

Needless to say, Holland's efforts constitute a relatively modest contribution towards the solution of this immense and complex problem. This makes it even more essential that Holland's contribution be given with optimum efficiency, whether it is a contribution to international opinion or factual aid.

Therefore development policy should be integrated as completely as possible with general national welfare policies and should be planned on a long-term basis.

Indeed, it is essential that all who can make some contribution to this work should co-operate closely and systematically. I am happy to note that co-operation of this kind in this country is steadily becoming more effective and that it has greatly facilitated the preparation of this Memorandum.

It is not the purpose of this Memorandum either to give an exhaustive account of development aid work or to answer every question that may be asked on the subject. The main problems and the ways in which they affect one another have been dealt with in a lucid manner to enable the reader to assess the position as regards development aid in the world at large and of Holland's development aid policy.

Chapter I contains an outline of the problem and of the various views on the subject held hitherto.

In Chapter II some points of departure for aid projects are described that are of importance when deciding upon the the course Dutch policy should steer.

In Chapter III attention is given to some of the basic problems with which developing countries are faced.

The requirements that an up-to-date aid policy must satisfy are outlined in Chapter IV and the main sectors of

aid and international co-operation in development work are discussed in Chapter V.

Dutch aid projects are dealt with broadly in Chapter VI and are followed by a rough outline of the future moves that are deemed desirable.

The programmes of a number of important international organizations concerned with development aid for the immediate future are described in annexes to enable Holland's policy to be judged also against that factual background.

Finally it should be noted that I do not suggest that there is a common objective or in consensus as regards the methods to be adopted in the constantly changing field that constitutes the subject of the Memorandum where such do not as yet exist. On the contrary, objective, factual information has been collected on the purpose and the consequences (also for the country providing the aid) of a dynamic, up-to-date aid policy in order to enable the subject and the results of the relevant long-term policy to be judged democratically.

Deciding how far we are prepared to go when making our concrete national contribution towards raising the standard of living of the inhabitants of developing countries is ultimately a political, not an economic or technical matter; it is at the same time a decision as to the kind of world in which the next generation will live.

July 1966

Th.H. Bot,
Minister without Portfolio
responsible for aid to
developing countries.

CHAPTER VII

SUMMARY AND CONCLUSIONS

The manner in which people's views on and their approach to the granting of aid have evolved in the last few years and how this form of international co-operation has acquired new characteristics partly as a result of these changes are described in Chapters I to IV. Holland's actual assistance in the various sectors of aid is outlined in Chapters V and VI, particularly in the latter. The introduction contains a brief description of the purpose of the Memorandum.

A. Purpose and nature of Holland's development policy

1. The object of Holland's development policy is to make the most effective contribution, in consultation and co-operation with both donor and recipient countries and within the framework of the appropriate international organizations, towards
 - a. the systematic betterment of the individual and collective well-being of the two-thirds of the world's inhabitants that live in developing countries;
 - b. the harmonious social and economic integration of the approximately 80 emergent states constituting the rapidly developing southern part of our globe into a world that is changing rapidly owing to scientific and technical advancement.
2. The problem inherent in the increasing differences in standards of living throughout the world and the solving of that problem come within the framework of the foreign policies of sovereign states. Considerations of human solidarity and the common destiny of the nations are just as much in evidence in those policies as economic interests.

Development policies do not concern the administration of charity, nor may they be mainly inspired by commercial interests or power politics.

Development aid is granted solely in response to applications from or with the concurrence of the governments of the developing countries concerned, and on the basis of long-term development plans whenever possible.

B. Position and scope of development policy in the Netherlands

1. Two main conditions must be fulfilled at national level before the double objective described in A.1. can be attained; firstly, development policy must be integrated with and be counted just as important as the other more conventional commitments of the state; secondly, the closest possible co-operation must be secured in matters of development aid between the Government on the one hand and commercial and non-commercial private organizations on the other.

2. To assure continuity of aid it is essential that long-term programmes be drawn up for this sector of Government activity to supplement the long-term plans required of the developing countries. The obligation to continue to assist for a number of years in the attainment of the objective described in A.1. turns the sum to be spent by the Government on development aid into one of the factors determining budget policy and helps to indicate what priority should be accorded to development aid with respect to other fields of Government activity that have a more immediate bearing on the nation's own well-being.

The Government intends to draw up programmes for Holland's contributions to development aid annually for periods of four years whenever possible. The actual sum to be spent annually is definitively fixed by law from year to year on the basis of the Budget proposals actually tabled.

3. In view of the still increasing differences in standards of living on the one hand and the ever-increasing needs and opportunities for rendering assistance in the developing countries on the other, the volume of aid offered should rise steadily. Therefore the Cabinet regards it as desirable that the aid forthcoming from the Netherlands Government

should be gradually extended. Accordingly the Government believes that 1% of the national income is in itself a desirable target figure for aid from public funds. The rate at which the target should be reached is the subject of a study the Cabinet is preparing on the development of Government expenditure up to the end of 1970.

C. Pointers for Government policy

1. Acculturation problems

The Government is endeavouring to adapt the methods whereby the various forms of assistance are rendered as closely as possible to circumstances in the developing countries and the regions in which they are located. Therefore the Government is giving much attention to the acculturation problems with which many developing countries are faced, particularly when training staff for work in those countries.

2. Adjusting political and social structures

The accelerated process of development going on in the emergent states is bringing about a complete change in their way of life and social pattern. Western economic growth schedules are hardly applicable if at all. Less than anywhere else in the world can the economic development of the young states be separated from the political and social developments that are also taking place in those countries. Any change in the economic sector not only affects the existing political and social structures and the rate at which they evolve, but is itself conditioned by those structures.

It is also for these reasons that the Government regards it as essential that the authorities and the public in the developing countries should co-operate actively and systematically. Accordingly, the Government is giving greater and greater attention, both multilaterally and bilaterally, to the need for social, administrative and cultural aid.

Nevertheless, the Government is only too well aware, that there are no clear-cut systems by which development aid can be given to optimum advantage, in view of the difficulty of reducing these multi-dimensional relations to a single

denominator. The Government believes, however, that in view of the magnitude and importance of the task with which the world is faced in this regard, we should not hesitate to strike into new roads even when it is not yet certain that they will lead us more effectively or more rapidly to our objective.

At the same time the Government regards it as vital to developing and industrialized countries alike that optimum use be made of methods, international institutions and establishments that have proved their worth for the social and economic advancement of the world, adapting them where necessary to the new tasks.

Accordingly, the Government also attaches great importance to the evaluation research being carried out at its request into the procedures and results of the various methods of assistance.

3. International Development Strategy

The complexity and magnitude of the development problem make it essential that by co-operating as broadly as possible North and South draw up an international development strategy calculated to raise the standard of living in developing areas and to reduce the differences between living standards, which have hitherto constantly become greater.

It is only by constant co-operation, also in the international organizations involved, in every social, economic and cultural sphere, that donor and recipient countries can establish rational priorities for the problems jostling for immediate solution.

Accordingly, the Government will constantly watch the interests of the developing countries as it determines its national, regional and international policies; it believes that the developing countries should be prepared to exert themselves and make great sacrifices in the same spirit for their own accelerated development.

4. Charter for development co-operation

In view of what is stated in 3 and in view of the aims of the United Nations described in Article 1, paragraph 3, in conjunction with Articles 55 and 56, the Government regards it as essential that systematic efforts should be made to lay down as a guide a number of common avenues of approach and rules of conduct for development co-operation to foster effective collaboration in this sphere.

These principles and practical rules of conduct could be embodied in an "International Development Co-operation Charter". The Government believes they would then serve as a concrete international guide for Member States, both aiding and aided countries, as they endeavour to co-operate in development work and judge the results objectively and unemotionally. The Government is resolved to do what it can to further the elaboration of this idea.

D. Implementation of development policy

1. Stepping up aid

In view of what is stated in B.3. on the subject of the extent of Holland's aid the Government will continue energetically to pursue the policy adopted hitherto and will without delay examine any new methods to discover whether they would really help to improve the effectiveness of aid.

2. Multilateral Aid

Accordingly, the Government will again show that it regards multilateral development work as of primary importance by gradually stepping up participation in the various multilateral aid programmes to which it is committed, either by treaties or voluntarily.

3. Bilateral aid

a. Financial aid

The Government will continue to grant financial assistance solely through the consortia and consultative groups working under the guidance of the World Bank and the O.E.C.D., which groups are regarded as particularly effective. The Government regards it as a great advantage that their work lies between the bilateral and multilateral forms of

assistance, as it were.

The Government regards the co-operation with the Inter-American Development Bank (I.D.B.), set down in an agreement in September 1965, in the spending of the sum to be earmarked annually for aid to Latin-America as being of a similar nature, and it considers participation in other regional development banks vital in view of the manner in which it encourages developing countries to be active themselves.-

b. T e c h n i c a l a i d

As regards the variegated spectrum of bilateral technical aid which the Government also wishes to continue to further energetically after the experience it has had of the work, the Government would recommend greater geographical concentration and the integration if possible, of various aid projects into larger, coherent projects. The Government wishes to make the transference of know-how inherent in this form of aid as efficacious as possible by embarking preferably on projects for which Holland has "counterparts" (institutes or organizations) that will be able to arrange for any desired guidance to be given or for an exchange of experiences to take place in the more distant future.

c. S p e c i a l i s t s

In order to make more specialists available the Government is resolved

1. to set up a pool of specialists; the fact that this will involve major administrative changes and introduce an entirely new element into labour relations in the Civil Service is explained under A in Chapter VI;
2. to broaden the criteria determining the support to be given to what is called the Combined Financing Programme (see below: co-operation with private organizations, 4,b.) in such a manner that projects accepted as such for combined financing may be incorporated in the Specialists' Programme in certain appropriate cases.
3. Systematically to encourage universities, other institutes of higher education and scientific institutions to make

specialists temporarily available by assisting the former financially if possible and by helping them to organize the operation.

d. S c h o l a r s h i p s "f e l l o w s"

It is the intention gradually to make it easier in the years ahead to obtain grants for studying at educational and scientific establishments in developing countries, the opportunity for which was created in 1966, without however reducing the 35-odd courses being given in this country, in view of the rapidly rising demand for education and specialization. Nevertheless, the Government will adhere as closely as possible to the principle that to be admitted to these courses applicants must have had a university education and some practical experience.

4. C o - o p e r a t i o n w i t h p r i v a t e o r g a n i z a t i o n s

The Government regards it as essential that co-operation with private organizations, both commercial and non-commercial, should become closer if development aid projects are to produce the best possible results.

a. T r a d e a n d i n d u s t r y

Accordingly the Government is endeavouring in the first place to increase the flow also of Dutch private capital to developing countries to expand the volume of aid. It regards the speedy setting up of a system of multilateral guarantees for establishments in developing countries as one of the most important conditions.

If a multilateral investment guarantee system of that kind cannot be set up soon, the Government is prepared to introduce at very short notice a Bill for the establishment of a national system. The Government is also studying the possibility of granting additional tax concessions on certain conditions to firms setting up branches in developing countries. Finally, the Government believes that the flow of private capital will be considerably increased by the "impulse - projects" introduced in 1965. As is well known, they are part of the Netherlands Projects Programme and

serve to remove by means of "pre-investment" subsidies barriers that would very likely prevent Dutch enterprises from operating in the regions concerned.

b. N o n - c o m m e r c i a l o r g a n i z a t i o n s

The combined financing of private development projects of the non-commercial organizations up to 75% of the capital outlay is very satisfactory operating indeed. To make it still more effective, the Government intends also to make the facilities of the Netherlands Specialists Programme available in certain cases.

c. N e t h e r l a n d s V o l u n t e e r s F o u n d a -
t i o n

Co-operation between the authorities and private persons in the Netherlands Volunteers Association formed in July 1965, in which the work of sending out young skilled volunteers previously done by separate bodies was combined in a single organization, is rapidly becoming closer, and the number of volunteers already sent out and to be sent out this year and the results in the field make it reasonable to assume that the Netherlands Youth Volunteers Programme has overcome its teething troubles and constitutes a part of the overall Dutch aid programme of ever-increasing importance; the Dutch aid programme which is so vital both to the inhabitants of developing countries and to the training of the volunteers themselves. Discussions with the Ministry of Defence to settle the relation between national service and an male volunteer's contract are in progress.

d. A s s o c i a t i o n f o r E d u c a t i o n a l
A i d

The Government also regards the Association for Educational Aid for Developing Countries set up in June this year which has still further consolidated co-operation between the authorities and private bodies concerned with education, as a most useful organization. The Government immediately placed certain subjects calling for advice and assistance before the association; advice and possible assistance in the compilation

of the rising burden of debt resting on developing countries can only be arrived at internationally and with the constant active co-operation of the developing countries themselves. It regards the present co-operation in the Development Assistance Committee (D.A.C.) of the O.E.C.D. as a most useful means to that end and will continue actively to support the Committee's endeavours.

The international co-ordination of financial aid taking place in consortia and consultative groups is also facilitating the timely detection of dangerous situations and the prevention of any structural imbalance occurring in the ability of developing countries to meet their financial obligations.

Both the extent, the nature and the quality of the aid given will have to be such as to preclude any further discrepancies between the developing countries' annual commitments and the aid received. Nevertheless it is also essential that the developing countries themselves take the steps they can take to establish a realistic import and development policy and to foster a sound monetary and budgetary policy particularly restricting the call for short-term credits of a commercial nature, if the measures taken by donor countries to prevent a further increase in the burden of debt are to be effective.

5. Trade and services

The Government is convinced that development aid will never produce the desired result, viz. the social and economic betterment, to an increasing extent as a consequence of their own efforts, of the two-thirds of the world's inhabitants living in the developing countries, if a trade policy is not pursued, both nationally and internationally, in which the interests of developing countries are taken into account in principle and systematically.

The Cabinet is well aware that numerous problems are involved, that are directly connected with existing national regional and global economic structures. Obviously, the timely detection of such problems is essential to one's own further development, so that the adjustments called for by

of some standardized basic subject-matter for use in technical training projects was one of the requests made.

e. S c i e n t i f i c E d u c a t i o n

The Government also wishes to continue to give close attention to co-operate with universities, other institutes of higher education and scientific institutions, either within or outside N.U.F.F.I.C. The Government will continue to give strong support to this work, which is so essential for the further development of the emergent countries, through its specialists and projects programme, and will assist in the necessary co-ordination.

f. N a t i o n a l A d v i s o r y C o u n c i l

The Government hopes it will continue to benefit by the extremely valuable recommendations made by the National Aid to Developing Countries Advisory Council, whose work the Government will continue to support with any technical assistance that may be needed.

g. N O V I B

The Government regards the work of the private organizations concerned with development aid, an important one being N.O.V.I.B. (Netherlands Organization for International Assistance), as of great practical value. Accordingly, the Government will make every endeavour to intensify its co-operation with those organizations.

E. Some actual development activities

1. Agriculture

The slow growth of agricultural production and the critical food situation in many developing countries, which greatly inhibit their general economic development, have impelled the Government to work very energetically indeed at every measure that will tend to alleviate a situation fraught with dire consequences for the future.

Of the three remedies that suggest themselves viz.

- systematically increasing food production in the developing countries themselves,
- increasing the imports of food by those countries and

- giving those countries food as consumptive aid, the Government regards the first as by far the most important. The Government is giving active assistance in various forms to the attainment of that objective, both multilaterally and bilaterally, according priority to all such work. (It also renders assistance indirectly by giving financial support to the Organizations for Applied Scientific Research (T.N.O.) for the studies that institution is conducting on the subject.) Moreover, the Government is resolved always to bring up this subject in future during the discussions on the granting of financial development aid within the framework of consortia and consultative groups operating under the guidance of the World Bank and the O.E.C.D.

The Government regards the second remedy as desirable only to a very limited extent in view of the developing countries' shortage of foreign currency.

The third remedy is admissible as a temporary measure, therefore the Government has also set a substantial contribution aside for the purpose in the coming World Food Programme period.

However, the Government sees no immediate need for the western, industrialized countries to embark on "planned surplus production" within the framework of a movement to speed up the supplying of food, on the one hand because the possibilities of rendering assistance by giving food are restricted by financial contingencies rather than by the present-day level of production, and on the other hand because such a move might slow down agricultural production in the developing countries.

2. The population problem

With respect to the problem of the population explosion in the developing countries, which not only results in a heavier drain on food supplies but also raises serious problems with regard to every aspect of the development process, the Government takes the view that as the central authority of an industrialized western country it should tread this ground with greater caution than any other field of

development aid.

Nevertheless, having due regard for the parents' rights and responsibilities in determining the size of their own families and within the framework of the resolutions and recommendations adopted by the United Nations and its organizations, the Government is fully prepared either bilaterally or multilaterally to render assistance in matters of family planning and population policy to such developing countries as may ask for it.

The Government broached the subject at the plenary session of the World Health Organization held at Geneva in May this year and is working out with a friendly donor country some actual plans for co-operation in this field of assistance.

3. Illiteracy and education

The Government regards it as imperative that drastic steps be taken simultaneously to combat illiteracy and to build up sound elementary and technical education systems, primarily for young people but also for adults, if there is to be any further social and economic progress.

The "follow-up" indissolubly bound up with the foregoing calls for similar careful attention; appropriate educational and recreative reading matter must be supplied and there should be a rapid development of well-distributed differentiated mass media (press, radio and television).

Therefore the Government is assisting in many different ways in carrying out projects in this sphere. Good progress is being made with the development of a prototype of a simple mobile printing and audio-visual production unit taken in hand at the Government's request at the end of 1965. The possibility of setting up a printing school in the Netherlands for development aid purposes and of establishing a training centre for radio and television programme compilers is also being investigated. A standardized basic course for technical schools is in course of preparations.

4. Burden of debt

The Government believes, that a solution to the problem

economic developments in the emergent countries and their gradual participation in the world economy can be made in time.

Accordingly the Government will continue to make a positive contribution through the regional and global organizations such as the E.E.C., G.A.T.T. and U.N.C.T.A.D., of which the Netherlands are a member, both as regards its attitude towards commodity agreements and preferential tariffs, and towards plans for supplementary financing, etc. Nevertheless, the Government regards it as being in everyone's interest to make use of the international trade and price machinery as much as possible, and particularly to take such steps to render temporary assistance to the economically weaker developing countries as will help them soon to occupy a competitive position in the world market.

Finally, it should be noted that the Cabinet is examining the possibility of setting up a consultant institute in the Netherlands to assist in the marketing of products from developing countries.

6. Science and technology

The great importance the Government attaches to the mobilization of the resources of western science and technology for the accelerated and continued betterment of the developing countries is evidenced by its active participation in the work launched by the United Nations Conference on the Application of Science and Technology to Development held at Geneva in February 1963.

For example, in 1965 the Government acted upon the reports prepared by the United Nations Advisory Committee on the Application of Science and Technology to Development that was the outcome of the above-mentioned Conference and secured the close co-operation of the Netherlands Organization for Applied Scientific Research (T.N.O.) and other bodies for six definitive projects.

The priority this Committee gives to the improvement of food supplies and public health services, to the population problem, to exploration and the use of natural resources

to industrialization, housing and town planning, to transport and education has prompted the Government to set up a number of departmental and interdepartmental working groups within the framework of the Interdepartmental Co-ordination Committee of which the Minister without Portfolio responsible for Development Aid is the Chairman, whose duty it is to consider in the light of the reports drawn up by the aforementioned Committee what other activities the Netherlands might undertake in this sphere.

These working groups are also endeavouring to discover in what sphere the Netherlands might make some contribution within the framework of the United Nations five-year plan for the integrated development of natural resources also dating from 1965, for which nine world surveys - four for minerals, two for water use, and three for energy are being carried out.

7. Central planning and sociological aspects

As the Government outlines its programme of future aid it seeks to achieve an optimum link-up with the results of the work of the United Nations Committee for Development Planning, which met for the first time in May 1966 and which is staffed by the United Nations Centre for Development Planning, Projections and Policies, the criteria for drawing up the programmes for the social sectors being supplied by the United Nations Institute for Social Development at Geneva.

The importance the Government attaches to the work of the Centre in New York and of the Institute for Social Development at Geneva is clear from the sums for special purposes the Government has contributed to them. The Government regards the priorities the aforementioned Centre is now giving to the re-calculation of the discrepancy between the standards of living as it is expected to be by 1970, to the estimating of real capital requirements by 1979 and to examining the possibility of dividing industrial labour internationally between developed and developing countries as particularly invaluable for determining the nature of

aid projects in the not too distant future. Therefore the Government will continue to support this work actively in the years ahead.

F. Dissemination of information

Finally, the Government is resolved to make such arrangements with respect to the dissemination of information on international co-operation in development aid and Holland's share thereof that in the near future the Dutch public will be given a clearer picture of aid policy and its background than was possible in the past, when development assistance was gaining momentum.

G. Surinam and the Netherlands Antilles

It was decided not to prepare a further summary of development aid policy with respect to Surinam and the Netherlands Antilles, two parts of the Kingdom, since that is the Deputy Prime Minister's responsibility. Aid to Surinam and the Netherlands Antilles will be given the same priority as hitherto.

House of Commons,

London, S.W.1

September 22th 1966

M. Pierre-Paul Schweitzer
Managing Director
International Monetary Fund
Washington.

Dear Monsieur Schweitzer,

In the "Guardian" of September 27th, William Davis, their Financial Editor, reports you as saying that the failure of the industrial countries to expand their help to the developing world was "of the greatest concern!"

You admonish us for being preoccupied with our domestic problems, and for relying too much on monetary policy to control inflation. You tell us to stimulate the flow of investment and development assistance.

You say that we should make all possible effort to avoid having such measures become contingent on the state of our balance of payments, or our budgetary position.

Many of us would agree with you. To put it mildly, we are sad that our present economic problems have obliged Britain to impose restrictions on the development assistance that the Government would have wished to give.

However, as a Member of Parliament who has been actively interested in the problems of developing countries, and as a Scottish MP who represents an area where there is considerable under-utilised capacity, particularly in the truck and tractor industry, I would like to put a constructive suggestion to you.

Would you consider using your influence with the Governments of manufacturing, industrialised nations to co-ordinate a programme in which aid to developing countries could at least take account of short and medium-term under-utilised capacity in Western countries?

I am only too well aware of the so-called dangers of "tied-aid". But you will readily appreciate that for Britain at the present time, the choice may not be between giving "untied aid" and giving "tied aid"; it may rather be between giving "tied aid" and giving no aid at all.

Equally, I should say at once that in my judgement the bogey of "political strings" is irrelevant to this particular discussion.

acc. 10-14-66

+ 11-2-66 (Mr Woods)

To illustrate what I mean, may I outline a situation which has arisen at the present time? I do so, not because I want to ask your help in furthering the interests of the West Lothian constituency, where I live and which I represent in the House of Commons, but because the actual position here may be typical of many other areas in Europe.

I represent the great majority of workers at the British Motor Corporation plant at Bathgate, makers of trucks and tractors. Early next month, some 15% of the labour force of 5500 is to be declared redundant. Most workers on the assembly lines are currently doing a three-day week, others a two-day week.

On the very same day as I saw the Minister of Labour, Mr Gunter, in London, about the position at Bathgate, I had as my guest to lunch the Indonesian chargé d'affaires Mr Suryo-dipuro.

He told me that famine in some of the outer Indonesian islands has been caused not so much by the overall shortage of rice as by the lack of transport from the coast to inland villages. (From my own visit to Indonesia in June, I have first hand knowledge to the effect that this is not likely to be an exaggeration. In Central Java, I saw for myself the effects of a chronic shortage of trucks of precisely the type made on the now partly silent assembly lines of Bathgate. I understood that the most modern locomotive in Sumatra was made in 1902.)

Yet, when the Sultan of Jogjakarta came to London this month, leading an economic delegation, in search of help from Europe, he left London empty-handed, other than with a few amicable business contacts. The British Government could not at this time add to the £1,000,000 gift to the Javanese flood disaster victims.

This episode of trucks in a Western country on the one hand, and the fate of the mission from a developing country on the other could be repeated with many variants and serves only as an example. (The British might say that they have greater obligations towards India, and this I would not dispute.)

When I visited Mr Bottomley, our Minister of Overseas Development, to urge on him the desirability in certain circumstances of linking aid with under-utilised resources in the short and medium term - no one suggests that archaic industries should be kept going for the sake of aid - he was full of good will. However, he pointed out the difficulties of doing anything unilaterally to co-ordinate say, a surplus of trucks in Scotland and transport-starvation in the Indonesian Islands.

It may well be that Mr Bottomley is right, and that it really is difficult for one country to act unilaterally in this kind of situation. Any give-away on a massive scale, or even on a limited scale, would put one nation at a serious disadvantage in relation to competitors in the industrialised world. 7

It is at this point that it seems to me that you have a crucial role to play. Holding the views you do, as reported in the Guardian, could you not raise the whole question of using under-utilised capacity for helping developing countries at the heads-of-government level among Western countries?

One aspect may trouble you. Would it not seem, you will ask yourself, as if Western countries, off-loading goods which they have over-produced in areas of under-employment, are acting offensively towards developing countries? Is it not much more dignified to be given a cash grant, with which one can shop as one pleases?

First of all, I would not suggest that anything more than a fraction of aid should be tied to under-utilised capacity. Secondly, representatives of developing countries in London, (including the Indonesian charge d'affaires), do not appear shocked - on the contrary, they see such a link as economic sense. Thirdly, at the risk of repetition, it must be stated that "untied aid" and "aid tied to under-utilised resources" may not be competitive concepts - the latter is rather a practical method of expanding the volume of aid along the lines which you tell us is essential.

I must also refer to an important small-scale precedent. In 1963, at the height of the Scottish unemployment and unemployment in North-East England, I, together with 3 of our MP colleagues, James Hoy MP, Bruce Millan MP, and William Small MP, went to see Reginald Maudling, then Chancellor of the Exchequer, to urge the concept of aid from under-utilised resources.

To his credit, (he is a political opponent), Mr Maudling subsequently introduced a scheme whereby £3m extra steel capacity was given to India, £2m of sugar-refining machinery, made in Glasgow, went to Pakistan, £2m of heavy railway equipment to East Africa, and 2 ships, built on the North East coast to Ghana.

I would be sorry to think that a Labour Government would be less imaginative on this sort of issue, relating to aid from under-utilised resources, than their Conservative predecessors.

As public discussion would clearly be beneficial, I am sending a copy of this letter to the Financial Staff of the Guardian, who have shown such an interest in your attitude.

Yours sincerely
Anthony

Dec. - 9 m.
x Alpha - prof. Mikesell

Mr. Barend A. de Vries

September 23, 1966

A. Karaosmanoglu

Professor Mikesell's Draft - Comments

1. Foreign aid is a field where, in spite of intensive discussion, many basic questions remain yet unanswered. Some of the difficulties are inherent in the nature of the problem and some are due to the lack of our knowledge in related fields. Among the difficulties, we could mention the following:

A. The objectives of foreign aid and the criteria to measure the degree of fulfillment of the objectives are not very clearly defined.

B. The problem of development is multidimensional. Although there is some sort of a consensus on the importance of some factors or the pattern of some processes, there is not a generally accepted, comprehensive development theory which could be the basis of development and foreign aid programs.

C. In addition to these types of difficulties, lack of some satisfactory empirical studies can be mentioned. In spite of some interesting efforts there are still many unsettled questions with regard to subjects such as the relative virtues and undesirable aspects of different forms of aid in view of defined policy objectives or the real costs or benefits of foreign aid.

2. All these problems make it difficult to formulate proposals for successful foreign aid policies or policies for foreign borrowing and to develop performance criteria for both the donors and the recipients.

3. Professor Mikesell's draft deals with some of these problems. In his three interesting chapters he deals with the objectives of foreign aid and gives a critical review of development and foreign aid theories. As I understand from the text there will be one or two more chapters; it may therefore be unfair to comment on the draft without seeing them. However, my impression is that these three chapters, interesting as they are, are not treated in a way such as to constitute the links of a complete treatise on the subject. One cannot see from the text how foreign aid theories are related to macro-economics of aid and how both of these are related to the objectives and strategy of foreign economic assistance.

4. The emphasis in all of these chapters is in pointing out the unanswered questions or unexplained relationships rather than presenting a theory and a systematic basis for policymaking the field of foreign aid. At the end of all the three chapters, the reader is brought to the point of asking for a statement on the "moral of the story" and for some basis for policymaking. But no answer is provided.

5. The first chapter dealing with the objectives of foreign economic assistance - on the donor side - limits itself, mainly to a study of some American political documents on the subject. It would be useful to study the problem also from the point of view of the other major donors. Although the United States provides more than half of the total official aid flows to developing countries, the contributions of some other donors are large enough to be significant. A comparative study of the explicit or implicit objectives of the major donors would help in a better understanding of this many-faceted international phenomenon; the nature and the importance of national security objectives, the significance of economic benefits to the donor, the forms in which general welfare objectives expressed may change largely from one to the other donor.

6. Especially the conclusions on the economic benefits of aid to the donors may call for a revision if such a comparative analysis is carried out. Actually, on this particular issue the author's analysis with regard to the U.S. and his conclusions may not hit the mark. As a concluding remark he states, "if there are any national economic benefits accruing to aid donors, they are largely indirect, highly tenuous and of such long term measure that their discounted value will almost surely be exceeded by present costs" (Chapter 1, page 15). It is not easy to prove the opposite of the second part of this statement and it is especially difficult when the whole aid package is considered. I think the real problem is not there, but it lies in the varying degrees of grant element in the different forms of aid.

7. The analysis of the characteristics of different forms of aid and their effects and relative values with regard to objectives of aid is an important subject that is not dealt with in the draft. With the exception of some sporadic references to the P.L. 480 program, aid is treated as a homogeneous flow of funds or resources.

8. On the issue of political objectives and economic development and the role played by foreign aid, Professor Mikesell perhaps realistically states, "Broad generalizations such as a universal dependable relationship between a steady rate of growth in output per capita and the realization of political objectives is unwarranted. Moreover, the achievement of economic objectives

themselves are in many cases much more a function of the existing and future political structure than of any conceivable amount of foreign aid" (Chapter I, page 20). Yet the discussion of Charles Wolf, Jr.'s work covers much more space than it deserves in the framework of this draft. I think Wolf's exercise is more in the field of political science than economics. And I am doubtful whether political scientists will accept his economic index of political vulnerability even for India, let alone many other developing countries for which political vulnerability is not a function of voting behavior but of the behavior of certain power groups (such as the Army).

9. In the analysis of national development objectives and policies of aid recipients, Professor Mikesell points out that there are differences between development and foreign aid objectives of developing countries and those of the Western donors. And these differences arise from the approaches to development including development policies, and from the preferences with respect to forms, terms and conditions of aid and even from the attitudes toward aid itself. Very few facts and actual cases are mentioned in this part of the discussion as compared to the study of objectives of the donor side. It would be useful if some cases were mentioned to substantiate the arguments on the behavior and the motives behind them on the side of the recipients.

10. The final statements related to this part of the analysis raises many more questions than it answers. Professor Mikesell states, "In fairness it should be said that in many developing countries national economic objectives are changing in favor of a more broadly based social and economic development, and there is increasing concern both for domestic agriculture and for the creation of industries capable of selling in world or regional markets. But changes in objectives are not enough; they must be accompanied by national policies designed to realize them. It is in the area of development policies that there arises the greatest conflict between aid donors and recipients" (Chapter I, page 34). Professor Mikesell does not say anything on the possible implications of these conflicts or possible actions which may mitigate them.

11. The second chapter gives a review of development theories, but it does not venture into a comparative evaluation of these theories, nor does it give a systematic analysis of factors affecting development which could constitute the missing link between chapters two and three. Although the review of the theories does give an idea on the progress of development economics, it does not reveal whether the author has a systematic approach to the totality of development problems.

September 23, 1966

12. Professor Mikesell's views and conclusions are more clearly given in his critical review of foreign aid theories, although even in this case, they are not presented in the form of a decision-making model for aid giving.

13. Professor Mikesell has some very interesting conclusions in his third chapter, such as: the insufficiency of using continuous functions in development analysis; the behavior of savings which is too erratic to be a basis for foreign aid models in which marginal savings ratio constitutes a critical variable; the uselessness of the concepts of long run rate of growth of exports and marginal propensity to export in the estimation of foreign exchange requirements; the insufficiency of the concept of capital absorptive capacity as a guide for foreign aid either in terms of an absolute limit to the use of capital or in terms of a schedule of the marginal efficiency of capital with respect to which foreign aid administrators establish a cut-off point.

14. His proposals which may be considered as a basis for an alternative approach to the existing policies and ideas in the field have the following characteristics: the most important function of foreign aid is the removal of the foreign exchange constraint; foreign aid should be employed both to finance capital goods and to finance deficits arising out of increased demands for materials and consumer goods; the contribution of external capital should not be viewed in terms of raising the average level of savings through a higher than average marginal savings ratio; but it should be considered as promoting the mobilization of additional amounts of domestic savings, which would not otherwise be directed to productive investment, by removing bottlenecks arising from foreign exchange constraint and by making possible strategic investments which might not otherwise be made.

15. All of these and his conclusions with regard to debt servicing and loan terms have very definite policy implications. It would be very useful if all these conclusions and proposals were put together with their policy implications in the form of a blueprint for a successful foreign aid policy.

AK/GW *A.K.*

Cleared with and Cc: Mr. Leon

September 22, 1966

Dear Mr. Hewlett:

Professor Mason has told me that you are heading a sub-committee of the Perkins Committee, to be concerned with the relative advantages of multilateral and bilateral assistance, and that he has given you my name as a point of contact in the World Bank. He has also asked that I put together and send to you materials dealing with this subject.

You will find enclosed copies of three speeches made by officers of the Bank, which deal in part with multilateral vs. bilateral aid; a reprint of an article by Robert Asher, published by the Brookings Institution; three papers, by Messrs. Michael Hoffman and John Adler, who are officers of the Bank, and Dr. I.G. Patel, an official of the Ministry of Finance of India, which were prepared for presentation at international conferences; and a copy of a report to the President of the United States by the Committee to Strengthen the Security of the Free World (the Clay Report). I should appreciate it if you would return the copy of the Clay report and the Patel study when they have served your purpose. I am also arranging to obtain a copy of a study prepared by the OECD Development Centre which I think will be of interest to you, and which has an extensive bibliography on foreign aid. This, however, must be obtained from Paris, and I have not yet received it.

I should be very pleased to talk with you any time you may come to Washington. If convenient to you, I would hope that you might join me for lunch at the Bank.

With kind regards,

Sincerely yours,

Richard H. Demuth
Director
Development Services Department

Mr. William R. Hewlett
President
Hewlett Packard Company
1501 Page Mill Road
Palo Alto, CALIFORNIA

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Des. - gen.
x alpha - Woetzel.

September 14, 1966

Mr. Kurt E. Woetzel
1861 N. Whitley Avenue, Apt. 108
Los Angeles 28, California 90028

Proposal for Establishment of an International
Aid Fund

Dear Mr. Woetzel:

I thank you for your letter of August 21[✓] on the above subject. Your ideas are interesting but, as I informed you earlier, we do not consider it appropriate at the present time to sponsor a study such as you have in view. In case we decide to do so, we shall get in touch with you.

Yours sincerely,

JB

James S. Raj
Deputy Executive Vice President

cc: Mr. Woods (w. copy of incoming)
Mr. Rosen (w. copy of
incoming)

JSRaj:am

100-35612 BH 1:20

COMMUNICATIONS

September 11, 1966

Mr. Kurt E. Woetzel
1861 N. Whitley Avenue, Apt. 108
Los Angeles 28, California 90028

Proposal for Establishment of an International
Aid Fund

Dear Mr. Woetzel:

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James S. Raj
Deputy Executive Vice President

cc: Mr. Woods (w. copy of incoming)
Mr. Rosen (w. copy of
incoming)

JSRaj:sm

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RECEIVED
GENERAL FILES
COMMUNICATIONS

Development
- Pen.

x Margaret de Vries

Mr. D.W. Townson

September 12, 1966

Raymond J. Goodman

Comments on the Attached Article by Margaret G. de Vries

I do not think the attached article can be regarded as being suitable for publication in its present form. The main difficulty is that the subject matter - "Trade and Exchange Policies for Economic Development" - is much too vast to be covered even cursorily in a 12-page article. In attempting to cover it, the author jumps from describing trends in economic theory to trends in economic policy, as if these two were closely related. Sometimes they have been related, but the treatment of both policy and theory is so brief as to make it impossible to discuss the relationship between these two. On the assumption that "Finance and Development" is designed to interpret the experience of the Bank and Fund to the outside world, I would suggest that this article be recast so as to describe only trends in actual economic policy and not trends in economic theory.

Possibly because of its compression, the article throughout talks about "some economists" in contrast to "other economists" and likewise talks about "some" and "other" countries. Names and places are never specified, and the article would be very much better for being more concrete.

While acknowledging that the author had a difficult assignment, I feel that the article is less sophisticated than the average reader "Finance and Development" has a right to expect. For example, the section on "The Balance of Payments Problem of Developing Countries" (Pages 3 to 5) is really a list of problems with no analyses of the way in which these problems are related to trade and payments problems. I think such a section could be much more tightly written and, with the rest of the article, seek to develop an argument. It is disappointing to reach the final paragraph only to be told that the prospects for the future are of "even greater discussion" of the problems of trade and development.

I return the draft herewith. The marginal comments are those of one of my economist colleagues.

cc: Mr. E.B. Waide

OFFICE MEMORANDUM

TO: Files

DATE: September 6, 1966

FROM: Badri Rao *BR*SUBJECT: A New Look at Trade and Aid

An article on the above topic by Susan Strange of Chatham House appears in the January 1966 issue of "International Affairs."

The author's thesis is that "we have come to the end of an era of optimism so far as aid is concerned" and that, this being so, trade facilities accorded to the LDCs would appear to be the means best suited to assist in their economic development towards this end. She propounds the following proposal:

"The proposal is simply that the rich countries should not only drop existing tariff barriers but should also either allow the poor countries to offer substantial export subsidies to their manufactures; or better still, that they should organize a system of import bonuses which would be payable on the value of every shipment of manufactured goods from a poor country to a rich one. The import bounties, which could be quite substantial, would be financed by a purchase tax levied equally on domestic manufactures and those imported from other rich countries."

The author claims that the advantages of this proposal would be not merely economic or technical but political and psychological. The import bounty system, she says, "by-passes the political end, as it were, of both the giving and receiving government. It appears to relieve them of the invidious responsibility for deciding who gets how much and on what terms." Again, "import bounties would unashamedly give help to those most capable of developing export industries - and these would be just those countries who are closest to the economic take-off; those who are also most acutely aware of the burden of debt servicing on their limited resources of foreign exchange (e.g. Brazil, Chile, Pakistan, Turkey). Thus, aid programs, especially technical assistance programs, would be left freer to favor the poorest and least advanced."

Although the author recognizes that a frontal attack on the "trade" aspects of the problem through elimination of existing tariffs and trade barriers is essential, she is more concerned in this article with her import bounty scheme as a stimulus to exports of manufacturers from LDCs. This is evident from her attempt to quantify the problem. LDC exports of manufactures to the developed countries, she notes, have recently amounted to about \$1.4 billion. In comparison, the developed countries have been importing from each other such goods to the value of about \$33.8 trillion. Thus, even if LDCs' exports of manufactures to the "developeds" were to double, it would still amount to only about one-twelfth of the current trade of the latter in manufactures.

September 6, 1966

"The UK," she continues, "imported in 1963 manufactures amounting to some £1.4 billion of which 12.3% or around £170 million was from LDCs." If," she adds, "an import bounty of 20% were paid on them, this would cost the UK some £34 million." Since UK consumer expenditures on manufactures in 1963 may be estimated at around £4.5 billion out of total consumer expenditures of £20 billion, it would mean that a purchase tax of 3/4 of 1% would be sufficient to enable the UK to pay an import bounty of £34 million to the LDCs.

The proposal in itself is elegantly simple even though the author out of modesty or trepidation appears concerned that it may be "dismissed with scorn by a good many of the experts in government and industry as wildly impractical and non-sensical." But the question is: will it, as the author suggests, greatly reduce the burden on donor countries to continue foreign aid even at the present stationary level?

Let us, following her example, assume that the import bounty is fixed at 20% and that the "developeds" do in fact double their imports of manufactures from the LDCs to \$2.8 billion annually. This would only mean that the developed countries would contribute no more than \$560 million in lieu of aid per se. It is true that this amount would accrue only to those LDCs that are exporters of manufactures, i.e. countries which have a relatively large industrial base and diversified economies. It is also true that to the extent that it is a bounty, the contribution is akin to a grant and involves no servicing obligation and, furthermore, is untied assistance. But the fact remains that the \$560 million bounty projected on quite optimistic assumptions, is less than the average annual net flow of financial resources to India alone in 1960-63. In terms of the net assistance received by 12 of the leading industrialized countries as among the LDCs over that period, it would correspond to roughly one-fourth. And it is precisely these countries that are most heavily saddled with external debt; estimated payments on principal and interest in respect of their external public debt in 1963 was around \$2 billion, i.e. about 3½ times the amount of the bounty. Clearly, therefore, this could be no substitute for aid.

BR/GW

Cc: Messrs. Kalmanoff
Leon

1861 N. Whitley Ave., Apt. 108
Los Angeles 28, California 90028

IFC Files

August 21, 1966

Mr. Kames S. Raj
Deputy Executive Vice President
Office of the President
International Finance Corporation
Washington, D.C. 20433

Proposal for Establishment of an International Aid Fund

Dear Mr. Raj :

Thank you for your letter of August 3 ✓ and the attached booklet " General Policies - IFC " .

Before I summarized my conclusions leading to the above stated proposal I had studied the last annual report of the International Finance Corporation . There is a fundamental difference between the present activities of the IFC and the proposed AIF (International Aid Fund) to that effect that the initiative of aid operations is turned over to private enterprise protected by risk-insurance on an international level resp. by an international organization .

Certainly I agree with you that the World Bank could expand into this field , which actually was the reason , why I sent the proposal to Mr. George D. Woods , since many replies I received during my research recommended this step . However I cannot see any substantial evidence that the International Finance Corporation is practicing the principles presented in the proposed International Aid Fund . Please bear in mind that I am only concerned to find a way to improve our approach to recognized problems and to search for a solution in the interest of advancement of economic conditions within the free world , - which I consider rather decisive.

Your activities so far amounting to \$0.137 billion as stated in your annual report are directed principally to support private enterprise native to developing countries . While we agree that one of the basic needs of developing countries is productive capital (estimated with \$5 billion to \$20 billion annually as mentioned in the proposal) , which only can come from industrially advanced countries , A.I.D. has proven by its own risk-insurance underwriting to have attracted \$5 billion capital to operate in developing countries . The disturbing factor is that these operations are restricted by political motivation besides the statutory limit of \$5 billion . Therefore the conclusion was drawn to base aid operations on economic principles and considerations and let private enterprise decide , where it wishes to move its capital - investments . This in turn will stimulate developing countries to create or offer conditions satisfactory to private enterprise to take an interest in so offered opportunities .

acc. 9/14/66

With regard to the volume of capital required the conclusion is drawn, that on an international level private enterprise is sufficiently available to service the estimated capital-investment provided it can operate under normal security and law conditions. Therefore the risk-insurance is a decisive factor to produce these conditions and, I feel, are best be served by the international organization itself, since due to other disciplines involved such as surveys of economic and technical conditions of the areas in question as is practiced more intensely during recent years, a better evaluation of the security-risks involved is available to the international organization, - be it the World Bank or the International Aid Fund; - the latter naturally also attending to such surveys as is provided in the proposal.

As a matter of fact I had in mind to elaborate in the proposal on the necessity to design an International Law Code ruling on these transactions, which members of the Fund would have to accept with the membership, which would become the legal instrument to regulate the traffic of private enterprise transactions and would also become the basis for the risk-insurance-policy underwritten and guaranteed by the Fund. This International Law Code of the Fund might well develop into a Charter for other international transactions. As mentioned in the proposal the International Court of Hague is provided as Umpire to settle disputes since claims might well develop into substantial figures and consequences. This point is important too as we have observed during the last International Lawyer's Conference in Washington D.C.. The available economic pressure of the membership of the Fund may be sufficient to enforce the Hague Court's decision to prove the value of the guarantee of the Fund relative to risk-insurances issued, since the membership itself in the end will have to bear eventual losses. More could be said here, since the process of collective law will further the economic integration process of the free world. However I decided to present in my proposal first things first.

The tax-benefits problem is complex; but it must be solved. I know, that developing countries offer tax-free periods to foreign parties investing in industrial operations. These benefits are naturally subject to negotiations with the capital-receiving country. Still, I feel, they could easily be negotiated through the international organization resp. should be directed this way in order to become a part of the risk-insurance-policy.

However, what I also had in mind, was the contract with the government of the capital-providing country through the International Aid Fund thus to be made part of the risk-insurance-policy, whereby private enterprise could deduct taxes on operations, transactions and/or investments under this policy from the tax-account of the private enterprise party's national base. Multinational corporations would then have to declare their operational base. These benefits would have to be secure for an agreed period of time, guaranteed by the Fund and its members and would have to be coordinated to provide equal conditions on an international basis to underline the principles of economics and not politics to further international economic development and understanding within the free world.

All these ideas naturally are only of value if we are really sincere in working for an economic integration of the free world such as expressed in theory during the various conferences of the Atlantic Council and other agencies . Our guideline then should be economic cooperation and not disguised domination , which easily could result from aid operations directed by political motivation .

Certainly the World Bank provides the fundament to work the right way with regard to its international structure . Let us hope that something constructive may result from this dialogue. I am under the impression that the main activities of the World Bank are represented by government to government transactions , while the possible impact of private enterprise in aid operations may only be considered as a fraction of the overall planned and defined activities as is shown in the total the IFC has transacted with private enterprise native to developing countries . I believe in the inherent forces of private enterprise and therefore I search for a constructive solution to shift aid operations from public to private .

Just recently I was informed ,that the OEDC has submitted somewhat simular propositions to the World Bank ,which seems to indicate that I am not alone in my research and conclusions . I came to my conclusions during my work as consultant/expert on the Used Equipment Study for the Agency for International Cooperation (A.I.D.) , while researching a volume of material of national and international institutes . The need to release the constructive forces of private enterprise to the free world resp. to developing countries of the free world through an international agency ,which is not yet provided for , must have been the same analytical result on the part of the OECD , which induced me to present the proposal for the establishment of the International Aid Fund .

Also , in case the World Bank takes up the proposition to expand into this field , a very thorough research is necessary to analyze many ,many issues and problems , which I have only touched on the surface , I will be happy to contribute to this work .

Sincerely yours


Kurt E. Woetzel

Dev. - GEN.

Mr. Kamarek o/r

August 12, 1966

Michael L. Hoffman

This is a very interesting development which I began watching years ago when I was with the New York Times. I think it has implications for the problem of increasing manufactured exports from the developing countries. For one thing, it suggests the advantage of inducing foreign manufacturers of consumer goods to establish an interest in the country because this in turn gives the head office an interest in obtaining or maintaining low import barriers for the product from which indigenous producers in the LDC's will also benefit. It also suggests that some means of getting these huge purchasing organizations involved in identifying and developing production possibilities in the LDC's ought to be a principal object of attention of trade promotion agencies.

MLHoffman:tsb

Attachment

MLH

Mrs. Edith Roper

August 9, 1966

Andrew M. Kamarck

Request for Bibliography on Development

With reference to Mr. Warren Wilhelm's request to Mr. Friedman there is listed below a number of books that might be worthwhile for Fortune readers in the field of economic development.

These books are quite varied and represent different points of view. In the main, they are written in not too technical or soporific language. Needless to say, we do not necessarily agree with the points they make.

1. Norman J. Buchanan and Howard J. Ellis: Approaches to Economic Development, 20th Century Fund, 1955, pp. 494.

Contains three parts:

- I - An Analytical View of the Problem
- II - Economic Development As Recorded History
- III - Achieving Development in the Contemporary World

2. Gunnar Myrdal: An International Economy. Problems and Prospects, Harper & Brothers, 1956, pp. 381.

Discusses economic development in the following chapters:

- Chapter IX - International Aid
- Chapter XI - The Drive For Independence and Development
- Chapter XIII - Commercial Policy of the Underdeveloped Countries
- Chapter XIV - The World Adrift
- Chapter VIII - Mobility of Capital

3. Peter T. Bauer and Basil S. Yamey: The Economics of Underdeveloped Countries, University of Chicago Press, 1957, pp. 271.

4. ~~Frederic~~ Frederic Benham: Economic Aid to Underdeveloped Countries, Royal Institute of International Affairs, Oxford University Press, 1961, pp. 121.

5. John Kenneth Galbraith: Economic Development in Perspective, Harvard University Press, 1962, pp. 76. Based on five lectures given in Indian Universities.
6. The Economics of Take-off into Sustained Growth, proceedings of a conference held by the International Economic Association, St. Martin's Press, Inc., 1963, pp. 482. Edited by W. W. Rostow. Contains 16 chapters (of which 7 historical) contributed by different writers and a long (175-page) summary of the debate. Rather technical for the general reader.
7. Everett E. Hagen: On the Theory of Social Change, Center of International Studies, Massachusetts Institute of Technology, 1962 The Dorsey Press, Inc., pp. 557. Emphasizes the psychological aspects of economic progress. Contains 6 chapters on specific cases: England, Japan, Colombia, Indonesia, Burma and the Sioux.
8. David C. McClelland: The Achieving Society, D. van Nostrand Co., Inc., 1961, pp. 512. Along the same lines as preceding study. Concludes that certain important psychological changes must take place in the underdeveloped countries before there can be development. Rather a lot of technical jargon, however.
9. Barbara Ward and P. T. Bauer: Two Views on Aid to Developing Countries, Occasional Paper 9, Institute of Economic Affairs, 1966, pp. 58. The first lecture makes the case of foreign aid. The second argues that "intergovernment aid does not substantially contribute to economic development and may even retard it."
10. W. Arthur Lewis: The Theory of Economic Growth, George Allen & Unwin Ltd., 1955, pp. 453.
11. A. K. Cairncross: Factors in Economic Development, George Allen & Unwin Ltd., 1962, pp. 346. A collection of articles and lectures, written mostly in non-technical language.
12. The Progress of Underdeveloped Areas, Edited by Bert F. Hoselitz, The University of Chicago Press, 1951, pp. 296.

Contains three parts:

- I - The Historical Approach to Economic Growth
- II - The Cultural Aspects of Economic Growth
- III - Problems of Economic Policy

13. The Emerging Nations. Their Growth and United States Policy, A study from the Center for International Studies, Massachusetts Institute of Technology, edited by Max F. Millikan and Donald L. M. Blackmer, Little, Brown and Company, 1961, pp. 171. A good statement of the prevailing views on economic development but directed more to the specialist.
14. J. P. Cole: Geography of World Affairs, Penguin Books, 1959, pp. 347. Reference book. Chapter 4 on World Population and Production contains useful information on the under-developed countries.
15. Edward S. Mason: Economic Planning in Underdeveloped Areas: Government and Business, Fordham University Press, 1961, pp. 87. Very good analysis; mainly on the role of government.
16. H. Myint: The Economics of the Developing Countries, Hutchinson of London, 1964, pp. 192. A critical examination of prevailing views on and prescriptions for development.
17. F. Benham and H. A. Holley: A Short Introduction to The Economy of Latin America, issued under the auspices of the Royal Institute of International Affairs, Oxford University Press, 1960, pp. 169. A very good handbook.
18. Latin American Issues, Essays and Comments, edited by Albert O. Hirschman, The Twentieth Century Fund, 1961, pp. 201. Interesting but covers only some problems of region.
19. Harry Stark: Social and Economic Frontiers in Latin America, WM. C. Brown Company Publishers, 1961, pp. 421. A good textbook.
20. R. M. Segal entitled Crisis in India, Penguin Books, 1965, pp. 326. Excellent historical background. A gloomy picture of present situation and is strongly disapproved of by official India.
21. A. M. Kamarck: The Economic Development of Africa, Praeger, Nov. 1966. An attempt at synthesis of African economic problems and prospects written in non-technical language.

AMKamarck:sg
IBRD

Mr. Andrew M. Kamarek

200-980
August 5, 1966

Rena Zafiriou

Fortune Magazine Request for Bibliography (continued)

1. I feel that the readers of Fortune are more likely to be interested in clear, simple statements of facts and issues than in abstractions and technical discussions among economists. If this is so, much of the literature on economic development would not be suitable for above purpose.

It may be a good idea to make up two lists, one with books of general interest and another with the more technical studies (which are often also very soporific).

2. My comments on the four books you sent me are as follows:

Harvey Leibenstein: Economic Backwardness and Economic Growth, Science Editions, John Wiley & Sons, Inc., 1963, pp. 295.

Comments: From the point of view of the economist, this is a sometimes interesting and even ingenious presentation of formal relationships, although I personally find that the treatment of a complex subject at such a level of abstraction results in findings of very limited, if any, practical significance. The conclusion reached, that "the best allocation of investment is achieved by equating at the margin the discounted value of the general reinvestment stream in the various uses to which the investment is put", illustrates this (p. 268).

Gerald M. Meier: Leading Issues in Development Economics, Selected Materials and Commentary, Oxford University Press, 1964, pp. 572.

Comment: A good textbook for students of economics but may be too technical and detailed for the general reader.

Edward S. Mason: Economic Planning in Underdeveloped Areas: Government and Business, Fordham University Press, 1961, pp. 87.

Comment: Very good analysis but refers to one aspect of the problem, the role of government, and may be too specialized for the purposes of the bibliography requested.

H. Myint: The Economics of the Developing Countries,
Hutchinson of London, 1964, pp. 192.

Comment: This is mainly a critical examination of prevailing views on and prescription for development. I agree with most points made but I wonder whether this would be of sufficient interest for the general reader.

3. Regional Studies Latin America

Celso Furtado: The Economic Growth of Brazil, translated by Ricardo W. de Aguiar and Eric Charles Drysdale, University of California Press, 1963, 285.

Comment: I have read this book and found it surprisingly inconclusive and uninformative about the present situation, while excessively detailed about the past, at least for the general reader.

I think the following books on Latin America might be useful:

F. Benham and H. A. Holley: A Short Introduction to The Economy of Latin America, issued under the auspices of the Royal Institute of International Affairs, Oxford University Press, 1960, pp. 169.

Comment: A very good handbook.

Latin American Issues, Essays and Comments, edited by Albert O. Hirschman, The Twentieth Century Fund, 1961, pp. 201.

Comments: Interesting but does not provide an overall view of problems of region.

Harry Stark: Social and Economic Frontiers in Latin America, W.M.C. Brown Company Publishers, 1961, 421.

Comment: A good textbook.

India

I have checked John P. Lewis' Quiet Crisis in India and I find, first, that it is too concerned with details and, second, that it is probably out of date, presenting a rather favorable picture, as most studies did until recently, of Indian planning and policies.

August 5, 1966

I have a book by R. M. Segal entitled Crisis in India, (Penguin Books, 1965, pp. 326) which contains an excellent historical background and discusses present conditions and problems in non-technical terms. It gives, however, a gloomy picture of the situation.


Barbara Ward's India and the West, Hamish Hamilton, London, 1961, pp. 243, makes a strong case for Western support of Indian development and also contains an account of past and present Indian conditions. The book is not very objective and may also be considered somewhat out of date.

A book by Vera Anstey The Economic Development of India, Longmans, Green and Co., London, 1957, pp. 677, listed in Segal's bibliography is not available in the Library. They have only the 1952 revision which refers to the period up to 1939. This is a massive study (677 pages) and looks very authoritative. If the 1957 edition has been brought up to date it should be a valuable reference book.

Africa

Perhaps the following could be included:

Guy Benveniste and William E. Moran, Jr.: Handbook of African Economic Development, published for the Stanford Research Institute, Frederick A. Praeger, 1962, pp. 178.


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IBRD

Mr. Andrew M. Kamarck

August 3, 1966

Rena Zafirion

"Fortune" Magazine Request for Bibliography
on Development

With reference to Mr. Irving S. Friedman's memorandum to you of July 29, 1966, I am listing below a number of books that seem to correspond to what has been requested with some comments on their content.

1. Norman J. Buchanan and Howard J. Ellis: Approaches to Economic Development, 20th Century Fund, 1955, pp. 494.

Contains three parts:

- I - An Analytical View of the Problem
- II - Economic Development As Recorded History
- III - Achieving Development in the Contemporary World

Comment: An excellent presentation of the problem. Mostly written in non-technical terms.

2. Gunnar Myrdal: An International Economy, Problems and Prospects, Harper & Brothers, 1956, pp. 381.

Discusses economic development in the following chapters:

- Chapter IX - International Aid
- Chapter XI - The Drive For Independence and Development
- Chapter XIII - Commercial Policy of the Underdeveloped Countries
- Chapter XIV - The World Adrift
- Chapter VIII - Mobility of Capital

3. Peter T. Bauer and Basil S. Yamey: The Economics of Under-developed Countries, University of Chicago Press, 1957 pp. 271.

Comment: An excellent analysis.

August 3, 1966

4. Frederic Benham: Economic Aid to Underdeveloped Countries, Royal Institute of International Affairs, Oxford University Press, 1961, pp. 121.

Advocates outright grants based on contribution of 1% of GNP by developed countries.

5. John Kenneth Galbraith: Economic Development in Perspective, Harvard University Press, 1962, pp. 76.

Based on five lectures given in Indian Universities.

Comment: The main point made is that the prevailing approach to economic development (with its emphasis on technical knowledge, capital and planning) is too standardized and does not fit all cases (Africa, for instance).

6. The Economics of Take-off into Sustained Growth, proceedings of a conference held by the International Economic Association, St. Martin's Press, Inc., 1963, pp. 482.

Edited by W. W. Rostow. Contains 16 chapters (of which 7 historical) contributed by different writers and a long (175-page) summary of the debate.

Comment: Rather technical for the general reader.

7. Everett E. Hagen: On the Theory of Social Change, Center of International Studies, Massachusetts Institute of Technology, The Dorsey Press, Inc., 1962, pp. 557.

Comment: Emphasizes the psychological aspects of economic progress. Very interesting but uses too much psychological jargon for the comfort of the average reader. Contains 6 excellent chapters on specific cases: England, Japan, Colombia, Indonesia, Burma and the Sioux.

8. David C. McClelland: The Achieving Society, D. van Nostrand Co., Inc., 1961, pp. 512.

Comment: Along the same lines as preceding study. Concludes that certain important psychological changes must take place in the underdeveloped countries before there can be development ("the precise problem of most underdeveloped countries is that they do not have the character structure, especially the motivational structure, which would lead them to act in the ways required. The [development] model is like a combustion engine without the gas to go" pp. 429).

8. David C. McClelland: The Achieving Society, (continued)

Comment: Advocates greater involvement of American private business in economic aid programs.

Contains many valuable and interesting points but is not very readable, the technical jargon being worse than in the Hagen study (enterprise and drive, for instance, are referred to as "n achievement.") There is also too much faith in the ability of the "behavioral sciences" to provide answers. The study concludes by hailing "the new fact that the psychologist has now developed tools for finding out what a generation wants, better than it knows itself, and before it has had a chance of showing by its actions what it was after." (p. 437).

9. Barbara Ward: The Rich Nations and the Poor Nations, W. W. Norton & Co., Inc., 1962, pp. 159.

Comments: Based on lectures given for the Canadian Broadcasting Corporation.

A strong plea for foreign aid.

10. Barbara Ward and P. T. Bauer: Two Views on Aid to Developing Countries, Occasional Paper 9, Institute of Economic Affairs, 1966, pp. 58.

Comment: The first lecture makes the case of foreign aid. The second argues that "intergovernment aid does not substantially contribute to economic development and may even retard it."

11. W. Arthur Lewis: The Theory of Economic Growth, George Allen & Unwin Ltd., 1955, 453.

Comment: Thoughtful, wise and well written presentation of the problem. Maybe a little too heavy going for non-economists.

12. A. K. Cairncross: Factors in Economic Development, George Allen & Unwin Ltd., 1962, pp. 346.

Comment: A collection of articles and lectures.

Although this is not a comprehensive study of development it contains a lot of valuable material and solid common sense. Written in non-technical language.

13. The Progress of Underdeveloped Areas, Edited by Bert F. Hoselitz, The University of Chicago Press, 1951, pp. 296.

Contains three parts:

- I - The Historical Approach to Economic Growth
- II - The Cultural Aspects of Economic Growth
- III - Problems of Economic Policy

Comment: Useful but not outstanding contributions. The terminology is somewhat technical.

August 3, 1966

14. The Emerging Nations. Their Growth and United States Policy, A study from the Center for International Studies, Massachusetts Institute of Technology, edited by Max F. Millikan and Donald L. M. Blackmer, Little, Brown and Company, 1961, pp. 171.

Comment: A good statement of the prevailing views on economic development but the text is dull and is unlikely to appeal to the non-specialist. (An example: "In any process of economic development, socialist or capitalist, there must somehow be brought about both a rather high degree of coordination and synchronization of the rapidly increasing number and variety of interdependent activities and at the same time a decentralization of decision-making and initiative to all the newly energized sectors of the population." (p. 57)

Contains a good bibliography on subject.

15. Natural Resources and International Development, sponsored by Resources for the Future, Inc., edited by Marion Clawson, The Johns Hopkins Press, 1964, pp. 462.

Comment: A collection of papers dealing with major commodities and major world regions. Might be useful as a reference book for non-economists but is written primarily for economists and would be heavy reading for others.

16. Bert F. Hoselitz: Sociological Aspects of Economic Growth, The Free Press of Glencoe, 1960, pp. 250.

Comment: Dull, heavy writing.

17. J. P. Cole: Geography of World Affairs, Penguin Books, 1959, pp. 347.

Comment: A handy reference book. Chapter 4 on World Population and Production contains useful information on the underdeveloped countries.

The following books are too technical and are unlikely to appeal to the general reader. The same applies to the periodical Economic Development and Cultural Change (characterized by some of the most atrocious writing I have ever come across):

Albert O. Hirschman: The Strategy of Economic Development, Yale University Press, 1958, pp. 217.

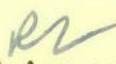
Jan Tinbergen: The Design of Development, The Economic Development Institute, International Bank for Reconstruction and Development, 1958, The Johns Hopkins Press, pp. 99.

August 3, 1966

I was not able to obtain from the Library the following two books which I am not familiar with and which may be of interest. I have requested that they be sent to me and when I have gone through them, I shall write to you an additional note:

Harvey Leibenstein: Economic Backwardness and Economic Growth; Studies in the Theory of Economic Development, 1957.

Benjamin Higgins: Economic Development: Principles, Problems and Policies, 1959.


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Dev. - gen.
M
August 3, 1966

Mr. Kurt E. Woetzel
Ch. E. and Economist
1861 N. Whitley Avenue, Apt. 108
Los Angeles 28, California 90028

Proposal for Establishment of an International Aid Fund

Dear Mr. Woetzel:

I thank you for your letter of July 23 ✓ on the above subject. The points made by you regarding the inadequacy of aid funds made available by the various advanced countries to the developing countries are well taken. As you may be aware, however, several proposals for increasing the volume of this flow are already under consideration, including the possibility of augmenting the resources of the International Development Association (IDA).

It is still not clear from your letter what the proposed International Aid Fund would do which is not already being done by the International Finance Corporation. Since you may not be familiar with the efforts of the Corporation to mobilize private capital for operations in the developing countries, I am enclosing for your information a copy of our "General Policies" booklet.

As regards the question of tax benefits to foreign investors in developing countries, this seems to be a narrow and specialized field which is best left to be settled by negotiation between foreign private investors and the governments of the capital-receiving countries, in the context of specific project proposals. In suitable cases, of course, the good offices of existing international organizations might be exercised to bring about agreement between the parties.

It would appear that there is no prima facie case for adding one more international organization to those which are already in existence. We therefore still do not consider it desirable to sponsor a research project on the lines proposed by you.

Yours sincerely,

cc: Mr. Woods
Mr. Rosen (w. copy of
incoming)

JSRAJ:jsm

James S. Raj
Deputy Executive Vice President

Enclosure

Edith Roper

F O R T U N E

9 ROCKEFELLER PLAZA
NEW YORK 20, N. Y.
JUDSON 6-1212

OFFICE MEMORANDUM

TO: Mr. Kamarck

DATE: July 29, 1966

FROM: Irving S. Friedman

SUBJECT: FORTUNE Magazine

Mr. Warren Wilhelm was in to see me today. He is writing an article for FORTUNE on development. Among other things he would like a list of books for FORTUNE readers to read -- nothing too specialized. I said we could get together a list of about 20 titles of varied authors, none too specialized. I made clear it was not a list we would regard as good books but it would be worthwhile for FORTUNE readers.

After you have done this would you send it to Mrs. Edith Roper, who seems to be a member of the FORTUNE staff helping with this article.

Thanks,
ISF

CROSS REFERENCE SHEET

COMMUNICATION: Memo

DATED: July 28, 1966

TO: Mr. Barend de Vries

FROM: Mr. Dragoslav Avramovic

FILED UNDER: Annual Meeting- 21st

SUMMARY: Extract

"In connection with the preparatory work for the President's
Address at the next annual meeting, we are undertaking a summary
analysis of 'successful' growth cases in the postwar period....."

1861 N. Whitley Avenue , Apt.108
Los Angeles 28 , California 90028

July 23 ,1966

Mr. James S. Raj
Deputy Executive Vice President
International Finance Corporation
Washington D.C. 20433

ack 8/3/66

Proposal for Establishment of an International Aid Fund

Dear Mr. Raj :

Thank you for your letter of July 14 . Permit me to clarify a few points you have mentioned in your reply .

The capital of the fund of \$10 billion is approximately equal to one year appropriations by the various advanced countries for aid operations in the developing countries . It is recognized that one of the decisive factors to provide this aid is the lack of capital in developing countries . A number of reasons , in particular the necessary security for the initiative of private capital which may be represented in monetary investment or capital goods investment , has so far prevented a more dynamic action by private enterprise directed to developing areas . The capital of the fund must be appropriate to guarantee the underwriting of risk-insurances for operations by private enterprise in developing areas . That there is an urgent need herefore is proven by the fact that A.I.D. alone has increased its private investment guarantees from \$479 millions in 1961 to \$5 billion in 1965 ,as is stated in my paper on page 4 ,whereas IFC has invested so far approx.\$137 million in productive private enterprise , as I mentioned in my letter to Mr. George D.Woods .

New plant capital investment and equipment during 1965 amounted to approx. \$55 billion in the United States .Naturally this is a highly industrialized area ; but it is an indication of the capital volume involved . The \$5 billion investment guarantees of A.I.D. affect only a selcted area restricted by political motivations . This is one of the reasons which influenced me to search for a solution to reach the area of the free world,which actually is better represented by the members of the World Bank. Certainly , at this moment , the World Bank or the International Finance Corporation is not attending to promote private enterprise investments resp. initiative of advanced countries in developing countries . -f it were so , quite different capital investments would be involved as I have shown above . Since the principles active in the International Aid Fund represent complete new dicciplines , I could see a possibility that the World Bank would expand into this new field in the interest of aid-operations.

Whether the World Bank will be interested to support private enterprise investment operations as outlined in my paper I certainly cannot judge . But I must say that the proposed modus operandi of the International Aid Fund is completely different from your present activities and do not contradict each other . As a matter of fact these disciplines would complement each other. This is also exactly the area where a thorough research is necessary to analyze and clarify the total issue . This also is not done in one day or by presenting or referring to a few basic points .

Relative hereto I may comment on the questions expressed in Par. 2 of your letter . Concerning tax benefits the Fund or the World Bank may find it much easier or possible to work out tax benefits with the member-countries applying to these specific investment operations of private enterprise . On the basis of such agreements the Fund or the World Bank would be able to underwrite the guarantee of these stipulations and risks ,whereby again private enterprise will be stimulated in its initiative . These tax-benefit-agreements may differ for each member-country and will influence the interest of private enterprise by the law of supply and demand . Actually , this law will rule on the total operations of the International Aid Fund as far as private enterprise is involved and the security offered by the Fund in the various developing areas is satisfactory.

It is correct ,when you assume , that I do not plan the Fund to underwrite risk-guarantees exclusively . There will be disbursement of funds in addition to guarantees . But the accent is on promotion of private enterprise operations in foreign aid resp. directed to developing countries ,and the shift from the present system i.e. from public to private shall be gradual . The Fund (IAF) shall provide a massive and centralized effort ,incorporating as far as possible the forces of private enterprise ,to provide the capital and skills required to aid developing areas. As already stated , -this policy designed on an international basis .

Probably this may lead to a faster development of multinational corporations ,as supported by Ms.Olivier Giscard d'Estaing,Director General of the European Institute for Business Administration , which trend was commented upon by the Chemical & Engineering News, issue June & July ,1966 in " Global Corporations - New Formats for Worldwide Business " .

I am convinced that a very substantial research will soon be required to arrive at an intelligent evaluation of the issues involved ,which certainly cannot be brushed aside by ignoring them .

Sincerely yours ,


Kurt E. Woetzel

CROSS REFERENCE SHEET

COMMUNICATION: Letter

DATED: July 18, 1966

TO: Mr. William M. Clarke
THE BANKER
Bracken House
Cannon Street
London, E.C. 4, England

FROM: Mr. Woods

FILED UNDER: Alpha- Clarke, William M.

SUMMARY: Mr. Woods acknowledges receipt of Mr. Clarke's book
entitled "Private Enterprise in Developing Countries".

Mr. Woods

7/15
You may care to see the
reply that has been
sent to this correspondent
- in coming Bureau.

July 14, 1966

Mr. Kurt E. Woetzel
Ch. E. and Economist
1861 N. Whitley Avenue, Apt. 108
Los Angeles 28, California 90028

JW
15 July.

Proposal for Establishment of an International Aid Fund

Dear Mr. Woetzel:

Please refer to your letter of June 25, 1966 to our President,
Mr. George D. Woods, on the above subject.

Your suggestion for setting up an International Aid Fund is an interesting one. We are, however, puzzled by some aspects of your proposal. You state that the proposed Aid Fund would mobilize the resources of private enterprise for stimulating investment in the developing countries. However, since you say that the Fund would be contributed to by countries (i.e. governments) in an amount of \$1.0 billion and would be controlled by a Board composed of representatives of the governments, we wonder how the resources of private enterprise in the advanced countries could be deemed to have been mobilized, except possibly in a very indirect sense.

We also have some doubts about the modus operandi which you have proposed for the Aid Fund. You have said that the Aid Fund should underwrite the provision of capital equipment to the developing countries and take over the associated risks. You have also said that the Fund should guarantee tax benefits agreed within the membership of the Fund. We find it difficult to visualize the concrete transactions which you have in mind, particularly as you have referred to international bidding on contracts, which would presumably involve actual disbursements of funds in addition to guarantees.

As you know, the International Finance Corporation (IFC) is the affiliate of the World Bank which assists developing countries through investments in productive private enterprises. It is not clear what the proposed Aid Fund would contribute in this field which IFC is not doing already.

Mr. Kurt Weetzel

- 2 -

July 14, 1966

I am afraid, therefore, that at this time a research project designed to work out the details of your proposal would not be of interest to us.

Very sincerely,

James S. Raj
Deputy Executive Vice President

cc: Mr. Woods
Mr. Rosen

JSRaj:jam

Dev. - gen.
X Consult. group meet.

Mr. George D. Woods

July 14, 1966

Richard H. Demuth

Integrating Bilateral with Multilateral Development Finance

July 14/66
I attach Mr. Hoffman's paper which I recently promised you. It is designed to provide a basis for Bank consideration of what, if anything, we ought to do to help our borrowers utilize more effectively existing suppliers' credit and export guarantee machinery.

As Mr. Hoffman has noted in the memorandum, we are more or less committed, in connection with our Consultative Group operations, to come up with some kind of proposals for consideration by the main capital goods exporting countries.

This is an extremely complicated matter on which there is a long record, both in the Bank and in governments, of discussions, negotiations and suggestions. It seems to me that the time has come for the Bank to formulate its position. I think the best way to do this would be for you to appoint an ad hoc staff committee to come up with recommendations for consideration by the Senior Staff Meeting. I suggest you might consider designating Mr. Cope as chairman of such a committee, with Messrs. Alter, Chadenet, Goodman, Hoffman, Nespoulous-Neuville, Nurick and Schmidt as members.

MLHoffman/RHDemuth/pnn

cc: Mr. Knapp
Mr. Friedman

OFFICE MEMORANDUM

TO: Files

July 14, 1966

FROM: Michael L. Hoffman

SUBJECT: Suggestions for Bank Coordination of Bilateral Project Financing

There has been considerable discussion of whether the Bank can or should take any new initiative to assist its less developed member countries to make better use of the various kinds of suppliers' credits and medium-term finance available to them under bilateral arrangements. Reports from a number of sources suggest that the time may be ripe for such an initiative.

At meetings held in Paris in December 1965 and in Rome in March 1966, the governments of the principal capital exporting countries (with the exception of the United States) advanced sufficiently far toward agreement on an appropriate basis for joint financing by the Bank and bilateral systems to provide a foundation, in the opinions of Messrs. Schmidt and Nespoulous-Neuville, for new Bank proposals. At two recent Consultative Group meetings (Malaysia and Thailand) the Bank was requested by some of these same governments to help introduce some sort of order into what many feel is becoming a rather chaotic situation, and the Bank undertook to examine various possibilities and to present proposals in an appropriate forum. One proposal was roughly outlined to these Consultative Groups by Mr. Eric Bachem, a Managing Director of the Kreditanstalt (see Bachem statement attached as Annex A). Mr. Schmidt recently, at my request, outlined a proposed procedure which he and Mr. Nespoulous-Neuville believe to be negotiable because it is reasonably consistent with the position reached by the principal capital exporting countries as a result of the Rome discussions (see extract from Schmidt memorandum attached as Annex B). A third proposal which should be considered as part of the present agenda, also by Mr. Schmidt, relates to a form of technical assistance which the Bank could offer to help countries improve their capacity to utilize bilateral credit machinery more efficiently. Although this proposal of Mr. Schmidt was originally made with particular reference to Colombia (see Annex C), it seems to me to be capable of some generalizations and also to be consistent with, and a useful supplement to, either the Bachem or the Rome-Schmidt approach to joint financing.

The following paragraphs are an attempt to describe two model procedures which, for convenience, I call the Schmidt model and the Bachem model, without in any way implying an endorsement by either Schmidt or Bachem of my particular formulation of the various steps.

Schmidt Model

1. According to the Schmidt model, the Bank would undertake to negotiate an agreement with the principal capital exporting countries according to which, for selected "large" projects, each would agree to finance a given proportion of the cost of all goods sold by their suppliers to the Bank's borrowers (when the total orders placed in that country exceeded some agreed minimum) on terms agreed in advance, except for the rate of interest which would depend on

market conditions at the time of actual financing. The agreement could apply initially to one or several host countries able to incur additional debt on the terms likely to be agreed. The system would be activated, initially at least, for relatively large projects preferably with a few sizeable individual orders.

2. The Bank would proceed as usual in appraising the project and supervising the bidding which would be on a "cash basis." The terms of the bilateral financing would not be an element influencing the allocation of bids. The Bank would, however, not make a loan for a specific amount for such projects in advance of arranging the bilateral finance. It would instead employ some sort of letter of intent procedure which would give the borrower a firm basis on which to call for and accept bids, even though the exact pattern of financing finally to be adopted could not be foreseen at the time of the bidding. The Bank's Board would be asked to approve this letter of intent up to some maximum amount. When the bids were analyzed, countries receiving more than the agreed minimum amount of orders would arrange to finance their share of the cost on the standard terms. The Bank would negotiate the actual financial arrangements on behalf of the borrower. Finally, the Bank would approve a loan to cover the remainder of the external financing required for the project. The Schmidt model does not propose any change in the Bank's policy of including all member countries and Switzerland in the area eligible for competitive bidding, whether or not all such countries agree to participate in joint financing along the lines proposed.

Bachem Model

3. The fundamental difference between the Schmidt model and the Bachem model is that whereas Schmidt seeks to separate the supplier and the source of finance, and preserve intact the Bank's principles with respect to competitive bidding, the Bachem model would include the terms of finance in with the other terms to be taken into account by the Bank and the borrower in awarding bids. In its pure form, the Bachem proposal is that for the kinds of projects that the Bank would normally finance, in countries able to use some financing on the terms presently available under export credit guarantee systems, we should finance the infrastructure, perform our usual supervisory, etc., operations on the project and help the borrower put up the "rest of the project" (which really means the equipment) for international competitive bidding. The appropriate agency within the exporting country in which an order is placed would then finance it through the issuance of a guarantee or (where that is the practice) by putting up the money. We would assist the borrower in sorting out the bids and analyzing the true financial implications of the terms. Only bids accompanied by acceptable financial terms would be considered.

4. In this pure form, the Bachem procedure would in effect mean that, in cases of this kind, Bank loans would be almost entirely for local currency finance. This, it seems to me, is very questionable policy for the Bank and is in any event unlikely to be acceptable to our principal shareholders. It is a radical departure from our normal practice under which governments that subscribe to the Bank's capital and open their markets to the Bank as a borrower expect their suppliers to benefit, subject to competitive bidding, from Bank disbursements. Moreover, it would certainly give rise to pressures for a very high percentage of local currency financing in countries to which the Bachem

model could not apply and in which, for good reasons, we would want to keep to our usual pattern.

5. If, however, instead of letting all the equipment be financed bilaterally and leaving the Bank and the borrower to finance only the infrastructure, we went through the same procedure but required that bids be accompanied by proposals for financing only half the total amount involved through bilateral channels, the Bank to finance the rest, we might still bring in a substantial amount of bilateral financing without undue disturbance to our normal practice. The effect would be to enable the Bank, with a given sum of money, to arrange financing for a larger group of projects. In order to make this model work, we would also have to invent some sort of letter of intent procedure on the basis of which the borrower would let the bids and award contracts knowing that, if the rest of the process worked out satisfactorily, we would finance at least the remaining foreign exchange costs of the project.

6. Listed below, for purposes of discussion, are what seem to me to be the principal advantages and disadvantages of the Schmidt model and what may be called the modified Bachem model, respectively:

Advantages

Schmidt

A. If most of the major capital exporting countries participated, it would enable the Bank to tap substantial additional resources on reasonable terms for high priority projects.

B. It would avoid any abandonment of our general rules on competitive bidding.

C. It would enable our borrowers to get much better value for that part of their development outlay financed bilaterally.

D. It would be attractive to the financing institutions in the capital exporting countries because the association with Bank project appraisal and supervision would improve the quality of the paper that results from export financing.

Modified Bachem

A. It would require less negotiation and advance agreement from governments. Bachem's claim that it "does not involve governments at all" goes too far. But only one major decision would be required before applying the procedure on an experimental basis -- namely, the decision on the part of the Bank to restrict competitive bidding to those countries whose suppliers offer finance on acceptable terms.

B. It would put tremendous pressures on the various national credit organizations to come up with better terms for bilateral finance.

C. It would have at least some of the advantages listed under A,C,D and E in the Schmidt model.

E. It would put the capital exporting countries in a generally better posture viz-a-viz the developing countries by reducing the number of white elephants and low priority projects financed, increasing the flow of finance on appropriate terms and probably also increasing total capital goods exports in the long run by helping to avoid debt crises.

Disadvantages

Schmidt

A. Some major capital exporting countries might not join the scheme. We would then be in exactly the same dilemma as under the Bachem proposal -- namely, whether to restrict awards on certain projects to participating countries only.

B. It would require extensive and perhaps lengthy negotiation before it could be put into effect. On the other hand, it is reported that several governments have more or less agreed to some such procedure.

C. Some countries have difficulties under their present practice in making a direct loan to the foreign borrower, as distinct from guaranteeing loans to their suppliers and having them be the lenders.

6. To proceed along the lines of either the Bachem or the Schmidt proposal would quickly involve the Bank much more intimately in the internal procedures of borrowing countries in reviewing bids, making awards and negotiating bilateral financial agreements. Indeed, a second string to the Bachem proposal is that the Bank should intervene as an adviser to borrowers in the evaluation of bids, including financial terms, even with respect to projects in which the Bank plays no financial role. Mr. Nespoulous-Neuville has suggested that it might be desirable for the Bank to do a nominal amount of financing in such cases so that it could take on the responsibility for project appraisal as well. In any event, it is clear that proceeding along these lines would have important staff implications for the Bank.

Bachem

A. It would require the Bank to be prepared to refuse to finance the purchase of capital goods in member countries unwilling or unable to offer competitive financial terms. (In the opinion of Nespoulous-Neuville, it would for this reason alone be totally unacceptable to most of the capital exporting countries and thus, presumably, opposed by their Executive Directors.)

B. It would either require the Bank to reduce the amount of local currency finance provided to the borrower or to increase the proportion of local currency finance covered by Bank loans beyond the ratios now considered acceptable.

C. It might prove to be as difficult for the Bank as for the borrower to ascertain the "true" cost of goods supplied under the scheme when all the complications of various bilateral financing methods had to be taken into account.

7. It is in this connection that it seems to me that the proposal in Mr. Schmidt's memorandum of May 17, 1966 (Annex C) is very much to the point. He proposes that we assist borrowing countries to establish and staff a central organization with the knowledge and authority to enable it to do the country's "international shopping" on a sophisticated basis. This memorandum contains a number of practical suggestions as to how such an agency could operate in order to be of considerable value. In my view, whether or not the Bank decides to take a new initiative in the field of joint or parallel financing, part of our response to the various requests that we "do something" to bring about better coordination of bilateral project financing should be to offer two or three Consultative Group countries technical assistance in getting better financial terms and a wider range of competitive bidding on projects in which we have no direct financial interest. We might try doing this directly in one or two cases, with the Bank in effect acting as financial adviser to the borrower. At the same time we could pick another country, perhaps Colombia, and see if we could help them set up and operate a central agency of their own to do the job, along the lines of Mr. Schmidt's proposal.

Consultative Group Meeting on Malaysia
London, May 17, 1966

Mr. Bachem's Statement

As you know, Kreditanstalt is Germany's Development Bank, fully government owned, and I am one of the four men who run that Bank. We are a sort of combined Eximbank and A.I.D., so we do capital aid for the German Government and export financing, as well as domestic business too. I am therefore supposed to know something about these financing schemes and I would like to make quite clear what I said this morning in the case of Thailand which I think applies equally to Malaysia, not necessarily to other countries but definitely to Thailand and Malaysia.

This morning, many governments around this table indicated their willingness to extend government guarantees covering certain risks of lending or investing in Malaysia or in Thailand. I am not talking about capital aid and I am not talking about technical assistance. I am talking about that sector of economic foreign aid which we usually call export financing. The problem as I see it (is) how to make use of the willingness of lender countries to issue guarantees in a way which assures the maximum benefits for Malaysia and Thailand. Now a government guarantee doesn't mean money, in fact no government, or hardly any I should think, would respond positively if the Chairman were to ask for a line of credit, as in the Mexican case, or as was suggested this morning. Governments indicated this morning that they are willing to extend guarantees but they were not talking of money. There is a very important distinction between guarantees and money, even though in each of the countries there is a connection between guarantees and money as means of financing. But the connection is very different. In the case of our American friends, when Eximbank extends a guarantee that is as good as money and you can be pretty sure of what kind of money, that is, what the interest rate is and what the duration will be. But there are lots of different cases. In Germany for instance the government guarantee definitely does not mean money, although we usually succeed in making the money available. On the other hand, when Kreditanstalt offers to finance a thing it does not necessarily mean that a government guarantee will be forthcoming. So these are two separate things, and it is very complicated. I agree with what Chatillon said this morning: A Coface guarantee is again a different thing; you can issue some papers and hawk them from bank to bank until they finally land at the Central Bank and you can get some money on reasonable terms. In other countries it is again different: there our Italian friends make the most complicated arrangements with the Banca di Roma and Comitato Assicurazione dei Crediti - my Italian is not very good!

The point I want to make is a guarantee is not money and so when a government says I am prepared to extend so and so much guarantees to Malaysia or to Thailand it really does not mean too much. Personally, I think this whole business of promising guarantees is wrong because if countries are as strong and well run as Thailand and Malaysia, you should do any reasonable export deal there and you don't need to make promises beforehand. You can wait until the project comes and then say O.K. to do it. The trouble with export financing is that you often have to tap various sources of money, including private sources. The lucky Eximbank is usually in a

position to tap budget sources which are cheap. Kreditanstalt sometimes can rely on cheaper government bonds, but then has to get the rest from the private capital market and, as we all know, in Germany right now we don't have a capital market or what you could call a capital market. We have now to pay at a rate of 8% or more, which makes for very high financing costs. Sometimes it is just impossible to get any reasonably priced money and you have to go to (private lenders?) and it is really expensive then. So, as a result, we have this extreme variety of terms in export financing which it makes it very difficult to evaluate an offer from any country willing to finance a particular project.

As we all know, the situation is really much worse because it is very easy to include the financing charges partially in the price. If the financing cost is 8%, which it often is, and the guarantee charges are another 1% or 1-1/2% and since everyone knows you can't sell anything if you openly tell them it costs 9-1/2% in financing charges, you simply put 4-1/2% on the price and then you can offer 5% credit. The duration also is just as difficult to evaluate because we all work with different type of capital (arrangements). Some traditionally have different (kinds of) annuities; some, like Kreditanstalt, have equal yearly amortisation payments so that you have a decreasing interest charge. In some countries, and in my own too, I have seen amortisation payments rising and in others falling. Now we do mixed financing, including capital aid. So in short, it is very difficult to assess the financing cost or the quality of an offer for an export deal. We don't know the interest rates, we don't know the duration of the loan and we don't know whether everything is in if we just look at the financing (charges). The only reasonable way I think to judge an export offer is to try and get everything in, that is the price, plus the financing cost, plus the duration - everything - and then compare the offers. It is easy to find out whether (the price) is C.I.F. or F.O.B., but the transport costs are also different. In some offers they assume a different part (of the project will be covered by) local currency financing or (by a) partnership contribution, in others not. Some assume a certain amount of consulting services or supervision of construction, all of which costs a lot, and others are not inclusive. It is really a job to evaluate an offer and (yet) one cannot really (know whether to accept) an offer without trying to evaluate it. How (otherwise) do you know what is best for Thailand or Malaysia. I think in many cases it is impossible for the sponsors of the project to do this evaluation work and decide what under the circumstances is best for (them). That requires (a lot of) knowledge and it is certainly not easy. You can't expect someone (in such countries) who wants to build a project to have the experience of 50 years of project financing or even 10 years. So outside help is required. Of course (there are) the consulting engineers but this also has drawbacks. I think, simply because in some cases there are no consulting engineers, (and in any case,) we have to admit that the development of the consulting engineering profession is very different in different countries. Also they are all subject to the accusation (of favoritism). The American (consultant) will be accused of favouring the American offer, and the German (consultant) will be accused of favouring the German offer; they can be as good as you like but they are always apt to be under that criticism.

I think a natural for the Task (of evaluation) would be the Asian Development Bank but it will take several years before (it is) in a position to take on the job, and therefore I suggested this morning why not the I.B.R.D.? This is an institution which we all know and I don't have to say a word about that trusted and well-fortified (sic) institution. We all trust its objectivity and real capability to do such a difficult job. I can see two ways how I.B.R.D. could do it. The first way would be of course an easy one, and the best one I think, that is (in the case of) projects which I.B.R.D. takes (on or of which it) agrees to finance a part, say the infrastructure part, then that already brings the (Bank) people into the project. They have to watch it anyway, and they could then do the advisory and consulting service for the rest of the project which would be put up for international competitive bidding under export financing. This isn't a scheme to relieve the World Bank (from) putting out more money, but (it would enable) the World Bank to do many more projects in this way. There is, as in any institution, a limit to what the Bank is going to invest in certain countries during a certain period.

The other way would be simply as a sort of technical assistance to the country (concerned). The task, as I said, is a very difficult one. But I think it may be a very helpful one, not only to Malaysia and to Thailand but for us industrialised countries too in trying to bring a little bit more order into export financing; to avoid what is happening more and more, competition in financing terms which are (not real) financing terms, but artificial; and to stop the evil practice of really starting to negotiate about prices and everything after the bids have been opened. I fully recognise that there are strict limitations (to this proposal) and it can't be done on all projects. Industry seems to me a natural and some power projects may (also) be suitable.

Let me lastly stress that I thought that I.B.R.D. should simply play the role of adviser to the Malaysians and to the Thais - they (would not be) an adviser to us financing institutions or to governments. Actually this whole proposal does not involve governments at all, (except) the Malaysian and Thai Governments. Therefore I can speak (without) having had the chance to discuss (the proposal) with the Head of the German Delegation, simply because I think the German Government is not involved, as no (other government) is involved. I.B.R.D. would be adviser to one or two of its member countries. So in fact you could say that such a proposal is not something to discuss with all the governments sitting around here. Nevertheless I think it is exactly the kind of subject which could be usefully discussed in this group, a group which is not conceived as a fund-raising club but one to help and improve the aid which the industrialised countries give to Malaysia and to Thailand.

Excuse me for being so long.

III. Principal Elements of Proposed Procedure.

4. Experience in attempting to arrange financing for the Mexican power project, and discussions with the prospective participants, have indicated all are interested in having the principle further developed and a well defined proposal presented for consideration by them at a meeting called for that purpose.
5. Some of the characteristics and principles they have suggested, and which experience would indicate to be desirable, are:
 - (a) That the Bank continue to permit suppliers in all countries to bid even though the country may not be able at any time (or for projects in some country) to join in financing its exports for the project.
 - (b) That there be agreement on a standard set of financial conditions -- especially the term of their lending -- to prevent the borrower from negotiating individually and playing one country off against another.
 - (c) That all countries who participate finance the same percentage of the cost of their exports with the Bank also financing some proportion.
6. While some countries have difficulties under their present practices in making a direct loan to the foreign borrower (as distinct from guaranteeing a loan to their suppliers and having them be the lenders) most can do so and even where they do not it is usually a Government institution which holds maturities falling due after the goods are shipped.
7. I believe there is a good chance of getting acceptance by the principal capital exporting countries of a plan along the following lines:
 - (a) The procedure would be applied initially to projects requiring large amounts of external financing and having a high import component (say, at least \$25 million) preferably with at least a few sizable orders. Countries whose suppliers received orders totaling less than some reasonable minimum total would not be obliged to finance any part of them.

- (b) The capital exporting goods countries would agree to finance a given proportion of the cost of all goods sold by them (provided the total exceed the prescribed minimum) on terms agreed (except for interest rate which could vary with conditions in their money markets but would have to be reasonable).
- (c) Bids would be on a "cash basis" and awards would not be influenced by financing offered (the chief variant of which would be the interest rate).
- (d) The joint or parallel loans would be interlocked with any loan the IBRD would make in the sense that:
 - (i) they would finance goods on the Bank list of goods for the Bank's project;
 - (ii) the Bank would tailor its amortization schedule to those of the parallel loans to provide a financial plan appropriate to the project;
 - (iii) there would be interlocking default covenants.
- (e) Procedurally, but very important, the Bank would approve the project but instead of making a loan would undertake a responsibility to arrange for its financing on appropriate terms, giving the borrower a basis for calling for bids. When the bids are analyzed, the countries receiving more than the agreed minimum would arrange to finance their share of the cost on the standard terms. (Hopefully a standard form could be developed to be used as the principal part of their loan agreement).
- (f) On big projects, for which bids are let in successive stages, the financing could be arranged in the successive stages, the Bank being committed to see that the project is financed to completion. This would involve no more risk than we now take when we lend at the beginning to finance it to completion, and would enable us to have much sounder bases for determining costs when the financing is arranged.

8. In the light of experience with a number of projects done on this basis, the plan could be made more automatic and applied to smaller projects with highly fragmented orders.

MEMORANDUM

May 17, 1966

TO: Mr. Gerald Alter

FROM: Orvis A. Schmidt

SUBJECT: Colombia: Possible role of a central agency in arranging for the international financing of small projects.

1. In reading the recent report on Colombia, and considering the problem of arranging for:

- (a) the financing by members of the Consultative Group of the "open" projects on the list; and
- (b) the "joint financing" of small to intermediate projects;

I have come to feel that the achievement of these objectives might be facilitated by the establishment in Colombia of a central financial agency which both knows how to place orders and arrange for international financing in a manner which will bring the best terms, and has the authority and position of responsibility to exercise this ability for the benefit of the many organizations borrowing abroad for small projects in the public sector. Supplementing our brief conversation and my remarks on this subject at the recent meeting of the Loan Committee on Colombia, this memorandum spells out some considerations bearing on this idea.

2. One of the problems in the operation of the Colombian Consultative Group has been that of working out arrangements between prospective borrowers in Colombia and prospective lenders among members of the Consultative Group for projects which are not being financed by one of the big lending institutions (such as IBRD, IDB, AID, and Eximbank). In such cases the institution which would be the prospective borrower is often not experienced in arranging for international finance and does not know how to call for bids or do "international shopping" on a sophisticated basis. As a consequence arrangements for financing these projects either do not get worked out, or get worked out by an inexperienced borrower who pays high prices for the equipment and accepts tied short-term financing, often on terms inappropriate to the project, when with more skillful handling much better arrangements could have been made.

3. The fact that projects are "open" on the list for the Consultative Group (or are not being financed by one of the big multilateral organizations) means that bids for the equipment can be asked from only those countries willing to provide financing. It is precisely under this condition that countries with export finance mechanisms are most eager to participate in the financing of projects and will give the most favorable terms. In order to profit from this fact, however, there must be in Colombia some central

organization that has the knowledge and authority to enable Colombia to take advantage of this position in these cases.

4. Moreover, it appears that there are many projects too small to be placed on the project list for which international financing is being arranged by municipalities, provincial governments, or other small public entities. Annex III, Volume V, of the Economic Report on Colombia of April 11, 1966, lists 22 projects in the power sector and 27 telecommunications projects, many of them small and financed by supplier credits with terms of two to five years. With the help of a central agency the purchase and financing of the equipment for a number of the small projects might be handled as a single package. The larger size of the orders would result in better prices for the equipment and better terms on the financing. By making a central financial agency the borrower in some of these cases (and having it relend to the local Colombian agencies), additional savings might be obtained because foreign lenders would probably give better terms for loans to a central financial agency representing the Colombian Government than they would on loans to small -- little-known -- entities even though such loans have a Government guarantee.

5. The function which the central financial agency would discharge is quite distinct from that performed by the Planning Council. The latter is concerned with the determination of the merits of a project, the formulation of a program, and the design of a general financial plan. The function with which this paper is concerned is that of arranging for the financing of projects -- especially those not financed by the multilateral lending organizations -- in a manner such that the goals of the financial plan are most likely to be achieved. If it worked effectively, a central financial agency should be able to achieve the following benefits:

- (a) Increasing the speed and efficiency with which arrangements are made for external financing of small projects in the public sector, thereby also broadening the participation of the capital goods exporting countries in the financing of the program.
- (b) Obtaining better prices for imported equipment for such projects as well as better financing (lower interest, longer terms) by ensuring broader competition, grouping projects to make bigger orders, serving as the borrower for little-known agencies, etc.

6. I have not attempted to formulate with any degree of precision the characteristics and powers which such an agency should have, but believe they might be somewhat as follows:

- (a) The agency should be one of the principal, if not the principal, institutions entrusted by the Government to work out external financing for Colombian entities in the public sector. Initially it would probably not participate in arrangements being made by the bigger, more experienced public entities (especially if financing is being obtained from AID or one of the multilateral lending agencies). In order to ensure that it played its proper role in other external financing based on a guarantee of the Colombian

Government, its approval should be a prerequisite for the granting of a guarantee. It might be the agency which gave the guarantee on behalf of the Government for projects other than those financed by a multilateral lending agency (or in all cases, as does Nacional Financiera in Mexico).

- (b) As a ~~financial~~ arm of the Government it should be able to borrow by pledging the full faith and credit of the Government.
- (c) It should have a top-level professional staff, which need not be large but should have a status, and remuneration, such that there is continuity in its direction and management. (This would probably be the most difficult, but most crucial, part of the operation.)
- (d) Its lines of authority should be such that it would be under the general control of the Minister of Finance and it should work closely with the Planning Council.
- (e) It need not at first have its own capital structure but might later be given one if that seemed desirable. It might start out as a separate division within the Central Bank. It might be made financially self-supporting by charging a spread, or a service fee, on loans which it arranges. If it can effectively perform the services described above, it should be able to bring about savings to Colombia, and to the agencies it serves, greater than its cost of operation. It might also come to play a role as the Government's arm in making peso loans to help finance local currency costs of provincial, municipal, and similar types of public projects.

7. It might be argued that similar benefits could be obtained by having the arrangements for financing small projects within a certain sector (e.g. power, telecommunications, waterworks, etc.) handled by an agency which specializes in projects within that sector. The advantages of establishing one central agency, however, to discharge this function are:

- (a) Colombia is more apt to be able to find qualified people to staff one such agency than several. People qualified to carry out this role will be difficult to find and retain, and it will be hard enough to staff one agency with people qualified to do an effective job of this kind.
- (b) It would be more efficient to centralize, as much as possible, negotiations for external loans based on the credit of the Colombian Government.

ROUTING SLIP

Date

June 28, 1966

OFFICE OF THE PRESIDENT

Name

Room No.

~~Mr. Rosen~~

*Mr. Roy
Please handle*

Action

Note and File

Approval

Note and Return

Comment

Prepare Reply

Full Report

Previous Papers

Information

Recommendation

Initial

Signature

Remarks

This correspondent is mainly concerned in increasing the flow of international development finance to private enterprise activities. Please have someone go through his material and reply on my behalf, with a copy to this office for record purposes.

G. D. Woods

G. D. Woods

From

✓ X Alpha D.
JUN 28 REC'D

1861 N. Whitley Avenue , Apt.108
Los Angeles 28 , California 90028

June 25 , 1966

Mr. George D. Woods
President
World Bank
1818 H Street , N.W.
Washington , D.C. 20433

Dear Sir :

Recently I had the opportunity of working on an A.I.D. (Agency for International Development) project dealing with equipment studies related to industrial development . While working on this project I came to certain conclusions concerning aid operations which are outlined in the enclosed paper titled , The International Aid Fund .

The ultimate objective is the transfer of governmental financial commitments to the initiative of private enterprise and the intensification of aid efforts on a broader level . The need for this approach was recognized by the Crotonville Conference of the Atlantic Council , December 1965 , with regard to the interdependence of the developed and less developed countries . Recommendations to that effect were also expressed in the July 1965 report to A.I.D. of the Advisory Committee on Private Enterprise in Foreign Aid . The operations of A.I.D. are however restrictive and politically motivated in part ; - one of the basic reasons which led to the International Aid Fund (IAF) proposal .

Still , A.I.D. is underwriting statutory \$5 billion for private enterprise operations in developing countries , while the International Finance Corporation (IFC) has so far committed \$137 million in form of investments in private enterprise native to developing countries . The Advisory Committee Report on Private Enterprise in Foreign Aid (July 1965) estimates a need of \$5 billion to \$20 billion annually for development operations in less-developed countries .

The fundamental difference between the International Aid Fund (IAF) , A.I.D. and IFC is clearly evident by the fact that IAF would mobilize the initiative of private enterprise respectively private capital - which naturally could also be represented in the form of equipment or transferal of complete plants - on an international basis with IAF underwriting related risk-insurances and guaranteeing certain tax-benefits agreed within the membership of IAF .

The second very important factor of the outlined proposal would preclude the necessity of an annual aid appropriation since

ack. July 14/66.

JUN 28 1966

1861 N. Whitley Avenue, Apt. 108
Los Angeles 28, California 90028

June 22, 1966

Mr. George D. Woods
President
World Bank
1818 H Street, N.W.
Washington, D.C. 20433

Dear Sir:

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Still, A.I.D. is underwriting statutory \$5 billion for private enterprise operations in developing countries, while the International Finance Corporation (IFC) has so far committed \$137 million in form of investments in private enterprise native to developing countries. The Advisory Committee Report on Private Enterprise in Foreign Aid (July 1965) estimates a need of \$2 billion to \$20 billion annually for development operations in less-developed countries.

The fundamental difference between the International Aid Fund (IAF), A.I.D. and IFC is clearly evident by the fact that IAF would mobilize the initiative of private enterprise respectively private capital - which naturally could also be represented in the form of equipment or transfer of complete plants - on an international basis with IAF underwriting related risk-insurances and guaranteeing capital. IAF and IFC agreed within the membership of IAF.

The second very important factor of the outlined proposal would preclude the necessity of an annual aid appropriation since

the fund would gradually assume national commitments for foreign aid . The shift in emphasis from public to private would encourage greater industrial development in developing areas with the proper guarantees . Furthermore developing member-countries of the Fund would find it in their own interest to create conditions, security- and tax benefits , which would attract private investors and produce on the other hand a sound incentive of competition among the recipients .

While A.I.D. reached the \$5 billion mark by underwriting private enterprise operations in areas restricted by political considerations , it is evident that IAF could reach on an international level the estimated requirements of the A.I.D.-Advisory Committee report .

I conducted a personal research of opinion of competent personalities in government , industry and finance and have had an excellent reaction , which encourages me to continue now this research on the same level in Europe in particular in West Germany.

As a result of questions raised by Senator Fulbright and others on whether this proposal could be built into the framework of the World Bank family it would seem that a thorough study is necessary to clarify the issues . If this is of interest to the Bank and its members I would be happy to cooperate in furthering such research.

With regard to my qualifications I may mention that I have a degree in chemical engineering and did graduate studies in economics at the University Frankfurt/M . I was for many years active in the executive service of the German chemical industry in Europe and overseas . Related experience concerned industrial development in Europe , Latin America , U.S.A. and the Far East . Most recently I was consultant/expert to the A.I.D. Used Equipment Study .

Looking forward to your reply and thanking you for your interest , I am ,

Sincerely yours ,



Kurt E. Woetzel
Ch.E. and Economist

Encls.

Kurt E. Woetzel, Ch.E.
1861 No. Whitley Ave. Apt. 108
Los Angeles 28, California

April 1966

Project Title: INTERNATIONAL AID FUND

Analysis and Proposal

AID to developing countries has become an accepted fact of our economy. Since the Marshall Plan, assistance has been rendered under a variety of forms and motivations. Outright AID in dollars or goods, loans and equipment has been given for humanitarian, political and military reasons. The overall purpose has been to elevate the standard of living of fifty percent of the non-communist world population to the point where political and economic integration could take place on a regional and national basis. Military assistance at first constituted two-thirds of the total outlay. The motivation for this was to prevent communist takeovers in economically weak countries. Military assistance was subsequently reduced to one-third of total AID, but has recently increased as a result of the Vietnam War.

A high degree of selectivity has characterized our foreign AID programs from their inception. Recipient nations have been expected to cooperate with U.S. efforts to contain and counteract communism. The attachment of political strings to an AID-package has led to criticism and, at times, failures in terms of effects. On the other hand, we have given AID to communist countries, e.g. Yugoslavia and Poland. At the

same time, we have criticized our Allies for selling wheat to communist China. Priorities for foreign AID have thus been subject to exigencies of our foreign policy. Results accordingly have varied; they have ranged from the spectacular development of post-war Europe to sporadic progress in Latin America. One side effect has been due to U.S. example: former recipient nations, such as West Germany, Japan and France, have now developed AID programs of their own. Foreign AID was once the bailiwick of the United States and the Soviet Union; today economic assistance has taken on international overtones. The more prosperous nations of both East and West are giving AID for political, economic and social ends. Organizations have been developed, e.g. Agency for International Development, Organization for Economic Cooperation and Development, European Economic Community, Development Assistance Committee, Organization of American States, Inter-American Development Bank, International Bank for Reconstruction and Development, International Development Association, International Finance Corporation, The Japan Development Bank, The United Nations Fund, and the recently organized Development Bank for South-East Asia, and agreements have been made to facilitate economic assistance. However, there is no common policy among the non-communist nations of the world, and national policies tend to compete in sensitive areas. Instead of pooling resources for an integrated development program, efforts are geared to specific areas and narrow interest. The possibilities for full-scale development are minimized thereby and the effects

of individual programs are diluted. Generating power to continue an initiative is rarely produced.

There is obviously a need for a coordinated effort. It is proposed that an organization, to be called the INTERNATIONAL AID FUND, be established to coordinate international aid programs. It should be organized along the lines of the International Monetary Fund. Thus, international coordination may succeed where national policies have failed. The political direction of AID according to narrow national interest prevents a constructive dialogue between recipient and financier state. AID to be successful and to produce original national initiatives on the part of recipient nations must be organized and managed from an economic rather than political standpoint. Operations of the INTERNATIONAL AID FUND would not be subject to annual allocations by various governmental bodies. Thus, continuity would be assured. Policies would be determined by Members of the Fund and agreements reached on the basis of economic facts and recommendations.

Resources already allocated by the United States and other countries would be sufficient to finance international AID programs. For example, the U.S. commitment to AID, authorized by Congress, amounted originally to one to one-and-a-half percent of the Gross National Product and was recently reduced to one-half of the GNP. The French contribution to foreign aid amounts to approximately one percent of its GNP.

How long?

It is clear that an intensive effort to raise the economic standard of living in the developing areas of the world could be launched by pooling services and capital for aid. As projected, AID requirements are increasing far beyond Congressional appropriations. The Agency for International Development has attempted to attract private investment by offering insurance against related security risks and by providing tax benefits. Private investment guarantees of AID amounted to \$ 479 millions in 1961 and increased to \$ 1.67 billions in 1964 with a statutory ceiling of \$ 2.5 billions, which in 1965 was raised in effect to \$ 5 billions.

According to a report of the Advisory Committee on Private Enterprise in Foreign Aid issued in July 1965, AID should stimulate and assist activities of private enterprise in developing countries and expand its present framework of bilateral or multilateral agreements and related judicial covenants. It appears that economic development programs that have been initiated and supported by government AID may ultimately be transferred to and followed up by private enterprise, including service groups and firms specialized in engineering, industrial production, agricultural production, food processing, nutrition, education, industrial and economic planning, finance, labor and management generally.

Nevertheless, a purely national AID approach is restric-

tive by comparison with the International Monetary Fund, for example, inaugurated in 1946 to regulate the international flow of money, currency, and credit. Narrow national interest policies limit the initiative and freedom of the AID seeking party. In contrast, IMF had 102 Members (countries of the non-communist world) with a paid-in fund of \$ 15.6 billions of which 63.21 % was provided by ten industrial countries (U.S., U.K., Germany, France, Italy, Netherlands, Belgium, Japan, Canada, and Sweden); 8.74% by nineteen Latin American countries and 28.05% by the other seventythree Member-countries. When the Fund started it had thirtynine Members with a total commitment of \$ 7.4 billions, while it is now estimated that its resources will increase to \$ 21 billions. The Advisory Committee on Private Enterprise in Foreign Aid estimates that requirements will increase to \$ 5 to 20 billions annually.

An INTERNATIONAL AID FUND of approximately \$ 10 billions, to be subscribed to by non-communist countries supporting private enterprise ventures, without political or military strings attached, and to be guided by a council consisting of receiver and financing nations without prejudice as to political or military causes, would solve the dual problem of assistance on a non-partisan basis and economic development without fear of political or military intervention.

In summary, the proposal would provide for the following:

(1) International funds for the underwriting and promotion of free enterprise operations in the framework of international AID subscribed to by countries now pursuing independent programs subject to nationalistic political and economic pressures.

(2) Contracts to be underwritten by the INTERNATIONAL AID FUND are to be open on a bid basis, whereby recipient nations will have the right to choose with due safeguards based on determination of standards for the respective contract by committees on different areas, e.g. agricultural and industrial development, planning and consulting projects, education and health, etc. of IAF with a right to veto a bidder, if he lacks qualification. In case of conflict, a Board composed of Members of recipient and financing nations, will decide on the ultimate disposition of the contract.

(3) Disputes as to execution of obligations under the IAF Statute are to be submitted to the International Court of Justice at The Hague for settlement.

(4) Member-nations will have the right to withdraw from the Agreement within a specified time, similar to provisions of other agreements, such as the North Atlantic Treaty Organization, etc.

The proposal for an INTERNATIONAL AID FUND is submitted in the hope that cooperation can be established on the

basis of human need.

While other organizations such as the International Bank for Reconstruction and Development and its affiliates fulfill important complementary functions, the International Aid Fund is designed to fill a vacuum in capital investment so far left either to collateral or international aid organizations including communist countries like the U.N. Special Fund which are not geared to private enterprise in developing nations. The principal activity of the World Bank, for example, is to finance large-scale loans for governmental development projects. Where private enterprise has been involved, the respective government, its central bank or some comparable agency acceptable to the bank has acted as a guarantor in lieu of collateral. The World Bank has recently become active in technical assistance projects and in this area it seems not to have been motivated by political considerations, its principal function being that of a banker attending to long-term financing transactions.

On the other hand, the International Aid Fund's primary purpose would be to promote transactions with private enterprise parties in the developing countries. Such transactions would be agreed to by the membership and would be based exclusively on facts and economic requirements and not on national, political, or military considerations. To insure this approach the main activity of the IAF would be to provide risk insurance to give the necessary security for private enterprise operations. The secondary function would be to finance technical assistance

projects, i.e. operational surveys, consultancies and training programs related to private enterprise investment and development objectives. As a further incentive to private enterprise initiative, tax facilities for industrial development purposes would be encouraged among the Fund's membership. Thirdly, the International Aid Fund would not necessarily be limited in its operations to developing areas.

There is no conflict of interest between the World Bank and the Fund, since the Bank has its main function in government transactions and the Fund in its role as the underwriter for free enterprise operations. With regard to the United Nation's Special Fund the IAF as proposed would not include communist countries, its operations being directed to the economic development and integration of countries willing to accept private enterprise operations. There should be no objection, however, to healthy competition between free enterprise and socialist systems in the lesser developed areas of the world.

OFFICE MEMORANDUM

TO: Mr. J.D. Scott

DATE: June 20, 1966

FROM: Stanley Please

SUBJECT: "Savings through Taxation - Reality or Mirage"

I am at one and the same time shocked, saddened and amused by the decision you have made regarding the publication of my article. I am shocked that the advice of one advisor in the Fund should have persuaded you that publication was undesirable when the advisory panel consists of ten or more people drawn from both Bank and Fund. This shock is heightened by the circumstance that the original Conference paper from which this article originated has been read and commented on by many people in the Bank, several of whom encouraged me to have it published in the Review. I am saddened by the basis for your decision which stems from Richard Goode's rhetorical question as to "how far the Review ought to go in promulgating views that do not coincide with the policies of the sponsoring institutions" and his specific suggestion that dissenting opinions should possibly be reserved for writers who are not staff members. There will be many diverse opinions as to what the Bank-Fund image should be in order to make its operations most effective. Contrary to the view which you have now accepted I would urge from my own limited experience that respect for the Fund and the Bank, for its advice and its advisors can only be increased if the questioning and self-critical attitudes of their staff are manifest to responsible officials and responsible opinion in member countries. The image of institutions which are self-complacent and steeped in an ideological straight-jacket, cannot be corrected unless this self-critical attitude is made known outside of the 18th block of H Street. My amusement stems from the obverse of this which is the belief which appears to exist amongst some staff members that advice will only be accepted if it is sold on faith rather than on reason. Can we not adopt the more humble mien which Mr. Escott Reid argues for so persuasively in his essay on the World Bank and which I, along, I am sure, with many of my colleagues, would find more becoming?

I am aware that the substance of the article rather than its conclusions are not really at issue in regard to publication. Nevertheless, comment on the points raised by Messrs. Goode and Murphy is called for if only because of the vehemence with which Murphy expresses them. Both accept that the problem of potential savings in a country being eroded away by the growth of non-development government expenditure is a very important one - I would say the important one in some countries. Richard Goode offers no answer to the problem in his memo and thus I assume he would prescribe the same medicine as before, i.e., at the policy level to urge restraint on governments regarding their non-development expenditure, at the technical level to reinforce where it is necessary their budgetary procedures and staff and on the tax side to stimulate a greater revenue generation by both the introduction of new tax measures and increasing the yield from previous tax measures. The first two ingredients of this prescription are, I hope, not repudiated by my article though maybe more emphatic recognition of their

June 20, 1966

importance needs to be made. I am not, furthermore, necessarily against the revenue measures but there my support would be conditional. One of these possible conditions is the earmarking of the consequent revenue to developmental purposes - a practice, incidentally, which the Bank in its covenants at the project level frequently encourages or insists upon. Mr. Goode's retort to this is that he finds this a "disappointing" and "weak" conclusion at which to arrive. Part of the answer to this is to recall the point I made in the article - and an obvious point - that in the face of a determined sovereign government intending to spend on a non-priority purpose, any institutional device will be weak if not completely ineffective. This weakness applies equally to the specific recommendation which Murphy makes and upon which he pins so much hope.

The second part of the answer is to refer to the American experience where inter state comparative studies have suggested that both the level and pattern of state government expenditure has been related to the degree of earmarking of revenues to particular services. Is it not possible to exploit this relationship in order to ensure a more developmentally orientated fiscal policy? Certainly in countries which attempt to pursue reasonably conventional budget policies, even if these are not necessarily developmentally orientated, this device would appear to me to have wider possibilities than Mr. Goode suggests. Despite the vehemence of his opposition to this conclusion of my article, in fact logically it would appear to gain strength from Murphy's own positive suggestion. If a given size of the overall budget surplus or deficit evokes a given response from governments in terms of tax and expenditure policy, as he suggests, then this can be exploited for development purposes. By taking out of the general budget a given revenue source which yields say "T" of revenue and at the same time assigning this to a financially autonomous public agency which administers a development service (say roads) upon which expenditure at the moment is "T-R", then the policy reaction according to Murphy's own reasoning is a strengthening of budgetary policy on either or both the revenue and expenditure sides. If the constraint on development expenditure had previously been a financial constraint, as we are assuming, then, in the above example, road expenditure moves up from "R" to "T". In other words the greater fiscal discipline manifests itself in an increase in development expenditure.

As regards my second conclusion which Mr. Goode also regards as "weak and disappointing", the main thrust of my argument seems to be ignored. It is simply to ask whether the major hypothesis of the analysis of those who advocate saving through taxation has not been too uncritically accepted. Cannot selective measures to counter some of the factors which operate against increased private saving - fear of inflation, political fears, etc. - be taken to offset their effectiveness. I find it strange that the first of these possibilities in particular, provokes such objection from both Messrs. Goode and Murphy who belong to an

institution which argues in general for more realistic interest rate policies in such countries. There may be objections to selective measures as against generalized measures but surely not in terms of their direct effectiveness in raising saving - unless the supply of savings is completely price inelastic in which case neither policy would do any good. Furthermore, the budgetary cost of selective measures to achieve a given result might be less, particularly in certain countries where the public's price expectations are more inflationary than economic forces merit - e.g., in South Korea where a 30 per cent interest rate for savings deposits based on price increases in the early 60's seems out of touch with present realities and prospects. I mention this differential budgetary cost firstly because it is important in itself and secondly because Mr. Murphy is deeply concerned from the income receipts side that the measures I propose will simply go to "bailing out the well-to-do classes of the developing countries - i.e., to be diverted into wasteful consumption expenditures and/or capital flight". Selective measures might reduce such "bailing out" operations though in any case it might be necessary to accept a degree of increased social injustice in the distribution of income as the price of a greater increase in the rate of growth of income - the latter consideration appearing to find no place in Mr. Murphy's argument. Regarding the Bank guarantee suggestion I cannot understand Mr. Murphy's objection though his conclusion that this would involve a flow of aid misses the essential point.

Mr. Murphy's positive suggestion for the abolition of the capital account has great appeal to me. It appears to be aiming at the same problem and in the same general way as my own suggestions namely to trade upon the conventional wisdom and semantics which enter into attitudes towards budgetary policy. Whilst I suggest making some current revenue appear as capital revenue, Mr. Murphy suggests making capital expenditure appear as current expenditure. Does the difference between us really justify his regarding my own suggestion as "appalling".

One final point. In defending my paper I would not wish to appear dogmatic. The implication for development of the situation so far experienced in developing countries is too grave for cherished individual ideas to be blindly defended or for irresponsible policy recommendations to be made. It is also too grave for complacency. Perhaps the necessarily over-provocative tone of my paper which was prepared for a Conference discussion has persisted into this intended publishable version. The problem must in fact be faced up to as it arises in the given institutional circumstances in each country and in this connection I would point out that what is a virtue of the American system in a potentially over-expansionist situation is a vice in a contractionary one. My concern is that in general in the advice given to developing countries there has been insufficient awareness of the fact that whilst the advice is based solely on developmental needs, governments are not so single-minded, and the generation of tax revenues makes possible the achievement of non-development goals which were not considered by the advisors and which in the absence of the increased tax revenue would not

J.D. Scott

- 4 -

June 20, 1966

have been considered. I ~~may~~ be wrong but I do not know that this particular concern has found expression elsewhere and if I am correct in this I find it regrettable that my concern cannot be shared and considered by your readers and its implications for policy explored.

cc: Mr. Wilson (through Mr. Kamarck) ✓
Mr. Goode (through Mr. Kamarck)
Messrs. Kamarck, Avramovic, de Vries, King and Murphy

HEADQUARTERS:
WASHINGTON 25, D.C.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CABLE ADDRESS-INTBAFRAD

INTERNATIONAL DEVELOPMENT ASSOCIATION

CABLE ADDRESS-INDEVAS



EUROPEAN OFFICE:
4, AVENUE D'IÉNA
PARIS (16^E) - FRANCE
TELEPHONE: KLEBER 25-10



June 17, 1966

Dear Dick,

Martijn Paijmans attended the meeting on Asian Development recently held in The Hague under the chairmanship of Professor Tinbergen. His enclosed report might interest you, as well as the Economics Department.

With kind regards,

Sincerely yours,

Arthur Karasz

Encls.

Arthur Karasz

Mr. Richard H. Demuth, Director
Development Services Department
International Bank for
Reconstruction and Development
Washington, D.C.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CABLE ADDRESS: INTBARAD

INTERNATIONAL DEVELOPMENT ASSOCIATION

CABLE ADDRESS: INDEVAS

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PARIS (16^e) - FRANCE
TELEPHONE: KLEBER 22-10



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With kind regards,

Sincerely yours,

AK

Arthur Karasz

Encls.

Mr. Richard H. Demuth, Director
Development Services Department
International Bank for
Reconstruction and Development
Washington, D.C.

1966 JUN 20 PM 2:32

Files

June 13, 1966

Martijn Paijmans

Conference on Asian Development

I attended the Conference on Asian development held in the Hague from June 8 until 10 organized by Prof. Tinbergen of the Netherlands Economic Institute. The reason for calling the somewhat hastily organized conference was the urgent need felt by the Institute to remind public opinion in Western Europe of the problems of the Asian Continent and to see what Western European countries could do to contribute to Asian development.

As it turned out, most of the speakers dealt with development problems in general, occasionally indicating specific implications or situations on the Asian continent. The role of Western Europe with respect to Asia was barely mentioned. In spite of this, the Conference was a success judging by the introductions made by four speakers :

Prof. H.B. Chenery (Harvard University)

Prof. F. Baade (Formerly Member of Bundestag; formerly Director of Institut für Weltwirtschaft)

Dr J. Kaufmann (Permanent Representative of the Netherlands in Geneva).

Dr I.M.D. Little (Deputy Director, Development Center, O.E.C.D.).

The World Bank's role in providing development aid and as coordinator was very often mentioned and in the discussions that followed, there were several occasions on which I could elaborate on this and, if necessary, correct views which were not entirely exact.

There were no points in the Conference which would justify an immediate and extensive memo before a report on the proceedings will reach us later on this year. The very interesting introduction of Dr Little may, however, be, of a more specific interest to us as it may to a certain extent reflect ideas living in the development center of OECD. A copy of the speech is attached. It deals, in the words of Dr Little "only with the bilateral aspects of the development problem"; the multilateral side was covered during a discussion in which there was a good opportunity to make a plea for concerted action, in particular of the smaller donor countries, within the framework of consortia and/or Consultative Groups.

Attendance to the Conference was mainly limited to Members of West European Development Institutes although a representative of the Indian Planning Commission was also present as well as members of Asian Embassy Staffs. The presence of a World Bank representative was very much appreciated in particular by Prof. Tinbergen.

Annex

RECAPITULATION

Before going on to try to see how to have the best of both worlds, let us try to summarize the main points made :

- 1/ From the narrow point of view of the efficiency of the project itself, project tying is usually beneficial despite the delays and misunderstandings to which it gives rise. Obviously, the less expert the recipient administration, and the smaller its fund of technical knowledge, the greater the necessity for close supervision by the donor.
- 2/ But project tying, which maximizes the degree of direct supervision, may result in a distortion of planning in favour of large capital-intensive projects with a high import content. This, unfortunately, is especially true of the poorest countries, where the need for supervision is usually also the greatest

Both of the above points apply to project tying as such. The next point applies only to double tying.

- 3/ Excessive project tying causes serious macro-economic difficulties and inefficiencies by distorting the import pattern. This tends to occur whenever aid finance represents a considerable proportion of total investment. It is a contributory factor to the tendencies for recipients to resort to Q.R.'s and inflation as instruments of policy.
- 4/ Double tying results from the need or desire of donors to promote their own exports. Except in the case when aid-financed investments is a sufficiently low proportion of the total, it is very harmful. Thus, double tying is harmless only in cases where the recipient has enough investible funds of its own, which it can use, without inflation, for other kinds of investments, as well as for the home cost of projects. (In these cases it can even be considered beneficial, since it ties up some of the recipient's investment funds in projects which, one presumes, have been properly vetted).
- 5/ Non-project aid cannot usually be as effectively tied as project aid. Efforts to tie it as effectively as possible may greatly reduce its value.
- 6/ Non-project aid can be used to have a considerable influence on the shape of Planning or on general economic policies. Such influence is obviously exercisable only by a major donor. It is a big question how far this can be regarded as compatible with the recipient country's sovereignty. It is a more difficult and sensitive thing to do than to supervise projects, especially as the right to supervise projects seems to be generally conceded.

GUIDELINES TO A BALANCE OF PROJECT AND NON-PROJECT AID

It is difficult to sum up or present any very definite guidelines because so much depends on the recipient. But the following points seem to be valid.

- 1/ There should be a careful economic analysis to see how much project aid the recipient economy can stand. Among most other factors this will depend on how far donors are prepared to go in paying for home costs.
- 2/ Since projectization is, from the point of view of efficiency, most important in those countries which have the least planning ability and determination, it follows that it is most important to pay a large part of the home costs of project in such countries.
- 3/ Admittedly, we have shown that non-project aid can be used to influence planning and policy. But it cannot be used to ensure efficiency in detail. It is also questionable how far the general exercise of influence by non-project aid is likely to pay off. There may well be, and perhaps have been, cases where such a policy can be successful (e.g. Pakistan). But I am doubtful whether it is right to press it as a general policy.
- 4/ Therefore, I advocate in general that projectization be maximized, but no further than the point where the macro-economic problems which I have discussed start to arise. This implies paying as much home costs as possible, subject perhaps to a small participation by the recipient. It is difficult, anyway, for small donors to give aid except by projects; they have not the power or local knowledge to pursue a policy of general influence by non-project aid.
- 5/ This qualified advocacy of projectization presumes that continuing efforts will be made to improve the donor's economic assessment, administration and coordination. Also, it presumes that programmes, consisting of linked projects, should be developed and implemented wherever suitable in order to overcome some of the disadvantages of project tying which I have discussed.
- 6/ Paying home costs involves a relaxation of aid tying. This should be the first priority for such relaxation, and is more important than relaxing procurement tying for the imports of capital equipment.
- 7/ But, wherever aid is a high proportion of investment, a considerable need for non-project aid will remain. Another priority for relaxing procurement tying is that donors should not pursue export promotion to such a degree that they seriously reduce the value of such non-project aid by an undue restriction of the shopping lists to which they will agree.

Handwritten: I am in good luck

GUIDELINES TO A BALANCE OF PROJECT AND NON-PROJECT AID

It is difficult to sum up or present any very definite guidelines because so much depends on the recipient. But the following points seem to be valid.

1/ There should be a careful economic analysis to see how much project aid the recipient economy can stand. Among most other factors this will depend on how far donors are prepared to go in paying for home costs.

2/ Since protectionism is, from the point of view of efficiency, most important in those countries which have the least planning ability and determination, it follows that it is most important to pay a large part of the home costs of project in such countries.

3/ Additionally, we have shown that non-project aid can be used to influence planning and policy. But it cannot be used to ensure efficiency in detail. It is also questionable how far the general exercise of influence by non-project aid is likely to pay off. There may well be, and perhaps have been, cases where such a policy can be successful (e.g. Pakistan). But I am doubtful whether it is right to press it as a general policy.

4/ Therefore, I advocate in general that protectionism be maintained, but no further than the point where the home-economy problems which I have discussed start to arise. This implies paying as much home costs as possible subject perhaps to a small participation by the recipient. It is difficult, anyway, for small donors to give aid except by projects; they have not the power or local knowledge to pursue a policy of general influence by non-project aid.

5/ This qualified advocacy of protectionism presumes that continuing efforts will be made to improve the donor's economic assessment, administration and coordination. Also, it presumes that programmes, consisting of linked projects, should be developed and implemented wherever suitable in order to overcome some of the disadvantages of project tying which I have discussed.

6/ Paying home costs involves a relaxation of aid tying. This should be the first priority for such relaxation, and is more important than relaxing procurement tying for the imports of capital equipment.

7/ But, wherever aid is a high proportion of investment, a considerable need for non-project aid will remain. Another priority for relaxing procurement tying is that donors should not pursue export promotion to such a degree that they seriously reduce the value of such non-project aid by an undue restriction of the shopping lists to which they will agree.

Development - Jan.
+ Consultative Group Meeting

Mr. Woods

June 8, 1966

Michael L. Hoffman

Bank's Image and Role as Coordinator

Two points emerged from the meeting I attended recently at Ditchley, and other talks I had in Europe, on which I believe some reflection is called for.

There is still a very widespread misunderstanding of what the Bank is actually doing today in development and of how we go about it. People frequently put forward as original ideas or as recommendations things that we have understood, or been doing, for years. I was particularly struck by how few people, even those who are or have been in the aid business, have even the beginning of an understanding of what is actually involved in linking development finance to improved economic performance, as it is now called, in developing countries. It is, of course, a very subtle process. And instead of simply asserting that our 20 years' of experience enables us to do it better than others, it seems to me we might give more thought to making our public explanations of what we do more meaningful to people who have a legitimate interest in the process, and a need to understand it, but who have not, as most of us have over the years, acquired this understanding as a kind of second nature.

I also found a growing concern as to whether our new effort to use CGs as a means of improving the quality of aid can be effective in a world where the total flow of aid seems to be declining or at best remaining at constant absolute amounts. The British are particularly concerned about this because they know their own aid funds are not going to be increased and they are worried about being faced with a growing number of countries whose development finance programs are presented to them with a sort of Bank seal of approval, but to which they simply cannot respond. Nobody is suggesting that we should not intensify our work in this field, but I think we can expect a growing reluctance to join new CGs. The only moral I can draw from this is that we cannot, by increasing our efforts in the field of coordination, escape our responsibility for telling the rich countries day in and day out that the total flow of aid is simply not big enough.

cc: President's Council
Mr. Graves

MLHoffman/pnn



ECONOMIC COMMITTEE

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WBG ARCHIVES

EC/O/66 -85

June 3, 1966

Evaluation of Economic Performance

1. Attached for your information is the draft of a study, "The Evaluation of Economic Performance in Developing Countries" dated June 1, 1966, which has been prepared by Mr. Sundrum. *TO RF for Review*

2. The study will be discussed at a future meeting of the Economic Committee.

C. F. Owen
Secretary

D I S T R I B U T I O N

Messrs. Friedman
Kamarck
Adler
Avramovic
Rist
de Vries

Bell
Edelman
Gilmartin
King (B.B.)
Larsen
Lipkowitz

Maiss
McDiarmid
Sadove
Thompson
Weiner
Wright

Reudyp - gen

Mr. J. D. Scott

June 3, 1966

Raymond J. Goodman *RJG*

Stanley Please's Article

Mr. Please has raised an important problem which needs airing, namely, the disparity between the tax effort in many developing countries and the declining proportion of public revenues going into investment. He also makes a useful point by saying that we tend to take government expenditures as given, although there are some recent examples - including Ceylon and India, two of the countries Mr. Please mentions - where the Bank has taken quite a tough line with the government concerned.

But while I agree generally with the argument in the paper, I am concerned lest it be interpreted as indicating that the Bank may be less inclined than hitherto to stress the importance of an adequate tax effort by developing countries. In many of these countries - certainly in the more primitive ones and in those that have experienced rapid inflation - I do not believe that there is any real alternative, at least in the short run, to tax revenues as the local source of finance for investment. In other cases, measures to increase taxes and to stimulate private savings are not necessarily mutually exclusive, provided the level of taxation is not increased beyond a certain level. This latter point, which is mentioned briefly in the paper, is probably worth discussing in a separate paper. It is of particular importance in countries such as Malaysia and Thailand, where the role of the private sector in development is a large one.

The conclusion that I personally draw from the discussion in Mr. Please's paper is not that the Bank should play down the importance of an adequate tax effort, but rather that we should not hesitate to propose ways of disguising budget surpluses, e.g., by earmarking revenue for development, despite the theoretical objections to this. Another way would be to syphon off particular sources of revenue into a development fund.

cc: Mr. Please
RJG:ypg

Mr. David Kochav

May 31, 1966

Hugh Latimer

Trends and outlook for development finance

Section A

I have made some amendments in the text, which you must reject or accept as you prefer. Here are some more specific comments.

- 1) page 1; para 1, last sentence. Metaphors are mixed. I suggest "international trade of both industrial and developing countries once more set a vigorous pace"
or
"renewed its previous vigorous rate of expansion".
- 2) page 1; note 1. The phrasing needs some working out. Also Jamaica and Trinidad are not allowed for. I suggest "refers, unless otherwise stated, to all countries of Asia except Japan, of Africa except South Africa, of Southern Europe except Italy (Turkey, Yugoslavia, Cyprus, Greece, Malta, Spain and Portugal) and of Latin America and the Caribbean!"
or
"and of Central and South America".

I assume from this that the trade of Cuba is included, and that of Finland, Ireland and Iceland is not.

Since at the time of publication, Lesotho may be independent, and the Maldivian trade returns are not published, one ought perhaps to add "It excludes those without independent trade returns".

- 3) page 3; para 2, line 7. Flows of private capital have run into the sand which traps watery metaphors.

I suggest "have also not increased and contrast with the increasing backflow ..." or more specifically "have also not increased and their balance of payments benefit to the developing countries as a whole has been eroded by the increasing backflow....".

- 4) page 5; para 3. Read:-- The increase in export earnings, in 1965, though lower than in recent years, was still above the average annual increase of only 4.3% in the fifteen years 1950-65. In relation to the rate of growth of world trade as a whole, such a rate represents a substantial and, year-by-year, almost constant lag of developing countries as a group. In turn, this reflects the heavy weighting of these countries' exports with primary products.
(In a technical sense, all "commodities" are ipso dictu "primary". In a general sense, another word is better).

To: Mr. David Kochav

- 2 -

May 31, 1966

- 5) page 6; line 2. Not necessary to have both "tended" and "on the whole".
- 6) page 8; line 8. Spain is included among the countries whose imports rose by an overall 20% in 1965, but on page 7, you have said that Spain is excluded from the figures.
- 7) page 8; bottom of page. Couldn't we give figures here, at end of sentence e.g. "approximately \$2.5 million" last year".
- 8) page 9; first two paras. Something wrong here. Excluding the oil producers doesn't seem to make much difference, a mere \$200 million. If it is still right, I suggest you omit para. 2.
- 9) page 10; Honestly, it is difficult to see that the statements on this page make much contribution to knowledge. To paraphrase, "The increase in Mr. X's bank account may be of only a temporary nature owing to the fact that he hasn't paid his bills yet. To a certain extent, it may be due to the growing discomfort he feels about having no money in the bank. However, there is little reason to believe that Mr. X's bank balance will go on rising. But it is really odd that he should have that much money there".

Development

ESTIMATE OF TOTAL GROSS INFLOW OF FUNDS TO LDC IN 1963 AND 1964

(In millions of U. S. Dollars)

	1 9 6 3					1 9 6 4				
	PUBLIC		PRIVATE		GRAND TOTAL	PUBLIC		PRIVATE		GRAND TOTAL
	Inflow (net)	Amorti- zation	Inflow (net)	Investment Income		Inflow (net)	Amorti- zation	Inflow (net)	Investment Income	
TOTAL	8,480.2	1,777.0	2,171.2	2,175.9	12,433.1	9,340.1	2,012.5	3,083.1	1,547.5	12,900.1
ASIA	2,758.0	411.7		615.1	3,784.8	2,935.0	444.1		482.8	3,861.9
India	978.0	139.0		...	1,117.0	1,230.0	171.3		...	1,401.3
Ceylon	-	4.4		10.0	14.4	-	3.0		5.6	8.6
Pakistan	501.0	46.5		...	547.5	518.0	39.8		...	557.8
Burma	-	6.9		1.1	8.0	-	6.5		-	6.5
S. Vietnam	227.0	-		7.9	234.9	246.0	-		-	246.0
S. Korea	265.0	-		-	265.0	174.0	-		-	174.0
Israel	132.0	99.1		15.5	246.6	107.0	108.7		25.1	240.8
Philippines	30.0	50.1		17.3	97.4	94.0	19.9		13.1	127.0
Indonesia	116.0	-		72.0	188.0	85.0	-		-	85.0
Jordan	83.0	-		-	83.0	81.0	-		-	81.0
China (Taiwan)	74.0	-		...	74.0	52.0	-		...	52.0
Thailand	46.0	13.2		8.4	67.6	46.0	15.4		8.9	70.3
Malaya	-	5.1		109.4	114.5	-	8.1		...	8.1
Iran	27.0	47.4		373.5	447.9	- 1.0	71.4		430.1	500.5
Other	279.0	-		-	279.0	303.0	-		-	303.0
AFRICA	1,636.0	66.1		212.7	1,914.8	1,722.0	78.5		94.6	1,895.1
French Franc Area										
South of Sahara	448.0	-		-	448.0	447.0	-		-	447.0
Algeria	276.0	-		-	276.0	252.0	-		-	252.0
Egypt (UAR)	209.0	-		...	209.0	238.0	-		...	238.0
Congo (Leopoldville)	87.0	-		-	87.0	115.0	-		-	115.0
Morocco	117.0	-		...	117.0	107.0	-		...	107.0
Tunisia	95.0	-		0.7	95.7	71.0	-		1.1	72.1
Portuguese Overseas										
Provinces	52.0	-		-	52.0	64.0	-		-	64.0
Nigeria	16.0	13.5		48.2	77.7	54.0	12.1		63.5	129.6
Sudan	-	14.3		3.7	18.0	-	11.8		5.2	17.0
Kenya	56.0	-		-	56.0	53.0	20.6		-	73.6
Tanzania	32.0	-		-	32.0	44.0	1.2		-	45.2
Ghana	27.0	-		19.3	46.3	40.0	-		19.6	59.6
Malawi	17.0	-		136.3 1/	153.3	32.0	-		-	32.0
Uganda	21.0	-		-	21.0	20.0	1.3		-	21.3
Ethiopia	-	5.0		4.5	9.5	-	4.9		5.2	10.1
East Africa 2/	-	9.4		-	9.4	-	3.7		-	3.7
Rhodesia and Nyasaland	-	23.9		-	23.9	-	14.1		-	14.1
Zambia	3.0	-		-	3.0	18.0	8.8		-	26.8
Liberia	34.0	-		-	34.0	17.0	-		-	17.0
Libya	26.0	-		-	26.0	16.0	-		-	16.0
Other	120.0	-		-	120.0	134.0	-		-	134.0
AMERICA	1,150.0	1,039.9		1,068.1	3,258.0	1,018.0	1,237.6		963.5	3,219.1
Uruguay	-	7.4		...	-	-	8.1		...	8.1
Brazil	202.0	236.9		57.0	495.9	233.0	209.0		...	442.0
French Overseas										
Departments	141.0	-		-	141.0	174.0	-		-	174.0
Panama	-	1.7		8.8	10.5	-	2.0		4.9	6.9
Chile	147.0	80.5		38.7	266.2	132.0	91.6		-	223.6
Ecuador	-	18.3		11.4	29.7	-	8.7		12.6	21.3
Colombia	107.0	79.9		39.4	226.3	103.0	73.8		42.3	219.1
Costa Rica	-	8.6		4.2	12.8	-	7.3		...	7.3
Mexico	86.0	239.7		185.6	511.3	47.0	360.5		216.6	624.1
Dominican Republic	-	3.0		18.0	21.0	-	4.4		-	4.4
Peru	22.0	49.0		50.0	121.0	45.0	33.9		...	78.9
El Salvador	-	3.6		4.4	8.0	-	6.3		4.4	10.7
Bolivia	53.0	10.7		- 1.3	62.4	44.0	10.0		- 1.3	52.7
Guatemala	-	9.7		3.0	127.0	-	9.7		11.5	21.2
Argentina	82.0	182.2		30.4	294.6	26.0	338.7		...	364.7
Honduras	-	1.6		5.5	7.1	-	1.9		6.2	8.1
Venezuela	61.0	100.1		610.9	772.0	-26.0	64.4		661.3	699.7
Nicaragua	-	4.4		1.7	6.1	-	4.3		4.3	8.6
Paraguay	-	2.6		0.4	3.0	-	3.0		0.7	3.7
Other	249.0	-		-	249.0	240.0	-		-	240.0
EUROPE	469.0	259.3		9.0	737.3	343.0	252.3		6.6	601.9
Turkey	220.0	126.9		1.0	347.9	149.0	99.4		6.6	255.0
Yugoslavia	178.0	110.1		-	288.1	136.0	118.0		-	254.0
Greece	40.0	-		-	40.0	40.0	-		-	40.0
Spain	*	22.3		8.0	30.3	- 10.0	34.9		-	24.9
Other	31.0	-		-	31.0	28.0	-		-	28.0
OCEANIA	26.0	-		271.0 3/	297.0	20.0	-		-	20.0
UNALLOCATED	270.0	-		-	270.0	219.0	-		-	219.0

1/ Malawi, Rhodesia and Zambia.

2/ East African Common Service Organization, Kenya, Uganda, Tanganyika.

3/ Australia only.

Sources: 1. Inflow (net), public and private: OECD; Development Assistance Efforts and Policies, 1965 Review, pp. 131-135.

2. Amortization (public):

For 1963:

For 1964:

3. Investment Income (Payments of Profits and Dividends):

IMF: Balance of Payments Yearbook; Vols. 16 and 17.

ROUTING SLIP

Date

May 6/66

NAME

ROOM NO.

General Files

233

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

This table belongs
to the Miss Orina's memo
to Mr. Arramovic dated
May 3, 1966

Table numbered 6205. Miss Orina's
memo is titled: Shipment of Funds to Less
Developed Countries in 1963 and 1964.

From

Mrs. Willard - 1021

Mr. Benjamin King

May 31, 1966

Hugh Latimer

Trends and outlook for development finance

General concept

The concept and general organisation of this paper seems satisfactory. As I see it, it corresponds to the Economic Report of a central bank. As such, it needs to be mainly descriptive and informative, leaving the newsworthy and policy making sections to the chairman's statement. It should also show what the Bank does, and reflect its general approach. The general reader has a right to expect:

- a) that the descriptive should either tell him something he does not know, or that the focus should be sharp or original, so that he sees what he knows already more clearly
- b) that both judgments and statistics should be broadly acceptable.

Performance

Sections D and E, describing the criteria on economic performance, seem to fulfill these conditions excellently. They are well balanced; the Bank has been daring enough to give examples, which show that it takes its own criteria seriously, and I do not see in a brief survey any need to comment further. Indeed these sections could stand on their own as an economic report. I believe that the uses of these criteria, though well known to the Bank and to the recipient governments, is new in outside (e.g. journalistic and business) circles. The public relations impact ought to be good.

The first three sections; A, B, and C appear, however, to need some sharpening of focus.

Section A

Section A begins well, and sets a theme which should be dominant - deceleration in growth. The section is acceptable enough, though perhaps below the standards which will be expected from so prestigious a body as the Bank. One might have hoped for more analysis of the reasons why the demand for primary products from the underdeveloped countries is falling behind relatively (see on this subject, for example the recent chairman's statement from Unilever). The analysis on page 6 is weak.

To: Mr. Benjamin King

- 2 -

May 31, 1966

Yet surely there is a great deal to say. The table below is abstracted from Table 2 -

<u>Growth in trade of developing countries</u> US \$ 000 an increase in value from previous year					
Developing countries	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
Exports fob	0.3	1.8	2.6	3.1	2.2
Imports cif	0.9	0.7	1.5	3.1	1.5
Excluding major oil exporters					
Exports fob	0.2	0.8	2.2	1.9	1.0
Imports cif	0.9	0.7	1.7	2.5	1.1

The above table, which could also be expressed graphically or in percentage changes, has the merit of describing what we are talking about, which is reacceleration in growth which began in the export values of non-oil countries in 1964, and from which, it may be, even the oil countries are not immune. The message I get from the Table 2, on the other hand, is merely that trade deficits are improving.

Section B External financing of development

This is the Bank's home field, and it ought to speak authoritatively, if still descriptively. The theme again is the deceleration in the growth of lending. But the treatment is rather muddled.

At present we have -

- 1) an introduction, with Table 3, on p. 12
- 2) a short and controversial diversion on terms of lending and the use of the Ohlin formula, bottom of page 12 to top of page 21 with five pages devoted to tables (Table 4-8 incl).
- 3) two paragraphs on suppliers credits, p.21
- 4) an attempt to analyse the reason for the deceleration in total debt, bottom of page 21 to bottom of page 22 (with Tables 9 and 10). The mention of Ghana and Indonesia brings the text back to the subject of debt servicing difficulties again, and
- 5) pages 24a and 24b are devoted to discussing how the debt burden can be lightened.

To: Mr. Benjamin King

- 3 -

May 31, 1966

- 6) Recent trends in assistance policies, pp. 25-28, descriptive for 1965, briefly traverses the same ground as 1) and 4) again, from the basis of data supplied by the DAC
- 7) Private capital flows, pp. 29-30, is again descriptive, mainly of the activity of governments in damping them.
- 8) International capital markets describes the trend of public issues, and the upturn in yields.
- 9) A section on Benefits and Costs of External Assistance (36-44) returns to the subject discussed in section 2, in more depth, and a different definition of the concessionary element (cf. p.14).

I am proposing to Mr. Kochav, and he has agreed, that part 4 should follow part 1, and part 3 become part of part 5; part 2 belongs logically to part 9, but Mr. Kamarck has proposed that it be rewritten as an appendix. On Mr. Kamarck's proposal, I shall submit to Mr. Kochav, a redraft of section B.

Section C Professor Tamagna's paper

This section ought to do for domestic financing what Section B has aimed to do for external financing, that is to trace 1965 developments in the internal raising of funds in less developed countries and place this in relation to longer term trends. It ought to describe what is happening in Mexico, India, South Africa, Singapore, Kuwait, and Hong-kong especially. The control which the authorities were forced to take over the para-banks on January 1, 1966 in South Africa surely deserves some comment, since central banks elsewhere are faced with analogous problems - or will be. One would like to see comment on the efforts of the Nigerians and Ethiopians to start their own capital markets, and more about the success of current inflation-dodging devices in Brazil and Israel.

But Professor Tamagna's paper is analytical where it should be descriptive. As an ex-financial journalist, I find the analysis of the virtues of a capital market gravely incomplete, while I see little reference to its vices and to the consequent responsibility of governments to control them (cf the South African experience).

There seem to me three choices -

- i. either the paper should be shelved, as out of keeping with the rest of the report
- ii. or an attempt could be made to outline briefly 1965 trends in this field. This could perhaps be done with the aid of the IPC report and of the advice of country economists and experts like Professor Tamagna himself
- iii. or this section could be considerably shortened. I should be glad to help do this if necessary.

Incidentally, the Bank and Fund gravely need a good press cuttings service for tasks like this.

HL:mg

cc: Mr. Kamarck

cc: Mr. Kochav

Mr. Richard H. Demuth

May 19, 1966

A. Karaosmanoglu

List of Books on Foreign Private Investment Problems in Developing Countries

Attached is a list of recent books and articles on the problems of foreign private investment in developing countries as Mr. Kalmanoff requested.

This is not an exhaustive list but I think it covers most of the material available in the Joint Library and Research Files.

In addition to these, the monthly "European Bulletin" published by the International Associations for the Promotion and Protection of Private Foreign Investments is worth mentioning separately. News about new legislation, excerpts from policy speeches, bibliography for recent publications, etc. are included in the Bulletins. They are available in the restricted files of the Joint Library.

AKaraosmanoglu/GW A.K.

Cc: Mr. Kalmanoff

GENERAL

- Brandon, Michael, Multilateral Approaches to the Promotion and Protection of Private Foreign Investments, International Development Review, June 1964, Vol. 6, pp. 19-21. (A survey of pending proposals, description of activities of the Association for the Promotion and Protection of Private Enterprise (APPI) and the OECD.)
- Haynes, Elliot, New Patterns for Private Investment in Developing Countries, International Development Review, June 1965, Vol. 7, no. 2, pp. 11-14. (A discussion of problems with specific reference to the experiences of LAFTA.)
- Nwogugu, E. I., Legal Problems of Foreign Investments in Developing Countries, Oceana, Manchester University Press, 1965. (Not available in the Joint Library.)
- Rowan, Sir Leslie and others, Investment and Development: The Role of Private Investment in Developing Countries, Overseas Development Institute, London 1965, 60 pp. (A collection of four articles: William Clark, Governments are not enough; Sir Jack Campbell, The role of big business in new nations; J. H. Loudon, International enterprise in the development decade; Arthur Gaitskell, Making the best of capital risk in developing countries.) Joint Library Call No. 332.65 Ov 21
- Williams, Simon, Private Investment in World Agriculture, Harvard Business Review, Nov.-Dec. 1965. (A summary available in International Executive, Winter 1966, Vol. 8, no. 1, p.7.) (Discussion on the possibilities and problems in the field of agriculture.)
- Whitman, Marina Von Neumann, Government Risk Sharing in Foreign Investment, Princeton University Press, 1965, p.358. (A study of the problems like Capital Movements and National Interest, Public Stimulation of Private Funds, Investment Guaranty Program; and organizations like IFC, IDB, Eximbank, DLF, AID.) Joint Library Call No. 332.65 W 59g.
- Obstacles and Incentives for Private Foreign Investment-1962-1964, National Industrial Conference Board, 1965, 138 pp. (The experiences of investors of twelve nations in eighty-eight countries.) Not available in the Joint Library. Available in the Federal Reserve Library.
- Fiscal Incentives for Private Investment in Developing Countries. OECD Fiscal Committee, 1965, 115 pp. (A report studying the income tax incentives with an emphasis on measures that might be taken by capital exporting countries to encourage their taxpayers to make investments in the less industrialized countries.) Available in Research Files.

REGIONAL

Africa

Morgan, D. J., British Private Investments in East Africa, Overseas Development Institute, London 1965, 63 pp. Joint Library Call No. 330.9729 M 79 a.

United Nations, Investment Laws and Regulations in Africa, United Nations, 1965, 79 pp. UN Sales No. 65.II.K.3.

Latin America

Bernstein, Martin (ed.), Foreign Investment in Latin America, Alfred A. Knopf, New York, 1966, 305 pp. (A collection of nineteen articles presenting views with different political outlooks on economic and political aspects of foreign investments in Latin America.) Joint Library Call No. 332.65 B 45 f.

Johnson, Leland D., U.S. Private Investment in Latin America Since the Rise of Castro, Inter American Economic Affairs, Winter 1964, Vol. 18, pp. 53-75. (A quantitative description of developments in Latin America with regard to U.S. investments.)

Rockefeller, D., What Private Enterprise Means to Latin America, Foreign Affairs, April 1966, Vol. 44, no. 3, pp. 402-412. (A discussion of some widely accepted notions in Latin American public opinion on the nature and objectives of American private enterprise.)

INDIVIDUAL COUNTRIES

Africa

Liberia

McLaughlin, Russell V., Foreign Investment and Development in Liberia, Praeger Special Studies, 1966, 232 pp. Joint Library Call No. 7 F 330.9 M 22 f.

Nigeria

May, R. S., Direct Overseas Investment in Nigeria 1963-63, Scottish Journal of Political Economy, Nov. 1965, pp. 243-66.

Praehl, Paul O., Foreign Enterprise in Nigeria, University of North Carolina Press, 1965, 250 pp.

Latin America

Latin America

Brazil

----- Brazil's Government Fights Extremists: Business
Alerted for Possible Takeover, Business Abroad, Jan. 10, 1966, Vol. 94,
no. 1, p. 12.

McMillan and others, International Enterprise in a Developing Economy, Bureau
of Business Economic Research, 1964. Joint Library Call No. 4 D.332.65 M 33 i

Chile

Ehrman, Libert, Opportunities for Investment in Chile: A Program for Encourage-
ment of Private Industry, Praeger Special Studies, 1966, 200 pp.

Mexico

Tanner, James C., Curbing Yanqui Cash, Wall Street Journal, June 17, 1965, Vol.
165, no. 1.

----- U.S. Investors Learn to Live with Mexicanization, Business
Abroad, Dec. 13, 1965, Vol. 90, no. 42, p.4.

----- Mexico Slams New Door to Foreign Business, Business
Abroad, Feb. 21, 1966, Vol. 91, no. 4.

Asia

India

Graham, Anila, Report on Prospects for Private Investment in India with Particular
Reference to Joint Collaboration Ventures, Economic and Development Research Ltd.,
London, 1964, 42 pp. Joint Library Call No. 85 332.65 G 76 r.

Kidron, M., Foreign Investments in India, Oxford University Press, London, 1965.
368 pp. Joint Library Call No. 85 332.65 K 54 f.

Negandhi, A. R., Obstacles to Private Foreign Investment in India, Economic Record
(Melbourne), Dec. 17, 1965, Vol. 41, p. 612.

----- Foreign Investor and Tax Reforms, National Council of
Applied Economic Research, New Delhi, 1964, 44 pp. Joint Library Call No. 85
364.24 N 21 f.

Philippines

Butwell, Richard, The Philippines Economic Nationalists, New Leader, Aug. 16,
1965, Vol. 48, pp. 10-11. (Views against American business in the Philippines.)

Thailand

----- Thailand Goes All Out for New Foreign Investment,
Business Abroad, March 7, 1966, Vol. 91, pp. 18-21.

SOME STUDIES OF PROBLEMS OF CAPITAL EXPORTING COUNTRIES

Frankel, M., Home Versus Foreign Investments - A Case Against Capital Exports,
Kyklos, Vol. XVIII, 1965, no. 3.

----- New Look at Investments Abroad, Business Week, March 26,
1966, pp. 92-4. (National Industrial Conference Board Survey points up economic impact of the U.S. capital abroad and sheds doubt on the soundness of Washington voluntary curbs.)

Ramon, D. C., The Problem of Direct British Investment Overseas, Bankers' Monthly, London, May 1965, Vol. 200, pp. 293-9. (A discussion on whether direct investment of about 20 percent of total net fixed capital formation by British companies at home and abroad worthwhile from the national point of view.)

----- German Direct Investments Abroad, Deutsche Bundesbank Monthly Report, Dec., 1965, Vol. 17, pp. 19-27.

Dev. Gen
May 13, 1966

Dear Mr. Davis:

Thank you very much for your letter of May 12, and for sending to us a copy of the paper on an Action Program to increase industrial development. We have read it with great interest.

Sincerely yours,



William Diamond
Director
Development Finance Companies

Mr. Guy Davis
2116 F Street, N.W.
Washington, D.C.

RFSkillings:vmv

Brought by hand 5/12/66.

GUY DAVIS

Telephone- 202-337-7854

2116 F Street, N.W.
Washington, D. C.

May 12, 1966

Mr. William Diamond, Director
Development Finance Companies
International Finance Corporation
1818 H Street, N. W.
Washington, D. C.

Mr. Shalinger
Any comments?
Q.

Dear Mr. Diamond:

Your comments will be appreciated.
Soon after the "Report of the Committee on Private
Enterprise in Foreign Aid" (the Watson Report) was
released, I asked various Private Enterprise execu-
tives in AID "what programs they proposed to initiate
in response to a number of suggestions contained in
the report"?

The answer was: "what would you suggest?".

The attached brief summary presents a number of what
I believe are practical suggestions for one or more
Action Programs which would benefit and improve the
Private Enterprise in many countries.

Your frank comments and valued suggestions will be
greatly appreciated. As Mr. Rosen of your organizat-
ion is listed as a contributor to this report, would
he be interested in reviewing my suggestions?

An opportunity to discuss this Action Program with you
would also be appreciated.

Sincerely,

Guy W. Davis
Guy Davis

GWD

Attached
AID Action Program

ackn. May 13, 1966

shf. 32ph.

GUY DAVIS

Industrial Development Through Private Enterprise

A suggested Action Program to increase industrial development through assistance to Private Enterprise and thus provide effective channels for the expression of individual initiative as well as an additional source of revenue for the support of the government.

- - - - -

To: Mr. William Gilbert Carter

Date: November 24, 1965

Prepared by: Guy Davis

Program Content:

More employment and greater economic benefits to a country can often be best and most quickly attained through the expansion of local industries. To attract the foreign investor requires time, money and promotional ability in the face of intensive competition, government regulations, political opposition and other obstacles to new industries and foreign investors.

Businessmen believe that there are existing firms in the developing countries which could be expanded. Many of these could sell and produce more. Some of them might even be able to earn foreign exchange in world and regional markets if given encouragement and some specialized assistance.

Step One -

Actually interview the owners and managers of local industries to determine which products are produced, which raw materials are required (including their source), and which entrepreneurs are interested in the expansion of their plants or in new projects.

From the information thus obtained, programs to increase sales, improve product-quality and appeal, enlarge production facilities, develop training courses, or increase employment can be prepared.

Projects

Projects involving financial assistance, new equipment, product design, packaging, quality control, etc., are then determined and executed in logical sequence where needed and desired by the local entrepreneurs. *Very good*

Concentrated attention-on and cooperation-with the management and owners of existing small and medium-sized industries frequently develops new and larger markets, increases in production and employment without new financing or the use of scarce foreign exchange. In addition to the possibilities of direct benefits from these actual visits to existing local industries; these direct contacts with management, owners, foremen and labor tend to eliminate suspicion and instead create a spirit of cooperation that often uncovers valuable suggestions for new industries and additional uses for local resources.

The second step in this Action Program, is to prepare an inventory of the local natural resources and the use that is being made of them. Such resources include grains, fruits, vegetables, livestock, timber, fiber-plants, minerals, fish, seafoods, etc. Other valuable resources in the form of waste materials from any existing industries (wood, metal, textile, chemical wastes) should be included. An inventory of the present labor (men and women) skills available, an evaluation of supervisors and their ability to train others, an estimate of the amount of skilled and unskilled labor with the prevailing rates, are important elements of the resource inventory of a country.

A human-resource factor, to be determined from these actual interviews, is the desire to cooperate between businessmen, manufacturers, labor-leaders, bankers and government officials.

Other country resources of importance to new industries or the expansion of present ones which should be

evaluated are;

evaluated are: the navigable streams and rivers, harbors, climate (weather), highways (all-weather), rail, truck and air transportation, power, water and communications; the size and characteristics of the population, the present purchasing power, the Gross National Product, buying habits, preferences, etc.

The third step is to prepare in order of monetary values, lists of the most widely consumed products either grown or produced locally without the use of imported raw, or semi-finished materials, indicating:

- 1) consumption by final consumers within the country;
- 2) total production by local industries without the addition or use of imported materials or products; and if available, the quantities either-
sold for final consumption within the country; or, exported to foreign markets.

Also, lists of the most widely consumed imported products should also be prepared, indicating the values and the quantities of:

- 1) imported products ready for final consumption or use;
- 2) products utilized by local manufacturers (with separate lists of raw materials, semi-finished products and finished parts) in preparing or assembling their products for final consumption or use; and if possible, the quantities either-
sold for final consumption within the country; or exported.

Through the use of this type of approach and the suggestions uncovered, a list of products can be prepared which might be practical to produce within the country.

There are four questions concerning such products which are an essential part of such an investigation. They are:

- 1) How much of the product is consumed locally?
- 2) How much will the use or consumption of the product be increased by the availability of

a similar quality

2) continued

a similar quality product, locally produced (at a lower price if possible) by the proposed project or for other reasons during the next five years?

3) How much of this present and future total product consumption or market can the proposed project capture? What are the chief obstacles to overcome?

4) Who in the country will be the chief consumers?

Step four of this Action Program is to analyze this information that has been compiled and make comparisons with Input-Output, inter-industry and other industrial data, not only from the United States but also from those developing countries which have had similar industrial problems to solve. These comparisons serve as important tools with which to verify the raw materials needed, the amounts and the various processes with possible substitutions to meet local conditions.

Careful reviews of the established and reliable current world data on industrial growth provide pertinent suggestions for growth-potential industries. It indicates those with the better growth trends and the ones with excess production. Comparisons will reveal employment needs for a given volume of product sales; those industries requiring low-wage labor or an abundance of production-type workers; and the probable number of jobs which will result from the different contemplated projects. Other analyses should be made to differentiate between high, low and medium capital-cost industries.

Inter-industry comparisons frequently indicate how initial investments can be concentrated in small-scale operations, consistent with local needs. This is a sound alternative to a large-scale heavy industry, unsuited to a developing country with a small domestic market.

Foreign exchange requirements are estimated for each of the proposed new projects. such estimates include

not only

not only: the amounts of exchange needed to cover any imported capital equipment, commodities or technical assistance, but also estimates of future requirements. Credits are calculated for the foreign exchange savings due to the reduced imports resulting from the local production of the proposed projects, as well as the amounts of foreign exchange to be earned from projected exports of new products. The compilation of the foreign exchange requirements would be facilitated by the cost-data available in the "Profiles for Industry" soon to be released by AID-DFPE Washington.

Step five involves the selection of the projects which can be of most value to the developing country and which are most likely to succeed; and also, securing the approval of these projects by local government officials responsible for local industrial growth. By approaching the industrial development program through local Private Enterprise, with the emphasis on finding businessmen willing to invest their own capital and skills, profit-making projects will predominate. It is the yardstick most commonly used in comparing possible investments. It provides a definite indication of probable success. Each project should indicate the anticipated contributions which it may add either directly or indirectly toward the economy of the country (the values produced less the costs of the resources consumed).

Final project approval will also be subject to the attitudes, customs and desires of the existing political leaders, as well as:

- 1) the host government's program for economic growth;
- 2) the foreign exchange reserves of the country;
- 3) the supply of domestic savings available for investment and the appeal of the project;
- 4) the prevailing attitude of the local government toward Private Enterprise; ...foreign investors;

...the profit motive;

...the profit motive;

5) the political stability of the government.

At every opportunity, this Action Program would demonstrate to government officials, the importance of development-policies which are not contradictory; and the importance of establishing the reputation of "having a favorable business climate". This results from the attitudes of businessmen toward the conditions existing in a foreign country such as:

"Political stability,
Economic stability,
Financial stability,
Favorable attitude toward Private Enterprise,
Degree of corruption within the government".*

also, that surveys have shown the most important attractions to foreign investors are the policies of:

"Establishment and firm adherence to a
national development program,
Favorable terms for the transfer of profits
and the repatriation of capital,
Non-discrimination against foreign ownership and control,
Equality of treatment with domestic enterprises,
Freedom from detailed or burdensome regulations
on organization ownership and management".*

Note: *(from research studies by SRI)

A strong appeal would be made to government officials and their support requested of a plan to obtain the accurate and complete answers to a series of questions "most often asked by prospective investors" and by a leading New York banking organization. These questions relate to the following areas of investor interest. Answers are urgently needed for use in the promotional efforts to be made with prospective investors, banks and the Department of Commerce (USA). These areas are:

Laws relating to record keeping, ...licenses,
...reporting, ...business regulations.

Present monetary system and brief history.

Foreign exchange

Foreign exchange controls and transfer rules.
Banking and public accounting facilities.
Disposition of net profits after taxes.
Accounting and auditing controls and reports.
General production and cost factors - labor and personnel laws - transportation costs.
Taxation - corporate taxes - payroll taxes - real estate and sales taxes - export taxes.
Conditions of legal establishment relating to foreign corporations.
Marketing information - Advertising media - Local trade associations and their attitude toward the foreign investor - Price controls - Credit data and conditions existing in country.

The distributions of answers to these questions "most often asked" serves not only as an inexpensive but also highly efficient media for investment promotion. The prospective investor seeking information on which to make investment decisions wants facts.

After the governmental approval of specific projects has been obtained, step six of this program is initiated. It consists of the promotional activities directed toward local and foreign Private Enterprise. During the previous steps of the program, the names of possible investor prospects have been gathered and classified. Their interests and affiliations either with local or foreign producers recorded. At the same time, strong efforts are made to contact the representatives of foreign industrial firms, bankers and private investors who come to the country. Many of these visitors to the country have specific projects under consideration but need assistance.

Announcements of the approved projects, copies of the individual project presentations, individual profiles of suggested industrial plants, and copies of "Answers to Investor Questions" provide the essential promotional material for contacts with local prospects or for use in direct mail efforts to interested prospects abroad.

Since

Since this program is based upon a sincere belief in the importance and initiative of Private Enterprise, the need for costly and extensive promotional efforts should not be necessary. Private investors are always seeking profit-making opportunities which have local government support in a "good business climate".

If local contacts do not exist with foreign investors and no interest in the developed projects seems to exist among local entrepreneurs, the project becomes one for the promotional department of the government or of the development banks. Note - (a separate Action Program has been developed to assist such organizations to improve their abilities in this area).

To develop a better understanding of the importance of Private Enterprise and arouse interest in the objectives of this program, the following discussion material used by the U. S. Chamber of Commerce, is available for meetings with in-country businessmen, politicians and labor. Some of the suggested suggests are:

"Money, Income and Jobs"

"Progress and Prosperity"

"Sustaining Prosperity"

"Demand, Supply and Prices"

"Prices, Profits and Wages"

"Why the Businessman"

"International Trade, Investment and
Commercial Policy"

also carefully selected audio-visual films related to Marketing, Management and Promotion.

In summary, the objectives of this Action Program are:

"broaden and strengthen the private sector"

"enlist the help and advice of the appropriate business communities concerned"

"an explicit program for the improvement of the business climate"

"provide market surveys of market potential",
"...investment opportunities" and the sale of these individual projects".

Program Execution:

To accomplish the objectives of this Action Program, it is suggested that personnel be employed who have had foreign business experience and who are familiar with the sources and use of available industrial development information such as Input-Output, Standard Industrial Classifications, Inter-industry data, etc. Emphasis should be placed upon the development of a close relationship and understanding with Private Enterprise of the country as well as the obstacles to be encountered.

The length of time necessary to accomplish the desired results will vary in accordance with the present local industrial development programs, data available and the prevailing conditions of the business climate.

Rec - [unclear] [unclear]
Gen Files

OFFICE MEMORANDUM

TO: Mr. Michael Lejeune

FROM: Dragoslav Avramovic *AW*

SUBJECT: Japan, the Rest and Economic Growth

DATE: May 5, 1966

Please refer to our yesterday's conversation on the reasons for lack of progress in developing countries.

Attached is a memorandum by Mr. Gavin Wyatt, power engineer on mission staff, which he wrote during his stay in Algiers on the Algeria mission. It followed, I believe, a conversation one evening focussed on the reasons why have not the developing countries progressed much more over the history and specifically during the last 20 years? Mr. Wyatt dictated the attached the following morning. (It was not much at the expense of the regular job of the Algeria mission: Mr. Wyatt's draft report is being circulated today).

I disagree with Mr. Wyatt's fifth paragraph, page one: I believe that the desire to get better off and ultimately rich is as strong in developing as in developed countries, and the readiness to work - if there are jobs and if they pay - is also there. But I agree with Mr. Wyatt that it would be very interesting to find out why has Japan succeeded where others have failed. What combination of circumstances has propelled Japan from a feudal low-productivity society into a modern industrial system within such a brief period?

I think a number of books have been written on this, but I don't know how good they are. I am sending a copy of this to Mr. Kamarck: if he has anyone to spare for a week or so, it might be worthwhile going through the literature and then perhaps see, if there is no answer in the books, whether one may interest some university to answer Mr. Wyatt's questions. I presume that the Bank itself would not like to go into sociology. It would be a very interesting research project, though.

Attachment

cc: Messrs. Friedman
Cargill
El Emary
Kamarck
Gilmartin
Clarke
Eschenberg
Chadenet
Bell
Piccagli
Wyatt

Algiers, Algeria
March 18, 1966
G. Wyatt/cl

THE HOLE IN THE BUCKET

After spending a little over a year in the Bank it seems to me that we are failing in the main purpose of our mission in the world.

If one does not look very deep, or if one likes to measure success by figures, the Bank appears to have been more successful than any other institution or individual government, in assisting the underdeveloped countries. It may be true to say that by any standard it has been more successful than others. But is this enough? I think not.

The Bank's prime function is to provide the means by which underdeveloped countries can shorten the road to prosperity, so that they may catch up with the more developed countries.

Development in isolation does not follow a straight line growth, or arithmetic progression. It follows a hyperbolic curve in which growth in the early stages is painfully slow, becoming increasingly faster as the infrastructure and other facilities for growth develop. The theory on which the Bank's existence is based is that if you can by external loans, provide the means to build in a relatively short time, the infrastructure and other necessities for growth, the country should in the space of only a few years leap to a point well up the curve, from whence growth can proceed at a much higher rate. The hope is that the accelerated rate of growth will become self sustained after which the Bank will either retire from the scene or help the country to leap frog to an even higher point on the curve.

There is nothing wrong with this theory except that it assumes that there is a universal desire in the underdeveloped countries to raise their standard of living, that they are prepared to work and make sacrifices for the achievement of this end, and that only the monetary and physical means are wanting - which the Bank can provide.

Anyone who has spent a lifetime in such countries, or has worked in the Bank close to the ground, for a few years, knows that these assumptions are wrong and are based on an oversimplification of the problem. In country after country the impression is gained that growth just stops at the completion of projects or continues at the same rate as before. Pouring aid into them is like pouring water into a bucket with a hole in the bottom. As soon as you stop pouring it returns very quickly to its original state.

There is however one notable exception to this unfortunate rule and that is Japan. Japan has pulled itself up by its own bootstraps at a remarkably accelerated rate thanks to assistance from the Bank and the U.S.A.

Why is this? What has Japan got which has enabled it to benefit from aid in a way that other countries have not? One suspects there must be some basic reason, or reasons, for her success where so many others have failed.

Instead of blindly continuing to pour aid into so many leaking buckets, would it not be worth while for the Bank to consider whether it could draft terms of reference for a team of international experts on sociology, psychology, history, etc., to go to Japan and attempt to separate the spiritual and mental forces which have driven these people on to success?

The Bank is in a unique position to undertake an exercise of this kind. It has the monetary resources and the prestige to assemble a team of the world's leading experts to a degree probably not available anywhere else in the world.

Although it is impossible that such an exercise could provide readymade recipes for success in other countries with differing environments, it would almost certainly improve our understanding of the problems involved in reaping the maximum benefit from aid and might provide useful lessons to political economists and politicians in the developing countries themselves.

What Japan has done ought to be possible in almost any of the under-developed countries, but so far no one, as far as I know, has attempted to analyze the reason for the strikingly different results obtained. Perhaps because of this no one so far seems to have tried to apply the lessons to be learnt from the Japanese success, in another country.

OFFICE MEMORANDUM

TO: Files

DATE: April 28, 1966

FROM: Andrew M. Kamarck *amk*SUBJECT: Visit of Mr. Runkle

Mr. Runkle came to see me on April 13 to follow up our earlier discussion about a month ago. He said that in his discussions with Mr. Reuther there were certain questions that had come up. The first one was: Mr. Reuther wished to know how quickly the developing countries could absorb more aid and technical assistance if more were available. I said that we had made an estimate last year in the Bank on this subject and had come to the conclusion that the developing countries over the next five years could effectively use \$3-\$4 billion a year on the average. If you went beyond the five-year period, the ability of the developing countries to use capital would go up, of course, very rapidly if one were able to plan for this considerably ahead of time. This could mean in some cases multiplying the amounts of aid that they now are able to absorb.

The second question that Mr. Runkle had was that if the money were available, would there be the technical assistance and advisers which would make it possible to use the money, as well as an increase in the absorptive capacity of the developing countries themselves. On the first, I pointed out that the French, for example, alone had some 44,000 people in technical assistance and teaching in the developing countries, mostly in Africa. The United States had some 14,000, the United Kingdom about the same. If the same system of priority were given to providing such personnel for the developing countries that the French gave, it would be possible to multiply the numbers in technical assistance quite quickly. As far as the developing countries are concerned, the progress of education and the sending of people abroad for training had also increased greatly in recent years, and this had increased their capacity to absorb capital.

The final question was whether an increase in aid would result in inflation in the recipient countries. On this I said that this was a matter of how the aid were provided. If it were provided in the form of additional real resources, there should be no real problem for the recipient countries.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. Wishart

DATE: April 18, 1966

FROM: Michael L. Hoffman

SUBJECT: Letter of April 12, 1966, from Centre International pour le Développement

It seems to me quite impossible for the Bank to reply to this communication without completely dissociating ourselves from Ambassador de Castro and his whole approach. See, for instance, the paragraph on "Aid to Development" at the top of page 2. My own inclination being not to hurt anyone's feelings unnecessarily, I propose that we send no reply to this or to the subsequent copies of his letters to Heads of State, which I have no doubt will be sent to us.

Attach.

Mr. Woods 4/19

Do you agree with Mr.
Hoffman's recommendation, please?
JW: 19 APR

ROUTING SLIP

Date
April 15, 1966

OFFICE OF THE PRESIDENT

Name

Room No.

Mr. Hoffman

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 Mr. Woods has not seen attached as yet. As you will recall, we had a previous letter from the Director-General of this Centre to which you responded on January 6.

Perhaps you will kindly advise how we should deal with attached--either a reply sent by Mr. Woods or by yourself on his behalf. Could we have the correspondence back for Mr. Woods to see when he returns here on April 20.

APR 15 REC'D

CENTRE INTERNATIONAL POUR LE DÉVELOPPEMENT

[Association non-lucrative constituée selon la législation helvétique - Siège : Servette 93, Genève, Suisse]

BUREAU EXÉCUTIF A PARIS :
23-25, Avenue Mac-Mahon - GAL. 28-22

April 12, 1966

Mr. Woods
International Bank for Reconstruction
and Development
1818 H. Street, N.W.
Washington D.C. 20433
U.S.A.

Mr. President:

I have the honor of sending you a copy of the first Letter I have just sent to all Heads of State of developing countries.

As twenty years ago when I drew the attention of world opinion to a problem then unknown - hunger - I am drawing today the attention of the Heads of State who govern two thousand million human beings to the excessively tragic crisis which spreads on developing countries.

I appreciate quite well the many efforts made daily by the I.B.R.D. to develop the equipment of these countries in order to avoid a widening of the gap between poor and rich countries.

But it must be admitted that new methods of development have to be set up urgently now for hunger, poverty and illiteracy are continually on the increase since twenty years

What are these methods ? This is a matter to be resolved by I.C.D.'s researches through neither diplomatic nor official channels, but with the co-operation of States, international bodies, active men and companies. Everyone should co-operate to the struggle against under-development : this is the I.C.D. aim.

I do hope that you will be prepared to sustain my efforts in this so ambitious program in supporting my action with your high authority and your powerful means of action, for building up a better world.

./...

Ref. Alpha.

Mr. Woods, Washington.

April 12, 1966

As to me, I just have my call, the call of a man born in the poorest land of the world, the Nordeste of Brazil and I hope to be heard by all my brothers of developing countries who despair.

I do hope that you will be favorably disposed to join my appeal and my efforts and I am looking forward to hearing from you soon on this major matter.

I have the honor to be, Mr. President,

Your obedient servant

A handwritten signature in blue ink, appearing to read 'Josue Castro', with a long horizontal flourish extending to the left.

Ambassadeur Josué de Castro
President

April 12, 1966

Sir,

Today I have the great honour of sending you the first of a series of bi-monthly Letters which, as President of the I.D.C., I intend to send out regularly to all Heads of State of developing countries. The subject of these Letters will be the grave problems of development, which are a source of anxiety to us all, and which are affecting the lives of two thousand million human beings.

Three major factors have made me decide upon this course of action :

1. The developing countries are at present undergoing the most tragic crisis - political, economic and social - that could be anticipated.
2. Aid for development has disappointed the expectations both of those who give and those who receive.
3. The time for political ideologies is over. In the face of the agonizing reality of famine and poverty, peoples revolt and cry: "No more theories, hatred, promises, war; give us more achievements, progress and well-being".

I should like briefly to sum up these three key points which must henceforth guide us in seeking possible solutions to the problem of under-development, which is undoubtedly the most dangerous threat to world peace today.

The crisis of the developing countries. This crisis is manifest.

War and guerrilla warfare, revolt and dictatorship exist openly only in the territories of the developing countries : Viet-Nam, Kashmir, China and India, Indonesia, among the Kurds, in Malaysia, Syria, Rhodesia, the Congo, Nigeria, Ghana, Upper Volta, Angola, Santo Domingo, the guerrillas of Peru, Venezuela, Colombia.

./...

Hunger, poverty and illiteracy are continually on the increase, in spite of the fact that the mission of the great international organizations was to eliminate them from the face of the earth.

Aid to development. This is for the most part given for political or selfish reasons. It is generally only allotted out of a desire for domination or because of other ulterior motives - commercial, economic or political - on the part of the donor countries. And even when aid is not tainted by such motives, it is a charitable offering, too insignificant to be of any real help to development. In any case, inconsistency in allotment and the precariousness of long-term engagements make it the worst possible method of financing development projects.

Political doctrines. Whether capitalist or Marxist, political doctrines are deceptive illusions if their promises are not confirmed by immediate, concrete achievements, and by real and sustained progress in economy, social welfare and human advancement. Hungry people can do nothing with theories; they need action and expect tangible, positive results.

Here lies the drama : it is breaking out today or will come tomorrow. During the last twenty years, hardly any government in the development countries has succeeded in bringing about a rate of economic growth which satisfies the real needs of its people. While the industrialized countries are advancing steadily at the rate of 4, 5 or 6 per cent and more a year, the developing countries, because of population increases, hardly manage to hold their ground; many of them are even falling back. The gulf is thus widening with alarming rapidity between the rich countries and the poor ones.

These problems can no longer afford to wait for a solution, and for this reason I am bringing them to the attention of world opinion today, just as twenty years ago I drew attention to the struggle against hunger, by addressing myself to all Heads of State in the so-called "developing countries.

It is intolerable that peasants in the developing countries cannot live decently while the fruits of their work go to the tables of the rich countries. It is intolerable that, in the century of mass communication, people should be dying of hunger in one part of the world while in another part men are trying to reduce surpluses. To combat

the endemic hunger and explosive famine threatening India, Africa and Latin America, a plan is urgently needed.

With the assistance of thirty world-famous persons and with effective help from ten founder governments and large organizations, I set up the INTERNATIONAL DEVELOPMENT CENTRE in 1965. The Centre provides a forum where anyone dealing with development can engage in a dialogue. The governments of countries capitalist and socialist, industrialized and developing, together with international organizations and industrial concerns, scholars and specialists, politicians and technicians, must exchange views and reconsider these problems in a new light - on a world scale - so as to build a new world and to bring about a new international political consciousness.

These governments, experts and institutions have endorsed idea of setting up the I.D.C. to co-operate with you in your everyday work in the service of your people and to help you overcome the innumerable difficulties with which you are faced. But the emergency plan - the last chance for the human race - cannot be established without your active co-operation. I therefore ask you not to hesitate to contact the I.D.C., whose aim is to be the developing countries' embassy of development to the industrialized nations.

I would earnestly request you to give this letter the attention merited by the very serious problems with which it deals, and which are a source of the gravest anxiety to us all, and to be kind enough to let me have as soon as possible your opinion and especially your advice on the fulfilment of the heavy task which I should like to undertake with your assistance.

My future Letters will deal with the concrete points of our programme and will give an objective analysis of the most critical problems in the drama of development.

I have the honour to be,
Sir,
Your obedient servant,


Ambassadeur Josué de Castro
Président

INTERNATIONAL DEVELOPMENT CENTRE

23-25, avenue Mac-Mahon - Paris 17e

-- o --

(An association established in accordance with
Swiss law)

-- o --

President : Josue de Castro
Director : Maurice Guernier

Josué de Castro, who for twenty years has been bringing the world's conscience to bear on the problem of hunger, is today concentrating his efforts on the struggle for development, for hunger is only one of the aspects, although the most tragic one, of under-development.

In spite of huge financial gifts from the better-endowed countries, it must be admitted that the level of progress in the developing countries remains critical; all the experts acknowledge the fact that the gap between rich and poor is widening daily and dramatically.

The great industrial nations (16 in all, including the USSR and China) are distributing three thousand million to 101 developing countries. But these dispersed efforts are tainted with neo-colonialism and bear too close a resemblance to "first aid" or international charity.

The great international organizations are too intent on political checks and balances to be able to carry out practical and effective programmes of action. Their very specializations prevent them from being successful in a field in which only efforts on a global scale can result in economic, social and human development.

Today, we have to acknowledge that the developing countries are going through a very critical period. Because of their slow advancement - the rate of increase in growth rarely exceeds the increase in population - because of the insufficiency of achievement and because of internal dissension, the developing countries have brought about a kind of renunciation in public opinion in the richer countries, and the amount of assistance from many donor countries is tending to diminish alarmingly.

Because of this distressing situation, Josué de Castro decided to found a new kind of organization; the INTERNATIONAL DEVELOPMENT CENTRE (I.D.C.). The Centre is a non-governmental body, but its members are the governments of countries both capitalist

and socialist, industrialized and developing, as well as great public and private organizations. His aim is that the Centre should be able to exert pressure on public opinion and on governments, so that the present current may be reversed and the struggle against under-development intensified. By bringing together the representatives of countries of very different types, all of whom are deeply concerned with the advancement of the developing countries by means of realistic, co-ordinated action, he hopes that the Centre will be able to work with maximum efficacy.

1. The characteristics of the I.D.C.

When drawing up the list of all the bodies dealing with the advancement of the developing countries, or which give some attention to the matter, it was found that there were over 400 of them. Our first reaction was therefore to ask ourselves whether a 401st organization would not be completely useless.

However, we concluded that there must be a weak point in this system of aid for development, since the final results - the real progress of the developing countries - are far from satisfactory.

We therefore sought to fill the gap by setting up an original body, one which, we feel, has no counterpart among the many others dealing with development. The characteristics of the Centre are as follows :

- It is non-governmental and can therefore give free expression to its opinions and carry out its work effectively without the obstacles of diplomatic procedure.
- It is also a body to which governments of the developing, industrialized, capitalist and socialist countries all belong. It therefore represents a round table for governments, as well as for foundations, universities, trade unions, and even for public and private companies.
- Lastly, it is a body for which men of action have decided to do effective work under the authority of the President, Josué de Castro.

2. The aims of the I.D.C. are :

To act as a "pressure group" for intensification of the policy of co-operation and for a world policy of consistent development.

To act as a "judgment centre" to give an opinion on good development plans and make them known, and to give an opinion on bad projects and suggestions for changes.

To act as a "consultant body" on all problems of development in order to help Heads of State in the developing countries; its role here will not be that of a research department, but rather of an information and advisory centre.

The I.D.C. is ready to give impartial advice to any Head of State who asks for it.

To act as a promoter of major projects. In this capacity, the I.D.C. is at present making a far-reaching survey on problems of education and manpower training, and is giving thought to establishment of an International University for Development. Other subjects, such as development consortiums, an international institute for scientific research for the developing countries, etc., are also under study.

Special reports on these subjects will be sent to all Heads of State.

Operation

The I.D.C. is governed by three bodies :

- A General Assembly of founder members,
- The Governing Board,
- The President and the Secretary-General.

In addition, a Trustee Committee has also been set up , the members being the States and bodies which give financial assistance to the I.D.C.

A list of the members of the General Assembly and Trustee Committee is given below, together with the membership of the Governing Board.

Maurice Guernier
Secretary-General

TRUSTEE COMMITTEE OF YHR I.C.D.

- Chilian Government,
 - Argentine Government
 - Peruvian Government
 - Senegalese Government
 - Imperial Government of Iran
 - Government of Israël
 - Gouvernement of Poland
-
- a private swiss company (Mr. Victor Loeb)
 - a private italian company (Italconsult)
 - two private French groups :
 - . l'Union Nationale des Coopératives Agricoles de Céréales
 - . the INDECO group
 - a private mexican company
 - several private German groups (in the process of formation).

GENERAL ASSEMBLY
OF FOUNDER MEMBERS

President :

M. Josué de CASTRO Brazil

Secretary General:

M. Maurice GUERNIER France

Members :

Messrs.	Angelo ANGELOPOULOS	Greece
	Georges BALANDIER	France
	Pastor Jacques BEAUMONT	France
	J.W. BEUMER	Netherlands
	Joszeff BOGNAR	Hungary
	Georges BREUIL	France
	Robert BURON	France
	Michel CEPEDE	France
	CHANDRA SEKHAR	India
	Etienne CREMIEU-ALCAN	France
	Robert DEBRE	France
	Arthur DOUCY	Belgium
	Jean FOURASTIE	France
	Max HABICHT	Switzerland
	Father HOUTART	Belgium
	Jacques JUGLAS	France
	Bruno KREISKY	Austria
	F. Luis LAS CASAS	Peru
	Kasimierz LASKI	Poland
	Victor LAROCK	Belgium
	Henri LAUGIER	France
	R.P. Joseph LEBRET	France
	Gaston LEDUC	France
	Pierre MONBEIG	France
	B.K. NEHRU	India
	Vittorio de NORA	Italy
	Philippe d'OETREPPE	Belgium
	Etienne PALLAY	Switzerland
	James PATTON	U.S.A.
Mrs.	Ika PAUL PONT	India
Messrs.	François PERROUX	France
	Father PIERRE	France
	Raymond SCHEYVEN	Belgium
	President Leopold SENGHOR	Senegal

GOVERNING BOARD

- President : Mr. Josué de CASTRO Latin America
- Secretary-General : Mr. Maurice GUERNIER Europe
- Mr. Bernstein CARABANTES, Chilian Ambassador in Paris Latin America
- Mr. Medoune FALL, Senegalese Ambassador in Paris Africa
- Mrs. Ika PAUL PONT Asia

OFFICE MEMORANDUM

TO: Mr. George D. Woods *X 4/6*

DATE: April 4, 1966

FROM: J. Burke Knapp *JBK*SUBJECT: The Effectiveness of Foreign Assistance by Hollis Chenery

Thanks for sending me the very interesting attached article by Hollis Chenery.

I think he makes a very persuasive case for relating the volume of development assistance to a country's performance and program, at least in the case of the more advanced developing countries which have a program and policies which are reasonably susceptible to economic analysis. However, I don't think that Hollis Chenery gives adequate weight to the merits of the "project approach" as a method for implementation of development assistance. The project approach is sometimes cumbersome, and lacks flexibility where a quick injection of assistance is desired. On the other hand, even more advanced developing countries are usually badly in need of the technical assistance and guidance which goes along with project lending. Also I believe that if a country really has a sensible development program (which must mean that it also has its development projects worked out reasonably well) there is no reason why, with a certain amount of advance planning and imagination, a project lending program cannot be made into an adequately flexible instrument for development assistance.

Attachment

ISF
Information

*I expect your
people have seen
this - if not they will
be interested*

JBK 4/6

INTERNATIONAL ECONOMIC ASSOCIATION

ROUND TABLE CONFERENCE

ON

CAPITAL MOVEMENTS AND ECONOMIC DEVELOPMENT

July 21-31, 1965

Washington, D. C.

THE EFFECTIVENESS OF FOREIGN ASSISTANCE

by

Hollis B. Chenery

Harvard University
Cambridge, Massachusetts

THE EFFECTIVENESS OF FOREIGN ASSISTANCE

Hollis B. Chenery

Harvard University

Programs of public assistance to less developed countries have increased rapidly over the past decade in the United States and Western Europe. Since private investment has stagnated during this period, public grants and loans now provide \$6 billion of the total of \$8-9 billion of capital transferred. For most underdeveloped countries, foreign assistance is already a critical source of development finance and one of the main hopes for accelerated growth in the future.

Foreign aid programs differ in their objectives, in the types and sources of resources furnished, and in the performance required of the recipient. At present, the resource flow from the members of the O.E.C.D. to the underdeveloped world takes four principal forms: 1/

- 1) grants, primarily for budgetary subsidies to ex-colonies and military allies (40%)
- 2) loans for capital projects (25%)
- 3) loans for general support of development (15%)
- 4) transfer of surplus agricultural commodities against loans repayable in local currency (15%)

Only 15% of this resource transfer is made by way of international institutions.

The evolution of these methods has been affected by many political and economic factors, such as the transformation of the colonial system,

1/ A detailed accounting of the O.E.C.D. assistance is given in (8). The members of the O.E.C.D. account for over 90% of the public assistance to less developed countries; most of the remainder comes from the Communist Bloc.

the extent of the public support for international institutions, and the degree of success of the recipient countries in formulating and executing development programs. On balance, this complex of mechanisms has been shaped more by the desires and political requirements of the donor countries than by the needs and performance of the recipients.

The main thesis of this paper is that the system for administering public grants and loans can be greatly improved by tailoring it more specifically to the needs and performance of the aid recipients without sacrificing the legitimate interests of the donors. Before setting out proposals to this effect, it will be necessary to examine both the role of external resources in the development process and the systems of allocation and control currently in use.

I. THE ROLE OF EXTERNAL ASSISTANCE IN DEVELOPMENT¹

From an economic standpoint, public and private capital flows perform very similar functions. They are distinguishable to the recipient primarily by the extent to which their allocation conforms to development priorities and by the terms of repayment. To the provider of capital, the differences are much greater. Public capital flows are designed primarily to promote the economic development of the recipient and can take a great variety of forms.

The following analysis of the role of assistance in development will form the basis for evaluating the effectiveness of public capital inflows

1. The analysis summarized in this section is stated in more complete and formal terms in Chenery and Strout, Foreign Assistance and Economic Development, (A.I.D., 1965), which is being submitted to the Round Table as a background paper.

and the ways in which they are controlled. With allowance for the difference in objectives and the transfer mechanism, much of this analysis is applicable to private foreign investment as well.

A. Accelerating the Rate of Growth

The transformation of a poor and slowly developing country into one capable of sustained growth at a fairly rapid rate is the core of the development problem. Its solution requires an improvement in the quality of human resources, a rapid increase in the capital stock, substantial changes in the composition of output, and accompanying changes in attitudes and institutions. Without external assistance or private investment, a developing country would need to provide for all of these requirements from its own resources, including only such imports as can be financed by export earnings.

A country's failure to develop is more often attributable to its inability to bring about these changes in a sufficiently coordinated way than to any single factor. The limits to development at any point in time are more likely to be bottlenecks in the supply of skills, particular commodities, or productive capacity in particular sectors than general shortages of resources. This structural imbalance reflects the imperfect functioning of market mechanisms on a national basis, which is one of the distinguishing features of underdeveloped economies.

By relieving potential bottlenecks, external resources can make the requirements for coordinated changes in the economy less stringent and permit fuller use to be made of domestic resources. These contributions may be summarized under the headings of additional skills, importable commodities,

and savings. The value of additional imports in a situation of bottlenecks and underutilized capacity is increased by the fact that they can supplement whatever commodities are in short supply. For example, three dollars of additional imports may permit the production of ten dollars of additional GNP of a composition determined by consumer demand. In this case, an annual resource inflow costing one dollar will have a marginal productivity of 3.3 measured by the resulting increase in GNP.

While in many cases the main contribution of external resources is to offset the imbalance between the structure of supply and the structure of demand, in others their primary function is to finance additional investment. Since no incomes are generated by the receipt of external assistance, it should normally be possible to increase investment by the entire amount of the resource transfer, whatever the form of the additional commodities supplied.¹ The productivity of aid in these circumstances is equal to the marginal productivity of additional capital. It is typically lower than the productivity of assistance when there is a balance of payments bottleneck.

In order to present these ideas more systematically, it is useful to distinguish three "phases" or types of situations, identified by the scarce factor that is more restrictive to growth:

- (I) Skill-limited growth.
- (II) Savings-limited growth.
- (III) Import-limited growth.

1. This is the assumption made in the conventional national accounts definition of savings as the difference between investment and the import surplus. In some cases, however, the additional resources take the form of reparations payments or agricultural commodities which are distributed in such a way as to increase consumption. In this case, the investment equivalent of the external aid is less than one.

While external capital-- public or private -- increases the supply of each of these scarce factors, the effect of additional resources will depend primarily on their effectiveness in offsetting the bottleneck which is most restrictive. If growth is limited mainly by lack of managerial talent and skilled labor, for example, a million dollars spent on adding to the supply of these factors will be more productive than an equal amount of additional capital goods or other commodities. A similar distinction can be made between the form of assistance that is appropriate when the principal need is to raise the level of investment and the appropriate form when there is a shortage of specific imports.

Assuming that external resources -- accompanied by reallocation of other available foreign exchange -- are provided in such a way as to increase the supply of the limiting factor, the short-run effects of aid can be measured by the contribution of that factor to additional output. This contribution is likely to be higher in the bottleneck situations of skill or import limitations than when aggregate savings and investment provide the limit to growth. In each case, however, it is the availability of underutilized natural resources, labor, or physical plant which determines the productivity of the complementary resources supplied from abroad.

Long Term Effects of External Assistance

In assessing the effectiveness of aid over a longer period, we must consider the alternative growth paths made possible by varying assistance streams rather than merely the effects of incremental resources at a given moment. The effect of aid on growth over a period of ten or twenty years will depend on the productive uses that are made of the increments it produces in GNP in addition to the short-term effects just described. The

long-term productivity of aid can therefore be divided into two parts:

- (i) the initial increments in GNP resulting directly from the additional resources provided;
- (ii) indirect effects on growth resulting from the productive use made of the initial increments in GNP.

The initial increments in GNP can be used to relax any or all of the three types of restrictions to further growth. Appropriate uses include labor training in the skill-limited phase; higher savings and taxes in the savings-limited phase; and import-substitution or additional exports in the import-limited phase. To measure the long-run productivity of assistance, we must specify the use to be made of the added production in promoting further growth.¹

In studies of Israel (4), and Greece (1), my collaborators and I have calculated the long-term productivity of assistance by comparing alternative growth paths determined from econometric models. From the analysis of Greek development over the period 1950-1961, it was estimated that the marginal productivity of assistance -- as measured by the ratio of the cumulative increment in GNP over the period to the corresponding increment in capital inflow -- was of the order of 2.5. Similar estimates for Israel are nearly as high.

The relative importance of the indirect effects of assistance in determining the total outcome is illustrated by the case of Greece, where the savings limitation was estimated to have been predominant over the period

1. A similar point has been made by Eckstein (6) in his analysis of the productivity of domestic investment.

studied. Of the total increase in GNP since 1950, 15% would have been achieved without assistance at the estimated savings rate; 35% represented the direct effect of the assistance provided; and 50% is attributable to the indirect effects of aid. As a result of the relatively high marginal savings rate of 22% maintained by Greece, additional savings out of the aid-induced increase in GNP have financed a higher proportion of additional investment than the aid itself. If the marginal savings rate had been lower, the long-run effectiveness of aid would have been substantially less even if the direct short-run effects had been the same. Much the same conclusion can be drawn from the successful aid experiences of Israel, Taiwan, and the Philippines.

To generalize from this experience, the productivity of external resources can be expressed as a function of the principal parameters in an aggregate growth model. The results for the cases of savings-limited and import-limited growth are as follows:¹

$$(i) \text{ Savings limit: } \frac{d V_n}{d(\Sigma F_c)} = \frac{1}{R - \alpha' \beta}$$

$$(ii) \text{ Import limit: } \frac{d V_n}{d(\Sigma F_c)} = \frac{1}{\mu^{1/\beta}}$$

where: k is the marginal capital-output ratio

α' is the marginal propensity to save

μ is the marginal ratio of required imports to increased GNP

V_n is the GNP at the end of the period

ΣF_c is the total capital inflow during the period

β is a constant which increases with the time period considered.

1. The formulae are given in Chenery and Strout (5, p. 30). For a growth rate of 5%, $\beta = 1.8$ for five years, 3.8 for ten years, and 7.0 for twenty. Export growth is taken as given.

variations in the direct effects. ^{1/} This fact is largely ignored in existing procedures for aid allocation and control, which are discussed in Section II.

C. Achieving Self-sustaining Growth

Virtually all recipients of aid are attempting to establish a process of growth which can continue in the future without further assistance. The possibilities for success depend on the country's ability to change its economic structure as it develops. Unless there is a rise in the savings rate or an improvement in the efficiency with which capital and human resources are used, the growth rate after aid has terminated will revert to the growth rate when it started, no matter how much aid and growth there has been in the intervening period. In other words, the prospects for achieving self-sustaining growth depend entirely on the indirect effects of assistance in changing the structure of the economy.

The structural changes that must be brought about in order to achieve self-sustaining growth at a given target rate may be summed up as follows:

(i) Investment must be raised until it equals the share of GNP required by the target growth rate (\bar{r}) and the capital-output ratio. For a 5% growth target and a typical k of 3.0 to 4.0, investment must increase more rapidly than 5% per year until it reaches the required share of 15-20% of GNP.

(ii) The marginal savings rate (s') must exceed the required investment ratio ($k\bar{r}$) in order eventually to eliminate the need for external capital.

^{1/} Variation in k represents the change in the productivity of all investment; the effect of a change in the productivity of the aid-financed portion alone would be considerably less.

(iii) Trade criteria: If the ratio of imports to GNP is constant, exports must increase more rapidly than the target growth in GNP in order to close the trade gap. Cutting the marginal import ratio in half through import substitution lowers the required export growth to 4% to close the gap with a 5% growth of GNP.¹

The A.I.D. study (5, p.II-5a) gives some estimates of the extent to which recent performance of aid-receiving countries meets these requirements of self-sustaining growth. Of the 26 countries for which these measures could be obtained for the period 1957-1962, the performance of 11 satisfied all three criteria for ultimately attaining self-sustaining growth of 5% or more. Five countries satisfied neither the savings nor the trade criteria, and the remainder were deficient in at least one of the three.

Although experience with attempts to accelerate growth through aid is still limited, the comparative analysis that has been made throws considerable light on the relative difficulty of overcoming the several obstacles to further growth. Among the 50 countries for which data was analyzed by AID, there were almost none which did not experience an annual rate of growth in investment of at least 8% for a five-year period in the recent past. The median investment growth for the whole group for 1957-62 was over 10% per year. These rates of increase in investment suggest that absorptive capacity may be less of an obstacle to raising the growth rate than is often supposed, except in the most primitive countries.² If past rates of increase

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1. Necessary conditions for closing the trade gap under other assumptions are given by the formula in (5, p. II-5).
 2. The 50-country sample covers 90% of the GNP in underdeveloped countries, but it includes only 13 African countries and also omits the most primitive economies in other areas.

are continued, investment can be raised to the levels required to sustain growth rates of 5-6% in GNP in most countries within 10-15 years.

Of the several potential limits, the most serious obstacle to achieving self-sustaining growth at rates of 5% or more is currently the balance of payments. It seems to be easier to increase the savings rate rapidly enough to prevent indefinite dependence on external aid than to follow trade policies that will eventually reduce the payments gap. Of the countries in which both savings and trade performance have been disappointing -- most of which are in Latin America -- there is strong evidence that a primary cause has been the sluggish performance of exports and the widening trade gap. The receipt of increased aid to fill the trade gap, unaccompanied by a rise in investment, permits a diversion of potential savings into consumption because of inability to control inflation or lack of demand for investment. This seems to have happened in Bolivia, Brazil, Chile, Colombia, Costa Rica, and other countries with falling savings rates.

The key role of exports in achieving progress toward self-sustaining growth is also demonstrated by an analysis of the countries which are currently succeeding in this effort. In almost all cases, the trade criterion has been met by an export expansion of 5% or more. Although Brazil, Colombia, India and a number of other countries have attempted to limit the need for external capital primarily through import substitution, none of them has succeeded in avoiding severe balance of payments difficulties in the long run.

Projections for the future based on the experience of the recent past point to the increasing importance of structural deficits in the balance of payments as determinants of future aid requirements.¹ Aid is increasingly

1. See Chenery and Strout (5, p. II-17)

being provided not to accelerate investment and growth but to offset the growing imbalance between the structure of production and the structure of demand. Despite the success of a number of countries in raising rates of savings, investment, and growth in GNP, an increase in capital inflow of at least 5% per year will probably be required just to sustain past aggregate growth of GNP of slightly over 4%. To raise the growth rate of the underdeveloped world to 5% or more would probably require an annual increase in assistance of at least 10% even with some improvement over past performance.¹ The difficulty of securing such increases in aid or private capital emphasizes the importance of making more effective use of the funds that are available.

The above discussion has omitted any explicit consideration of the effects of technological advance. Although studies of advanced countries usually attribute half of the increase in output to factors other than the increase in factor inputs, we do not yet have estimates of production functions in underdeveloped countries that would be useful in predicting the effects of future improvements. A considerable amount of technological improvement is implied by the demonstrated ability of some countries to raise investment rates substantially without a significant fall in the marginal productivity of capital.

It seems unlikely that in the next decade or so the LDC's will be able to reduce the capital requirements for further growth even if there is much greater concentration on technical assistance. Although increasing

1. A number of alternative projections of LDC performance and corresponding assistance requirements are given in (5, Section II).

the amount and effectiveness of technical assistance deserves the highest priority in aid efforts, it does not follow that external capital requirements are going to be reduced as a result.

II. THE ALLOCATION AND CONTROL OF ASSISTANCE

Unlike private capital, public assistance funds are allocated among countries in accordance with predetermined criteria. Any attempt to evaluate the effects of public assistance must therefore examine the bases for its allocation and control. Starting from the objectives of assistance, a strong case can be made for a rapid increase in the amounts made available and for larger allocations to countries that perform well. From the working of the existing control system, however, it is often alleged that additional funds cannot be effectively absorbed under present criteria. The control system is therefore a key element in any discussion of future aid policy.

An ideal system of aid administration would include:

- (i) an explicit statement of objectives;
- (ii) a set of criteria for allocating aid based on these objectives;
- (iii) a mechanism for controlling the form and amount of resources to be transferred to each country.

Existing systems vary greatly in the relative emphasis given to these elements. In countries where it is politically important to secure an adequate flow of resources, the allocation tends to be made regardless of development objectives or controls which are normally applied in other cases. In the absence of political urgency, the control aspect of the administrative mechanism tends to dominate; allocation by country then tends

to become a by-product of project review and other partial controls.

Most proposals for improving the present assistance mechanisms involve a clearer separation of the allocation and control elements in the system and greater attention to the incentive aspects of each. Proposals to this effect will be developed from an evaluation of the present aid mechanisms in the light of these functions.

A. Objectives and Modes of Assistance

Among recipients of economic assistance, there is a general consensus that its primary objective is long-term economic and social development, however defined. For the aid providers, the statement of objectives is more complicated: it involves both a choice among recipients and a balancing of benefits to the recipients against costs and secondary gains to the donor. The main purposes considered by donor countries and lending agencies include:

- (i) the long-term development of the recipients
- (ii) maintenance of minimum income levels and political stability in the recipients
- (iii) political advantages to the donor, including the strengthening of one country instead of another
- (iv) economic advantages to the donor.

The first three donor objectives require a specific country allocation as part of the administrative process. This is particularly important in the less viable economies, which would have immediate economic and political reactions to a reduction in aid. The allocative aspect appears less important in some of the programs designed to produce development in the

underdeveloped world as a whole, such as IBRD project lending or the distribution of PL 480 commodities.

There are two types of country to which aid is currently allocated in amounts designed to secure specific objectives:

- (1) Non-viable economies -- notably Korea, Vietnam, Laos, Jordan, the Congo, and some other former colonies -- which need a minimum of external support to prevent economic and political deterioration.
- (2) Countries with relatively effective development programs -- such as India, Pakistan, Turkey, Chile, Nigeria, Tunisia -- which have been judged capable of utilizing substantial amounts of assistance to increase their rates of growth.

For these two groups of countries, efforts are made by the principal bilateral donor or by an international coordinating group to secure a flow of assistance adequate to meet the primary objective.

Donor objectives are less well defined for countries which are not at the top of the list in either political urgency or development performance. Allocation in this large middle group tends to be more the result of the piecemeal working of the control system than of conscious decisions based on country performance and need.

B. Efficiency Criteria

Although it is impossible to set out unambiguous criteria for evaluating an allocation system having multiple and ill-defined objectives, some partial tests can be deduced from the assumption that long-term development is the primary reason for the transfer of public capital. These tests are based to a large extent on the preceding analysis of the role of assistance in the development process.

(1) The allocation system should be explicitly related to the principal objective of long-term development. In practice, this implies looking more at indirect effects and considering longer time periods than is usually done.

(2) The allocation and control system should provide an incentive to improved performance by the recipient. Country allocation on the basis of development performance will tend to improve the use of total available resources, while country allocation on political criteria may actually reduce economic incentives and overall efficiency.

(3) Excessive avoidance of risk. Many types of aid administration allocate funds to activities and countries primarily because the risk of failure is low. Examples are the preference of the IBRD and AID for power and transport projects. However, minimizing risk of individual projects may not be consistent with maximizing the prospects for development of the country as a whole. Use of this principle also distorts the allocation among countries.

(4) Costs of donor benefits. Each condition attached to aid by the donor in order to secure some economic or political advantage is likely to have a cost in comparison to an unrestricted loan or grant. These opportunity costs should be weighed against the gains to the donor and the attempt abandoned where the costs are excessive.

(5) Effects on development strategy. In addition to partial tests of efficiency, the combined effects of all controls on a country's choice of development strategy should be considered.

The significance of these criteria will be brought out in subsequent discussion of the alternative forms and conditions of aid.

C. Project versus Program Controls

The most important difference among methods of aid administration lies in the choice between individual projects or overall programs as the basis for allocating and controlling aid. The project approach takes a single plant or other unit of investment as the basis for analysis and aid decisions. The program approach is based on the analysis and needs of the whole economy. While combinations of the two are possible, it is easier to compare them initially in a relatively pure form.

Under the project approach capital loans provide the imports required by individual investment projects. The commodities supplied are typically the investment goods to be used in executing the project, although an allowance may be made for the indirect imports needed elsewhere in the economy for producing investment goods or satisfying the increased consumer demand that results. Control of disbursements of aid funds is related to the importation of the specific commodities used in the project and is typically spread over 3-5 years. The allocation of assistance among countries is largely a by-product in this system, although limits to the amounts of project aid going to any one country are often imposed by the lending agencies.

The program approach is based on an assessment of the external resources needed to carry out a given set of development policies designed to achieve specified goals. These goals and the means to accomplish them are usually set out in a development program prepared by the recipient government. The elements of country performance most commonly considered in determining aid requirements are its allocation of investment by sectors, its fiscal and balance of payments policies, and its recent experience

in carrying out investment and mobilizing savings.

Under the program approach, controls of aid can be applied on the basis of the end results -- in increased investment, output, and use of income -- more effectively than to the aid-financed imports. While it is customary to limit non-project assistance primarily to financing producer goods, this is a relatively meaningless form of control.

The benefits of the project system of aid administration to the recipient countries are limited to its impact on their own systems of budgetary review and control. While enforced emphasis on better project preparation is often beneficial, its opportunity cost may be very high. The system contains perverse incentives in both donors and recipients to select large projects with a high import content in order to minimize administrative effort and maximize the aid received. These criteria often conflict with the priorities of a well-conceived development program if project aid is offered in any quantity.

In terms of the five criteria suggested above, the program approach is likely to be superior on all counts in countries where sufficient stability and information exist to apply it.¹

The main arguments in its favor are:

(i) The program approach relates the amount and form of aid to the objectives and performance of the recipient country.

(ii) The program approach can be more readily administered so as to provide incentives to improved performance by the recipient.

(iii) Since the project approach focuses on individual projects and sectors, it gives less attention to overall development policies.

1. The two systems are compared in more detail in (2).

However, the program approach requires a certain amount of continuity in policy and information for economic analysis, which only exist in a fairly limited number of underdeveloped countries at the present time.

Apart from uncertainty and inadequate information, the main reasons for the persistence of the project approach lie in its suitability to other donor interests. Probably the most important of these is the fact that furnishing aid on a project by project basis allows the donor to remain uncommitted. Since project approval involves a complex of technical and economic judgments, it is quite feasible to increase or decrease aid for political reasons without appearing to do so. In the course of accepting a certain proportion of the projects received, a donor country can apply whatever additional political or economic criteria it chooses without being liable to a charge of discrimination. This is more difficult under the program approach, where the conditions for qualifying for aid are more explicitly set out. The project approach also provides a convenient basis for limiting aid on the grounds that the recipient countries cannot prepare and submit a larger number of acceptable projects.

The disadvantages of the project system can be mitigated by combining it with elements of country analysis and the program approach. This trend is apparent in both the IBRD and AID procedures for project selection and review. Despite this trend, there are still relatively few countries that can rely on a continuing supply of assistance as a basis for development planning.

D. Secondary Objectives and Donor Benefits

A large proportion of the apparatus for controlling aid is designed to achieve trade or other benefits for the donors rather than to promote

the interests of the recipients. For this purpose, aid is limited to commodities supplied by the donor, or even more narrowly to commodities for which the donor would like to establish export markets.

The costs of securing these donor benefits are of three types: (i) overvaluation of the amount of aid; (ii) reduction in the total assistance provided; (iii) distortion of resource allocation of the recipient.

Aid is overvalued when commodities are exported at prices above the world market. This overvaluation occurs not only with PL 480 surpluses but also with steel, machinery, vehicles and other commodities when competition is reduced. Overvaluation is not of any great importance to the recipient in the case of grants or loans repayable in local currency (which covers the bulk of PL 480). For other loans, the extra cost due to tying must be absorbed by the purchaser and reduces the element of subsidy in the loan. Part of the popularity of the project approach among donors derives from the fact that it normally requires the procurement of the whole range of inputs for the project from the donor, regardless of relative prices.

Procurement and use of controls may lead to distortion of the recipient's allocation of resources when the choice of aid-financed commodities is too limited. The leading examples are agricultural surpluses and machinery tied to projects. To absorb this type of aid in substantial amounts may require the country to inhibit domestic production which would otherwise be economical if aid were not so restricted in form.

The cost of the resulting distortion in investment allocation can only be ascertained on a case by case basis. In the larger countries, such

as India, Pakistan, Brazil and Turkey, where the development of machinery and metal working industries is consistent with comparative advantage, excessive reliance on the project approach would force the country to inhibit the development of these sectors and limit the total aid.¹ The same is true of agricultural aid in other cases, where the distortion of resource allocation must be weighed against the value to the recipient of the additional assistance.

Considering the differences in opportunity cost to the donors, there may be more justification for tying aid to agricultural commodities than to machinery, since the political and economic problems of continuing excess capacity are more acute in the former. The cost of the present system would be clarified if all aid commodities were charged at competitive world prices, with a separate accounting for the subsidy to exporters such as now exists for PL 480 commodities.

E. Effects of Multiple Controls

The full effects of the present set of controls can only be seen when they are examined together as a system. Perhaps a quarter of all aid is supplied in a form that is sufficiently flexible to meet the general import needs of the country, and this type of assistance is limited to relatively few countries. The remainder is available in the form of certain commodities or for certain types of projects. Recipients must try to match up the portions of their development plans with the criteria of the various donors, while donors often have to search for suitable projects.

1. This reasoning has been accepted by the US Government but not by most other donors.

The most serious disadvantages of this system are:

(1) The incentives to aid recipients relate more to the technique of project preparation and good bookkeeping than to good development policy.

(2) The availability of unused funds for certain purposes gives a false impression of limited absorptive capacity, which in many cases is merely a product of the control system itself.

(3) Too much of the scarce administrative talent of the underdeveloped countries has to be devoted to making the system function rather than being available for more important tasks of development policy.

It is almost impossible to estimate the quantitative significance of these factors in any scientific way, but I would hazard the guess that the present volume of aid would contribute 40% or 50% more to development if the control system were designed to operate entirely for the benefit of the recipient countries. If this order of magnitude is correct, it seems much too high a price to pay for the political support of special interest groups and the very limited real economic advantages gained by the donors. As with tariffs and export subsidies, aid tying and other restrictive measures become largely self-defeating when everybody adopts them.

III. INCREASING THE EFFECTIVENESS OF ASSISTANCE

Three main conclusions emerge from the preceding analysis:

(1) Foreign assistance can be a powerful mechanism for securing rapid development when supplied in adequate amounts to governments able to mobilize resources with reasonable effectiveness.

(2) The aid mechanism is operating far below its full potential because it is not sufficiently focussed on the goal of development. The

attempt by donors to secure secondary economic benefits for themselves involves a variety of controls that do not contribute to development and often inhibit it.

(3) Since the major donors compete for these secondary benefits, their efforts are largely offsetting. There is a substantial cost to the recipient in the system of source and use controls without any significant gain to the donors as a group.

Proposals for improving this situation must take account of the dominant position of the donor countries, their mixed motives in providing assistance, and the nature of existing international institutions. It is therefore not realistic to consider the abolition of all controls -- nor would it be likely to yield as good results as a purposive combination of incentives and controls.

The following set of proposals is suggested as being both desirable for the aid recipients and within the realm of imaginative diplomacy for the aid providers.

(1) Objectives of assistance. There should be general agreement that long-term development of the recipient country is the over-riding objective of economic assistance. It is not necessary to eliminate the variation in donor preferences for individual countries so long as the criteria for amounts and forms of aid are based on developmental considerations. International -- or at least Free World -- agreement on this subject would strengthen the hands of recipient governments interested in the welfare of their people and reduce the temptation to seek aid by playing off donors against each other.

(2) Redesign of the control system. With development established as the primary objective of public capital movements, a substantial redesign of the present system of conflicting and piecemeal controls should be possible. It should be aimed at improving the incentive aspects of the system as well as eliminating controls that hinder the efficient use of assistance.

(3) Incentive programming. Since the amount of aid required to achieve any given developmental objective depends largely on the use that a country makes of its added output, aid allocation should be designed to improve the indirect effects of growth and not concentrate only on the efficient use of aid-financed commodities. To vary aid in accordance with performance, it is necessary to carry out an overall analysis of the economy. This procedure can be followed to some extent even when aid is being controlled on a project basis.

The potential effects of an incentive programming system can only be determined after the major donors have made it clear that better performance will lead to more aid when it is warranted rather than to cutting down assistance. While the United States has taken the first steps to establish this principle in its major support countries,¹ the correlation between changes in performance and variation in aid is not yet high enough to be very persuasive. Endorsement and use of this principle by the major bilateral and multilateral aid providers would make it much more effective.²

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1. See A.I.D., Principles of Economic Assistance (2) and the A.I.D. presentation to Congress for 1966 (3, p. 7).
 2. The principle of allocating assistance against performance is implicit in the Charter of Punta del Este, but the agencies of the Alliance for Progress have only taken a few halting steps to apply it.

The success of the I.M.F. in securing acceptance of standards of balance of payments performance -- even if one does not agree with all their applications -- is suggestive of what could be accomplished in the aid field.

(4) More purposive controls. The control mechanism should be explicitly designed to promote the economic development of the recipient country. As information on performance improves, it should be possible to shift increasingly from project control to a program-type of control. The greater economic validity and better incentives that result from program controls have already been discussed.

With growing information, it should be possible to establish useable measures of savings, investment, and balance of payments performance that would promote an adequate basis for control. For example, a country which had been performing well -- investing at 18-20% of GNP and saving 25% of the resulting increase in income¹ -- safely could be provided whatever assistance it needed to achieve growth rates of up to perhaps 7%. So long as this performance was maintained, additional aid could only accelerate the rate of growth and reduce the total amount of assistance ultimately needed to attain self-sustaining growth.²

On tests such as this, the number of countries having access to international assistance without excessive controls might be increased from

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1. These values of the savings and investment parameters represent performance in the upper quartile of performance, as shown in (5, Table 5). For countries starting from low investment levels, the rate of increase in investment would be a more appropriate measure.
 2. An upper limit to the growth rate to be supported is suggested to avoid the problem of a few exceptionally good performers receiving a high proportion of total aid, but this eventuality seems remote.

half a dozen to a dozen or more. The resulting incentive to others to try to achieve better performance should be substantial.

(5) Redesign of the Project Approach. To implement the preceding suggestions, the project approach should be redesigned to retain only the features which contribute effectively to development. Two changes are particularly needed: (a) consideration of projects in an overall framework of country analysis; (b) weakening or abolishing the link between aid allocation and project approval, which tends to remove the incentive for better performance in other aspects of development policy.

(6) Donor coordination. To carry out the country programming approach outlined above, the donors need a common evaluation of recipient needs and performance. Here again the analogy of I.M.F. reviews as a basis for agreed action comes to mind. Several organizations -- the I.B.R.D., the D.A.C., the O.A.S. -- have taken on some of the comparable aid coordinating functions, but a great deal more is needed.

The example of countries where some of these conditions have been met -- usually because of their political importance to particular donors -- suggests that effective use of aid has not depended on detailed project-type controls. The most successful cases of the use of aid to transform underdeveloped economies in U.S. experience -- Taiwan, Greece, the Philippines, Israel, Pakistan, etc. -- have been supported largely by program assistance. It is very doubtful that anything approaching the volume of resources transferred to these countries could have taken place under present project procedures. Furthermore, any estimate of absorptive capacity or development potential based on the project approach would have proven to be much too pessimistic.

With examples such as these in mind, I am very skeptical of the project approach to the analysis of absorptive capacity with its implied conclusion that aid levels cannot be substantially raised because additional aid cannot be effectively used. The ability to prepare projects is only one of the requirements for successful development, and probably not the most important. It would be equally logical to measure absorptive capacity by the external capital flow that could be absorbed without depressing the savings rate. The marginal savings rate and the marginal productivity of capital are of equal importance in determining the future rate of growth. If absorptive capacity is to have any operational meaning, it should be identified with the total productivity of assistance, not just one of its components.

The other aspect of this experience which has great significance for future aid policy is the importance of achieving rapid growth. In countries which have "graduated" from the category of aid dependents, one of the keys to success seems to have been the accomplishment of high levels of investment and growth of GNP. It is not at all clear that the marginal productivity of investment was particularly high in Greece, Taiwan, or Israel in the early 1950's. What is clear is that the rapid growth of output has permitted the structural changes in savings rates, export growth, and import requirements needed to make growth self-sustaining. In countries where conditions make it possible for additional aid to get growth started, it is likely to turn out to have been very productive in the long run even if the short-run productivity seems low.

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April 4, 1966

Mr. Jan Groeters,
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Dear Jan:

Thank you for your letter of March 1 in which you asked for an explanation of some apparent discrepancies between the growth rates quoted by Mr. Woods in his article in Foreign Affairs and those estimated by the OECD. As I already told you over the phone our reply was delayed by pressure of other work.

The overall growth rate figures given by the OECD in the "The Recent Performance of Developing Countries" also include developing countries in Southern Europe (see Table 2, page 4). The figures cited by Mr. Woods are based on UN figures, which exclude these countries.

As is indicated in the OECD Table, the GNP growth rate for developing countries in Europe rose steeply from an annual average of 4.8% in 1953-58 to 6.8% in 1958-63. If these countries are excluded from the calculation, the following rather different picture of relative period trend emerges:

Annual Average Rates of GNP Growth (OECD figures)

	1953-63	1953-58	1958-63
All developing countries (including Europe)	4.6	4.5	4.7
Developing Countries (excluding Europe)	4.7	4.3	4.6

On the basis of the OECD's own figures, therefore, but excluding European countries, the growth rate in the more recent 1958-63 period was somewhat lower than in 1953-58. This, of course suggests a deceleration of growth, as also indicated in Mr. Woods' article.

There remains the difference in the absolute growth rates cited. Mr. Woods gave a figure of 4.5% as the average growth rate in 1955-60, and 4% in 1960-64. The adjusted OECD figures are 4.8% for 1953-58 and 4.6% for 1958-63.

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The explanation here lies largely in the different periods being compared. As Mr. Woods himself pointed out, the average growth rate prior to 1955 was higher than in 1955-60 (for 1950-54 the rate was approximately 5%). Since the OECD figure for 1953-58 includes part of the 1950-54 period, it is only natural that it should be somewhat higher than Mr. Woods' figure for 1955-60 (4.8% as against 4.5%). Similarly, the average growth rate in 1955-60 was higher than in 1960-64, so that the OECD figure for 1958-63 (4.6%) is understandably higher than Mr. Woods' figure for 1960-64 (4%). This may be further confirmed by calculating the overall growth rate for 1960-63 implicit in the OECD Indexes of National Output given in Table A-1, page 19. The figure emerging is also found to be very close to 4%.

Lastly, there is no evident discrepancy between the OECD figure of 2.4% average growth per capita and Mr. Woods' statement that per capita income in about half the 80 underdeveloped countries which are members of the World Bank is rising by only 1% a year. There are, of course, many developing countries whose performance is much better than this, so that the overall average could well amount to something close to 2.4%.

I hope these remarks sufficiently answer your question.

With my best regards,

Sincerely yours,

Harold A. de Vries
Deputy Director
Economics Department

cc: Messrs. A. M. Kanarek
H. N. Graves/ J. P. Grenfell
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W

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11th March 1966.

Dear Mr. Wilson,

Many thanks for your encouraging letter of 28th February. I am very glad to see from your comments that we are thinking on similar lines.

Our first task is to explore possibilities of initial financial support, and this we are doing. Once we have prospects of this support we shall be able to get down to more detailed planning, arrangements for co-operation and recruitment.

At that stage there will be a number of more specific points on which we shall want to ask advice and help from you and from the Bank. One of them will be recruitment, which is obviously going to be vital. Another will be on areas of initial concentration. At this stage we want to leave this question open, because the answer will depend very largely on the demand for services and on the people we manage to recruit. But since on the scale we envisage we shall be able to run at most two projects properly, we shall then be committed for some time to two countries or regions. We hope we shall have some choice before deciding and we shall need advice at that stage.

I shall let you know how things develop.

Yours sincerely

Altho S Mackintosh

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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

March 8, 1966

Mr. Woods

through Mr. Wishart

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Thom
3/12

I spoke to Hollis Chenery about the paper he delivered in Karachi in December and he is sending a copy. He told me, however, that it was largely a mathematical presentation and that the attached paper presented more or less the same argument in a much more readable form.



A. Stevenson

attachment

Mr Knapp

*Part re Project vs
Program approach is
interesting - worth reading
Mar 13/12*

✓
March 3, 1966

Mr. Athole S. Mackintosh
University of East Anglia
School of Social Studies
Wilberforce Road
Norwich NOR 77H, England

Dear Mr. Mackintosh:

Thank you for your letter of February 18¹, enclosing a copy of the proposals which you and Professor Ross have worked out for the establishment of an "Overseas Development Group" within the University of East Anglia.

I have discussed these proposals with two or three of my colleagues on the economic side of the Bank and we are all agreed that your idea is a good one and we hope that you can bring it to fruition. If you do succeed, we will certainly want to keep in touch with this Group.

If I understand your proposals correctly, they have been framed with the experience of the Harvard Development Advisory Service very much in mind. I may say that we in the Bank have found that Service to be exceedingly useful in the development task and have remained closely associated with its operation. I only wish that more universities would follow a similar course.

It was nice to hear from you and I wish you well in your endeavors.

Sincerely yours,

Richard H. Demuth
Director
Development Services Department

RHD:tf

cc: Messrs. Wilson, Friedman and Kamarck

Mr. Clifford F. Owen

March 2, 1966

B. Walstedt

Major Trends in Development Finance in 1965 (Preliminary)

Document EC/O/65-24

I have only very few comments with respect to the note on development finance which I found an interesting and readable document.

The major point made in the note is that imports of developing countries rose by only 6 percent in 1965, compared to almost 9 percent in 1964. This increase occurred in spite of the fact that the IBRD commodity price index for "low income producers" was 4 percent lower in 1965 than in 1964. Hence, the volume of exports at constant prices may have increased by something like 10 percent. One gets the impression that the author regards this increase as disappointing. Whether or not this is so depends on two factors:

- 1) Whether the terms of trade have moved in an unexpectedly unfavorable direction and/or
- 2) Whether the physical increase in exports is disappointing.

With respect to the first point, we learn that the decline in export prices was primarily due to lower prices for sugar and cocoa. Is it not true however, that prices for sugar in recent years have been far above a reasonable long term expectation for this commodity? (I am not familiar with the cocoa market). With respect to the physical volume of exports, this is presumably largely influenced by the level of economic activity in developing countries. For these countries as a group GNP apparently rose by about 4-4½ percent which was only slightly lower than in 1964, and is perhaps not much below the expected long run growth. Against this background, what rate of growth in exports by developing countries could we reasonably expect as a rough frame of reference?

There is another question raised in the note but not further explored, namely, the disappointingly slow growth in agricultural production. Here it would be interesting to know a little about the experience of different countries, and the plausible reasons for such differences. Secondly, one is curious to know to what extent food production and exports compete for the same resources. If the shortage of food is as acute as some authorities would lead us to believe, it could conceivably have important repercussions on the agricultural export potential of developing countries, say in a five-year perspective.

cc: Messrs. Kassarck
de Vries
Kochav
Maccone


BWalstedt:vlb

February 28, 1966.

Dear Mr. Hackintosh

ack. 3/11/66

Many thanks for your letter of February 18th[✓] about your new programme on development. I see that you have also sent a copy to Mr. Demuth and I believe that he is talking about it with various people in the Bank. The comments which follow are purely personal to myself.

Let me say at once that your general scheme seems to me to be quite excellent and should prove extremely useful provided of course that you can get hold of the right people. This kind of combined operation is long overdue and arrangements along these lines will be needed increasingly for the long haul that is ahead of us. The points that I have in mind are therefore suggestions, not criticisms, and I have no doubt that most of them, if not all, have occurred to you already. They are:-

1. There is always a risk in this kind of thing of spreading oneself too thin and, given the numbers that you have in mind, you might like to consider concentrating on a limited number of countries. There is an increasing amount of specialization and expertise in this general subject, more particularly perhaps in the United States, and it seems to me that you should think of your activities not only in relation to what is happening in other British institutions but also to what is happening over here. With your knowledge of the Harvard programme, this of course will not come as anything new to you, but you might also like to take a look at what M.I.T. and no doubt others are doing in this field. Another reason for concentration is that, while there is much that is common to development in general, the nearer you come to the heart of the matter the more you find that each country is unique and has its own particular set of problems. This too will be nothing new to you but I think it may affect the way in which you set yourselves up.

2. Following a similar line of thought you might think of entering into some kind of arrangement with some American institution, to the mutual advantage of both.

A. S. Mackintosh, Esq.

2.

February 28, 1966.

3. If you do decide on a certain amount of concentration, there would be a good deal to be said for having some kind of working arrangement with a university or research institute or similar institution in two or three developing countries. These would provide a base overseas for your staff, their people could help you from time to time in Norwich, and you could help to build them up and so leave something permanent to show on the ground.

4. I was particularly glad to note your emphasis on sociological studies in connection with economic development. There has been some tendency to neglect this aspect, not least in the developing countries themselves, and I am sure that you are right to make it an integral part of your programme.

If there is any further help I can give you do please let me know. In the meantime, all good wishes to you and I hope that you will in any case let me know from time to time how you are getting on.

Yours sincerely

(Signed) G. M. Wilson

G. M. Wilson

Athole S. Mackintosh, Esq.
University of East Anglia
School of Social Studies
Wilberforce Road
Norwich, NOR 77H
ENGLAND.

Development Ctr.
24 RECD *[Signature]*2/28
OFFICE MEMORANDUM

TO: Mr. George D. Woods

DATE: February 23, 1966

FROM: Irving S. Friedman

*Mr. Deane
Information
2/28*

SUBJECT:

I think you would be interested in this note summarizing Mr. Hoffman's recent Cleveland speech. You will note that Mr. Hoffman calls for an increase in all of over \$6 billion a year in the capital countries by 1970. This figure is not really comparable with ours as we made an estimate of what the average per annual need might be for the next five years and came out with a figure of \$3 - \$4 billion a year. However, I would guess that the figures were computed very differently.

Attachment

15F

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: February 23, 1966

FROM: Bimal Jalan

SUBJECT:

1. I thought that you might find the attached speech of Paul Hoffman's (delivered on 15 February 1966 in Cleveland) interesting.

2. Mr. Hoffman's speech is a plea for higher volumes of development aid to the developing countries. He suggests that all the industrialized countries, including the Soviet Union must appreciably increase their contributions to global development in their own economic self-interests. The explosive technological progress in advanced countries unmistakably points to the need for vast new markets if the industrialized nations are not to run the risk of slow suffocation from a glut of goods and services. The low-income countries are the most likely place for finding these markets -- the assistance of developed countries in increasing their income would in turn be of immense benefit to the donors themselves in the form of vastly increased exports and resulting employment benefits. The United Nations experience in the field of pre-investment activities suggests that the developing countries on their part can successfully meet the twin challenges that face them -- growth in ability to provide a decent standard of living, and growth in ability to contribute to an expanding world economy. The missing link is development capital which the advanced countries should help supplement.

3. Mr. Hoffman argues that of the current capital outflow of \$9.5 billion to developing countries, only \$4.8 billion represents a direct charge on the taxpayers -- specifically the \$1 billion made available in long-term low-interest or no-interest loans, \$500 million in technical and pre-investment assistance, and \$3.3 billion in other grants. The remaining \$4.7 billion - or almost exactly half - comes from private investments and from loans that meet strict banking criteria with normal interest rates. In order that the development curve may climb at the necessary rate, Mr. Hoffman suggests that the advanced countries by 1970 must double the volume of private investment and bankable loans and the present rate of soft-loans and pre-investment assistance. He, however, does not believe that one can realistically count on any sizeable increase in the level of grants-in-aid. Thus, in all, Mr. Hoffman calls for an increase of over \$6 billion a year in capital flows to the developing countries by 1970.

File

Messrs. I. S. Friedman and A. M. Kamarok

February 23, 1966

Frank Tamagna

On the Nature and Variety of "Links"

There has been a great deal of talk about the "link" between monetary reform and economic development, but the nature of such term is so vague and the variety of possible alternatives so wide, as to confuse its meaning in relation to any particular proposal. This memorandum is intended to list and identify the principal link concepts. Four principal types may be analyzed, whether the link is viewed as part of a new integrated monetary system, or as an instrument of the Fund, or of the Fund and Bank, as an "ad hoc" instrument for special purposes.

1. Integrated Links

The three principal forms of links, viewed as integrated in new monetary systems, are those proposed under the "Stamp Plan", the UNCTAD studies, and the CIAP proposal.

Under the Stamp Plan, the link would take the form of a redirection of liquidity from the developing countries, for which it would be created, to the advanced countries, through a transfer process of real resources from the latter to the former. This type of link is not generally regarded as acceptable to the advanced countries, and little consideration has been given to it in current discussions, except by India. The principal objection arises from the attitude of the "Group of Ten", that the creation of new reserve assets should be viewed as a catalytic element facilitating the mixing of resources without being used directly in any permanent way; furthermore, any redistribution of the new reserve assets to the advanced countries, that would result from such link, might tend to concentrate liquidity in some of them, to the exclusion of others, regardless of their own needs or their financing of world trade.

The UNCTAD studies suggest a distribution of new liquidity on a uniform basis among advanced and developing countries according to IMF quotas. This approach would be integrated with development financing by the funnelling of the credits contributed by advanced countries through the International Bank, thereby providing an opportunity for each individual advanced country to increase its own share of new liquidity by the increase of exports to developing countries. This type of approach has not found support from advanced countries, which regard the purpose of liquidity creation as separate from development financing. Although some aspects may be taken into consideration in the final determination of the monetary reform, it does not appear likely that the proposal as a whole would be acceptable to the "Group of Ten".

A new proposal for link is being advanced by a committee of experts of CIAP, to the effect that Latin America should be admitted to the new monetary system as a group instead of on a country by country basis. The concept of link would be embodied in the provision of a Latin American

quota in the new reserve pool; such quota would be autonomously managed by Latin America (presumably, the Latin American Directors in the IMF), in ways consistent with multi-lateral surveillance with respect to the individual countries and joint decisions concerning policies and uses of the reserve assets. The principal arguments in favor of this arrangement are that, in the first place, it would permit access of Latin America to the pool; in the second place, multi-lateral surveillance would strengthen the monetary policies of the Latin American members; and in the third place, common policies would give support to the movement toward economic integration. Some of these arguments may be open to doubt, but an important objection is that this type of link would leave in abeyance decisions concerning developing countries in general, and sharpen the contrast between what would be done for a limited number of economically and politically strong countries and what would remain to be done for the majority of the smaller and weaker countries in other parts of the world.

2. Links through the Fund

It is generally agreed that any change in the monetary relations among the advanced countries and the reciprocal creation of new reserve assets would find an appropriate place in the International Monetary Fund. This is a recognition of the role and purpose of the Fund with respect to international liquidity, and is also intended to facilitate the establishment of a link between what advanced countries would do for themselves and what they could do for developing countries.

The most common type of link envisaged by the advanced countries is the allocation of some part of newly created reserves (say 25%) for use by the Fund in operations on behalf of developing countries. Such a provision is, for instance, embodied in Mr. Emminger's proposal. There are, of course, various ways in which the Fund could use such portion of currencies provided by the advanced countries, namely:

- a) They could be used in the normal operations and under the standard rules on behalf of individual countries. The advanced countries' contribution would give a wider choice of currencies to the Fund, but would not add to the liquidity of the developing countries, which would continue to be limited in their own drawings by their own quotas and the Fund's rules.
- b) It could be proposed to increase the quotas of the developing countries without similar increase in the quotas of the advanced countries, thereby compensating the former with larger drawing rights in exchange for the newly created liquidity made available to the latter. Such action, however, could be taken independently of any reform of the monetary system, and the present "hard currencies" resources of the Fund appear quite adequate to cover any moderate increase of developing countries' quotas.

- c) This end, moreover, could be achieved simply by liberalization of drawing rights for developing countries under the present quotas; the Eminger proposal specifies that the Fund could use the additional currencies provided by the advanced countries in accordance with the waiver clause of Article VII-2.
- d) Such additional currencies could also be used by the Fund to expand the scope of special financing in behalf of countries in which a deterioration of the terms of trade would cause a longer or larger than usual swing in the balance of payments.

While all of this would undoubtedly benefit the developing countries, it runs counter to their basic objection to "conditional liquidity" (as the Fund would provide for the most part) and to their aspiration for "unconditional liquidity" at terms comparable to those of the advanced countries. In this respect, it may also be noted that the UNCTAD study of "Twenty-one" also prospects that developing countries have a longer timing need for reserves as compared with the advanced countries, and therefore, any reserve assistance should be in the form of longer term credits; also at lower charges than applicable to the advanced countries.

3. Links through joint Fund-Bank operations

An approach widely shared by advanced and developing countries has been the possibility that some part of the newly created reserve assets of advanced countries could be invested by the Fund in International Bank bonds. This procedure would also enjoy the backing of past experience, as central banks have been investing directly in special International Bank bonds in recent years, so that the investment of some portion of their reserves through the Fund could be regarded as an extension of existing practices. This procedure has also been referred to by the Manager-Director of the Fund and embodied in the UNCTAD report. There could be at least three purposes for such operations, namely:

- a) investment by the Fund could be made in regular marketable bonds of the Bank, the proceeds to be destined for any financing that the Bank might decide. This would, in effect, add to the Bank's resources, supporting its expanding operations on behalf of developing countries.
- b) In view of the special source of the funds, it could be arranged that the Bank should hold them for special "swing" operations of a shorter and intermediate nature. These may well be appropriate, for instance, for the proposed supplementary financing: The Bank could raise the needed funds for such purpose by the issuance of special securities to the Fund, in exchange for the stipulated portion of advanced countries' currencies.
- c) A third alternative could be an arrangement under which the Fund and the Bank would join in combined operations, making available reserve assets to developing countries on a long-term basis. Under

such arrangement, the Fund could open a line of credit to the Bank for the stipulated amount of advanced countries' currencies; such line of credit would, in turn, provide the basis for "reserve loans" with maturity of, say, between five and ten years. The bank could extend such credits on a case-by-case basis to countries which:

- i) in the opinion of the Fund, had been pursuing and were committed to maintain policies of monetary and exchange stability; and
- ii) in the opinion of the Bank, had been implementing and were committed to maintain development programs consistent with their available resources from internal and external sources, and objectives of productivity and competitiveness in new investments.

In practice, the International Bank could open a line of credit in favor of such a country at no cost, except a nominal charge; whenever the country would draw upon the line of credit, the Bank would in turn draw on the currencies made available by the Fund; such use of credit could be charged at the normal interest rate applicable to Bank loans; if the country proved unable to swing back and repay the credit used, this could become a normal Bank loan, subject to repayment on intermediate or long-term basis at the normal terms and conditions applied by the Bank. If, on the other hand, the country refrained from using, or proved able to use from time to time and replace the line of credit, it could be admitted as a member of the reserve group; in such case, the credit line opened by the International Bank on its behalf could then be transformed into a regular quota in the group.

This procedure would establish a transitional phase by which a development country approaching a situation of an advanced economy could gain access to the reserve currency group on a full standing. In effect, while the credit line granted by the Fund and Bank would be temporary, it would be unconditional for that time; its actual use would be a decisive factor in evaluating the country's eligibility to the reserve currency group.

4. Special Links

There are other kinds of special links, designed principally on "ad hoc" basis, to meet special situations.

One proposal, expounded in particular by Israeli representatives, would be the granting to developing countries of special reserve quotas in relation to their debt service burden vis-a-vis others. Another is the proposal that the reserve assets of advanced countries be used for assisting in the consolidation of short and intermediated debt of developing countries into long-term debt; such special fund of reserve assets could be used to iron out high and low swings in the balance of payments of debtor countries and assure

the continuing service of the consolidated debt. In another way, reserve assets could be set aside to provide long-term loans to developing countries, for purposes of current imports and trade financing, on the ground that such countries should be prepared to encounter down-swings running over prolonged periods of time. Last may be mentioned the French proposal, that the distribution of reserve credits among advanced countries should take into due account their individual contributions of aid and financing to developing countries.

5. Conclusion

In conclusion, the concern of the developing countries is related to two principal aspects: the unconditional access to reserve assets, and long swings in the replacement of such assets when used. From this point of view, the gap in attitude between advanced and developing countries appears practically unsurmountable, as the former regard the creation of new reserves purely as a buffer to tide over temporary situations, while the adjustment is made by changes in basic policies. There is little concern or emphasis among developing countries, on the other hand, as to the effort and problems involved in such adjustment process, which constitutes the essence of the approach by the "Group of Ten". In this lies, in effect, the basic difference between the two groups of countries; while technical differences could be compromised, it is difficult to see what kind of compromise could be accomplished in this respect.

FMT/mj

cc: Messrs: P. de Fontenay and P. Pereira Lira

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ECONOMIC COMMITTEE

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EC/O/66-24

February 21, 1966

Major Trends in Development Finance in 1965 - (Preliminary)

The Chairman thought that the attached survey, prepared by Mr. Kochav, would be of interest.

C. F. Owen
Secretary

D I S T R I B U T I O N

Messrs. Friedman	Bell	Maiss
Kamarck	Edelman	McDiarmid
Adler (J.H.)	Gilmartin	Sadove
Avramovic	King (B.B.)	Thompson
Rist	Larsen	Weiner
de Vries	Lipkowitz	Wright

Major Trends in Development Finance
in 1965 - Preliminary

It is too early to appraise the major trends and events which formed the background for development finance in 1965. However, some preliminary and rather general observations may be ventured at the risk of possible revisions and qualifications as more data become available.

Over-all Picture

The year 1965 has been characterized by some slowdown in the growth rate of world production and international trade, compared to the two previous years. The export earnings of the developing countries, which had attained an unusually high level in 1963 and 1964 have slackened and this has reduced the rate of increase in their import capacity.

Growth

The world growth rate has slowed down in 1965, compared to the previous two years, mainly due to unusually low growth in Western Europe and Japan. Due to restrictive policies designed to combat inflation, the United Kingdom, France, Italy and Japan have increased their production in 1965 at rates not higher than 2.5 to 3%. Germany has also slowed down its growth, although it still has been able to raise production by 5%. The major exception among the industrial countries has been the United States, which managed to attain in 1965 an exceptionally high growth rate of 5.5% in real terms. The industrial countries as a group probably increased their gross national product by 4 to 4.5% in 1965, a rate somewhat lower than that of the previous year.

Data on growth rates are still unavailable for most developing countries. On the basis of slower increase in their export earnings and imports,

the over-all growth of the developing countries has probably also slowed down. Taking into account the differences in population growth, the developing countries as a group continued to increase production in 1965 at a rate of half or less of the growth rate in the industrialized parts of the world.

Nowhere has the lagging increase in production of the developing countries been more marked and consequences more serious than in agriculture and food supply. In 1965, the agricultural production of the developing countries has not kept pace with the population increase. The production of food in the developing countries is presently only some 3 to 4% higher per head than eight years ago. As a matter of fact, the developing countries have become increasingly dependent for supply of their minimum food requirements on North America and other developed areas, such as Australia. It may be worth reminding that in addition to U.S. surpluses purchased on "soft" terms at an amount higher than a billion dollars a year, the developing countries have been spending more than \$4 billion of "hard" currencies per year on imports of food. The growing dependence of the developing countries on the industrial ones for the supply of food can be reversed only through a major breakthrough in their own agricultural production.

Trade

The slowdown of 1965 has been more accentuated in international trade than in production. World trade, which expanded in 1964 by the exceptionally high rate of 12.5%, increased in 1965 by 8.5%. The share of the developing countries in international trade continued to decline, as their own exports to the industrial countries have grown in 1965 by no more than 6%. Due to the more moderate increase in export earnings, as well as to the insufficient capital inflows, the developing countries as a group have been able to raise

their imports in 1965 by only 6%, compared to an increase of almost 9% in 1964.

The slowdown in the increase of export earnings of the developing countries has been due to two main factors: first, the less vigorous expansion in the industrial countries lowered their import requirements from the developing countries. It should be recognized, however, that the rate of expansion in world production and trade in the previous year has been much more of an exception than a reflection of the longer-term trend. The developing countries would not serve best their own interests if they base their production plans on the unrealistic assumption that the demand for their exports will continue to grow at the unusual high rates of 1963 and 1964. Second, and probably more important, the increase in supplies in some major export commodities resulted in a marked reduction in prices of some major commodities. The IBRD "commodity price index for lower income producers" has been some 4% lower in 1965 than in the previous year. The lowering of commodity prices in 1965 was in fact a continuation of the downward drift since the recent peak level which was reached at the first half of 1964. Most of the decline in commodity prices reflected the downturn in prices for sugar and cocoa. Prices of agricultural raw materials, especially cotton, have also declined somewhat, while the price level for minerals proved to be rather strong, and has recently even increased, mainly as a result of higher prices for copper, related to the political situation in Rhodesia and labor unrest in Chile. The fluctuations in export prices over the last few years have been mostly due to changes in supply conditions. The over-all demand for primary products, and especially for foodstuffs has

been growing at a slow yet steady pace, while larger crops of commodities such as sugar and cocoa have resulted in sharp falls in prices.

Among foodstuffs, coffee proved to be the exception, being able to maintain a rather stable price level in 1965. In part, this may have been due to a limitation of supplies by the International Coffee Agreement. The participants to this Agreement have been recently exploring ways and means of diversification of those economics which have been and still are highly dependent on coffee export earnings.

Capital Flows

Data on the volume of capital flows from the industrial countries to the developing ones in 1965 are not yet available. Yet indirect indicators do not point to a significant increase in the level of official capital flows. Partial and preliminary data based on the U.S. balance of payments figures indicate an increase in the flow of U.S. private investments to the developing countries. At the same time, the level of income payments on private investments in the form of dividend and interest has also increased. However, the flow of private investments has been limited to a small number of developing countries, some of which are oil producers.

One of the marked developments in recent years has been the tightening of international capital markets, as well as a general rise in interest rates. The United States and United Kingdom balance of payments difficulties, as well as the disinflationary policies in continental European countries, have resulted in a tightening of the international capital markets. The long-term interest rates in several markets have raised to levels unknown in the past several years. This situation has raised the costs and

sometimes also effected the availability of capital in such markets to a number of developing countries as well as to international development institutions.

Domestic Policies

The latest Annual Report of the Bank suggested, on the basis of the Bank's country enquiries, that the developing countries could use effectively some \$3 billion to \$4 billion more external capital per year than is presently available to them. Recent developments have strengthened the belief that several developing countries have come to learn ways and means to make more effective use of external capital by widening the basis of technical skills and know-how and by applying policies conducive to steady economic development. The need for higher priority for the domestic production of food has become more widely recognized, and measures to deal with this need seem to be gradually forming. Some countries are adopting a more welcome approach toward private investments, domestic and foreign. In some cases, efforts have been made to raise levels of domestic savings by fiscal measures as well as by increasing efficiency in public enterprises. In several developing countries, however, reasonable performance in the mobilization of domestic savings and their proper use for development as well as in other crucial aspects of economic policies, is not being shown. Yet, signs of improvements in economic policies have been recently evident in a number of large developing countries, such as Brazil and U.A.R., which have been experiencing serious difficulties in recent years. Their own experience, and sometimes examples of other countries, helped to make clear the need of appropriate policies, and one may dare to expect further progress in this field.

INDICATORS OF GROWTH AND TRADE IN 1965

(% Changes)

	<u>1 9 6 5</u>		<u>1 9 6 4</u>	
	GNP	Imports	GNP	Imports
United States	5.5	11.5	4.8	5.0
United Kingdom	2.7	--	5.4	9.0
Germany	5.0	15.5	6.6	10.7
France	2.5	--	5.3	11.7
Italy	3.0	--	2.9	-5.9
Japan	2.7	3.0	13.9	14.3
Canada	6.5	12.0	6.4	11.4
Australia	5.0	20.0	6.5	18.0

Source: Official sources for each country.

International Trade

(Billions of \$)

					% Change	
	<u>1963</u>	<u>1964</u>	<u>3/4 1964</u> <u>Annual</u> <u>Rate</u>	<u>3/4 1965</u> <u>Annual</u> <u>Rate</u>	<u>1964</u> <u>Over</u> <u>1963</u>	<u>3/4 1965</u> <u>Over</u> <u>3/4 1964</u>
<u>Exports (f.o.b.)</u>						
World	134.8	151.4	147.2	159.6	12.3	8.4
Developed Coun- tries <u>1/</u>	101.9	115.1	111.6	121.8	13.0	9.1
LDC <u>2/</u>	32.9	36.3	35.6	37.8	10.3	6.2
<u>Imports (c.i.f.)</u>						
World	142.5	159.2	156.3	168.8	11.0	8.0
Developed Coun- tries	105.7	119.2	117.4	127.2	12.8	8.8
LDC	36.8	40.0	38.9	41.6	8.7	6.5

1/ IDA Part I. With the addition of Iceland, Ireland and New Zealand.

2/ IDA Part II. Less: Iceland and Ireland.

Source: IFS, January 1966.

U.S. Capital Flows to LDC

(Millions of \$)

	<u>Jan.-Sept. 1964</u>	<u>Jan.-Sept. 1965</u>
Government Grants and Capital	3,134	3,267
Private, net:		
Direct	272	718
Non-direct	<u>205</u>	<u>314</u>
Total	3,811	4,299

Source: Survey of Current Business, December 1965.

Private Investment Income of the U.S. from LDC's

(Billions of \$)

	<u>Jan.-Sept. 1964</u>	<u>Jan.-Sept. 1965</u>
Income to the United States	1,934	2,132
Less: Income to LDC's	<u>102</u>	<u>132</u>
Net Income to the United States	1,832	2,000

Source: Survey of Current Business, December 1965.



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Correspondents / Participants From Athole S. Mackintosh (University of East Anglia) to G. M. Wilson <hr/> <hr/> <hr/>
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Development - Jan.

Mr. A. M. Karmack

February 16, 1966

AM
A. J. Maccone and E. E. Hawkins *ELH*

OECD Study of Growth in Advanced Countries

1. You asked us to prepare an outline for submission to the OECD as guidance for them in their proposed study of the prospective growth of the developed countries. We feel that the previous work sponsored by the OECD in this field is sufficiently sophisticated to make it unnecessary for the Bank to prepare a detailed outline. We would like to indicate what should be our minimum interests and suggest that we offer to discuss the outline of the study when OECD have prepared it. This would be more useful than if we are to try to prepare such an outline ourselves.
2. The Bank's interests in this study are basically two:
 - (a) Some guidance as to the likely movements of the major determinants of the demand for the exports of the less developed countries, particularly those products normally studied by the Commodities Division. The target years for the projection should be 1970 and 1975.
 - (b) We are also interested in the methodological approach to be used by the OECD, with particular reference to our proposals for quantitative research and estimates of capital requirements.
3. We would assume that the study will make estimates and projections for certain key variables, country by country. In addition it should provide systems of weights for combining the individual country projections into regional and economic groupings either on the basis of exchange rate or purchasing power parities. The major variables we would need to have projected include, population, labor force, GDP, investment and output in manufacturing, agriculture, and the major tertiary sectors (especially power). Where applicable the projection should be in real terms. A maximum of detail would be highly welcome (even if in terms of assumption rather than independent findings) such as disposable income, relative growth in durables and non-durables branches of industry, etc. A discussion of likely trends in individual major countries' trade and payments over the period in question would be of interest to the Bank's country economic work.
4. You suggest that we should call attention to the likely role of labor supply as a determinant of growth over the next decade. This might be broadened to a general consideration of those factors which are likely to act as constraints on economic growth in the developed countries, whether it be a shortage of a particular kind of labor, of savings, or of foreign exchange.

5. We do not feel that this study should attempt to make direct estimates of the likely trend in the markets for individual primary commodities, although obviously there might be a need to discuss the demands for imports of raw material in the case of some countries. In other words, it would not be desirable for the OECD to duplicate the work of our own Commodities Division.

6. One final point which we consider of some importance is the likely time period of the study. We would hope that this study could be completed within, say, a 12-month period, possibly with some arrangement for it to be up-dated at intervals. This would be more valuable to the Bank than a lengthy study of the results of which would not be available for some years. Indeed, we hope that we shall be able to get a look at the preliminary results as they begin to emerge, so that we can get the benefits of them as soon as possible. This would also serve the purpose of permitting us to co-operate with OECD in this venture through consultation at intervals so that as the study proceeds we could indicate areas which seem to be important and also discuss with them the value of various quantitative techniques.

AJM/BKH:bso

cc: Mr. B. A. de Vries
Mr. B. B. King

Messrs. Irving S. Friedman, Andrew M. Kamarck

February 3, 1966

Frank Tamagna *FT*

The "link" in Monetary Reform

These are a few comments on the exchange of view we had yesterday concerning the relation of monetary reform to development. I would like to make the following points, namely -

- (i) Various developing countries have different reasons for desiring a link, and there are various types of links that could be worked out;
- (ii) The commitment for some kind of a link between monetary reform and developing countries, in particular by the United States, has been probably extended to a point that it might be difficult to withdraw; and
- (iii) Admitting the unavailability of a link, the question would be its nature and purpose.

The argument for separate and parallel treatment of monetary reform and developing financing seem irrefutable on a purely technical basis. On a political and general economic basis, however, developing countries have advanced three arguments for their participation in monetary reform:

- (a) The equality of opportunity in relation to equality of conditions. This point has been made strongly by Australia, on the ground that there can be no preclusion of any country from any arrangement where the country meets terms and conditions for participation. This argument is directed in particular against the "closed group" concept, which originally was the basis of the European proposal; this concept, however, has been abandoned in principle by the Europeans themselves, which have opened the possibility of admittance of new members to the group.
- (b) The equality of treatment in relation to equality of needs. This argument is being advanced by the Latin American countries, particularly by Argentina, on the ground that their needs are both for liquidity and resources. Whereas new and more resources should be made available for development financing, their need for liquidity should be met through participation in the new monetary system. This approach has also a strong political tinge, based on the Latin American countries' refusal to admit any differentiation in powers and rights between themselves and the advanced countries. The UNCTAD report seems to have been heavily influenced by these Latin American views, expressed in particular by Mr. Prebisch.
- (c) Liquidity as basis for development financing. This view is sustained particularly by India, and follows the reasoning of the Stamp plan, to the effect that the willingness of the advanced countries to expand liquidity among themselves is indicative of excess resources, that can be and should be made available to the developing countries.

It would seem clear that the advanced countries have agreed to the first proposition; rejected the third proposition; and are debating the second proposition. All the various proposals that are now under discussion allow for an opening of the advanced countries' group to other members and the setting aside of some part of the new reserve assets in favor of non-participant countries. It would seem that the United States would prefer an arrangement under which the International Monetary Fund could use such set-aside reserve for special financial assistance to developing countries outside of quota limits and other conditions; whereas the Europeans would prefer to limit such assistance to within the quotas and standard conditions.

It is likely that some compromise will be achieved on this point; which might result in breaking up the developing countries into three groups, a few immediately or soon admissible to the advanced countries' group (Australia and Mexico for instance); others that could be eligible for special Fund's assistance and would, therefore, accept the compromise; and the remainder, probably large in number but weak in power, denied of access to the new liquidity.

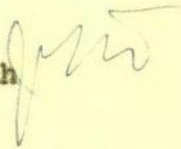
On the other hand, any retreat from compromise would stiffen the attitude of the Europeans, for a purely European solution, but would also coalesce the developing countries on the opposition. This condition would not be acceptable either to the United States or to the United Kingdom, and I feel that the Europeans themselves probably would not want to reopen negotiations anew, on a completely untried course, such as this for parallel, but separate facilities for advanced and developing countries.

Under the circumstances, and unless an impasse should develop in the Group of Ten, it would seem that it might be better to concentrate on the procedure, purposes and conditions under which liquidity might be made available to developing countries, than to try at this time to divert negotiations to a new approach. Developing countries probably feel that the special financing by the Fund and Bank in supplementary forms, is something already obtained, or obtainable, independently of any monetary reform; no offer in this respect would induce their foregoing of liquidity, unless the amount could be made very large. On the other hand, any assistance under the present IMF quota and terms conditions would not give anything new or more than developing countries could not obtain under the present system.

The approach is likely to be one of opening intermediate and long term lines of reserve credit to developing countries, unconditionally as to the use, but limited in time and conditional in their effects. The extension of such credits, however, would require judgment in two respects, namely, the willingness of the country to achieve and maintain orderly and stable domestic and external policies; and availability of resources adequate to sustain such policy over a reasonable period of time. Irrespective whether these lines of credit will be managed by the Monetary Fund or the International Bank, their extension would require a judgment as to monetary and exchange policies, on the one hand, and development policies and resources on the other hand. It would seem unavoidable that the two institutions should cooperate.

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The experience of the past (Argentina) indicates the failure of short-term assistance by the Monetary Fund, where the agreed-upon policies could not be maintained in the intermediate run. Only the Bank is equipped, with its technical and economic staff, and the connections established through the consultative groups, to pass judgment as to the availability of resources to a country and their economic use; while the Fund is specialized on the judgment of the policies and instruments most appropriate for monetary stability. The absence of the Bank in any decision on the monetary reform, while implied commitments are implemented in favor of developing countries, might result again in a misuse of short-term facilities for purposes for which they are not intended, namely investment in long-term development and consequent renewed loss of liquidity.

FTamagna:gan 

Mr. Alter

January 21, 1966

Alexander Stevenson

Leverage

In recent years lenders, including the Bank, have been more and more preoccupied with the problem of how their aid can be used to stimulate better economic performance, usually identified with an increased growth rate in the recipient countries. What a lender can do depends, of course, on how much he is prepared to put in, where he is prepared to put it, and how large his contribution is likely to be in relation to the resources available to the recipient economy for development. What can be done will also vary with the degree of receptivity in the recipient country and in particular with the influence of people in its government who have the same policy objectives as the lender. Furthermore, since development is a continuing and complex process, turning the aid tap on and off suddenly may do more harm than good.

Your memorandum to the Loan Committee on Costa Rica, dated January 17, raises some interesting questions in my mind on the use of leverage and I wonder if we might not begin to think of some general principles. For instance:

1. If the aim is to secure improvements in broad aspects of economic policy, for example fiscal, monetary and exchange rate policy, influence can best be exerted by offering to lend more if policies are made more appropriate to stimulating healthy economic growth, less if they are not.
2. If the aim is to secure improved economic policies in a particular economic sector, the lender can exert maximum pressure and influence by offering to lend more or less support to that sector, depending on policy and performance in it.
3. In appropriate cases, where changes sought are related either to a particular economic sector or to a particular program in it for which money is being made available, influence can be exerted by planning a series of loans making the granting of the second in some way dependent on the success of the first.

If these guidelines made sense, they would lead to the conclusion that, to set up a multi-tranche arrangement related to a particular program like that suggested for agricultural credit in Costa Rica in such a way that the second and subsequent tranches are related to improvements in performance in areas which have nothing to do with agriculture or with the operation of the agricultural credit program, would not be in general desirable. Whether it is in this specific case depends, however, also on political considerations and I have to leave to you and to your judgment of the Finance Minister's judgment that it would help him. In making that judgment you have also to take account of which effect the approach will have on the Bank's reputation in Costa Rica in the long run.


AS/uz

Irving S. Friedman

13 January 1966

Frank Tamagna *Frank Tamagna*

Monetary Reform and Development

The attached memorandum on Monetary Reform and Development is divided into four parts:

Part I, Developing Countries' Interest in Monetary Reform, summarizes the views expressed at the last IMF-IBRD meetings by delegates of developing and advanced countries concerning three main aspects of a monetary reform, namely, whether it should be contained in a closed club, or aim at an open system; whether the creation of reserve assets should imply or not a transfer of real resources; and whether and how the provision of liquidity should be related to development financing.

Part II, Monetary Reform Proposals and Their Relation to Developing Countries, groups such proposals under four main headings; namely, those based on greater automaticity (gold standard and flexible rates); those based on closer cooperation (composite gold standard, deposit - exchange of currencies); and those based on discretionary international authority (Fund liberalization, supernational monetary authority, "stamp" plan, commodity reserve plan).

Part III, The Outlook of Monetary Reform and its Link Between Developed and Developing Countries, provides an analytical comparison between the proposals formulated by UNCTAD (in its last October meeting) and an outline for monetary reform advanced by Governor Carli in a speech early in November.

The last Part IV, Conclusion, advances the idea of a "link" that would extend the new reserve system to other countries, on a case by case basis, through the joint intermediation of the International Fund and Bank.

Although it is conceptually possible to work out procedures and provisions under which a monetary reform could apply simultaneously and uniformly both to advanced and developing countries, there are fundamental differences in views and purposes between the two groups, which may be briefly stated as follows:

(a) Advanced countries feel that reserve creation should not have the purpose of transferring real resources, but should be intended exclusively (or primarily) to facilitate adjustment processes;

(b) Developing countries feel that liquidity creation, unrelated to development, would be meaningless, and advocate an infusion of liquidity that would free other resources and, in need, be available for acquiring additional resources for development purposes.

In view of the strong views held by the European countries and the recognition that developing countries are offering, it isn't likely that any accord will be reached on monetary reform, that did not accept the

Irving S. Friedman
SUBJECT: Monetary Reform and Development

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principles that liquidity creation and transfer of real resources are distinct problems and that the adjustment process is an indispensable test for the acceptance of any country in a viable system. What is proposed in this memorandum is a selective broadening of the restricted group of advanced countries to other countries, upon the demonstration of their ability to pursue financial policies and conduct development programs consistent with domestic stability and international commitments. A new reserve system, provided with currencies contributed by the advanced countries, could serve in an interim way for the extension of long-term reserve loans to developing countries, which in the judgment of the I.M.F. and I.B.R.D., appeared to be on their way toward a position of strength comparable to those of the advanced countries. There is a basic question as to whether that part of new reserves, that advanced countries would make available for a "link" with developing countries, should be widely and thinly diffused in small loans for many countries, or be held for use in substantive amounts at some decisive point, to support and speed the advancement of those leading and stronger developing countries, about to attain participation in the managing group of the world's reserve system.

cc: Mr. Paolo Leon
Mr. Patrick de Fontenay
Mr. Paulo Pereira Lira