1953 thru 1957
December 18, 1957

Mr. Albert O. Hirschman
Visiting Research Professor
of Economics
Yale University
New Haven, Connecticut

Dear Albert:

Just a note to thank you for the reprints of the two articles which you were good enough to send me. I have read them both with interest. As a non-economist, I was particularly impressed by your article on "Economic Policy in Underdeveloped Countries." I think the points you make are wholly valid and deserve considerably more emphasis than they have hitherto received.

My best wishes to you and your wife for a happy holiday season and a fine 1958.

Sincerely yours,

[Signature]

Richard H. Demuth
Director
Technical Assistance and Liaison Staff

RHD:tf
December 16, 1957

Mr. J. Burke Knapp
Vice President
International Bank for
Reconstruction and Development
Washington 25, D.C.

Dear Burke:

I am glad you liked my articles. I underestimated the demand for "Economic Policy in Underdeveloped Countries" and have no more copies. However, I still have the earlier, mimeographed edition, which was printed verbatim, and I enclose twelve copies.

With best regards,

Sincerely yours,

Albert O. Hirschman
December 9, 1957

Dear Albert:

Many thanks for the reprints of your two recent articles which I have found, as usual, to be very stimulating. I wonder if you have a dozen copies of your piece on "Economic Policy in Underdeveloped Countries".

With best regards,

Sincerely yours,

J. Burke Knapp
Vice President

Mr. Albert Hirschman
37 Hillhouse Avenue
New Haven, Connecticut
ECONOMIC DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES

Financing of Economic Development

Attached are copies of the two draft resolutions tabled in the Second Committee of the General Assembly which were referred to by Mr. Demuth in his presentation to the Board meeting on November 26. The first is an 11-nation proposal for the creation of an "Economic Development Fund." The second is a proposal by the United States for the creation of a "Special Projects Fund" within the United Nations technical assistance program.

Distribution

Executive Directors and Alternates
President
Vice Presidents
Department Heads
Twelfth session
SECOND COMMITTEE
Agenda Item 28

ECONOMIC DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES

Financing of Economic Development

Argentina, Ceylon, Chile, Egypt, Greece, India, Indonesia, Mexico, the
Netherlands, Venezuela, Yugoslavia: joint draft resolution

The General Assembly,

In conformity with the determination of the United Nations, as expressed
in its Charter, to employ international machinery for the promotion of the
economic and social advancement of all peoples,

Noting that the Economic and Social Council has urged the General
Assembly in resolution 662 B (XXIV) to decide to establish a Special United
Nations Fund for Economic Development and to take the necessary steps to that
end,

Reiterating the importance of assistance for the economic development of
under-developed countries, through both multilateral and bilateral channels,

Considering that the establishment of such a Fund will supplement the
efforts already being made to provide financial assistance to under-developed
countries and will create favourable conditions for increasing the flow of
capital to them,

Recalling that both the General Assembly and the Economic and Social
Council have on a number of occasions approved unanimously the principle of
the establishment of such a Fund,

Convinced that the establishment of such a Fund is economically desir-
able and possible, will strengthen the United Nations, will help the under-
developed countries in their efforts towards economic development and social advancement and will thus contribute to the stability and peace of the world,

1. Commends the Ad Hoc Committee on the Question of the Establishment of a Special United Nations Fund for Economic Development for its work as embodied in its final and supplementary reports prepared in accordance with General Assembly resolutions 923 (X) of 9 December 1955 and 1030 (XI) of 26 February 1957;

2. Decides to establish a United Nations Economic Development Fund, hereinafter called the Economic Development Fund;

3. Decides that the draft rules governing the administration and management of the Economic Development Fund, including the methods by which the Economic Development Fund could select projects, will be prepared - on the basis of the principles mentioned in the annex - by a preparatory commission composed of representatives of ...... Governments,\(^1\) to be appointed by the President of the General Assembly;

4. Decides further, that the draft rules to be prepared by the Preparatory Commission will be communicated not later than 1 May 1958 to all Governments Members of the United Nations and of the specialized agencies and will be submitted to the twenty-sixth session of the Economic and Social Council which will transmit its recommendations to the thirteenth session of the General Assembly for action;

5. Invites the Secretary-General to provide the Preparatory Commission with all the necessary facilities;

\(^1\) The number of Governments is intended to be not more than eleven, to be proposed to the President of the General Assembly by the Chairman of the Second Committee after consultation with delegations.
6. **Expects** that the Economic Development Fund will be able to begin operations by 1 January 1960, at the latest;

7. **Appeals** to all States Members of the United Nations to further promote, in a spirit of co-operation and solidarity, the essentials of the Charter of the United Nations by giving the greatest possible assistance to the economic development of under-developed countries.
ANNEX

The Preparatory Commission shall draft the rules governing the administration and management of the Economic Development Fund on the basis of the following principles:

(a) The Economic Development Fund shall be a multilateral fund of the United Nations, with financial resources principally derived from voluntary annual contributions of Governments and others, in (or transferable into) currency usable by the Fund, and as much as possible pledged or indicated for a number of years;

(b) The aim of the Economic Development Fund shall be to assist underdeveloped countries in the development of their economies by financing, in the form of loans or grants, projects designed to accelerate the integrated economic development of underdeveloped countries, principally by strengthening their economic and social infrastructure. Such financing shall be for projects for which other means of external financing may be either inappropriate or unavailable in whole or in part;

(c) Assistance from the Economic Development Fund shall be given only to Governments and at their request. Governments will, from their own resources, provide part of the funds needed for the financing of projects assisted by the Economic Development Fund. The operations of the Economic Development Fund shall be in conformity with the principles of the Charter of the United Nations and shall not be influenced by political considerations;

(d) The Economic Development Fund shall be administered by a Director-General under policies, including the allocation of funds, established by an Executive Board in accordance with such rules and principles as may be laid down by the General Assembly and the Economic and Social Council. The
Secretary-General of the United Nations shall appoint the Director-General, in consultation with the Executive Board. The members of the Executive Board will be elected by the Economic and Social Council. The membership of the Executive Board shall be equally distributed between two groups, one consisting mainly of major contributing countries and the other consisting mainly of under-developed countries. Each member of the Executive Board shall have one vote. Decisions of the Executive Board on questions of policy, including the allocation of funds, shall require a qualified majority vote.

(e) The Economic Development Fund shall establish close co-operation with the specialized agencies (in particular the existing international financial institutions), without, however, impairing its own independence. The staff of the Economic Development Fund shall be kept to a strict minimum.
The General Assembly,

In conformity with the determination of the United Nations, as expressed in its Charter, to promote social progress and better standards of life in larger freedom and, for these ends, to employ international machinery for the promotion of the economic and social advancement of all peoples,

Conscious of the particular needs of less-developed countries and territories,

Considering that the United Nations Expanded Technical Assistance Programme is of proven effectiveness in promoting the economic development of the less-developed countries and territories of the world,

Recognizing, however, that the Expanded Technical Assistance Programme cannot now meet certain urgent needs for technical assistance which, if met, would advance the processes of economic and social development and thus contribute to the stability and peace of the world,

Convinced that a substantial and rapidly achieved enlargement in the financial resources and scope of the United Nations Expanded Technical Assistance Programme would constitute a feasible and constructive advance in United Nations machinery which would be of immediate significance in accelerating the economic development of less-developed countries,
1. Concludes that, in addition to increasing the financial resources of the Programme for projects of types now undertaken by it, there should be established within the Programme a Special Projects Fund which would be used to enlarge the scope of the Programme's activities so as to permit systematic and sustained assistance in certain basic fields;

2. Considers that, while fullest possible use should be made of the existing machinery of the Expanded Technical Assistance Programme, the Special Projects Fund may require new administrative and operational machinery;

3. Decides to establish a Preparatory Committee composed of representatives of Governments participating in the Programme to do the following:

   (a) define the basic fields of assistance which the Special Projects Fund should encompass and, within these fields, the types of projects which should be eligible for assistance;

   (b) define the changes which may need to be made in the present administration and machinery of the United Nations Expanded Technical Assistance Programme in order to assure rapid and effective use of the Special Projects Fund;

   (c) ascertain the extent to which Governments would be willing to contribute to enlarging the financial resources of the Expanded Programme, with an indication of the amounts which they would be prepared to earmark for the Special Projects Fund from their increased contributions; and

   (d) prepare the necessary draft amendments in the present procedures and legislation of the Expanded Programme;
4. Requests the President of the General Assembly to appoint the members of the Preparatory Committee;

5. Invites the Secretary-General to provide the Preparatory Committee with all the necessary facilities, including the provision of such expert consultants as might be required;

6. Requests Governments to assist the Preparatory Committee in its work by submitting their views and suggestions to the Preparatory Committee through the Secretary-General and, in particular, by indicating the extent to which they would be willing to increase their contributions to enable the Expanded Programme to perform its enlarged functions effectively;

7. Invites the Specialized Agencies, the Technical Assistance Administration and the Technical Assistance Board, to submit their views and suggestions to the Preparatory Committee through the Secretary-General;

8. Requests the Preparatory Committee to submit the results of its work in the form of a report and recommendations to the twenty-sixth session of the Economic and Social Council;

9. Requests the Economic and Social Council, with the advice of the Technical Assistance Committee, to transmit the Preparatory Committee's report, together with its own comments, to the thirteenth session of the General Assembly for final action;

10. Looks forward to the establishment of the Special Projects Fund as of 1 January 1959.
Mr. Knapp

C. H. Davies

October 13, 1957

Article by Philippe Bernard in "Revue de Science Politique"

1. Bernard's interesting and well written article on "Some Problems of Economic Development" mainly takes the form of elaborating, as against the "optimistic" view that all that is needed for development is adequate injections of capital and know-how, the "pessimistic" view that in most underdeveloped countries there are built-in obstacles to progress—climatic, geographical, cultural, ideological and ethical—which are difficult or impossible to overcome. In such countries, according to this view, development must largely depend on foreign entrepreneurs who bring capital combined with know-how and, since their outlook fails to permeate the people, is at best patchy and superficial, even in countries like Venezuela. Development is held up by lack of sound projects rather than of capital—an idea which Bernard expounds without, however, associating it with the Bank.

2. While he does not positively identify himself with this "pessimistic" thesis, his able exposition of it with the help of illustrations derived from his experience on Bank missions to Haiti and Central America shows that he acknowledges its force. Most of what he has to say under this heading would be readily accepted in the Bank. Bernard, of course, makes clear that he is expressing personal opinions only, and does not refer to Bank operations.

3. In the latter part of his essay, which is less convincing than his earlier presentation of the obstacles to development, Bernard permits the reader some rays of hope. While development may be difficult, it is not impossible; even in countries badly provided with natural resources, there are many ways in which the productivity of these resources could be greatly increased. In Haiti, for example, a few very simple improvements in technique could double the coffee crop almost without investment. In other Latin American countries, there are—particularly near the coasts—extensive undeveloped lands. In most countries there are almost unlimited industrial possibilities. While progress in all these directions may be slow, it is sure.

4. Finally, Bernard indicates three avenues of approach which he considers promising:

(a) The improvement of governmental administration, through the introduction of improved administrative techniques and the elimination of corruption.

(b) The spread of ideologies which will enlist the active participation of the masses in the process of development.
(c) The growth of the practice of appraising proposed investments from the point of view of the economy as a whole, and not only from the point of view of particular enterprises.

5. As regards (b) above, while saying that both liberalism and communism (particularly in its agrarian and Asian form) appear to be capable of solving the problem, Bernard is careful to add that he is merely stating the problem and not indicating its solution, and leaves open the question whether there may not be other possible solutions. This attitude may strike the reader as one of neutrality between vice and virtue.

6. In expounding (c), Bernard makes his only direct reference to a Bank point of view. "There have been industrial projects," he says, "which, unfavorably judged before their construction on the grounds of high expected costs, have nevertheless revealed all sorts of unsuspected favorable consequences once they were executed, such as the establishment near the primary factory of processing factories henceforth assured of regular supplies. For the country as a whole, the advantages counterbalance the excessive initial costs. This is undoubtedly the conclusion which emerges from the checkered history of the Pan del Río steelworks in Colombia which, advised against by the International Bank, was nevertheless constructed thanks to the help of French materials, capital and technicians." One does not expect an economist to be surprised at the growth of subsidiaries around a primary industry (especially when it sells its product below cost, or when import controls and other devices prevent processing industries from obtaining supplies elsewhere) or to conclude from their growth that the primary investment was justified. Since almost any investment has some multiplier effects, this argument could be used to justify the grossest misdirection of resources. Bernard has probably not followed the history of Pan del Río closely since he left the Bank; if he had, I doubt whether he would find it so convincing an illustration.
<table>
<thead>
<tr>
<th>Office of Information</th>
<th>Departmental Routing Slip</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bennett</td>
<td>216</td>
<td></td>
</tr>
<tr>
<td>Camacho</td>
<td>218-A</td>
<td></td>
</tr>
<tr>
<td>Chisnall</td>
<td>218-A</td>
<td></td>
</tr>
<tr>
<td>Dinneen</td>
<td>218-A</td>
<td></td>
</tr>
<tr>
<td>Eliason</td>
<td>227</td>
<td></td>
</tr>
<tr>
<td>Graves</td>
<td>224</td>
<td></td>
</tr>
<tr>
<td>Hill</td>
<td>220</td>
<td></td>
</tr>
<tr>
<td>Holmes</td>
<td>215</td>
<td></td>
</tr>
<tr>
<td>LaFond</td>
<td>227</td>
<td></td>
</tr>
<tr>
<td>Lightowler</td>
<td>215</td>
<td></td>
</tr>
<tr>
<td>Maher</td>
<td>221</td>
<td></td>
</tr>
<tr>
<td>Matthews</td>
<td>221</td>
<td></td>
</tr>
<tr>
<td>cKitterick</td>
<td>216</td>
<td></td>
</tr>
<tr>
<td>Morrissey</td>
<td>227</td>
<td></td>
</tr>
<tr>
<td>Noone</td>
<td>216</td>
<td></td>
</tr>
<tr>
<td>Pendleton</td>
<td>215</td>
<td></td>
</tr>
<tr>
<td>Perras</td>
<td>216</td>
<td></td>
</tr>
<tr>
<td>Bennett</td>
<td></td>
<td>227</td>
</tr>
<tr>
<td>Camacho</td>
<td></td>
<td>221</td>
</tr>
<tr>
<td>Chisnall</td>
<td></td>
<td>224</td>
</tr>
<tr>
<td>Dinneen</td>
<td></td>
<td>218-A</td>
</tr>
<tr>
<td>Eliason</td>
<td></td>
<td>224</td>
</tr>
<tr>
<td>Graves</td>
<td></td>
<td>215</td>
</tr>
<tr>
<td>Hill</td>
<td></td>
<td>224</td>
</tr>
<tr>
<td>Holmes</td>
<td></td>
<td>209</td>
</tr>
<tr>
<td>LaFond</td>
<td></td>
<td>200</td>
</tr>
<tr>
<td>Lightowler</td>
<td></td>
<td>1232-B</td>
</tr>
<tr>
<td>Maher</td>
<td></td>
<td>113</td>
</tr>
<tr>
<td>Matthews</td>
<td></td>
<td>209</td>
</tr>
<tr>
<td>cKitterick</td>
<td></td>
<td>209</td>
</tr>
<tr>
<td>Morrissey</td>
<td></td>
<td>209</td>
</tr>
<tr>
<td>Noone</td>
<td></td>
<td>209</td>
</tr>
<tr>
<td>Pendleton</td>
<td></td>
<td>209</td>
</tr>
<tr>
<td>Perras</td>
<td></td>
<td>209</td>
</tr>
</tbody>
</table>

Remarks:
_Incoming letter & attachment sent to Mr. Donough_
October 7, 1957

Dear Gove:

Thank you very much for the invitation to attend your meeting next October 19. I shall be out of town at the beginning of that week, however, and am very much afraid that I am not likely to get back in time for your conference.

Mike Hoffman tells me that he means to attend, and doubtless will make a report of anything of interest to the Bank. In addition, I think you ought to get in touch with the office in the Bank which is directly concerned with technical assistance: that is the office of Technical Assistance and Liaison, whose Director is Richard Demuth.

Sincerely yours,

Harold N. Graves, Jr.
Director of Information

Mr. Gove Hambidge
10614 St. Paul Street
Kensington, Maryland

HNG: ap

cc: Mr. Demuth
Twelfth session
SECOND COMMITTEE
Agenda item 28

ECONOMIC DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES

Financing of Economic Development

Argentina, Ceylon, Chile, Egypt, Greece, India, Indonesia, Mexico, the Netherlands, Venezuela, Yugoslavia: joint draft resolution

The General Assembly,

In conformity with the determination of the United Nations, as expressed in its Charter, to employ international machinery for the promotion of the economic and social advancement of all peoples,

Noting that the Economic and Social Council has urged the General Assembly in resolution 662 B (XXIV) to decide to establish a Special United Nations Fund for Economic Development and to take the necessary steps to that end,

Reiterating the importance of assistance for the economic development of under-developed countries, through both multilateral and bilateral channels,

Considering that the establishment of such a Fund will supplement the efforts already being made to provide financial assistance to under-developed countries and will create favourable conditions for increasing the flow of capital to them,

Recalling that both the General Assembly and the Economic and Social Council have on a number of occasions approved unanimously the principle of the establishment of such a Fund,

Convinced that the establishment of such a Fund is economically desirable and possible, will strengthen the United Nations, will help the under-developed countries in their efforts towards economic development and social advancement and will thus contribute to the stability and peace of the world,
1. Commends the Ad Hoc Committee on the Question of the Establishment of a Special United Nations Fund for Economic Development for its work as embodied in its final and supplementary reports prepared in accordance with General Assembly resolutions 923 (X) of 9 December 1955 and 1030 (XI) of 26 February 1957;

2. Decides to establish a United Nations Economic Development Fund, hereinafter called the Economic Development Fund;

3. Decides that the draft rules governing the administration and management of the Economic Development Fund, including the methods by which the Economic Development Fund could select projects, will be prepared - on the basis of the principles mentioned in the annex - by a preparatory commission composed of representatives of ... Governments,¹ to be appointed by the President of the General Assembly;

4. Decides further, that the draft rules to be prepared by the Preparatory Commission will be communicated not later than 1 May 1958 to all Governments Members of the United Nations and of the specialized agencies and will be submitted to the twenty-sixth session of the Economic and Social Council which will transmit its recommendations to the thirteenth session of the General Assembly for action;

5. Invites the Secretary-General to provide the Preparatory Commission with all the necessary facilities;

6. Expects that the Economic Development Fund will be able to begin operations by 1 January 1960, at the latest;

7. Appeals to all States Members of the United Nations to further promote, in a spirit of co-operation and solidarity, the essentials of the Charter of the United Nations by giving the greatest possible assistance to the economic development of under-developed countries.

¹ The number of Governments is intended to be not more than eleven, to be proposed to the President of the General Assembly by the Chairman of the Second Committee after consultation with delegations.
ANNEX

The Preparatory Commission shall draft the rules governing the administration and management of the Economic Development Fund on the basis of the following principles:

(a) The Economic Development Fund shall be a multilateral fund of the United Nations, with financial resources principally derived from voluntary annual contributions of Governments and others, in (or transferable into) currency usable by the Fund, and as much as possible pledged or indicated for a number of years;

(b) The aim of the Economic Development Fund shall be to assist under-developed countries in the development of their economies by financing, in the form of loans or grants, projects designed to accelerate the integrated economic development of under-developed countries, principally by strengthening their economic and social infrastructure. Such financing shall be for projects for which other means of external financing may be either inappropriate or unavailable in whole or in part;

(c) Assistance from the Economic Development Fund shall be given only to Governments and at their request. Governments will, from their own resources, provide part of the funds needed for the financing of projects assisted by the Economic Development Fund. The operations of the Economic Development Fund shall be in conformity with the principles of the Charter of the United Nations and shall not be influenced by political considerations;

(d) The Economic Development Fund shall be administered by a Director-General under policies, including the allocation of funds, established by an Executive Board in accordance with such rules and principles as may be laid down by the General Assembly and the Economic and Social Council. The Secretary-General of the United Nations shall appoint the Director-General, in consultation with the Executive Board. The members of the Executive Board will be elected by the Economic and Social Council. The membership of the Executive Board shall be equally distributed between two groups, one consisting mainly of major contributing countries and the other consisting mainly of under-developed countries. Each member of the Executive Board shall have one vote. Decisions of the Executive Board on questions of policy, including the allocation of funds, shall require a qualified majority vote.
(e) The Economic Development Fund shall establish close co-operation with the specialized agencies (in particular the existing international financial institutions), without, however, impairing its own independence. The staff of the Economic Development Fund shall be kept to a strict minimum.
May 24, 1957

Mr. K. William Kapp
R.P.D.
Rockfall, Connecticut

Dear Mr. Kapp:

This is to confirm the arrangements for our meeting with you on June 3 at 10:30 a.m.

I shall distribute your outline to the people who are going to attend the meeting.

Sincerely yours,

Gerald M. Alter
Assistant to the Economic Director
I thought you might be interested in this exercise which came forth as a result of arguments with the Economic Department and certain members of the State Department.

Attachment
FRANCISCO URRUTIA
Embajador de Colombia
Various intellectual arguments have been put forward to justify extraordinary American participation in the economic development of underdeveloped countries. Perhaps they can best be summed up by the sentence: "Economic development is a necessary but not a sufficient condition for the things we want to see happen in these countries..... necessary for the development of free institutions and necessary for the development of tolerance in the relations among nations."

The purpose of this argument is to develop an answer to why this is so.

* * * * * * *

What is the relationship between economic development and political stability or social development in general?

Obviously the relationship is ambiguous. Economic development destroys old stabilities -- old habits and attitudes towards life and work -- even as it creates the material foundation for a new society. Economic development creates new hopes and ambitions even as it meets existing needs. It is, thus, a dynamic process, not, on the surface, compatible with any given stability.

For this reason economic development can never be a sufficient condition for any given American national interest, for economic development per se does not lead to any particular kind of society.

Why, then, is economic development necessary to serve our interests in the underdeveloped world..... our interests in the growth of free institutions and tolerant foreign policies?
First, we know that much of the upheaval in the underdeveloped world is the result of "economic development" that has already taken place. It is the result of the cumulative impact of Western colonizers, traders, missionaries and doctors over two centuries and more -- the railroad through the jungle, public health measures, the teaching of individual human values in cultures which always concentrated on community values, the concepts of nationhood and a market economy. All these can be considered products of Western civilization which were essentially alien to the ancient civilizations of the underdeveloped world. Technological developments -- the radio, movies, airplanes, the machines of modern armies -- have greatly accentuated an impact which earlier economic development had already started.

We also know -- or at least believe -- that the problems created by economic development which has already taken place (or, alternatively, the problems created by the impact of the West) can only be met by more economic development.

It is not really possible to conceive "undeveloping" these nations to the point where they will have returned to the stability of their ancient ways. In parts of Africa, perhaps, development has not proceeded beyond the point of no return. Left to their own devices, these parts of Africa might, indeed, revert to traditional patterns of life. But quite obviously the possibility is academic when applied to important countries like India or Iran.

Likewise we know that a rather special set of institutions and attitudes is necessary to sustain modern economic growth -- a set which at many points is incompatible with the institutions and attitudes of the older civilizations.
To establish these institutions and attitudes as part of the way of life in the underdeveloped countries economic development must proceed. For it is not in the nature of mankind to learn new attitudes and accept new institutions except under the impetus of a felt need however vaguely defined.

On this basis it is possible to conclude that economic development must go on to serve the national interests of the United States. However, on the same basis it is possible to conclude that economic development must go on to serve the interests of the communists or any other outwardly-directed national or international group. The institutions and attitudes necessary to sustain modern economic growth are not necessarily linked with individual freedom and democracy.

Here is a major issue in the analysis.

We may point to history and say that there is at last a happy coincidence, if not a necessary interaction, between economic development and the growth of freedom in the West. In the last century Westerners liked to think that the two were indissolubly linked. Westerners could then say that these ancient societies were bound eventually to develop institutions and policies which were at least compatible with our ideals of individual freedom and tolerance among nations.

Today this assumption is clearly inadequate to support either the interests of the West as a whole or the national interests of the United States. We have seen how the Russians and Japanese pursued economic development with skill and enthusiasm only to deny individual freedom at home and to follow policies abroad which were aggressively hostile to American interests. In both Russia and Japan the institutions and attitudes necessary to sustain modern economic development have been established. The communist industrial
commissar is performing the same functions as the American entrepreneur as far as economic development is concerned. If the former’s main worry is being accused of sabotage and the latter’s of financial failure, the attitude of "worry" has the same effect in producing economic development. Similar parallels can be made in the tax systems, banking institutions, and other structural features of capitalism and communism.

The recent history of these countries — and one must fear of China, too — destroys for all time the comfortable illusion of a direct relationship between economic development per se and the growth of free institutions and tolerant foreign policies.

We have not yet proved why economic development is necessary to serve American (or Western) interests in the underdeveloped world because we have not yet established any supportable link between economic development and the growth of free institutions and tolerant foreign policies.

Clearly, if our original assumption is correct, there must be an indirect link to strengthen the mere possibility that these countries may choose the free way to develop their economies. I think there is. But it cannot be defined in economic terms at all.

The real justification, I believe, of extraordinary American (Western) participation in the development of these countries is the fact that this participation creates a channel — probably the only really important channel — through which we can hope to transfer something of our values to these people.

What values? The values of better material living standards? No. Mere humanitarianism — the desire to "abolish poverty" or a charitable desire to help the needy — is clearly an impossible basis for national policy. First, we cannot undertake to "abolish poverty" without destroying our own political
system here at home -- where, incidentally, we haven't yet "abolished poverty." Any pretense to this end is essentially unreasonable and bound to lead to disillusionment at home and abroad.

Further, we know that faith in economic development per se is idolatrous faith -- is bound to lead to disillusionment. If we say our values are simply the values of material growth, then our faith and the communist faith are indistinguishable in the eyes of the underdeveloped countries. Since the communists have proved conclusively for us that faith in economic development per se is idolatrous, on what possible grounds can we say that our values are the values of economic development?

No. Our values are the values of freedom and democracy insofar as they are codified at all. By freedom we tend to mean variety at this level of discussion. Perhaps the greatest virtue of democracy is that it allows people of widely varying opinions and faiths to live together side-by-side in peace and pursue their individual creative energies within the framework of an ever refined law. Democracy is pragmatism at its best. It is necessary, as Neibuhr says, because of man's propensity for evil; it is possible because of man's propensity for good.

But this is subtle stuff to sell, not marketable like soap or communism. Most of us can't describe the product (i.e., our values) even to ourselves so how can we communicate it to others -- especially to people whose cultures deny individual human values -- which put a divine seal of approval on conformity even where they do pursue tolerant attitudes towards "foreigners"?

The answer surely lies in the phrase "being ourselves in the world." To put it another way, the answer lies in working side-by-side with these people at tasks of common interest. This way something of our values might rub off on them despite our inability to articulate these values.
And what better common task have we -- what others of the same scope and urgency -- than tasks of economic development? We know that economic development destroys old attitudes towards life and work -- very often the very attitudes which preclude individual human values. This may lead to good or evil, we don't know. But there is an opening created by economic development and an opportunity -- a channel through which we can influence these people in directions compatible with the security and growth of our own civilization.

I submit this is the real, indispensable relationship between our (Western) national interests and the economic development of others. I submit nothing less will do to justify intellectually even so much as is being done now.

* * * * * * * *

A postscript is necessary on my definition of "national interest."

I have said that the growth of free institutions and tolerant foreign policies abroad is a national interest of the United States (and the West as a whole). I use this definition in a very concrete way, comparable in concreteness to the objective of freer trade, containing communist military aggression, etc. This requires a defense, for most spokesmen today interpret national interest as precluding anything unrelated to short-term power relationships. This is galloping pragmatism -- the perversion of what I think (without much reading to support it) Will James meant when he coined the philosophy.

First, in defense of my definition, I submit there is not any short-term power relationship problem which can possibly justify the extent of foreign aid now going on. The present scope and character of aid cannot possibly be made relevant to the threat of Russian or Chinese military aggression or to
the economic and commercial interests of our allies and ourselves. In fact no serious attempt is made by intellectuals to make it relevant. That is only done in Congress and by speech writers.

And whenever the word "subversion" creeps in, I submit that you are already expanding the concept of national interest so broadly as to come very close to my own definition. For subversion connotes a conflict of faith — what in fact has always been going on in the world since the dawn of man. And it is an axiom that you cannot deny one faith except in the name of another.

The fact that the objective of promoting individual freedom and tolerant foreign policies cannot be expressed always in terms of short-range political or economic goals, in no way renders this objective "unreasonable." Quite the contrary: It is my contention that nothing we do is reasonable without this very concrete objective in mind. There can be no stamina or consistency to foreign policy without it.

You may argue that the objective of promoting individual freedom and tolerant foreign policies is less an objective than it is a "faith" in the same category as humanitarianism, (i.e., abolishing poverty). It is, indeed, a faith if you use philosophical language (as I have been in part). But a nation without such an objective or faith must be by definition a nation which really doesn't give a damn, just as an individual without some faith must be by definition one who doesn't give a damn. Usually we use "objective" when we are talking about nations and "faith" when we are talking about people.

As for humanitarianism, the contrast here is one of reasonableness. Humanitarianism as we use the term is essentially unintellectual -- unreasonable. The objective of promoting individual freedom and tolerant foreign policies is eminently reasonable. And, too, humanitarianism can easily lead to the same idolatrous faith which faith in economic development per se does.
Mr. Leonard B. Lilist

Badri Rao

January 31, 1957.

French economic assistance to underdeveloped countries.

With reference to your inquiry regarding today’s New York Times report on SUNPED wherein a figure of $596 million is mentioned as the amount of French economic assistance to underdeveloped countries in 1955:

Although there is no means of checking what forms of assistance are included in the figure cited in the above report, the following figures from our studies on long-term public capital movements may be useful as a comparison.

Outflow of Capital from France to underdeveloped countries

- $ equivalents -

<table>
<thead>
<tr>
<th>Period</th>
<th>Amount</th>
<th>Annual Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946 - 50</td>
<td>$787 million</td>
<td>$160 million</td>
</tr>
<tr>
<td>1951 - 52</td>
<td>935 million</td>
<td>468 million</td>
</tr>
<tr>
<td>1953</td>
<td>427 million</td>
<td>427 million</td>
</tr>
</tbody>
</table>

The bulk of these funds went to the French Overseas Territories - and virtually all of the assistance was out of public funds; loans constituted a negligible proportion of the total.

Investment Resources made available by the Metropole to French Overseas Territories and North Africa.

$ million equivalent

<table>
<thead>
<tr>
<th>Year</th>
<th>Public funds</th>
<th>Loans by public institutions</th>
<th>Capital market issues</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>16.3</td>
<td>18.9</td>
<td>-</td>
<td>35.2</td>
</tr>
<tr>
<td>1948</td>
<td>33.7</td>
<td>38.9</td>
<td>-</td>
<td>122.6</td>
</tr>
<tr>
<td>1949</td>
<td>218.8</td>
<td>15.1</td>
<td>-</td>
<td>233.9</td>
</tr>
<tr>
<td>1950</td>
<td>315.4</td>
<td>14.0</td>
<td>13.1</td>
<td>36.9</td>
</tr>
<tr>
<td>1951</td>
<td>355.7</td>
<td>14.0</td>
<td>6.6</td>
<td>376.3</td>
</tr>
<tr>
<td>1952</td>
<td>406.6</td>
<td>12.6</td>
<td>12.0</td>
<td>431.2</td>
</tr>
<tr>
<td>1953</td>
<td>424.3</td>
<td>2.6</td>
<td>7.7</td>
<td>439.6</td>
</tr>
<tr>
<td>1954(est.)</td>
<td>393.7</td>
<td>3.1</td>
<td>8.8</td>
<td>405.6</td>
</tr>
</tbody>
</table>

West German Plan for an International Organization to Assist Underdeveloped Countries.

Neue Zürcher Zeitung of January 15, 1957 describes a proposal by Vice-Chancellor Bütcher to assist underdeveloped countries especially in Asia and Africa. The plan was submitted to the Government in September 1956. Mr. Bütcher has now made it available to others.

While the plan is based on the concept that the industrial countries have to assist the underdeveloped ones, Mr. Bütcher points out that such a course fits Germany's interests. The major part of German exports goes to EEC countries; it is difficult to obtain an increase in this trade. During the last few years 27 to 28 per cent of German exports went to the underdeveloped countries. The possibilities for an expansion are clearly limited to this area.

A one-sided Russian advance in these countries will have to be met. But the Western countries will have to use peaceful commercial means to prove their superiority. A fierce competition would lead nowhere; Russia is well equipped to deliver investment goods regardless of costs.

Military or political organizations should not be used under the plan. Germany would also have to exercise extreme caution in dealing with dependent territories. It would be imprudent of Germany to proceed by itself. A German initiative should be based on a plan taking the combined development requirements of the underdeveloped countries into consideration. Private and public investment or loans would not solve the problem unless they are included in a general program. This means that countries and international organizations working in this field (including IDBD) would have to keep each other better informed and should consult each other. The American Economic Assistance Program will have to be coordinated with European measures. Finally, consideration should be given to a joint organization which should carry out all projects; an international instrument would have to finance them.

The following points would apply to West German participation:

1. A low interest for long-term projects should not be objected to since this could be compensated for by higher prices.

2. More real problems are the limits to be set on financing and the diversification of risks.

3. A new credit limit could be established with AKA for long-term (over five years) credits. It could be covered by a rediscount offer by the Central Bank or a guarantee by the Finance Ministry. AKA would be authorized to market one or two years' paper against its long-term financing. It could also try to refinance itself abroad. Initially, annual funds of DM 200 to 300 million should be sufficient.
January 29, 1957

His Excellency Francisco Urrutia
Ambassador of Colombia
1520 20th Street, N.W.
Washington, D.C.

Dear Mr. Ambassador:

Many thanks to you for your kindness in sending me the copy of your statement about investment in the underdeveloped countries. I read with much interest the pages that you marked.

I find myself in general agreement with your position, but perhaps you will permit me to add the following observations:

(a) In the paragraph on monetary stability on page 8, you indicate that the currency of a developing country frequently depreciates, not as a result of inflationary policies, but rather because of balance of payments difficulties. It has been my experience that balance of payments difficulties are usually caused by unwise or inappropriate fiscal or monetary policies and that where such policies are well designed to avoid inflation, they also serve to avoid exchange difficulties.

(b) Your argument about taxes is clearly correct where an American corporation invests directly in an enterprise in a developing country. I find, however, that American corporations are more and more using a tax haven for their investments, often through the creation of a Panamanian subsidiary. Very frequently, they do not expect to get dividends from their Panamanian subsidiary for a long period of time, intending instead to plow the profits back in an expansion of their overseas business. Where this is the case, of course, the rate of local taxation may well be a substantial factor in their investment decisions.

(c) Finally, I think it might have been worth mentioning that the motive of many, if not most, U.S. corporations engaging in overseas investments is not so much to reap an attractive direct return on their investment as to preserve an export market which might otherwise be lost or to develop a new source of materials, as in the case of the extractive industries.
January 29, 1957

I enjoyed very much talking to you the other day at the home of Ernesto Franco-Holguin and I hope we shall have an opportunity to meet soon again.

With kind regards,

Sincerely yours,

Richard N. Demuth
Director
Technical Assistance and Liaison Staff
Mr. Leonard B. Rist,
International Bank for
Reconstruction and Development
1818 H. Street, N. W.,
Washington 25, D. C.

Distinguido Caballero:

Con su atenta carta del 5 del mes próximo pasado, he tenido el agrado de recibir el estudio sobre "The use of special assessments to finance development projects", que usted me remitió, atendiendo mi solicitud de fecha 14 de noviembre de 1956.

Al agradecer a usted el valioso envío, me valgo de la oportunidad para testimoniarle las muestras de mi consideración y estima.

Dr. Antonio Escobar Fratti
Subsecretario de Hacienda.
DELEGATION OF COLOMBIA

STATEMENT TO BE DELIVERED BEFORE THE SECOND COMMITTEE

BY AMBASSADOR DR. FRANCISCO URRUTIA OF COLOMBIA
Mr. President:

A study of the report of the Economic and Social Council on the economic development of underdeveloped countries shows a division of the problem into three questions:

1. The question of the establishment of a Special United Nations Fund for Economic Development (report of the ad hoc committee).


3. Industrialization of underdeveloped countries.

I would like to refer during the general debate to these three questions together as a whole, although without following the suggested order. In my opinion, the international tax problems and the question of industrialization are the ones justifying the need for a special United Nations fund.

I would refer especially to the problems of Latin-America.
The lack of understanding of the economic problems of Latin America is mostly due to the fact that public opinion, busy with details and secondary problems, has failed to grasp its fundamental aspects.

The economic growth of Latin America faces the restriction peculiar to areas in process of development which is the disproportion between those imports necessary to the expansion of investments and the capacity to import. This restriction stems from the fact that increase in savings result in a higher need for imports, since the diminution of consumer good imports is inferior to the increase in capital good imports.

The Latin American countries are facing this restriction by means of programs of substitution of imports, and encouragement of exports, but they cannot progress firmly along this difficult path without the help of foreign capital. Even if Latin America had a satisfactory coefficient of savings, foreign capital would still be necessary for its development because of the phenomenon mentioned above.

Possible contributions to Latin America towards the defeat of this obstacle in its development could consist of:

a) - An active policy of increasing imports of Latin American products,

b) - The encouragement of private capital investments in Latin America, in amounts which will ensure a favorable balance of capital movements, and

c) - An increase in credit terms.

In fact, none of these three methods is completely successful, as
will be seen in the following pages.

**I - TRADE**

Ten years ago, out of a total national production of 30,000 million dollars, we were exporting, 5,500. We have been able to increase our national production to 43,000 million dollars, but, in the same period, our exports have only increased by 1,500 million dollars to reach the present total of 7,000 millions.

The following graph clearly shows the magnitude of the problem.

<table>
<thead>
<tr>
<th>Year</th>
<th>National Production</th>
<th>Foreign Exchange Available</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945</td>
<td>27,000 millions</td>
<td>4,213</td>
</tr>
<tr>
<td>1951</td>
<td>40,000 millions</td>
<td>7,048</td>
</tr>
<tr>
<td>1955</td>
<td>43,000 millions</td>
<td>7,400</td>
</tr>
</tbody>
</table>

The great volume of foreign exchange available correspond to the devaluation of the money and a slight increase in trade with Europe.

The volume of trade of the United States with Latin America has increased by 700% during the last 20 years, but what worries the Latin Americans is that almost all of this increase took place between 1935 and 1945. The trade volume with the United States has remained stationary.
during the last 10 years, and the favorable balance which we had has dis-
appeared, as the following graph shows:

<table>
<thead>
<tr>
<th>Millions of Dollars</th>
<th>Imports from the United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,000</td>
<td></td>
</tr>
<tr>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>1,000</td>
<td></td>
</tr>
</tbody>
</table>

The Trade figures between the United States and Latin America are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports from United States to Latin America</th>
<th>United States Imports of Latin American Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>1935</td>
<td>344 million dollars</td>
<td>461 million dollars</td>
</tr>
<tr>
<td>1946</td>
<td>2,100 &quot; &quot;</td>
<td>1,760 &quot; &quot;</td>
</tr>
<tr>
<td>1947</td>
<td>3,858 &quot; &quot;</td>
<td>2,168 &quot; &quot;</td>
</tr>
<tr>
<td>1948</td>
<td>3,166 &quot; &quot;</td>
<td>2,362 &quot; &quot;</td>
</tr>
<tr>
<td>1949</td>
<td>2,721 &quot; &quot;</td>
<td>2,301 &quot; &quot;</td>
</tr>
<tr>
<td>1950</td>
<td>2,720 &quot; &quot;</td>
<td>2,910 &quot; &quot;</td>
</tr>
<tr>
<td>1951</td>
<td>3,547.8 &quot;</td>
<td>3,740.9 &quot;</td>
</tr>
<tr>
<td>1952</td>
<td>3,411.1 &quot;</td>
<td>3,479.9 &quot;</td>
</tr>
<tr>
<td>1953</td>
<td>3,442 &quot; &quot;</td>
<td>3,133.6 &quot;</td>
</tr>
<tr>
<td>1954</td>
<td>3,290.5 &quot;</td>
<td>3,377 &quot;</td>
</tr>
<tr>
<td>1955</td>
<td>3,336.7 &quot;</td>
<td>3,308.3 &quot;</td>
</tr>
<tr>
<td>1956 (6 months)</td>
<td>1.866 million dollars</td>
<td>1,905 &quot;</td>
</tr>
</tbody>
</table>

Almost all of the increase in the volume of our trade with the United States occurred between 1936 and 1946, and was due mostly to the substitution of markets caused by World War 2. It is disturbing to note on the other hand, that the American continent has not been able to increase its commerce during the last 10 years. Increases in the export of some products such as coffee and oil have been offset by decreases in others, and the following are some of the reasons for this situation:
A - Prices have not been remunerative. - It has been explained that the prices of Latin American products have increased by 300% in the last 15 years, and those of the United States by 150%, and that in terms of trade, they are therefore much more favorable to-day than 15 years ago for Latin America.

These figures are reached through the price increases of coffee and oil between 1935 and 1950. During the last 5 years, terms of trade began lowering, and in 1954 stood at 96.4% of the 1950 level. In 1954, only Colombia and Chile had terms of trade more favorable than in 1950 (106% and 136% respectively). In Argentina, they went down to 91.1%; in Brazil, to 98.6%; in Peru, to 95.4%; in Venezuela, to 94.1%; in Mexico, to 97.3%. With the exception of coffee and oil, Latin American production sold in 1954 for 7% less than in 1947 and 25% less than in 1951.

B - It has not been possible to ensure adequate markets for Latin America. - Latin America, until now, has only been able to sell minerals and agricultural products which have both limited markets and limited prices. In the present era of industrialization, the best profits are not derived from agricultural or mining activities, but from industry.

The prospects of increasing our trade are not very favorable, since we do not see an easy increase in our trade exports while there exist in the United States restrictive quotas for sugar and oil, while new ones are to be established for rope and leather products, as long as the United States cannot co-operate with the coffee-producing countries with a view to establishing remunerative prices for coffee, and as long as we cannot
compete with agricultural products produced in the United States of America with government subsidies.

The only practical suggestion made to us in order to increase our markets in the waging of major advertising campaigns. Certain countries, such as those producing coffee could increase their markets this way, but advertising will not help in securing bigger outlets for oil, sugar or tobacco, or for the various products which are not sold in the United States through lack of demand if not because of legal restrictions.

II - PRIVATE CAPITAL INVESTMENT

Until now, United States private capital has not been chiefly interested in outside investments. First, we shall study this aspect of the question, which, in our estimation, is vital in order to understand the possibilities of investments in the future, then we shall see the repercussions on Latin America of this lack of interest shown by private investors of the United States, and finally, we shall make a few observations on the possible causes and on remedial suggestions.

The Commerce Department prepared in 1950 a survey from which the following conclusions are drawn:

a) - Only 4 per 1000 of the companies which filed revenue statements in the United States in 1949 reported foreign investments;

b) - Out of a total of 543,561 million dollars invested by United States capital in private enterprises in 1950, only 11,780 millions, or about 2%, were in the foreign sector;
c) - 93% of these 11,780 millions comprised the capital of 442 companies. The Commerce Department calculated in 1950 that the number of private individual investors did not exceed 250, and that their holdings represent a minimal part of the investments. Ten exchange companies control 40% of the total foreign investments of the United States.

In 1954, foreign investments rose to 18,000 millions, but the proportion of capital invested outside does not appear to have changed.

The limited interest in foreign investments demonstrated to-date by United States private capital has had the following consequences for Latin America:

a) - United States private capital, to-date, had made up only 5% of the investments made in Latin America in the last 15 years;

b) - New private capital investments have not contributed to the equilibrium of the balance of payments. These investments have only helped the gap in the balance of payments to emerge in a concrete form whenever, during a specific period of time, the new investments exceed the amount of dividends paid by Latin America in respect of foreign investments.

The movements of capital and dividends show an unfavorable balance which reduces the capacity to import of Latin America.

From 1945 to 1953, the balance stood as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Incoming New Capital</th>
<th>Payment of Profits</th>
<th>Outgoing Foreign Capital</th>
<th>Capacity to Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949</td>
<td>5,644</td>
<td>664</td>
<td>610</td>
<td>231</td>
<td>5,487</td>
</tr>
<tr>
<td>1950</td>
<td>6,550</td>
<td>268</td>
<td>755</td>
<td>210</td>
<td>5,853</td>
</tr>
<tr>
<td>1951</td>
<td>7,048</td>
<td>691</td>
<td>878</td>
<td>142</td>
<td>6,719</td>
</tr>
<tr>
<td>1952</td>
<td>6,346</td>
<td>593</td>
<td>681</td>
<td>192</td>
<td>6,066</td>
</tr>
<tr>
<td>1953</td>
<td>6,702</td>
<td>539</td>
<td>674</td>
<td>225</td>
<td>6,343</td>
</tr>
</tbody>
</table>

As can be seen from the preceding table, outgoing reexported foreign
capital and payment of profits and dividends reduce by 300 to 500 million dollars annually the balance of the revenue derived from its exports which Latin America can use for outside purchases.

In the light of these observations, we would like to comment as follows on the best manner in which to encourage private capital investment in Latin America.

**Monetary Stability.** - It is obvious that this is an essential requirement to attract investments. Frequently however, the rise in the value of the dollar as compared with the local currencies is not caused by inflation due to inadequate fiscal or monetary policies, but rather is due to the difficulty in defeating the obstacles caused by the lack of equilibrium of the balance of payments. Furthermore, it is not always accurate to preach that a policy of monetary stability is one of the prerequisites of foreign investment encouragement, since, in some cases, it is precisely the increase in foreign investments which is the cause of the instability.

**Reduction of Local Taxes.** - Local tax rates until now, have not affected nor prejudiced private United States Companies, for the following reason: the United States considers taxes paid to another Government when computing taxes to be paid to it. A Company which must pay a tax of 52% of its profits, incurs only the difference between the tax amount paid in the country where the investment is made and the 52% which is the american rate. Since local taxes do not reach this rate of 52%, the companies are
therefore in no way affected.

When in 1952, the Commerce Department launched an enquiry to determine the causes of the difficulties standing in the way of an increase in foreign investments of private capital, only 30 out of 366 companies showed interest in obtaining lower local taxes, and the majority of these 30 companies indicated that this was more in the way of an "enticement" for investments in the mining and oil businesses, and not in order to enjoy special exemptions in the United States if these keep changing along with local taxes. On the contrary, the Department of Commerce learnt through this enquiry in 1952, that 44 % of those interested in outside investments felt, with good reason, that United States taxes rather than local taxes were in the way of major foreign investments.

To encourage substantially private United States capital investments, it would be necessary to change not only the fiscal regulations of the Latin American countries, but especially the tax laws of the United States.

European capital came to the United States when the investment in the new world nets a profit 4 to 5 % higher than in Europe; however, an American capitalist has no desire to export his capital to Latin America when, out of the 15 to 16 % profit netted, 50 to 60 % go to the United States Treasury in taxes, and reduces his profit to 7 or 8 %, or only 2 or 3 % more than in the United States after taxes.

**Profits of Private Investments:** Profits made in Latin America by private capital could hardly have been more attractive and, according to surveys by the United Nations Economic Commission for Latin America,
were of the order of:

\[
\begin{array}{lcl}
21 \% & \text{in} & 1948 \\
14.9 \% & " & 1949 \\
16.8 \% & " & 1950 \\
20.5 \% & " & 1951 \\
\end{array}
\]

In spite of these profits, and the fact that their greater part has been capitalized and reinvested, private initiative has just about sufficed for light industry, but has fallen short of the requirements of heavy industry. Since private United States capital does not exist either for this type of investment, the industrial and manufacturing concerns have requested Governments to make the necessary capital available, while leaving administration and management to private enterprises. A majority of the Governments has accepted this formula in order to ensure a greater degree of efficiency in the management of new industries, but the capital remains theirs, and the private concerns are reduced to the role of administrators or intermediaries; this awkward and ambiguous situation will be straightened out only when private capital is effectively in a position to own and not simply to administer the new heavy industries.

There are to-day in the United States numerous enterprises ready to undertake under contract the administration of future heavy industry concerns for which they have presented surveys and plans to demonstrate that their operation can be both successful and profitable, but, in general, they do not propose to contribute capitals and limit themselves to suggesting that they be financed by the Governments themselves.

We all agree on the importance of leaving to private initiative the
opportunities afforded by the industrial development of our countries; but private initiative must be made aware of the need for contributing the necessary capitals rather than merely undertaking the management of Government property.

As to the profits realized by foreign capital investments in Latin America, the following observations can be made:

1) Of a total of 6,256 million dollars worth of United States investments in Latin America, the major part goes to oil (1,688) and mining (1,003). Private capital is irreplaceable in this type of business and we all agree on the profits derived by the countries where this is done.

2) Only 550 millions are invested in agriculture in Latin America (chiefly sugar cane in Cuba and bananas in Central America). This contribution to agriculture by United States private capital amounts only to 0.5% of the amounts invested by Latin Americans themselves in their agricultural enterprises.

3) Only 1,248 millions are invested in industry (95% of this in pharmaceutical laboratories and light industry).

Adequate regulation of public utility enterprises. - In the case of electricity companies, it has been shown that they are ready to make all investments necessary for efficient operation, as soon as Governments adopt policies which will enable them to profit sufficiently to attract capitals. The following comments can be made on this point:

The present taxes in the United States compel electric energy companies which settle in South America to practice rates and conditions
far too onerous for the development of these countries.

It appears, from the figures of the last report of the American & Foreign Power Co. that in 1955 all the subsidiary companies which this concern has in Latin America paid a total of 11,290,854 dollars in revenue taxes and that the American & Foreign Power Co. which controls them, paid an additional tax of 2,362,090, or a total of US $13,652,944; this represents practically the same sum as was received in profits which amounted to US $14,465,771. This sum includes taxes paid to the United States as well as to the Latin American Governments, but a reduction in these does not affect the total for, as we have already explained, the American Treasury collects the difference between sums paid in Latin America and the rate in force in the United States. To pay these taxes, and dividends to shareholders who invested around 250 millions, the group of enterprises and subsidiaries of the American & Foreign Power Co. had to establish rates which gave it a balance of close to 30 millions in 1955.

This, for public utility companies is exaggerated. So much so that this group of enterprises had to earmark 23.3% of its receipts for the two purposes mentioned.

It is obvious that the development of Latin America needs public services at rates which are not excessive. So that private electric energy concerns can operate in Latin America, a way must be found to reduce the taxes paid to the United States inasmuch as to-day, indirectly, residents of Latin America, in addition to having the highest electricity rate, in actual fact pay the 14 million dollars which the subsidiaries of the American
and Foreign Power Co. have to pay in taxes; and a reduction of local taxes will in no way ameliorate this situation, as it will automatically be offset by higher United States taxes.

It is understandable that, while this situation remains unchanged, Latin American countries will seek to build their own electrical plants, since it is difficult for a Government to bind itself by allowing rates which would enable a company to use 23.3% of its income to pay taxes and small profits to its shareholders.

**Treaty on Double Taxation.** - The Treaties on Double Taxation presented in Rio, would be interesting if they could be signed under the conditions proposed by the American delegation in Rio, and as suggested by President Eisenhower in his Message to Congress two years ago. Unfortunately, the Treasury Department has explained that Congress would not accept a 14% reduction in taxes on investments in Latin America, and that, in these treaties, we must limit our aspirations to obtaining from the United States a compromise whereby American companies would not be taxed on reductions already granted in order to attract new capitals.

Under these circumstances, the interest presented by these treaties is very limited, especially for those countries where income tax is the chief means of taxation, since new businesses in fact do not pay taxes at all during the first years of activity, until their production has actually started. A number of countries have taken steps towards signing them, but this is more as a good will gesture in the hope that later on they will be rewarded with a change in the tax laws of the United States incorporating
the rebates requested in Congress by President Eisenhower.

III. - CREDITS FOR THE DEVELOPMENT OF LATIN AMERICA

In order to clear up a misunderstanding about the need for these credits and the difficulties encountered when utilizing them, we shall first study the problem in general and the types of credit which the development of Latin America requires. This will enable us to understand why neither the commercial banks of the United States, nor the International Bank, nor the Export-Import Bank have been able to grant credits under adequate conditions, as is shown by the small number of operations which have been accomplished up to now.

A - The Problem in General.

Latin American and United States economists differ completely on the reasons which have stood in the way of large scale credits for Latin America.

In the United States, it is thought that the fact that Latin American countries have not made use of the credits offered by the Export-Import Bank means that they have adopted a negative attitude towards the need of capital for their development. Another idea prevails also in the United States: if Latin America has not been able to use on a large scale the credits of the Export-Import Bank, it is not so much because of the inability of this Bank to supply them, but rather because our countries have lacked "healthy projects" which would have justified these credits.

The United States economists have reached these conclusions through a series of misunderstandings which it is imperative to clarify:
The fact that Latin American countries invest annually close to 7,000 million dollars in development projects and new enterprises, and that only last year, they bought 3,000 million dollars worth of machinery and capital goods (1,461 millions in the United States) shows clearly that it cannot be said that there are in Latin America no "healthy projects" of economic development. What is happening is that the type of credit needed for the development of Latin America cannot be obtained in the United States.

It has been stated also that to calculate in global form the total capital needs of Latin American development is a "waste of time".

The figures which we have given on the total capital needs are not a waste of time in our estimation; even if they do not solve the problem, they do reveal its magnitude and the urgency of solving it, using far more drastic means than those contemplated up to now.

It is opportune to note that these calculations on the investment needs for economic development and the form of financing, were recommended by Resolution 54/51 (Doc. 95/54 Rev. 3) of the Rio Conference of Finance Ministers, adopted unanimously by the delegates of 21 American Republics, including the United States.

Along the same lines, we would call attention to the following figures, which do not imply in the least any criticism directed towards the International Bank, or even less towards the Export-Import Bank which has manifested its desire to increase its loans to Latin America, but show that there are factors which have in fact been in the way of the adequate use of loans.
offered up to now for the development of Latin America.

   a) - Loans granted in 1955 to Latin America by the International Bank are equivalent to 2% of United States exports, or less than one tenth of the profits made by private United States concerns in their dealings with Latin America.

   b) - Loans granted during the same period by the Export-Import Bank amount to about 4% of the value of United States Exports, or less than one fifth of the profits made by private United States concerns in Latin America.

   These figures sow that credits obtained to-date in the United States by Latin America are proportionate neither to the needs of its economic development, nor to the volume of business transacted or the existing trade between our countries and the United States.

   Neither the Latin Americans who have been anxious to obtain credits, nor the United States banks such as the Export-Import Bank, which have shown their readiness to grant them, are responsible for this situation; the responsibility rests with a series of factors and circumstances which have not yet been sufficiently studied.

   B - Type of Credits needed for the Development of Latin America.

   During the last 15 years, because of the lack of major export markets and to make up for the lack of foreign exchange, Latin America was forced to substitute national production for imports, and of the consumption goods required, only 5 to 10% were imported (last year, against a national production of 43,000 millions, only 2,000 millions in consumption goods
were imported); but this stage of light industrialization is practically at an end, and Latin America has entered the stage of semi-heavy and heavy industrialization which requires capital investments far greater than in the previous stages of its development, and requires outside long term credits for the following reasons:

i) Latin America has had an extraordinary rate of capitalization, and in the last years, has saved from 17 to 20%. In spite of this effort at economy and capital formation, industry there has at its disposal private capital to the amount of only 100,000 to 150,000 million dollars, which is not enough to industrialize a continent counting to-day 180 million inhabitants and in fifty years will have 400 million.

ii) The majority of the Latin American countries do not have at their disposal even the foreign exchange necessary to transform into dollars the national currency which, thanks to the capitalization already explained, local industries could invest in the purchase of the machinery needed to expand into new factories. During the last years, Latin America has allocated 45% of its available foreign exchange (around 3,000 million dollars yearly) for the purchase of machinery and capital goods, obtained through long term credits in order to enable the countries to spread over several years the dollar payments necessary to its industrialization.

European banks have understood the problem and have granted credits in such a way that they have contributed to the solution of the problem of importing capital goods from the old continent. United States banks have not followed suit, and this is due perhaps to the fact that, for the last few
years, the majority of Latin American imports from Europe were in capital goods, and on the other hand, 50% of the exports of the United States are still in consumption goods.

In the graphs below, the proportion of capital and consumption goods of Latin American purchases in Europe and in the United States is clearly shown.

<table>
<thead>
<tr>
<th>Million Dollars</th>
<th>United States</th>
<th>PROPORTION OF EXPORTS TO LATIN AMERICA 1955 (approx.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3200</td>
<td>Consumption</td>
<td>Europe Consumption Goods Fuel Raw Materials Capital Goods</td>
</tr>
<tr>
<td>2800</td>
<td>Goods</td>
<td></td>
</tr>
<tr>
<td>2400</td>
<td>Fuel</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>Raw Materials</td>
<td></td>
</tr>
<tr>
<td>1600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>800</td>
<td>Capital Goods</td>
<td></td>
</tr>
<tr>
<td>400</td>
<td>Raw Materials</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Capital Goods</td>
<td></td>
</tr>
</tbody>
</table>
The above graphs show that capital good exports from the United States tend to decrease, while those from Europe increase and almost equal them.

C - Credits offered by the United States.

Having made the above observations, we shall now see what types of credits can be obtained in the United States:

1) Private American banks have up to now limited their activities to commercial credits, of interest to United States importers of Latin American products and consumption good exporters, but which do nothing to solve the problem of capital good exports.

In 1955, Latin America purchased in the United States merchandise of a total value of 3,297 million dollars. Of this amount, 1,461 millions were for machinery, structural steel and capital goods which practically had to be paid cash, as only commercial credits could be obtained where the time payment limit is of 6, 9 or 12 months.
2) **International Bank Loans** are subject to quite a conservative policy of credit terms. The fact that last year, only 70 million dollars were loaned to the whole of South America, show this clearly.

Because of its constitution and its organization, the International Bank has had to limit its activities to the development projects which are the most vital for each country, but it is not in a position to finance the needs of foreign exchange resulting from this same development in the ensuing years. The International Bank can, for instance, lend 200 dollars per kilowatt of energy which is the average dollar investment required for the installation of new electrical energy plants, and the governments have been able in most cases to get the necessary funds in local currency, but they have on the other hand encountered difficulties when taking care of the requests of the energy consumers who, during the first year of installation of such a plant, require an average of 500 dollars worth of exchange per kilowatt in order to import the refrigerators, kitchen ranges, motors and other appliances which will use the energy available.

International Bank loans require the signature by Governments as principal debtors and the requirements necessarily mean a governmental "supervision" which is not compatible with the absolute freedom of action desired by private initiative. For this reason, the Governments only have been able to use the loans of this bank in strictly governmental projects such as communications or public utility works.
3) The Export-Import Bank Loans are much simpler, and apparently easy to obtain, but there, we come across another series of problems which must be studied:

a) - The Export-Import Bank up to now, has not shown great interest in granting loans for economic development, except in amounts needed for the purchase of American machinery in each project. Investments in machinery generally represent only a small part of the public works or economic development projects in which Governments are interested which is why they have not been able to accept the credits offered with all the desired eagerness.

b) - The Export-Import Bank credits can be used only for the purchase of American goods, and even though they are long term credits at reduced interest rates, it is often preferable to utilize European credits in view of the fact that merchandise bought with them is at much more favorable prices.

The only concerns which can utilize the Export-Import Bank credits are those which have concrete plans for well-determined projects, to which Mr. Holland made reference on April 23rd. Latin American enterprises who have studied this type of projects, usually prefer financing them locally; they demand from the Central Banks the conversion of local currency into dollars, and make cash purchases of the necessary machinery since, on the one hand they usually obtain better prices this way, and on the other hand, if they so wish, they can purchase some of the machinery in Europe where prices are lower than in America.
c) - Before embarking on new projects, Latin America considers that it is indispensable to enable established private industry to achieve the natural expansion and modernization which must come. This process does not involve presenting to the Export-Import Bank individual and concrete projects, because they are part of the plans of private concerns over which the Governments do not exercise any control, and which have enough locally available capital to accomplish them; the only thing which they require from the central banks is the conversion of national currency into dollars of the necessary amounts for the purchase of machinery. This class of foreign exchange need for industrialization is however excessively serious for our commercial balances, and last year, totalled 45% of all foreign exchange paid to the United States (1,461 million dollars). In these cases Export-Import Bank credit is not required for the individual projects themselves, but is needed so that central banks may spread over several years the conversion into dollars of the payments made for the purchase of machinery for private industry.

        d) - In order for loans to be "healthy" from a banking viewpoint, they must be limited to those industries or concerns who produce dollars, or who reduce the dollar needs of a country, and economic development loans do not necessarily result in an increase in exports.

        While 97% of Latin American exports are in raw materials and agricultural products, the installation of electric energy, telephones, and the construction of means of communication will contribute in an essential manner to the development proper of the country but will not mean a
substantial increase in its exports. We hope that the Latin American
countries, within a few years, will reach such a stage of industrialization
that they will be able to enter the international market competitively, in
a less inferior position, but this period of readjustment will require from
10 to 20 years, and in the mean time, we need credits to tide us over this
period of transition.

Studied individually, these credits do not immediately imply dollar
production or savings, but they are fully guaranteed when considered in
the light of the future availability of foreign exchange of each country.

e) - In his presentation of April 23rd, Mr. Holland stated that
up to now, the Export-Import Bank has not rejected a single loan application
on the grounds that the requesting Latin American country did not have the
ability to pay.

The Latin American countries do not think it proper or possible
to present to the Export-Import Bank projects which have already been
rejected by the International Bank, not so much because they did not
present sufficient importance or economic strength, but because this Bank
considered that, although economically healthy, the ability to pay of the
country in question justified a postponement of several years. The missions
despatched by the International Bank to countries such as Brazil, Uruguay,
Colombia and Mexico, found a multitude of economically sound projects,
but they advised delaying their execution as they could not be accomplished
without dollar credits, and the prospects of exchange shortage made it
wise not to be burdened with major obligations in foreign currencies. As
a result of the recommendations of the International Bank, a number of countries have abstained from applying for loans from the Export-Import Bank in respect of the same projects.

f) As a proof of the success of the credit policy announced in Rio by the American Delegation, it has been mentioned frequently that the amount of loans granted by the Export-Import Bank rose from 52 millions during the 1953-1954 fiscal year to 284 millions during the 1954-1955 fiscal year. Unfortunately, this rate of increase has not been maintained, and all the circumstances and difficulties indicated previously have limited the utilization of credits offered by this bank to 155 millions approved in 1955-1956, of which only 70 millions were actually issued. During the same period, the Export-Import Bank received in exchange 120 million dollars in repayments and cancellation of obligations contracted for by Latin America in previous years.
These facts demonstrate how inadequate are the solutions upon which we have relied up to now for the development of Latin America. It would be naive to believe that this development can be based upon:

a) A volume of international trade that has only increased slightly during the last ten years

b) Private capital investments from the United States that have only amounted until now to 5% of the total investment of Latin America in the last fifteen years;

c) Long term bank loans which only cover 6% of the total exports of the United States in Latin America.

We have, in my opinion, made the mistake of proposing in most of the international conferences, hundreds of propositions that generally are only related to small specific problems and we have overlooked the main issues.

The main issue is the following:

In the "Economic Survey of Latin America for 1954" - (UN document E-ON 12.362), the Secretariat of the Economic Commission for Latin America explained that although Latin America is in a favorable situation in comparison with other regions on the periphery of the world's economy, "it is no less true that such a rate increases rather than reduces the disparity between the average per capita gross product of Latin America and that of more advanced countries. In the United States, for example, the historic rate of growth of the per capita gross product has been, and continues to be, 2%. This implies the possibility
doubling the standard of living every 32 years, while an annual rate of 1.5% (Latin America) would lengthen the period required to 47 years."

Fifty years from now Latin America will have a population estimated at between 400 and 600 million inhabitants (UN Document ST-SOA/SCEA/17). A way must be found to prevent these people from facing still greater disparity in the per capita gross product and in the average annual income than that which exists today between the average Latin American and the average United States citizen.

History has proved that such differences only lead to international social unrest.

The fact which in my opinion is most important is that the public may understand these problems so that governments will give their attention at least to some of the suggestions already made in different international organizations in previous years.

Much progress would be achieved if countries could concentrate their efforts in implementing at least the following policies:

a) The proposals already made by the State Department of the United States to increase trade. In this regard we must express our gratitude to the former Assistant Secretary for Latin America, Mr. Henry Holland. Thanks to his efforts the volume of trade between the United States and Latin America increased by more than 15% in the first six months of this year. If this increase could be maintained many problems would disappear.

b) The proposals, presented on various occasions, to increment the long term loans for Latin América.

As far as the United Nations is concerned I think it would be useless to suggest new resolutions and we ought to concentrate our efforts in the establishment of the Special U. N. Fund for Economic Development and to support the work of the Economic and Social Council and of the Economic Commission for Latin America, giving special attention to its studies and investigations. As far as my country is concerned these studies have enabled us to make the necessary investigations for our development and I am sure that all the other Latin American countries rely on the work of ECLA for the same purposes.

On the specific project of SUNFED my Delegation will make some observations at a later stage of this debate.
Mr. Chairman and gentlemen:

My name is Henry G. Aubrey. I am at present the director of a research project on the "Economics of Competitive Coexistence" of the National Planning Association and a Visiting Professor in the Graduate Faculty of Political and Social Science of the New School for Social Research (on leave of absence). Earlier I was an economist in the Research Department of the Federal Reserve Bank of New York and a Consultant to the Planning Board of the Government of Pakistan, to the United Nations' Department of Economic Affairs, and other international organizations. I have spent a considerable amount of time on research in economic development and written and lectured extensively in this field.

Economic growth is, of course, nothing new in history. Why is it, then, that the economic development of the less advanced areas of the world has recently become the subject of such intense preoccupation in world affairs? And why, in particular, has an active interest in this development become a touchstone of the international performance of an industrial country? I propose to confine my brief remarks to this question, in order to focus on economic development abroad as an important consideration in the formulation of foreign economic policy.
In the past, the process of economic growth was much more generally taken for granted than now. Over the last two centuries, since the so-called industrial revolution in Europe, economic growth had been left to proceed at its own pace, rapid at some times in certain countries, more slowly in other periods and places. In our time, the less developed countries will not wait; they want their economic "revolution" now, and they expect its fruits within two generations rather than two centuries. The reasons for this radical change of temper and rhythm are, I submit, partly economic, partly psychological-political.

Historically, in the heyday of Western economic growth, population increased only slowly and the needs of growing numbers did not call for an accelerated schedule of progress. Today, by contrast, most underdeveloped countries are already densely settled and their population is increasing at unprecedented rates. It takes therefore more rapid growth just to keep up with growing needs. Even faster growth is necessary to raise the generally depressed standard of living. This, then, is an economic reason for making haste deliberately.

While it is increasingly difficult to provide for growing numbers, vast masses of people have become aware of the better things of life and are demanding a greater share. Quite naturally, most governments could not remain passive in the light of such social and political pressures. They feel compelled to act instead of waiting for growth to come about in its own good time.

Thus, as gradual growth is replaced by accelerated development "under forced draft", the role of government is being transformed in the process: if changes have to be brought about quickly, the government tends to take on functions of assistance, promotion or even operation which a more leisurely course of events would not seem to call for.
This trend has taken distinct forms in communist-controlled countries and in free nations. In the former all initiative and activity is centrally controlled, while in the latter important functions are reserved to free enterprise, notwithstanding a measure of programming or planning.

It may be well to recall that a tendency towards broader government functions is not by any means unprecedented even in the more advanced free-enterprise economies. In times of stress most countries, including our own, have assigned far-reaching functions to government. Moreover, historically, most free-enterprise economies in the Western world have, at one time or another, relied on state intervention to a much greater extent than is often realized. Nonetheless, such periods of increased government activity have been followed in due course by more—not less—private initiative after the preconditions for faster growth had been created.¹/

Hence, the prevalence of government activities in early stages of economic development need not necessarily be taken as prima facie evidence of socialistic tendencies. The need to marshal scarce resources, to coordinate scattered efforts, and to formulate a judicious path of development make measures of planning unavoidable. It is eminently desirable to distinguish between this need and the overall direction of enterprise which characterizes a socialist economy. In fact, the creation of planning institutions that are compatible with democratic concepts offers the best prospects for the new countries to develop a stable alternative to the lure

of totalitarian centralism. By the same token, it would be harmful to allow the communists to monopolize the idea of premeditated economic development, for they are already trying very hard to be identified with the cause of industrialization in the minds of the people in retarded areas. In this respect, the communists have shown themselves well attuned to one of the strongest emotional drives in large areas of the world today—the desire for economic and social betterment.

This drive, in fact, has linked up with a second and perhaps even more powerful urge—the desire for independence and equal status in international affairs. To be free in a formal sense is no longer enough for those who have already acquired political independence. To be economically dependent upon powerful industrial nations is resented in some instances by underdeveloped countries almost as deeply as the political aspects of colonialism. Diversification of the economy and, especially, industrialization are seen as a means to reduce this dependence. The urge towards economic development is thus grounded in some of the most dynamic aspirations at large in the world. Hence, we should not be surprised by the near-religious fervor with which it is supported in areas where many people believe, rightly or wrongly, that they have been denied an equality of opportunity in the past, by bad fortune or perhaps even intentionally.

No wonder, then, that a country's attitude towards economic development has come to be regarded in underdeveloped countries as a touchstone of its identification with their needs and aspirations. The advanced industrial nations, already under a cloud on account of their accumulated wealth, are alternatively suspected of neglect and of ulterior motives. Russia, by contrast, postures as a newcomer who pulled himself up by his own bootstraps and who is therefore capable of the best disinterested
advice. No matter how historically false the claim and how frightful the cost of the prescription—the example looks attractive to many.

The degree of identification with the development goals of the underdeveloped countries has thus become an outstanding issue in international politics. Moreover, much more than sympathy and interest is expected from the industrial nations. Economic development requires resources which are scarce in underdeveloped areas—financial, technical, managerial, and administrative. These countries are therefore looking to those more advanced for trade and assistance in many guises. However, since such dynamic aspirations are involved, decisions to give or withhold cooperation symbolize much more than the material contribution in question. The crucial ingredient is an evidence of identification with what these people want most—a better life, greater economic security and independence, and a respected place in the family of nations. To cooperate or to deny—down to the last detail of negotiation and implementation—the issue is loaded with the emotional impact of those strong desires. Thus, political implications of truly explosive potency have been superimposed on economic issues. When it comes to discussing policies and programs, it may be well to bear in mind that they involve the international manifestations of the most fundamental human aspirations in the world today.
November 29, 1956

Mr. Robert W. Oliver  
Stanford Research Institute  
Southern California Laboratories  
820 Mission Street  
South Pasadena, California  

Dear Mr. Oliver:

Mr. Black has referred to me your letter of November 19 in which you indicate that you expect to be in Washington between December 3 and 15. I should be very happy to arrange for you to speak to the people in the Bank who might be helpful to you.

Please get in touch with me when you arrive in Washington. My telephone number is Executive 3-6360, extension 3221.

Sincerely yours,

Leonard B. Rist  
Economic Director
Mr. Eugene Black, President
International Bank for Reconstruction
and Development
1618 H Street, Northwest
Washington 25, D. C.

Dear Mr. Black:

As you will recall from our conversation in Los Angeles on October 15, Stanford Research Institute is preparing a manual for the International Cooperation Administration on "The Role of Small-Scale Industrial Units in Economic Development." Our investigations are being conducted along the lines of the brief outline which I am enclosing.

Of course we are obtaining a good deal of information from the literature in this field, but it would be helpful if I could talk with some people who have had personal contacts in underdeveloped areas. Of particular interest would be specific illustrations of recent attempts to promote small-scale industrial units.

I expect to be in Washington between December 3 and 15. Would it be possible for me to arrange a series of interviews during that time with a number of experts in the Bank? And can you suggest other experts in Washington or New York who would be able to help me?

Incidentally, I am taking the liberty of sending ahead a copy of the last two chapters of my study, The Origins of the International Bank for Reconstruction and Development. As I expect to go on from Washington to Princeton to discuss my thesis with my Ph.D. committee and the Princeton University Press, I would be most grateful for any criticisms.

May we again express our appreciation of your offer of assistance to the Institute in our study of small-scale industrial units.

Sincerely,

Robert W. Oliver
Economics Research

RWO: mb
Enclosure
THE ROLE OF SMALL- AND MEDIUM-SCALE INDUSTRIAL UNITS IN ECONOMIC GROWTH

Chapter I
Summary, Conclusions, and Definitions of Terms

Part I
The Potential Contribution of Small-Scale Industrial Units to the Economic Growth of Under-Industrialized Areas.

Chapter II
The Efficient Use of the Factors of Production

A. A description of the factors of production and an evaluation of their relation to the development of small-scale industry

1. The labor force
   a. Skills and attitudes
   b. Labor immobility
   c. Underemployment
   d. Management
   e. Education
      (1) General
      (2) Apprentice training
      (3) Technical schools

2. Natural resources
3. Capital and capital markets
4. Other elements of production
   a. Power
   b. Transportation
   c. Communications
   d. Agriculture

B. Factor proportions and production functions

C. The economies of scale
   1. Diminishing returns
   2. External economies
   3. The size of the market
D. Capital requirements of heavy industry

E. Innovations and technological change

Chapter III

Other Considerations in the Economic Growth of Under-Industrialized Areas

A. Competition and economic growth

B. Private vs government sponsorship of economic growth

C. Industrial diversification, integrated development, and economic stability

D. Foreign trade

E. Industrialization and social institutions
   1. Religion and customs
   2. Attitudes toward business income

F. Industrialization and population growth

Part II

An Historical and Current Description of Small-Scale Industrial Units

Chapter IV

The Historic Role of Small-Scale Industrial Units in the Development of Advanced Industrial Economies

A. The United Kingdom

B. Germany

C. The United States

D. Japan

E. The Soviet Union

Chapter V

The Present Status of Small-Scale Industrial Units in Representative Countries (substantially statistical with analytical conclusions drawn from data presented)
A. Representative countries

1. The United Kingdom
2. The United States
3. Japan
4. India
5. Philippines
6. Turkey
7. Mexico
8. Brazil

B. Bases for comparison

1. Employment, investment, and output per industrial unit
2. Rate of formation
3. Mortality
4. Operating costs and efficiency
5. Public assistance

Part III

Chapter VI

A Positive Program for Stimulating the Growth of Small- and Medium-Scale Industrial Units in Under-Industrialized Economies

A. The selection of specific industries

B. Sources of action

1. Local authorities
2. The International Cooperation Administration
3. International Agencies

   a. The United Nations
   b. The International Bank for Reconstruction and Development
   c. The International Finance Corporation
July 23, 1956

Prof. T. C. Schelling
Department of Economics
Yale University
New Haven, Connecticut

Dear Tom:

Just a line before I go off on vacation to thank you for your courtesy in sending me a copy of your CED draft. I had, in fact, seen it a day or two before through Nat McKitterick, who was given a copy by Van Cleveland. I will note your caution about showing this around the Bank.

Let me tell you that I thought your analysis was very interesting and, for the most part, persuasive. I am not convinced in my own mind, however, that you give enough weight to the psychological impact of various types of aid. The more I have watched the development process, the more I am convinced that enlisting the imagination of people is an important thing and sometimes this depends on forms as well as on substance.

I am also not convinced of the soundness of your position with respect to international administration. I confess to great perplexity as to how to handle the many difficulties that such administration involves. On the other hand, it seems to me that there are so many advantages to international administration that it deserves more emphasis in a U.S. program than I think you would give it.

I hope that we will have an opportunity to discuss all these matters sometime after the middle of August when I shall be back in Washington. If this letter does not make sense, it is because I am dictating it in a hurry and will have to ask my secretary to sign it in my absence tomorrow.

With kind regards,

Sincerely yours,

Richard H. Demuth
Director
Technical Assistance and Liaison Staff

RHD:tf
June 3, 1956

Mr. William B. Dale
Stanford Research Institute
711 11th Street, N.W.
Washington, D.C.

Dear Mr. Dale:

I enclose herewith a memorandum for your use in regard to Mr. Prentice's trip to Tokyo. I hope you will find it of some assistance.

Faithfully yours,

Russell H. Dorr

Enclosure
Mr. William B. Dale

Russell H. Dorr

Trip of Mr. Prentice to Tokyo - Stanford Research Institute.

June 8, 1956

In connection with Mr. Prentice's coming trip to Tokyo to discuss the Stanford Research Institute Conference plans, I suggest that it might be useful if Mr. Prentice were to talk to the following individuals:

Mr. Taizo Ishizaka  
President, Federation of Economic Organizations (corresponding to National Association of Manufacturers); President, Tokyo Shibaura Electric Co., Ltd.

Mr. Masamichi Yamagami
President, Export-Import Bank of Japan

Mr. Kiichiro Satoh
President, Mitsui Bank

Mr. Kyosuke Sakai
President, Daiichi Bank

Mr. Tatsunosuke Takasaki
Minister for Economic Planning. Mr. Takasaki has headed many important industrial enterprises and played an important part in the establishment of the canning industry in Japan

Mr. Tadayoshi Yasada
Foreign Liaison Officer, Yawata Steel Co.

Mr. (Tasashi) Komatsu
President, Japan-American Society and formerly a leading industrialist

I am sure it would be useful for Mr. Prentice to talk to Mr. Frank Waring, Economic Counsellor of the U.S. Embassy; Mr. Clarence Meyer, head of Operations Mission, U.S. Embassy, both of whom have spent many years in Japan and are well acquainted with a wide range of government officials in business and financial circles.

Mr. Prentice may also find it useful to meet Mr. Johnson, head of the Tokyo branch of the First National City Bank and Mr. Duddy, head of the Tokyo branch of the Chase Manhattan Bank.
Dear Willard:

I am sorry for the delay in replying to your letter of May 18.

I shall be delighted to accept your kind invitation to spend the week of August 13-17 at the Merrill Center. I am indeed grateful to you for giving me this opportunity, because from all I have heard I know I can look forward to an interesting experience.

Perhaps nearer the time you would let me know just when you would want me to arrive, where I shall be staying, etc. etc.

With kind regards,

Yours sincerely,

W. A. B. Iliff
Assistant to the President

Mr. Willard L. Thorp, Director
The Merrill Center for Economics
Amherst College
Amherst, Massachusetts
Mr. William A. B. Iliff
International Bank for Reconstruction
and Development
1818 H Street, N. W.
Washington, D. C.

Dear Iliff:

I am wondering if your plans for the summer have developed in such a way as to make it at all possible for you to join us at the Merrill Center. I won't bother to describe the operation to you in detail since I am sure that you have already heard a good deal about it not only from me but from others.

We are going to be talking about the development of economic planning in various countries for the period (July 30-August 10) and then for one week will consider the part international agencies are now playing (August 13-17). If there is any possibility of your joining us at that time, please consider this a formal invitation. I know that you would enjoy the sessions and I know that you could make a substantial contribution to the group.

I think you would find it very stimulating to have an opportunity to discuss problems off-the-record and without any effort to formulate any agreed conclusions. We are going to have an interesting group of people and I am sure that you would enjoy spending some time at "The Orchard."

Sincerely yours,

Willard L. Thorp
OFFICE MEMORANDUM

TO: Mr. S. R. Cope
FROM: A. M. Kamarck
SUBJECT: For Information

DATE: May 2, 1956

1. Recently, economic literature has been increasingly discussing a technique of development planning called "linear programming". This is mainly an outgrowth of "input-output" analysis. I suggested to Mr. Alter today that rather than every economist in the Bank having to plough through all this literature it would be useful to have some one person run a kind of seminar on it.

2. Mr. Alter is going to explore the possibility of getting Dorfman, who works in this field, from Harvard down for a day to do this.

3. The recent London Economist in discussing Iraq mentioned an economic development program prepared for Iraq by Sir Arthur Salter. Apparently, Iraq is following this program and not the one prepared by our economic survey mission. The Economist seems to think that Salter's program is a model. I have suggested to Mr. Alter that it would be useful to all of us if Professor Varvaressos, having finished studying the Bank's survey missions, made an analysis and critique of Salter's work. Mr. Alter agreed to mention this to Professor Varvaressos.
Mr. Robert Garner  
Vice President  
International Bank for Reconstruction  
and Development  
1818 H Street  
Washington, D.C.

Dear Bob:

Stanford Research Institute affairs will take me to Washington Monday and Tuesday of next week, March 5 and 6. We have one or two ideas in connection with industrial development in underdeveloped economies on which your opinions and reactions would be most valuable. I shall call your office Monday in hopes that you will find time to spend half an hour or so with me either Monday or Tuesday.

Cordially,

Edward S. Prentice

ESP:d
**GENERAL FILES ROUTING SLIP**

**Date:** FEB 15 1958

<table>
<thead>
<tr>
<th>Routing</th>
<th>Description</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Black</td>
<td>1023</td>
<td></td>
</tr>
<tr>
<td>Mr. Broches</td>
<td>1113</td>
<td></td>
</tr>
<tr>
<td>Mr. Cairncross</td>
<td>E-207</td>
<td></td>
</tr>
<tr>
<td>Mr. Cope</td>
<td>403</td>
<td></td>
</tr>
<tr>
<td>Mr. Demuth</td>
<td>1013</td>
<td></td>
</tr>
<tr>
<td>Mr. Doucet</td>
<td>1009</td>
<td></td>
</tr>
<tr>
<td>Mr. Garner</td>
<td>1002</td>
<td></td>
</tr>
<tr>
<td>Mr. Hamilton</td>
<td>1232</td>
<td></td>
</tr>
<tr>
<td>Mr. Howell</td>
<td>1004</td>
<td></td>
</tr>
<tr>
<td>Mr. Iliff</td>
<td>1002</td>
<td></td>
</tr>
<tr>
<td>Mr. Johnston</td>
<td>1220</td>
<td></td>
</tr>
<tr>
<td>Mr. Knapp</td>
<td>521</td>
<td></td>
</tr>
<tr>
<td>Mr. Mendels</td>
<td>1009</td>
<td></td>
</tr>
<tr>
<td>Office Services</td>
<td>113</td>
<td></td>
</tr>
<tr>
<td>Personnel Div.</td>
<td>1213</td>
<td></td>
</tr>
</tbody>
</table>

**Remarks:**

From: General Files & Corres. Section
Dear Mr. Demuth,

Thank you for the comments on the Survey on industrialization and productivity contained in your letter of 30 January 1956. The corrections you propose have been made on page 26 of the draft and in the statement of the Bank reproduced in the Appendix.

On 1 February, I sent to Mr. Black section 6 "Conclusions", which completes the draft; the final report will be sent to you as soon as it is available.

Yours sincerely,

Martin Hill
Deputy Under-Secretary for Economic and Social Affairs

Mr. Richard H. Demuth,
Director, Technical Assistance and Liaison Staff,
International Bank for Reconstruction and Development,
1818 H Street, N.W.,
Washington 25, D.C.
January 30, 1956

Your Ref: ECA 170/9/05

Mr. Martin Hill
Acting Under Secretary for Economic
and Social Affairs
United Nations
NEW YORK 17, N.Y.

Dear Mr. Hill:

I wish to acknowledge receipt of your letter to Mr. Black of 20 January 1956, concerning the draft "Survey of the work currently being undertaken under the aegis of the United Nations in matters relating to Industrial Development and the Improvement of Industrial Productivity", prepared in accordance with resolution 560 of the 19th Session of the Economic and Social Council.

The original reply which the Bank sent in response to the request from the Secretary General was drafted on the assumption that "industrial productivity" referred exclusively to manufacturing industries, while in fact the report, as drafted, has taken a different approach and covers activities concerning the whole field of economic development in the less developed areas. In view of this, we suggest that the following be substituted for the first paragraph on page 26 of the draft:

"The Bank’s entire activity is geared to the financing and encouragement of economic development, particularly in the underdeveloped countries, and its activities have direct and indirect effects on investment, production, and productivity in all economic sectors, including manufacturing industries".

The Bank would also like to suggest the insertion, also on page 26, of a new paragraph between the present paragraphs 2 and 3, as follows:
"As part of the Bank's examination of the economic prospects of its borrowers, it follows closely matters in each country relating to industrial development and the improvement of industrial productivity. The Bank is continuously engaged in appraising the factors at work which impede or promote industrial development in its member countries".

Finally, we would like to suggest that the first sentence of paragraph 4, on the same page, should read as follows: "Loans have been made directly to manufacturing industry"; and that the following sentence be added after the second sentence in the same paragraph: "The loans made to industrial enterprises are usually intended for establishment of new plants, expansion of existing ones or modernization of equipment".

Sincerely yours,

Richard H. Denoth
Director
Technical Assistance and Liaison Staff

cc Mr. Fist

RHD:us
Mr. Richard H. Demuth

January 25, 1956

Leonard B. Rist

Mr. Martin Hill's Letter to Mr. Black of January 20

The reply sent by the International Bank to the U.N. as a contribution to the report on industrialization and productivity was obviously drafted on the assumption that "industrialization and productivity" referred to manufacturing industries. In fact, the report has taken a different approach and covers activities concerned with the whole field of economic development in the underdeveloped countries.

As a result, the opening paragraph of the Bank's report to the U.N., which is reproduced on page 26, places the Bank in a rather unfortunate light. Our interest in and contribution to economic development can in no way be termed "indirect." I would suggest that you consider the rest of the analysis of the Bank's role as satisfactory but request the U.N. that they substitute for their first paragraph on IBRD (page 26) something in the following vein:

"The Bank's entire activity is geared to the financing and encouragement of economic development, particularly in the underdeveloped countries, and the effects of its activities have direct and indirect effects on investment, production, and productivity in all economic sectors, including manufacturing industries."

You might want to insert a paragraph in the text along the following lines:

"As part of the Bank's examination of the economic prospects of its borrowers it follows closely matters in each country relating to industrial development and the improvement of industrial productivity. The Bank is continuously engaged in appraising the factors at work which impede or promote industrial development in each of its member countries."

Finally, you might suggest that in paragraph 4 on page 26 the first sentence should read as follows:

"Loans have been made directly to manufacturing industry."

And after the now second sentence the following be inserted:

"The loans made to industrial enterprises are usually intended for establishment of new plants, expansion of existing ones or modernization of equipment."
Mr. S. Lipkowitz

S. R. Cope

Canadian Pulp and Paper Production

I enclose a letter from Mr. Mitchell, together with a copy of my reply and the brief from the Canadian Royal Commission enclosed by Mr. Mitchell with his letter.

Enclosures - 3
January 24, 1956

My dear Frank:

I was delighted to have your letter of January 20 and the advance copy of your brief to the Royal Commission on Canada's economic prospects enclosed with it. I can appreciate the amount of work that has gone into this production and would like, if you will permit me, to congratulate you on the result. We shall read it with interest and profit. Glancing at it briefly, I was struck by the scale of the expansion in demand which you expect in the next 25 years and was interested to see how you hope to meet this demand. You are certainly in an industry which is on the "up and up."

I have just spoken to Sam Lipkowitz who is looking forward to reading your brief and he asked me to send you and Edith his best wishes. You may possibly have heard that Johann Akerman, who was with us in Finland, has now left the Bank and is personal assistant to the president of a Swedish investment corporation in Stockholm called Electroinvest. We were sorry to lose him, but he had always intended to go back to Sweden in the end and he felt that the offer was one which he could not refuse. He appears to have settled down nicely and his wife is expecting a baby this spring. Dr. Baranyi has left this department and is now with the Economic Staff. So you can see that there have been quite a number of changes since we went to Finland together.

I hope very much that you will call in to see us next time you come down to Washington. We would all like to see you.

With best wishes to you and Edith,

Yours sincerely,

S. R. Cope
Director of Operations
Europe, Africa and Australasia

Frank L. Mitchell, Esq.
General Manager
Canadian Pulp and Paper Association
2280 Sun Life Building
Montreal 2, Canada
cc: Mr. Lipkowitz
SRCope:iw
With reference to your recent memo to files regarding Mr. R. Hoppenot's visit to you, I am attaching two copies of a rather long summary of Prof. G. Myrdal's recent lecture in Ankara.

I am also sending copies to Mssrs. Wheelock, Kamarck, and Ross.

H. Calika
Professor Gunnar Myrdal, General Secretary of the Economic Commission for Europe, of the United Nations, gave a lecture on November 15, 1955, at the Faculty for Political Sciences, in Ankara, on the subject of economic development. This lecture by the well-known Swedish economist has aroused deep interest both in Government circles and among his Turkish colleagues. A few remarks he made at the outset have been repeated several times by the Government radio, without reference to his general theory and ideas on development. Hence some assumed that Professor Myrdal approves Turkey's recent economic policies. Since the lecturer did not speak from a prepared text, I am giving here a summary of this lecture which should be very interesting for economists and everybody who is interested in economic development and expansion. This summary is based on my personal notes.

To create a good impression on his audience, the lecturer started by saying that, unlike statements recently made in the foreign press and by foreign observers, he was not going to criticize the general economic policies which Turkey followed in recent years. He added that Turkey's accomplishments in the economic field are not duly known abroad, and Turkey is failing to make the necessary efforts to publicize them. In order to realize her economic development, Turkey has taken some steps; because of these, internal financial stability has been jeopardized and inflation started. In the meantime, external stability, too, was lost and extensive trade deficits have developed. Under such conditions,
advice to slow down the pace of economic development and to re-establish financial stability in order to restore internal and external equilibrium would represent only a superficial view and would not be commensurate with the importance of the subject. Indeed, an indiscriminate application of the principles of the conventional economic theory relating to economic development which is applicable only under certain specific conditions might be inadvisable. In Portugal, for instance, whose currency has been among the strongest, and whose financial stability has been continuously better than most of the European countries, the economic life has now been stagnated. In this country, it has not been a wise decision to sacrifice the goals of economic development for the sake of stability. It might be assumed, therefore, that it would not be a right move to stall or slow down the pace of economic development and expansion in order to assure financial stability.

The lecturer then warned his audience that the above remarks should not be misunderstood and particularly should not be interpreted as if he approved Turkey's recent economic policies in their entirety, including the methods she has used to control the inflation and to solve the problems of foreign trade. In the process of economic development, some inflationary pressures will inevitably develop, and these will increase the pressure on the external trade. There is a need, therefore, for measures which would eliminate such hardships or would neutralize their effects. The crux of the problem is that measures which would strengthen the efforts of economic development and
expansion and, in the meantime, would counter the hardships due to these efforts, should not be neglected.

The reason that economic development has today been a foremost issue in the world is a widening gap between developing countries and stagnant ones. Outside the Soviet sphere of influence, only one-sixth of the countries are now actually developing. In this minority, countries such as those in western Europe, North America, Israel, and Turkey are included. In the remaining countries, which spread over vast areas in Asia and Africa, economic stagnation results in low standards of living. The population in these countries has increased 33% since before the war, while production has risen only about 10%; this means a drop of about 23% in the standard of living. Thus, a gap between the developing and non-developing parts of the world is widening. This fact does not fit the conclusions of the well-known economic theory of general equilibrium. According to this theory, the gap and differentiation between the developed and non-developed countries should tend to disappear through international trade and closer factor costs. The fact, however, is that historical developments have taken a different course. The theory of general equilibrium has been so dominant in economic thought that even the protectionists who are opposed to the theory of international trade which is based on this theory were compelled to state that their own thinking would only be valid temporarily and for exceptional cases.

The novelty brought into economic thinking by Wicksell and Keynes has not been outside the framework of the theory of equilibrium. While
this theory indicates long-term trends, Keynes and Wicksell confined themselves to point out additional short-term influences which might be generated by changes in income. It has been generally assumed that, when equilibrium is jeopardized, some factors would start to assert their influences in order to restore it.

In recent years, new additions to economic thought have started to be made, first by pointing out the fact that the equilibrium would take various forms. Indeed, there are stable and unstable types of equilibrium. For instance, an equilibrium which one could observe in the movements of a pendulum is a stable one; on the other hand, a cylinder standing on a slightly inclined level represents the type of unstable equilibrium; its starting to move, too, is another type of equilibrium. Further developments in economic theory in recent years have been possible by new findings outside the general equilibrium theory, such as Marshall's concept of external economies, or Wicksell's theory of cumulative processes. Wicksell indicated that monetary equilibrium could not be conceived as a stable type of equilibrium, as had been done in the classical theory. Marshall pointed to the existence of some external factors which would affect a firm's equilibrium.

As indicated above, there is a need to consider fundamental and subsidiary factors which generate economic processus and social movements, as a whole. In some cases, subsidiary factors prevent the establishment of equilibrium by the fundamental factors. That is
because the theory of international trade, which is an application of well-developed theory of general equilibrium to international relations, requires a new approach. Hopes that a development process in a certain part of the world would spread through international trade to the other areas have not been fulfilled. On the contrary, the development concentrates in certain parts of the world and results in impoverishment in other areas. Because of concentration of social capital framework and development of an environment in which social, political and moral values could flourish, a development in a certain area assures external economies for firms by individual entrepreneurs. The remaining areas entering into trade relations with this developing area are flooded by low cost commodities manufactured in the latter area because of its favored position, due to external economies. A typical example of this has been the widening gap between industrially developed and urbanised northern Italy, and agricultural and rural southern Italy.

The movements of capital in themselves are not sufficient to restore the equilibrium. Establishment of a banking system in a country and an acceleration in capital movements among various areas have resulted in a drain of capital from the poorer areas and concentration of capital in richer ones. A similar development has taken place between northern and southern United States. There is little historical evidence and empirical observation which confirm that capital movements have been from richer countries towards the poorer ones. International trade, too, fails, owing to external economies which exist in the developed countries, to establish international economic equilibrium.
Migration is not effective as a factor to close the gap between developed and un-developed areas. At present, there is hardly any movement of population even among the developed countries. Where the movements between developed and un-developed countries are concerned, there are additional obstacles in the form of differences in color, race, language, religion, and nationality, which make the situation still more difficult.

The momentum of economic development spreads to the other areas through communications, educational or cultural developments, and mutual moral, political, and social values. In the meantime, economic development tends, in areas where it started, to foster the powers which would reduce differentiation in wealth and would shorten the material and spiritual gap between the various classes. In un-developed countries, differentiation among social classes and social antagonisms are getting more acute. The welfare state, which is to materialize economic as well as political democracy, is taking shape in richer countries spontaneously and as a part of a historical process. Therefore, the spread of economic development all over the world is essential for an international, political and social reapproachment and for placing the present order on sound foundations.

Today, we are facing a new concept which has not appeared in other periods of history. This is the fact that the desire and objective of economic development have now been the catchword of vast intellectual groups in under-developed countries of Asia and Africa. In those countries, economic development is being considered as a deliberate
social movement and a responsibility of the state. As indicated by Schumpeter, the economic development of the western world took place as a spontaneous process.

This leads us to the fact that, in order to materialize the objectives of economic development, which have now been a deliberate and collective movement in under-developed countries, development should be conceived under a plan and program. The need for a general plan has been a view on which most of the economists and the International Bank, a United Nations agency, are now in agreement. There is a need for a general plan or a blueprint under which all details and relationships of the development could be conceived. This is essential in order to assure momentum and continuity in the development efforts.

Competition by a stagnant economy of an undeveloped country with others is not possible. Underemployment in these countries is a factor which could hardly contribute to raise the effective demand. In order to motivate this and to convert into a factor which would generate effective demand, a well-planned external injection in the form of internal and external purchasing power is essential. The market mechanism, which has been the most important factor under the general theory of equilibrium, is not adequate to motivate this stagnant mass, and an external intervention into this mechanism is essential.

Economic development, therefore, could only be possible by relying on an entirely new system of knowledge, by refraining from undisputed acceptance of the classical theory, and by discarding parts of our previous knowledge which now ceased to be of use. In order to be able to do this, however, a proper digestion of economic knowledge is essential. Renovation and originality in knowledge could only be possible by being familiar with
the past accumulations of knowledge. That is why Turkish economists and statesmen should not ignore economic science under the pretext of its being useless. On the contrary, it is essential that Turkish economists and statesmen should soon become familiar with the knowledge which has been accumulated in the western world during the last two hundred years.

Aydin Yalcin
Professor of Economics
Faculty of Political Sciences
Ankara

Translated from Turkish Economic Review
"Forum", December 1, 1955. (No. 41.)
A Lecture on the Problems of Economic Development

Professor Gunnar Myrdal, General Secretary of the Economic Commission for Europe, of the United Nations, gave a lecture on November 15, 1955, at the Faculty for Political Sciences, in Ankara, on the subject of economic development. This lecture by the well-known Swedish economist has aroused deep interest both in Government circles and among his Turkish colleagues. A few remarks he made at the outset have been repeated several times by the Government radio, without reference to his general theory and ideas on development. Hence some assumed that Professor Myrdal approves Turkey's recent economic policies. Since the lecturer did not speak from a prepared text, I am giving here a summary of this lecture which should be very interesting for economists and everybody who is interested in economic development and expansion. This summary is based on my personal notes.

To create a good impression on his audience, the lecturer started by saying that, unlike statements recently made in the foreign press and by foreign observers, he was not going to criticize the general economic policies which Turkey followed in recent years. He added that Turkey's accomplishments in the economic field are not duly known abroad, and Turkey is failing to make the necessary efforts to publicize them. In order to realize her economic development, Turkey has taken some steps; because of these, internal financial stability has been jeopardized and inflation started. In the meantime, external stability, too, was lost and extensive trade deficits have developed. Under such conditions,
advice to slow down the pace of economic development and to re-establish financial stability in order to restore internal and external equilibrium would represent only a superficial view and would not be commensurate with the importance of the subject. Indeed, an indiscriminate application of the principles of the conventional economic theory relating to economic development which is applicable only under certain specific conditions might be inadvisable. In Portugal, for instance, whose currency has been among the strongest, and whose financial stability has been continuously better than most of the European countries, the economic life has now been stagnated. In this country, it has not been a wise decision to sacrifice the goals of economic development for the sake of stability. It might be assumed, therefore, that it would not be a right move to stall or slow down the pace of economic development and expansion in order to assure financial stability.

The lecturer then warned his audience that the above remarks should not be misunderstood and particularly should not be interpreted as if he approved Turkey's recent economic policies in their entirety, including the methods she has used to control the inflation and to solve the problems of foreign trade. In the process of economic development, some inflationary pressures will inevitably develop, and these will increase the pressure on the external trade. There is a need, therefore, for measures which would eliminate such hardships or would neutralize their effects. The crux of the problem is that measures which would strengthen the efforts of economic development and
expansion and, in the meantime, would counter the hardships due to these efforts, should not be neglected.

The reason that economic development has today been a foremost issue in the world is a widening gap between developing countries and stagnant ones. Outside the Soviet sphere of influence, only one-sixth of the countries are now actually developing. In this minority, countries such as those in western Europe, North America, Israel, and Turkey are included. In the remaining countries, which spread over vast areas in Asia and Africa, economic stagnation results in low standards of living. The population in these countries has increased 33% since before the war, while production has risen only about 10%; this means a drop of about 23% in the standard of living. Thus, a gap between the developing and non-developing parts of the world is widening. This fact does not fit the conclusions of the well-known economic theory of general equilibrium. According to this theory, the gap and differentiation between the developed and non-developed countries should tend to disappear through international trade and closer factor costs. The fact, however, is that historical developments have taken a different course. The theory of general equilibrium has been so dominant in economic thought that even the protectionists who are opposed to the theory of international trade which is based on this theory were compelled to state that their own thinking would only be valid temporarily and for exceptional cases.

The novelty brought into economic thinking by Wicksell and Keynes has not been outside the framework of the theory of equilibrium. While
this theory indicates long-term trends, Keynes and Wicksell confined themselves to point out additional short-term influences which might be generated by changes in income. It has been generally assumed that, when equilibrium is jeopardized, some factors would start to assert their influences in order to restore it.

In recent years, new additions to economic thought have started to be made, first by pointing out the fact that the equilibrium would take various forms. Indeed, there are stable and unstable types of equilibrium. For instance, an equilibrium which one could observe in the movements of a pendulum is a stable one; on the other hand, a cylinder standing on a slightly inclined level represents the type of unstable equilibrium; its starting to move, too, is another type of equilibrium. Further developments in economic theory in recent years have been possible by new findings outside the general equilibrium theory, such as Marshall's concept of external economies, or Wicksell's theory of cumulative processes. Wicksell indicated that monetary equilibrium could not be conceived as a stable type of equilibrium, as had been done in the classical theory. Marshall pointed to the existence of some external factors which would affect a firm's equilibrium.

As indicated above, there is a need to consider fundamental and subsidiary factors which generate economic processes and social movements, as a whole. In some cases, subsidiary factors prevent the establishment of equilibrium by the fundamental factors. That is
because the theory of international trade, which is an application of well-developed theory of general equilibrium to international relations, requires a new approach. Hopes that a development process in a certain part of the world would spread through international trade to the other areas have not been fulfilled. On the contrary, the development concentrates in certain parts of the world and results in impoverishment in other areas. Because of concentration of social capital framework and of development of an environment in which social, political and moral values could flourish, a development in a certain area assures external economies for firms by individual entrepreneurs. The remaining areas entering into trade relations with this developing area are flooded by low cost commodities manufactured in the latter area because of its favored position, due to external economies. A typical example of this has been the widening gap between industrially developed and urbanized northern Italy, and agricultural and rural southern Italy.

The movements of capital in themselves are not sufficient to restore the equilibrium. Establishment of a banking system in a country and an acceleration in capital movements among various areas have resulted in a drain of capital from the poorer areas and concentration of capital in richer ones. A similar development has taken place between northern and southern United States. There is little historical evidence and empirical observation which confirm that capital movements have been from richer countries towards the poorer ones. International trade, too, fails, owing to external economies which exist in the developed countries, to establish international economic equilibrium.
Migration is not effective as a factor to close the gap between developed and under-developed areas. At present, there is hardly any movement of population even among the developed countries. Where the movements between developed and under-developed countries are concerned, there are additional obstacles in the form of differences in color, race, language, religion, and nationality, which make the situation still more difficult.

The momentum of economic development spreads to the other areas through communications, educational or cultural developments, and mutual moral, political, and social values. In the meantime, economic development tends, in areas where it started, to foster the powers which would reduce differentiation in wealth and would shorten the material and spiritual gap between the various classes. In under-developed countries, differentiation among social classes and social antagonisms are getting more acute. The welfare state, which is to materialize economic as well as political democracy, is taking shape in richer countries spontaneously and as a part of a historical process. Therefore, the spread of economic development all over the world is essential for an international, political and social reapproachment and for placing the present order on sound foundations.

Today, we are facing a new concept which has not appeared in other periods of history. This is the fact that the desire and objective of economic development have now been the catchword of vast intellectual groups in under-developed countries of Asia and Africa. In those countries, economic development is being considered as a deliberate
social movement and a responsibility of the state. As indicated by Schum- 
peter, the economic development of the western world took place as a spont-
aneous process.

This leads us to the fact that, in order to materialize the objec-
tives of economic development, which have now been a deliberate and collec-
tive movement in under-developed countries, development should be conceived 
under a plan and program. The need for a general plan has been a view on 
which most of the economists and the International Bank, a United Nations 
agency, are now in agreement. There is a need for a general plan or a 
blueprint under which all details and relationships of the development could 
be conceived. This is essential in order to assure momentum and continuity 
in the development efforts.

Competition by a stagnant economy of an undeveloped country with 
others is not possible. Underemployment in these countries is a factor 
which could hardly contribute to raise the effective demand. In order to 
Motivate this and to convert into a factor which would generate effective 
demand, a well-planned external injection in the form of internal and ex-
ternal purchasing power is essential. The market mechanism, which has been 
the most important factor under the general theory of equilibrium, is not 
adequate to motivate this stagnant mass, and an external intervention into 
this mechanism is essential.

Economic development, therefore, could only be possible by relying 
on an entirely new system of knowledge, by refraining from undisputed 
acceptance of the classical theory, and by discarding parts of our previous 
knowledge which now ceased to be of use. In order to be able to do this, 
however, a proper digestion of economic knowledge is essential. Renovation 
and originality in knowledge could only be possible by being familiar with
the past accumulations of knowledge. That is why Turkish economists and statesmen should not ignore economic science under the pretext of its being useless. On the contrary, it is essential that Turkish economists and statesmen should soon become familiar with the knowledge which has been accumulated in the western world during the last two hundred years.

Aydin Yalçın
Professor of Economics
Faculty of Political Sciences
Ankara

Translated from Turkish Economic Review
"Forum", December 1, 1955. (No. 41.)
Dear Mr. Black,

I am enclosing a copy of the draft "Survey of the work currently being undertaken under the aegis of the United Nations in matters relating to industrial development and the improvement of industrial productivity", prepared in accordance with resolution 560 (XIX) of the Economic and Social Council. This draft is based in part on the information received from several agencies in reply to the Secretary-General's letter ECA 170/9/05 of 12 August 1955.

I should appreciate receiving any corrections or other changes you may wish to suggest in the references to the projects and activities of your Organization. As the report is to be circulated to the members of the Council in the first days of March, it would be very helpful if you could let me have your reply before 15 February.

Corrections so far made in the draft "Survey" appear in three corrigenda; two of them relate to the photo-offset list of projects in section 4 and are inserted in that section; the third relates to the hectographed part of the Survey and is enclosed with the Survey. The draft is presented without the conclusions (section 6) which are now being prepared. Further corrections and additions, if any, and conclusions will be forwarded when available.

Yours sincerely,

Martin Hill
Acting Under-Secretary for Economic and Social Affairs

Mr. Eugene R. Black
President
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington 25, D.C.
December 19, 1955

Mr. Paul S. Henshaw
345 Riverside Drive
New York 25, N.Y.

Dear Mr. Henshaw,

I have carefully considered your suggestion for a research program on economic development potentials.

While I consider your ideas on the Situation Index approach quite stimulating, I do not feel that the Bank can undertake the project you suggest. As you know, the country specialists in the Bank do appraise the economic potentials of individual countries, but I do not feel that we are yet ready to adapt a simplified quantitative technique. Much work remains to be done in further improving the basic data and methods of analysis on individual countries.

Thank you very much for your interest in this matter.

Yours sincerely,

Leonard B. Rist,
Director, Economic Staff
Mr. Leonard Rist
Economic Director
International Bank for Reconstruction and Development
18th and H Streets, N.W.
Washington D.C.

Dear Mr. Rist:

May I thank you particularly for the time given one week ago listening to my thoughts concerning the application of scientific procedures in analyzing economic development potential.

In accord with our conversation, this is to ask whether a research and informational service such as I described would be feasible and desirable within the program of the International Bank.

I would appreciate having your reaction based on the information which I gave and also the brief outline enclosed. If positive, I would be pleased to receive your suggestions as to steps that would be appropriate.

Sincerely yours,

Paul S. Henshaw
Progress and Potentialities of Economic Development

(Proposed informational service and research studies)

1. Analysis of development potential in different countries and territories, utilizing various social, economic and vital data, and the Situation Index approach.

2. Appraisal of the consequences of selected economic development undertakings, taking into account the social, economic and vital forces set in motion by such undertakings.

3. Further research treating economic development as an operating mechanism governed by pace-setting determinants that can be measured and studied individually.

It is visualized that with a staff of two senior investigators and two secretarial assistants, Items 1 and 2 could be developed as an informational service of importance to business and government operations as well as to scientific study. Depending the demands for informational materials, it is to be expected that a monograph of the mechanism of economic development could be completed concurrently in one or two years and that continuing research would go forward.
Some Implications of an Annual Investment Budget
A Basis for Discussion

1. Several observers of underdeveloped countries recently have questioned the value of "integrated, overall 5-year development programs". In a paper which Albert Hirschman prepared a year ago, he argued against the 5-year investment program. He pointed out that, in the last analysis, the allocation of investment resources among economic sectors had to be made intuitively and arbitrarily—that it was pseudo-scientific to claim for any such program that the marginal contributions to output in every sector were even approximately equal.

2. There are other arguments which might be brought against the finely-articulated 5-year investment program. Programming is a continuous, dynamic process and not something that can be captured at any time for 5-year periods like a photograph. The modern economy is a constantly shifting one, which makes any such picture out-of-date before it's developed. It is unlikely that any group, especially foreigners on a short visit, can determine within a reasonable margin of error what would be optimum investment in every sector of an economy five years ahead.

3. Of course, the prudent program maker is well aware of this, and he quite properly advises that the program is only "a basis for a program" which must be reviewed and revised periodically before implementation to take account of changes. Implicit in this advice is the assumption that the country knows how to revise and implement a five-year program. However, one of the characteristics of underdeveloped countries is the scarcity of skilled technical and administrative personnel. Such countries are almost universally unable, without outside help, to convert a five-year development program into practical directives for action; and with good reason, for the task of reducing the general conclusions of a five-year program to specific projects and policies for immediate action is often a more difficult assignment than the preparation of the original program. However, the program maker, having provided the country with an elaborate set of precepts and rules for arriving at a distant haven, all too often takes his leave unmindful that the recipient of his advice doesn't have the slightest notion how to begin the journey.

4. What a Government wants to know, and what the 5-year development program rarely tells, is exactly what needs to be done now to start or accelerate economic development.

5. To make such decisions intelligently, it is obviously necessary to make some assumptions about the future. I believe that a five-year investment program if already available, can be a useful point of reference for immediate investment decisions, although some competent observers deny this on the ground that it can mislead as well as guide. I must agree with these observers, however, that a 5-year investment program is not really essential to making sound decisions about investment (as has been demonstrated in Mexico, for example), and that there is a regrettable tendency for the 5-year program to become the last instead of the first step in development programming.

6. A much simpler approach to the development problem will do just as well, at least in most underdeveloped countries. What is first needed is a series of production and income targets which, if achieved, would yield an acceptable rate of economic growth within the limits of resources available for investment. We need next a determination of the economic sectors in which investment would make the greatest contribution (in the long- as well as short-run) toward achieving the established targets. This can be surprisingly easy in some countries and very difficult in others, but where a problem arises, it can be solved more simply than...
with a five-year investment program. Once the sectors with the most urgent priorities are identified and their requirements met, the problem of allocating resources to the remaining sectors will not be too great. The implications and consequences of heavy official investment in underdeveloped countries with limited foreign exchange earnings are now well-understood, and tested fiscal and financial policies are available for aiding the successful completion of the program.

7. Once these steps have been taken, what do we do next? Hirschman says we should turn our attention to project and sector analysis, the clay and brick which are the basic materials of the development structure. I would not dispute this, but I do not think this goes far enough.

8. It seems to me that the basic tool in development planning ought to be the one-year public investment program, complete with sector and project analyses, and prepared in a way which will yield the information needed to formulate the annual budgets of a country and its subdivisions. This one-year investment program would include detailed descriptions of the fiscal, financial and other economic measures required to stimulate appropriate investment in both the public and private sectors.

9. Projects which are being carried out this year may commit resources in following years and projects which will be started in the foreseeable future must have resources allocated this year for preparatory purposes. It is in this area that foresight is needed and where problems arise, but I believe them to be soluble without a 5-year program.

10. I should not want to give the impression that what is being suggested here is merely a shortening of the programming period from five years to one. The one-year investment program is fundamentally different from the 5-year program; it is a much more detailed, precise program which lists exactly what projects (including engineering and other studies for future projects) in each sector will be started, continued or finished during the year, how the local and foreign exchange component of each project will be financed, what new taxes will have to be levied, and if funds must be borrowed, whether they will be borrowed internally or abroad.

11. The problems of a one-year program are very different from those of the longer-term program. When the program planner has to make decisions for immediate action (including those for planning projects to be begun later), he is at once confronted in practical terms with problems of execution which will quickly test the effectiveness of his program. He must get projects started and accelerate those that lag; he must readjust when necessary to avoid bottlenecks he had not foreseen; and he must be alert to the implications of current events on investment policy. Program review then becomes a dynamic continuing exercise, instead of something which can be done when nothing else is pressing.

12. To be effective, the one-year investment program must be directly connected with the budget-making process; it is necessary to give effect to the annual investment program by taking it into full account in official
budgets. It seems to me that the most direct way of assuring this is by making the budget office itself the official program coordinating agency, and if the budget agency is not a strong agency, to strengthen it. The budget office would not only prepare the annual program, but would set the growth targets, estimate resources available for investment, fix development priorities of economic sectors and projects, and recommend supporting fiscal and financial policies. Provincial and municipal borrowing for investment would require the approval of the budget office. However, the actual preparation of projects should be decentralized and no projects should be prepared by the budget office. Ideally, the budget office should be an independent agency in the Office of the President, but there are cases in which it could operate effectively as a part of the Ministry of Finance.

13. Although circumstances in a country may make it necessary to postpone using the budget office as the coordinating agency, it should be recognized that a specially-created Planning Office or Economic Development Committee to coordinate investment has inherent flaws which are hard to overcome. Such an agency can be at best only an intermediary between the budget and the project-planning entities; it has no power to impose sanctions on the project-planning entities, and its advice is often ignored by them. The planning and economic development committees tend to degenerate into discussion groups which, in the areas I know, have little effect on overall development.

14. If the point of view I have outlined were reflected in Bank policy on survey missions, resident representatives abroad, technical assistance and lending operations, it would have the following effects:

(a) Future survey missions would prepare studies covering the items mentioned in paragraph 6 and a detailed annual investment program along lines indicated in paragraph 8.

(b) The Bank's resident representative in a country would work with and seek to strengthen the Budget Office. He would also be concerned with improving the technical and administrative capacity of the government bodies which prepare investment projects. He would point out the need for outside engineers and other technicians if the local entity could not prepare projects unaided and, within the limits of Bank policy, help them get these technicians.

(c) Technical assistance, whether coming from the Bank or elsewhere, would be concentrated in the agencies preparing the projects (not as it sometimes is today, in the coordinating office).

(d) The Bank, while continuing to make loans for specific projects would, in appropriate cases, make such loans conditional on the preparation and carrying out of annual investment programs which by and large fulfill the need for economic growth within available investment resources.

November 28, 1955

A.Waterston

3rd Hvd
September 27, 1955

Mr. Dag Hammarskjold
Secretary-General
United Nations
New York 17, N.Y.

Dear Mr. Hammarskjold:

This is in reply to your letter of August 12 requesting information with respect to the Bank's activities and programs in matters relating to industrial development and improvement of industrial productivity, including an indication of priorities and the limits for completion of the various projects.

The nature of the Bank's contribution in these fields is not susceptible of discussion in terms of priorities and time limits. Moreover, it is for the most part, although not entirely, indirect. A brief account of the Bank's activities may, nevertheless, be useful in connection with the survey being conducted by the Secretariat.

The Bank's lending operations have an impact on industrial development and productivity, both indirectly and directly. The bulk of its lending over the years has financed improvements in the basic overhead services and facilities which are essential to progress in the industrial field. In the last fiscal year, for example, two-thirds of the Bank's loans were made for power and transport projects in twelve countries.

Loans have also been made directly to private industry. In 1954-55, such loans represented the equivalent of $37 million out of approximately the equivalent of $110 million of total loans. In addition, funds loaned to governments and public bodies have in many instances been re-loaned to private industry. In other cases, the Bank's loans provided foreign exchange which private industry then purchased with local currency and used to pay for imports.

The Bank has also sponsored and made loans to and, in some instances, has found personnel to staff, development banks in some of its member countries. These institutions in turn make loans to private enterprises, particularly industrial enterprises.

The Bank's policies in the administration of its loans also make an effective contribution to industrial productivity. The Bank must be
satisfied before making a loan that it will be used for productive purposes, and that the project to be financed is economically and technically sound and of a sufficiently high priority in terms of its contribution to the member country's economy. In this connection Bank staff review engineering plans, cost estimates, and proposed management arrangements. Disbursements under the loan are made by the Bank only as the borrower incurs expenditures for specified goods and services, on the basis of documentary evidence showing, among other things, that such goods and services are reasonable in cost and of proper quality. The Bank also keeps the project under scrutiny during its construction, to be sure that it is being carried out efficiently and on schedule. The borrower is required to submit periodic reports on the progress of engineering survey, specification and design, the manufacture and delivery of goods and services on order, and on physical construction and the course of expenditure. Comparisons are periodically made with original time schedules and cost estimates. These reports are supplemented by visits to the project by Bank staff, who observe the use and maintenance of goods and equipment purchased with the loan proceeds and assess the competence of the management and administration of the project.

The constant contact between Bank personnel and persons responsible for the planning, execution and management of projects achieves several desirable results. There have often been brought to light at very early stages technical, administrative or financial difficulties which, had they not been overcome or averted by discussions between the Bank and the borrower, might seriously have hampered the successful completion of the project. The continuing relationship with the borrower maintained throughout the life of the loan tends to assure successful operation of a completed project. And on a number of occasions consultations have resulted in revisions in, for example, equipment specifications and management techniques which may fairly be said to have improved the productivity of the enterprise.

There are certain other services which the Bank provides its members, unconnected with immediate loan proposals, which relate to industrialization. These fall under the heading of technical assistance. Several examples may be cited.

The Bank has under way a research study analyzing possible types of management arrangements for projects in underdeveloped countries. It has been the Bank's experience that a most important problem for any such country is the determination of what kind or kinds of management arrangements should be made to assure efficient operation of productive enterprises undertaken or supported by the government. The problem arises principally in connection with mining, power, transportation and industrial undertakings. The practical experience in this field, in both industrialized and underdeveloped countries, is extensive, and it will be the objective of the study to bring it together and analyze it in such fashion as to make it useful and readily available to policy-making officials in underdeveloped countries.

The study will cover such matters as (a) the kinds of firms which provide managerial services; (b) the relative advantages, in a given
situation, of contracting for the services of one or another type of firm or of individuals; (c) the financial incentives necessary to attract competent management; and (d) the variety of possible arrangements with respect to the extent of managerial services to be provided.

In largest part the study will be devoted to the experience of the United States, the United Kingdom and the Netherlands; Belgian and some aspects of French experience will also be examined. The Bank is financing the study and three institutions are cooperating in the work: the Graduate School of Public Administration of Columbia University, Nuffield College of Oxford University, and the Foundation for Economic Research of the University of Amsterdam. The final report should be ready during the summer of 1956.

The Bank, jointly with the United Nations Technical Assistance Administration, helped the Government of Ceylon to set up an Institute of Scientific and Industrial Research early in 1955. A member of the Bank's staff is serving as the Institute's first Director. Such an organization was recommended by the economic survey mission to Ceylon organized by the Bank in 1951 at the government's request. The objective of the Institute is the improvement of productive techniques through research applied to Ceylon's special conditions and characteristic products. The field, laboratory and pilot plant studies it conducts, the tests it makes of processes, equipment and materials and the other types of services it provides are available to private enterprises, at appropriate charges, as well as to government agencies.

The Industrial Credit and Investment Corporation of India has been set up with Bank assistance, financial and otherwise, with the object of mobilizing capital for industrial enterprise. This will be accomplished not only by investment of the Corporation's own funds, but by helping to attract the support of other investors for promising ventures and by stimulating the growth of the country's capital markets.

The industrial sector is among the sectors of the economy studied by the Bank's general economic survey missions, which are organized at the request of its members. Because the missions' reports are addressed to governments, their comments are for the most part confined to the sphere of government action. Their evaluation of existing government policy toward private enterprise is supplemented by such recommendations for example as government assistance to private enterprise on problems of technology and management, training schools for skilled labor, or aid to new industries in the form of tax concessions or otherwise. It has been the Bank's experience that mission proposals in the industrial field, as in other fields, have been given serious consideration by governments and have in many instances been adopted.
The Bank's Technical Assistance and Liaison Staff and the Industry Division of its Department of Technical Operations would be glad to provide further details to the Secretariat should that appear desirable.

Sincerely yours,

William F. Howell
Director of Administration

SBoskey: us

(cleared with Messrs. Lopez-Herrarte and Lipkowitz)
<table>
<thead>
<tr>
<th>Name</th>
<th>Route</th>
<th>Department</th>
<th>Route</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Black</td>
<td>1023</td>
<td>Mr. Poore</td>
<td>1220</td>
</tr>
<tr>
<td>Mr. Broches</td>
<td>1113</td>
<td>Public Relations</td>
<td>217</td>
</tr>
<tr>
<td>Mr. Cope</td>
<td>402</td>
<td>Mr. Reamy</td>
<td>1218E</td>
</tr>
<tr>
<td>Mr. Demuth</td>
<td>1013</td>
<td>Research Files</td>
<td>1215</td>
</tr>
<tr>
<td>Mr. Doucet</td>
<td>1009</td>
<td>Mr. Riley</td>
<td>1201</td>
</tr>
<tr>
<td>Mr. Garner</td>
<td>1002</td>
<td>Mr. Rist</td>
<td>1223</td>
</tr>
<tr>
<td>Mr. Hamilton</td>
<td>1232</td>
<td>Mr. Rosen</td>
<td>405</td>
</tr>
<tr>
<td>Mr. Hoar</td>
<td>405</td>
<td>Mr. Rucinski</td>
<td>620</td>
</tr>
<tr>
<td>Mr. Howell</td>
<td>1004</td>
<td>Mr. Schmidt</td>
<td>521</td>
</tr>
<tr>
<td>Mr. Iliff</td>
<td>1002</td>
<td>Mr. Sommers</td>
<td>1113</td>
</tr>
<tr>
<td>Mr. Johnston</td>
<td>1220</td>
<td>Technical Op.</td>
<td>308</td>
</tr>
<tr>
<td>Mr. Knapp</td>
<td>521</td>
<td>Mr. Woolley</td>
<td>1007</td>
</tr>
<tr>
<td>Mr. Mendels</td>
<td>1009</td>
<td>Mr. Worthington</td>
<td>1215</td>
</tr>
<tr>
<td>Office Services</td>
<td>113</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel Div.</td>
<td>1213</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Remarks:

For: General Files & Corrs. Section
Dear Mr. Black,

The Economic and Social Council, on 7 April 1955, adopted resolution 560 (XIX) on the Economic Development of Under-Developed Countries, which I attach for your information. In paragraph 4 of the operative part of the resolution, the Council "requests the Secretary-General to prepare and submit to the twenty-first session of the Council a survey of the work currently being undertaken under the aegis of the United Nations, including the specialized agencies, in matters relating to industrial development and the improvement of industrial productivity".

Pursuant to this request, I would appreciate receiving from you detailed information on the activities and the programme of work of your organization in these fields, including indication of priorities and time limits for completion of the various projects. The information will be

Mr. Eugene R. Black
President
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington 25, D.C.
25 February 1945

To: [Name]

Subject: [Content]

Dear [Name],

I am writing to express my concerns regarding the recent developments in [Island]. The economic and social conditions on the island have drastically declined due to [Reason].

I understand that the United Nations has adopted a resolution [Resolution Number] on [Date], which calls for [Action]. However, I am concerned that the implementation of this resolution is not being adequately addressed.

I request that you provide me with further information on the progress of this resolution. I am particularly interested in knowing the current status of [Specific Action] and how it is being addressed.

I look forward to hearing from you soon.

Sincerely,
[Your Name]
used in preparing the survey just referred to and in drawing up a
programme of work for the United Nations Secretariat relating to the
matters mentioned, as indicated in paragraph 5 of the above resolution.
The documentation in question is to be submitted to the Council at its
twenty-first session, scheduled to begin on 17 April 1956. It is
therefore requested that the above information, bearing the symbol of
this communication ECA 170/9/05, be forwarded to United Nations
Headquarters before 1 October 1955.

I also wish to inform you that, in implementation of paragraph 2
of the operative part of the same resolution, requests for information
regarding research projects on processes and problems of industrialization
in under-developed countries being carried out by governments, universities
and scientific institutions are being sent out to all Members of the
United Nations and to non-Member governments which participate in the
work of the United Nations regional economic commissions, the Food and
Agriculture Organization, the International Labour Organisation, or
the United Nations Educational, Scientific and Cultural Organization.

Yours sincerely,

Dag Hammarskjold
Secretary-General
Resolution 560 (XIX) of the Economic and Social Council

560 (XIX). Economic development of under-developed countries

The Economic and Social Council,

Having made a preliminary examination of the report on Processes and Problems of Industrialization in Under-Developed Countries 1/ and of the working papers (E/2604 and Corr.1 and 2, E/2689 and E/2690) dealing generally with problems of industrialization and of raising productivity in under-developed countries, submitted by the Secretary-General pursuant to General Assembly resolutions 521 (VI) and 522 (VI) and Council resolutions 416 F (XIV), 461 (XV) and 532 C (XVIII).

Believing that industrialization integrated with other forms of development is essential for rapid economic and social advancement in under-developed countries,

Noting that the efforts made in these countries to promote their industrialization in the last few years bring out the need for further energetic international co-operation to accelerate this progress,

Recognizing the need for studies of particular aspects of the problem of how to promote integrated economic and social development in under-developed countries,

Recognizing further the importance of studies of methods to raise industrial productivity in under-developed areas,

1. Commends the Secretary-General for the useful studies he has placed before the Council;

2. Recommends that the "Bibliography on the Processes and Problems of Industrialization in Under-Developed Countries" 2/ be kept up to date by the issuance of periodic supplements, and that the Bibliography be amplified to include information regarding pertinent research projects being carried out by Governments, universities and scientific institutions;

3. Recommends that, pending the approval by the Council of the survey and programme of work referred to in this resolution, the Secretary-General, in continuing the studies on economic development, take into account the discussions on this item in the Council;

---

2/ E/2538.
4. Requests the Secretary-General to prepare and submit to the Council at its twenty-first session a survey of the work currently being undertaken under the aegis of the United Nations, including the specialized agencies, in matters relating to industrial development and the improvement of industrial productivity;

5. Requests the Secretary-General, in the light of this survey, the study on Processes and Problems of Industrialization in Under-Developed Countries and the related discussion at the present session of the Council, to prepare and submit to the Council at its twenty-first session a programme of work planned with particular reference to the question of accelerating industrialization and raising productivity in under-developed countries and of utilizing available forms of international assistance as fully and efficiently as possible for this end, taking into account at the same time the important implications of international trade on that question;

6. Requests the Secretary-General to indicate which parts of this programme might appropriately be undertaken by the regional economic commissions, taking full advantage of their resources and aptitudes;

7. Invites the Secretary-General to transmit this resolution to Member States and to draw their attention to the studies on the problems relating to industrialization mentioned in the first paragraph of the preamble of this resolution.

847th plenary meeting, 7 April 1955.
A. Recommend the Secretary-General to prepare and submit to the
Committee of the Economic and Social Council a series of the United Nations tournament
recommendations under the series of the United Nations Information for accent on
improvement of financial development.

B. Recommend the Secretary-General in the light of this survey
the study of procedures by a programme of international to under-developed
countries and the establishment of the present situation of the Committee
and programmes of the present survey to the United Nations Conference on
under-developed countries and
the importance of international action of information exchange as the main line

C. Recommend the Secretary-General to include within the scope of this
programme, after the elaboration of their reports, any additional programmes

D. Take the Secretary-General to present at the first meeting of this
Commission, the Secretary-General to prepare a survey of the

E. General Assembly meeting.
April 1949.
Mr. Eugene Black
President
International Bank for Reconstruction
and Development
1818 H Street, N. W.
Washington 25, D. C.

Dear Gene:

I see by the papers that you are about to spend some time with Mr. Shakespeare. I wonder if this is going to make it impossible for you to visit Southampton this summer. Your meeting with the group here at the Center has been a highlight both years when you have come, and I do hope that you can do it once again. We are ending the sessions for the summer on August 26. If you could join us any morning next week, Monday through Friday, or the week after, Monday through Thursday, it would be wonderful. I realize, of course, that you are likely to be heading off to Istanbul, but a little refresher before you go might be a good idea.

John Adler has been here for the last two weeks and has been most helpful in our discussions of economic developments in various individual countries.

Clarice joins in sending best wishes.

Sincerely yours,

Willard L. Thorp
August 9, 1955

Mr. Hans Stashle
Merrill Center for Economics
The Orchard
Southampton, Long Island

Dear Hans:

I am sorry that I missed you at Southampton, but hope that you may be able to come here before leaving to go back to Geneva.

I am very grateful to you for your letter about my article. Unfortunately, the letter was delayed in the post and has only just reached me. I have already met some of your points, all of which I find useful. I shall try to take advantage of your other suggestions. MacDougall took back with him to Southampton a revised version, which contains some of the 1955 calculations. He too, made the point that I should not have treated the dollar and non-dollar Latin America as a single unit.

I am looking forward to your new report, especially after the preview which I found very stimulating indeed.

With kind regards,

Yours sincerely

A.K. Cairncross
Director

AKC:mm
August 2, 1955

Mr. Richard H. Demuth
Director, Technical Assistance
and Liaison Staff
International Bank for
Reconstruction and Development
1818 H Street, N. W.
Washington 25, D. C.

Dear Dick:

I am glad you are back, and we will look forward to seeing you on the 22nd.

Sincerely yours,

Willard L. Thorp
July 28, 1955

Mr. Willard L. Thorp
The Merrill Center for Economics
The Orchard
Southampton, New York

Dear Willard:

Thank you for your nice note of June 28. As you see, I am back from Ceylon after a very quick but productive trip and am therefore in a position to arrange my schedule for the rest of the summer.

If it is still all right with you, I shall plan to come to Southampton on August 22nd and stay for the meetings during that final week. Unless I hear from you to the contrary, I will assume that you still have a bed and a place at the conference table reserved for me.

In all probability I will be arriving by plane about noon on the 22nd but I shall advise you of my exact time of arrival later.

With best regards to you and the Dean of Men,

Sincerely yours,

Richard A. Demuth
Director
Technical Assistance and Liaison Staff

RHD:tf
Mr. Willard L. Thorp  
Merrill Center for Economics  
The Orchard  
Southampton, Long Island  
New York  

Dear Mr. Thorp:

I plan to leave Washington Sunday morning. The Long Island Railway permitting, I should arrive in Southampton at 3:03 PM.

I am looking forward to my stay in the Center.

Sincerely yours,

John H. Adler
July 26, 1955

Mr. Willard Thorp
The Merrill Center for Economics
The Orchard
Southampton, New York

Dear Willard:

I plan to arrive at Southampton this Sunday, July 31, on the Long Island railroad train that leaves Jamaica at 10:08 p.m. and is scheduled to arrive in Southampton at 12 p.m. I hope that this works in all right with your schedule.

Sincerely,

Andrew M. Kamarck
Economic Adviser
Department of Operations
Europe, Africa and Australasia
July 21, 1955

Mr. B. E. Matecki
Princeton University
Princeton, New Jersey

Dear Mr. Matecki:

Thank you for your letter of July 5. I had already heard the good news about the Merrill Foundation grant from Harold Johnson, who is a Trustee of the Foundation and whom I saw three weeks ago in New York. I am very pleased that the project will go forward and will be happy to talk to you again when you are in Washington in the Fall.

With best regards,

Sincerely yours,

Richard H. Demuth
Director
Technical Assistance and Liaison Staff

RHD:tf
Mr. John C. de Wilde

Antonin Basch

Papers on Economic Growth

1. The paper "World Economic Growth" - by John H. Adler is very stimulating and good. I have a few comments which I discussed with Mr. Adler. He will take them into consideration when preparing a final draft of the paper.

2. (a) I have the following comments on the paper "Economic Growth in North America and Western Europe since the War":

On page 4 percentage increases in volume indexes of economic activity are given. It should be mentioned - as it is pointed out in the next section of the paper - that the rapid percentage production increase in the period 1947/50 reflected mostly rehabilitation of the war disrupted economies. Where prewar levels of output were most reduced, it could be expected that the postwar percentage increase would be higher. The term "growth" has a somewhat different meaning in these circumstances.

(b) Balance of Payments

I feel that it would be useful to indicate the total amount of external assistance which the European countries received including the sums obtained before the Marshall Plan started.

On page 11 a table is given by countries on net imports of good and services as percentage of gross fixed investment. An additional column stating the percentage of foreign assistance of gross fixed investment would be of great interest. It would also show in which countries gross fixed investment was most aided by foreign assistance and in which this investment exceeded substantially such assistance. Finally, the table would then indicate the extent to which gross fixed investment has become less dependent on foreign assistance as the reconstruction work was completed (the years 1950/1954).

3. Writing of the paper on "Postwar Economic Growth in Southeast Asia" was obviously more difficult than preparing the papers on other areas. The author has certainly done his best in collecting and interpreting all available data. Although this paper contains more statistical material than the paper on Europe, the conclusions which emerge are less clear. I would suggest to repeat in the summary of the paper what is on page 1 and 2 of Adler's paper.

I should like to suggest to shorten the text of this paper by leaving out some of the tables (ie: Table XIII) and trying to emphasize as what might be considered as a trend common to the region - or differences between the development of the various parts of it; or to prepare a summary statement on the most important countries (ie: India, the rice
exporting countries, the rubber exporting countries). As the paper is written now, it is not easy to read and the reader is bound to lose some of the important features because so many series of figures are presented.

There are various factual details which I would be glad to discuss with the author.

AR/js

cc: Files
July 6, 1955

Dear Bill:

Thank you for your kind letter of June 29. I look forward to taking part in the Underdeveloped Areas Program of your Economic Education Workshop.

I am most grateful to you for your invitation to prolong my stay in East Lansing, but since I will be traveling on official business I shall have to return to headquarters as soon as my part of the program is completed. On the basis of present airline schedules, I expect to arrive in Lansing on Monday, August 8 at 9:12 p.m. via Capital Airlines Flight 307 and to depart for Washington via the same airline’s Flight 434 on Wednesday, August 10, at 9:20 a.m. I would appreciate your arranging satisfactory sleeping accommodations for me for the two nights.

With respect to the information for your public relations director, I have been a senior economist on the Bank’s staff for the past eight years dealing among other things with the preparation, analysis and financing of economic development programs. I have also taught courses in economic development and international finance at The American University of Washington, D.C., at the Catholic University of Washington, D.C. and at Columbia University in New York City. I am one of the authors of the book, The Economy of Turkey and a contributor to the publication, Labor, Management and Economic Growth — Proceedings of a Conference on Human Resources and Labor Relations in Underdeveloped Countries held at Cornell University in November 1953. My education includes a Ph. D. degree in economics from Columbia University.
I trust that the above information will meet your needs and I look forward to seeing you early in August.

Very sincerely yours,

Murray Ross

Mr. William H. Knowles, Director
Economic Education Workshop
Michigan State College
East Lansing, Michigan

cc: Mr. Graves
MRoss; ms
July 5, 1955

Mr. Richard H. Demuth, Director
Technical Assistance and Liaison staff
International Bank for Reconstruction and Development
Washington 25, D.C.

Dear Mr. Demuth,

I trust this finds you at your best and in good spirits despite the searching heat.

I am very happy to tell you that my grant from the Merrill Foundation has come through, and my warmest thanks go to you for your interest in my study and the assistance that you were kind enough to give me.

I plan to be in Washington in the early fall and am looking forward to seeing you then.

With kindest regards and best wishes, I am

Sincerely,

B.E. Matecki

BEM\:gm

IN THE WOODROW WILSON SCHOOL OF PUBLIC AND INTERNATIONAL AFFAIRS
I received your letter dated June 5, 1955.

I am very happy to tell you that my research in the field of muscle physiology has come to fruition and that I am now able to proceed with my research plans. I am writing to request your kind consent to meet me.

I am looking forward to meeting you soon.

With kind regards and best wishes,

[Signature]

H. M. McKay
<table>
<thead>
<tr>
<th>Action</th>
<th>Note and File</th>
<th>Approval</th>
<th>Note and Return</th>
<th>Comment</th>
<th>Prepare Reply</th>
<th>Full Report</th>
<th>Previous Papers</th>
<th>Information</th>
<th>Recommendation</th>
<th>Initial</th>
<th>Signature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remarks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
June 30, 1955

Honorable Eugene R. Black, President
International Bank for Reconstruction and Development
1818 "H" Street, N. W.
Washington, D. C.

Dear Mr. Black:

Thank you very much for your letter of June 23d giving some suggestions for my Helsinki speech which I am sure I shall find quite helpful.

I like particularly your suggestion that I emphasize the part which private enterprise should play in international finance and in that connection you may be interested in the enclosed speech in which you will find a detailed discussion of the limitations which I believe the Constitution imposes on federal activities and the protection which was intended to be given to individual enterprise.

With best wishes, I am

Sincerely yours,

A. Willis Robertson

Enclosure
June 30, 1935

Honorable Member of the Senate, Chairman, Committee on Appropriations

Thank you very much for your letter of June 22 granting some assistance to my Historical Society, which I am sure I shall find most helpful.

I wish to express my appreciation for your suggestion that I take a more active part in sponsoring similar activities and in that direction.

The appropriation which I believe the Committee may be expected to grant to the Historical Society is expected to prove a valuable contribution to the organization.

I am, with great respect,

Very truly yours,

[Signature]

A. M. Miller, Secretary
Mr. President: For the first time in my recollection the Senate is considering an appropriation bill for the Civil Functions of the Army to which has been added reclamation and other types of public works including the Tennessee Valley Authority. In considering the T.V.A. item the Senate is faced with a question of fundamental principle as well as policy.

Some want the government to build a steam plant for the T.V.A. at Fulton, Tennessee, or, in any event, to strike out the item for a transmission line without which a steam plant proposed to be built by the Dixon-Yates private utility group in Arkansas could not furnish power to T.V.A.

Others want to retain the item for the transmission line across the Mississippi river because they prefer the authorized proposal of the Dixon-Yates group to build the plant with private funds.

Each of these plants would be for the avowed purpose of furnishing power needed for operations of the Atomic Energy Commission. Justification for financial backing of the Federal Government, directly for construction costs in one case and indirectly through annual payments for power which would amortize the cost in the other case, is claimed, therefore, because the power would be used by an authorized agency of the government. Actually no plant on either side of the Mississippi river near Memphis would furnish power for atomic energy operations in Kentucky except theoretically through a bookkeeping transaction.

The city of Memphis now gets its power from the T.V.A. system. The ability of that system to supply power from its present sources is limited. If future needs of the A.E.C. are to be met, more power will be required and if it is supplied by T.V.A. that agency will have to have new power sources or take some power away from present users. If either the proposed Fulton T.V.A. plant or the Dixon-Yates plant provided power for use by Memphis, that would release an equivalent amount for use elsewhere on the T.V.A. system, including the atomic energy plants. On the other hand, the needs of the A.E.C. could be met, as they have already been met in some instances, by building new power plants at or near the point of demand and if this were done the need which is claimed for the plants in the Memphis area would not exist.

Obviously, therefore, the real purpose of either the Fulton T.V.A. or the Dixon-Yates plant would be to furnish power for Memphis, Tennessee, and the Congress now finds itself engaged in a controversy over which source of power it shall choose to serve an independent city in a sovereign state.

I shall not discuss today the pros and cons of the policy involved because I am more concerned about the constitutional principle.

What is happening to a central government of limited powers, such as was intended by the Founding Fathers of this nation when the Congress of the United States undertakes to solve the electric power supply problem of a single city by use, either directly or indirectly, of tax revenues collected from citizens of the whole United States? And where will such actions lead us?

To answer that question it is necessary, I believe, to review the history of the General Welfare Clause of the Constitution of the United States, the only source from which the authority we are proposing to exercise could possibly come. I believe that such a review will indicate how far we already have moved away from the concept of a Federal Government of limited powers such as was envisioned by James Madison and Andrew Jackson and how grave is the
responsibility now resting on members of the Congress to check our course before we confirm the prediction of Lord Macaulay that our Constitution would prove to be all sail and no anchor.

At the outset of this discussion, Mr. President, I wish to gratefully acknowledge the assistance given me by Loyd Wright, President of the American Bar Association, who is justly recognized as possessing one of the great legal brains of the American Bar, and by F.D.G. Ribble, Dean of the University of Virginia Law School, a brilliant teacher of constitutional law whose views on the Constitution have been frequently quoted by the Supreme Court.

I must frankly admit that I called on these authorities in the hope that they could furnish me proof that the Congress cannot go beyond a certain point in operating or even financing commercial activities but the gist of their response was that the Senate cannot make the Supreme Court the keeper of its conscience.

As Dean Ribble put it: "The spending power, as the Supreme Court held in Frothingham v. Mellon, 262 U. S. 447 (1923), cannot be tested directly by citizens in the courts. Here the Constitution in practical fact is to be applied by the Congress or not at all. Members must recognize this obligation to the Constitution and to the oath they have taken. Unless they follow their duty as interpreters of the Constitution, it will surely lose meaning and its power. They may surrender, by careless acts day by day, the basic and fundamental instrument of this Government."

The oath to which Dean Ribble referred is the one taken by every member of the Senate when he assumes office. In taking that oath each of us said: "I solemnly swear that I will support and defend the Constitution of the United States against all enemies, foreign and domestic; that I will bear true faith and allegiance to the same" and "that I take this obligation freely, without any mental reservation or purpose of evasion."

I am sure every member of the Senate wants to live up to that obligation but, in order that we may remain true to the spirit as well as the letter of our oath, I believe we should periodically review the principles of the Constitution and their particular application to current problems. So, today I am proposing that we see whence we derive the powers which would be exercised in handling this Public Works bill and what moral, if not legal, limitations are imposed by a clear understanding of Constitutional limitations.

The Constitution of the United States of America provides in Article 1, Section 8, Clause 1, that "The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defense and general Welfare of the United States; but all Duties, Imposts and Excises shall be uniform throughout the United States." The phrase general welfare also appears in the preamble to the Constitution. The problem under consideration is to determine what power has been conferred upon Congress under this clause. Has Congress the unlimited power to provide for the general welfare, that is to say to enact any laws it might conceive were for the general welfare, of the United States?

Apparently no one ever has seriously contended that the framers of the Constitution intended to grant to Congress a blanket separate power to provide unrestrictedly for the general welfare. Those who oppose the adoption of the Constitution pending its ratification suggested that this provision empowered the Congress to enact any laws it might conceive were for the general welfare of the United States, but the two main contemporary authorities, Alexander Hamilton and James Madison, in the Federalist papers and in their other writings have given us the two interpretations which subsequently have been followed. Hamilton gave the clause a rather broad construction and Madison a more narrow one, but even under Hamilton's view the spending power of Congress is quite restricted, namely a limited power to appropriate money for the general welfare. The classic statement of Hamilton relative to the general welfare clause is found in his Report on Manufactures rendered in 1791:
"The phrase is as comprehensive as any that could have been used, because it was not fit that the constitutional authority of the Union to appropriate its revenues should have been restricted within narrower limits than the 'general welfare,' and because this necessarily embraces a vast variety of particulars which are susceptible neither of specification nor of definition. It is therefore of necessity left to the discretion of the National Legislature to pronounce upon the objects which concern the general welfare, and for which, under that description, an appropriation of money is requisite and proper. And there seems to be no room for a doubt that whatever concerns the general interest of learning, of agriculture, of manufactures, and of commerce, are within the sphere of the national councils, as far as regards an application of money.

"The only qualification of the generality of the phrase in question which seems to be admissible is this: That the object to which an appropriation of money is to be made must be general, and not local; its operation extending in fact or by possibility throughout the Union, and not being confined to a particular spot.

"No objection ought to arise to this construction, from a supposition that it would imply a power to do whatever else should appear to Congress conducive to the general welfare. A power to appropriate money with this latitude, which is granted, too, in express terms, would not carry a power to do any other thing not authorized in the Constitution, either expressly or by fair implication."

Under Hamilton's interpretation, while Congress may not legislate generally with respect to any matter which concerns the general welfare, it may appropriate money for any purpose concerning the general welfare. Under the narrower view of Madison, the first clause of Article 1, Section 8, is co-extensive with and limited by the powers expressly conferred on Congress in the remaining clauses of Section 8. Under Madison's interpretation Congress can appropriate money for the general welfare only if the appropriation may be incidental to its other expressly delegated powers, such as the power to regulate commerce and the power to establish Post Offices and Post Roads. Madison's argument was that where general words or phrases are followed by special words or phrases, the general words are limited by the special words. This argument is analogous to the legal principle of ejusdem generis under which in the construction of laws, wills and other legal instruments it commonly is held that where general words follow words of a particular and specific meaning, the general words are not to be construed in their widest extent but are held to be limited to persons or things of the same general kind or class as those specifically mentioned. In No. 41 of the Federalist papers, Madison set forth his argument relative to the general welfare phrase as limited by the succeeding clauses of Section 8 as follows:

"Had no other enumeration or definition of the powers of Congress been found in the Constitution than the general expressions just cited, the authors of the objection might have had some color for it.* * *

"But what color can the objection have, when a specification of the objects alluded to by these general terms, immediately follows; and is not even separated by a longer pause than a semicolon? If the different parts of the same instrument ought to be so expounded as to give meaning to every part which will bear it; shall one part of the same sentence be excluded altogether from share in the meaning and shall the more doubtful and indefinite terms be retained in their full extent, and the clear and precise expressions be denied any significance whatsoever? For what purpose could the enumeration of particular powers be inserted, if these and all others were meant to be included in the preceding general power."

Another contemporary of Madison and Hamilton, Thomas Jefferson, likewise construed clause 1 of Section 8 relative to the general welfare as a qualification of the power to lay taxes.
his Opinion on the Bank, dated February 15, 1791, is found the following:

"To lay taxes to provide for the general welfare of the United States is," said Jefferson, "to lay taxes for the purpose of providing for the general welfare. For the laying of taxes is the power, and the general welfare the purpose, for which the power is to be exercised. Congress are not to lay taxes ad libitum, for any purpose they please; but only to pay the debts, or provide for the welfare of the Union. In like manner they are not to do anything they please to provide for the general welfare, but only to lay taxes for that purpose. To consider the letter phrase not as describing the purpose of the first, but as giving a distinct and independent power to do any act they please which might be for the good of the Union, would render all the preceding and subsequent enumerations of power completely useless. It would reduce the whole instrument to a single phrase, that of instituting a congress with power to do whatever would be for the good of the United States; and, as they would be the sole Judges of the good or evil, it would also be a power to do whatever evil they pleased. It is an established rule of construction, where a phrase will bear either of two meanings, to give that which will allow some meaning to the other parts of the instrument, and not that which will render all the others useless. Certainly, no such universal power was meant to be given them. It was intended to lace them up strictly within the enumerated powers, and those without which, as means, those powers could not be carried into effect." (Italics in the original.)

The last cited sentence would seem to indicate that Jefferson followed Madison's view that the general welfare clause was limited by the succeeding enumerated powers listed in Section 8.

The great Chief Justice John Marshall shared the views of Hamilton, Madison and Jefferson that clause 1 of Section 8 simply granted to Congress the power to tax in order to provide for the general welfare and did not grant a broader power to legislate substantively for the general welfare, for in Marshall's opinion in the landmark case of Gibbons v. Ogden, 9 Wheat. 1, 199, 6 L. Ed. 23, 71 (1824), in discussing the grant of the power to lay and collect taxes, he remarked in passing, as if there was no question about it:

"Congress is authorized to lay and collect taxes, &c., to pay the debts, and provide for the common defense and general welfare of the United States."

Madison's argument, that there would have been no purpose in inserting the subsequent enumerated powers in Section 8, if a general power to legislate for the general welfare was intended, is of great force, because it is obvious that the Constitution was not framed to contain useless surplusage. Thus it is accepted today that clause 1 gives to Congress only a limited power to appropriate money for the general welfare, and that so limited, delegation of other powers in Section 8 was both necessary and purposeful.

The main controversy that remains therefore, concerns the permissible purposes for which the money may be appropriated. Madison's contention was that such purposes were only those listed in the succeeding clauses of Section 8, whereas Hamilton contended that Congress had the power to appropriate money for the promotion of the general welfare without restriction to the other delegated powers. It is Hamilton's opinion which now is generally accepted.

James Monroe, who followed Madison as President, seems to have taken a middle ground. On May 4, 1822, he vetoed a bill "For the Preservation and Repair of the Cumberland Road." He argued:

(1) Congress has an independent power to appropriate money for the general welfare, but the purpose indeed must be general, i.e., national in character;
(2) The power to so appropriate money does not carry with it any rights of federal jurisdiction within the states, nor may the individual states consent to such federal jurisdiction;

(3) While Congress may contribute money toward the construction and maintenance within the states of internal improvements planned on a nation-wide basis, the states would retain all jurisdictional rights over such works;

(4) None of the remaining enumerated powers in Section 8 grant to the Congress jurisdiction to construct internal improvements within the States.

Accompanying the veto was a document entitled "Views of the President of the United States on the Subject of Internal Improvements," in which Monroe said, inter alia, "My idea is that Congress has an unlimited power to raise money, restricted only by the duty to appropriate it to purposes of common defense and of general, not local, national, not State benefit."

Here Monroe sounds like Hamilton, but he goes on to point out: "The right of appropriation is nothing more than a right to apply the public money to this or that purpose. It has no incidental power, nor does it draw after it any consequence of that kind. All the Congress could do under it in the case of internal improvements would be to appropriate the money necessary to make them. For every act requiring legislative sanction or support the State authority must be relied on. The condemnation of the land, if the proprietors should refuse to sell it, the establishment of turnpikes and tolls, and the protection of the work when finished must be done by the State. To these purposes the powers of the General Government are believed to be utterly incompetent."

President Jackson followed Monroe's reasoning, but in addition to insisting that no rights of jurisdiction accompany Congressional appropriations for the general welfare, he emphasized that such appropriations must be for "general, not local, national not state" purposes.

Under Jackson, Congressional spending for roads and canals came to an abrupt close.

Between 1845 and the Civil War, a period when the doctrine of states' rights was at its peak in acceptance, the Presidents generally leaned toward the view of Madison that the general welfare clause was limited by and co-extensive with the specific powers subsequently enumerated in Section 8. Prominent among these were Polk, Pierce and Buchanan. (See, 5 Richardson, Messages and Papers of the Presidents, 20, 50, 218, 259, 457.) It was Pierce who began the practice of grounding measures upon the war power as a means of justifying an appropriation. The last President to follow Madison was Buchanan, who in February, 1859, in vetoing a bill to establish land grant colleges in each state, declared that federal moneys were for the purpose of raising and supporting armies, maintaining a navy and the other great objects enumerated in the Constitution, and were not to be "diverted from them to pay the debts of the states, to educate their people, and to carry into effect any other measure of their domestic policy. That would be to confer upon Congress a vast and irresponsible authority, utterly at war with the well-known jealousy of Federal power which prevailed at the formation of the Constitution. The natural intendment would be that as the Constitution confined Congress to well-defined specific powers, the funds placed at their command, whether in land or money, should be appropriated to the performance of the duties corresponding with these powers." (5 Richardson, Messages and Papers of the Presidents, 547.)

With the advent of the Civil War, and the building of the cross-continental railways, there was a return to the broad construction of Hamilton. The practical reasons for this move are well stated in California v. Central Pacific Railroad Co., et al., 127 U.S. 1, 39, 32 L. Ed. 150, 157 (1887), as follows:
"It cannot at the present day be doubted that Congress, under the power to regulate commerce among the several States, as well as to provide for postal accommodations and military exigencies, had authority to pass these laws. The power to construct, or to authorize individuals or corporations to construct, national highways and bridges from State to State, is essential to the complete control and regulation of interstate commerce. Without authority in Congress to establish and maintain such highways and bridges, it would be without authority to regulate one of the most important adjuncts of commerce.

Whether Madison or Hamilton was right, probably always will be subject to debate. Justice Story, in his Commentaries on the Constitution, which he dedicated to Chief Justice John Marshall, stated it thus: "It has been in the past time, it is in the present time, and it will probably in all future time continue to be the debatable ground of the Constitution, signalized at once by the victories and the defeats of the same parties." (5th Ed., Vol. 1, p. 661.)

In so far as the Supreme Court of the United States is concerned, the contest now is settled by decision in favor of Hamilton, although the decision was delayed until 1935. In that year, in United States v. Butler, 297 U.S. 1, 80 L. Ed. 477, speaking through Mr. Justice Roberts, the Court adopted the Hamiltonian construction. The decision held the Agricultural Adjustment Act of March 12, 1933 unconstitutional. It was sought to sustain the act under the general welfare clause. Justice Roberts said:

"The question is not what power the federal Government ought to have but what powers in fact have been given by the people. It hardly seems necessary to reiterate that ours is a dual form of government; that in every state there are two governments, --the state and the United States. Each State has all governmental powers save such as the people, by their Constitution, have conferred upon the United States, denied to the States, or reserved to themselves. The federal union is a government of delegated powers. It has only such as are expressly conferred upon it and such as are reasonably to be implied from those granted. In this respect we differ radically from nations where all legislative power, without restriction of limitation, is vested in a parliament or other legislative body subject to no restrictions except the discretion of its members. ** *

"The clause thought to authorize the legislation, --the first, --confers upon the Congress power 'to lay and collect Taxes Duties, Imposts and Excises, to pay the Debts and provide for the common Defense and general Welfare of the United States.' It is not contended that this provision grants power to regulate agricultural production upon the theory that such legislation would promote the general welfare. The Government concedes that the phrase 'to provide for the general welfare' qualifies the power 'to lay and collect taxes.' The view that the clause grants power to provide for the general welfare, independently of the taxing power, has never been authoritatively accepted. Mr. Justice Story points out that if it were adopted 'it is obvious that under color of the generality of the words, to 'provide for the common defense and general welfare,' the government of the United States is, in reality, a government of general and unlimited powers, notwithstanding the subsequent enumeration of specific powers.' The true construction undoubtedly is that the only thing granted is the power to tax for the purpose of providing funds for payment of the nation's debts and making provision for the general welfare. x x x

"The Congress is expressly empowered to lay taxes to provide for the general welfare. Funds in the Treasury as a result of taxation may be expended only through appropriation. (Art. I § 9, cl. 7.) They can never accomplish the objects for which they were collected unless the power to appropriate is as broad as the power to tax. The necessary implication from the terms of the grant is that the public funds may be appropriated 'to provide for the general welfare of the United States. These funds cannot be meaningless, else they would not have been used. The conclusion must be that they were intended to limit and define the granted power to raise and to expend money. How shall they be construed..."
to effectuate the intent of the instrument?

"Since the foundation of the nation sharp differences of opinion have persisted as to the true interpretation of the phrase. Madison asserted it amounted to no more than a reference to the other powers enumerated in the subsequent clauses of the same section; that, as the United States is a government of limited and enumerated powers, the grant of power to tax and spend for the general national welfare must be confined to the enumerated legislative fields committed to the Congress. In this view the phrase is mere tautology, for taxation and appropriation are or may be necessary incidents of the exercise of any of the enumerated legislative powers. Hamilton, on the other hand, maintained the clause confers a power separate and distinct from those later enumerated, is not restricted in meaning by the grant of them, and Congress consequently has a substantive power to tax and to appropriate, limited only by the requirement that it shall be exercised to provide for the general welfare of the United States. Each contention has had the support of those whose views are entitled to weight. This court has noticed the question, but has never found it necessary to decide which is the true construction. Mr. Justice Story, in his Commentaries, espouses the Hamiltonian position. We shall not review the writings of public men and commentators or discuss the legislative practice. Study of all these leads us to conclude that the reading advocated by Mr. Justice Story is the correct one. While, therefore, the power to tax is not unlimited, its confines are set in the clause which confers it, and not in those of § 8 which bestow and define the legislative powers of the Congress. It results that the power of Congress to authorize expenditure of public moneys for public purposes is not limited by the direct grants of legislative power found in the Constitution.

"But the adoption of the broader construction leaves the power to spend subject to limitations.

As Story says: 'The Constitution was, from its very origin, contemplated to be the frame of a national government, of special and enumerated powers, and not of general and unlimited powers.'

"Again he says: 'A power to lay taxes for the common defense and general welfare of the United States is not in common sense a general power. It is limited to those objects. It cannot constitutionally transcend them.'

"That the qualifying phrase must be given effect all advocates of broad construction admit. Hamilton, in his well known Report on Manufactures, states that the purpose must be 'general, and not local.' Monroe, an advocate of Hamilton's doctrine, wrote: 'Have Congress a right to raise and appropriate the money to any and to every purpose according to their will and pleasure? They certainly have not.' Story says that if the tax be not proposed for the common defense or general welfare, but for other objects wholly extraneous, it would be wholly indefensible upon constitutional principles. And he makes it clear that the powers of taxation and appropriation extend only to matters of national, as distinguished from local, welfare.

Justice Roberts then went on to hold that the Agricultural Adjustment Act was an unconstitutional attempt to invade the reserved rights of the states in contravention of the Tenth Amendment. Congress, in effect, under the pretext of exercising the taxing power, in reality was attempting to accomplish prohibited ends in a field of activity which lay within the province of the states.

Justice Cardozo, in Helvering v. Davis, 301 U. S. 619, 640, 31 L. Ed. 1307, 1304-1315 (1930), admirably summed up the situation with this succinct statement:

"Congress may spend money in aid of the 'general welfare.'"
The case in which Justice Cardozo used that language involved validity of titles of the Social Security Act imposing an excise tax upon employers and a special income tax on employees and providing for the payment of Old Age benefits. The law was sustained. Thereafter Federal Courts approved expenditure of federal funds for maintenance of the Civilian Conservation Corps and sustained the power of Congress to make appropriations under the National Industrial Recovery Act for public works including public schools, to refinance mortgages and to improve housing conditions.

These decisions were quite generally related, however, to nation-wide conditions, such as a depression or to matters like unemployment relief and old age pensions which no single state could handle individually.

Acceptance of congressional power was based not alone on the General Welfare Clause, which I have been discussing, but also on the last clause of Article I, Section 8 which says the Congress shall have the power to make all laws which shall be necessary and proper for carrying into execution the foregoing powers, and all other powers vested by this Constitution in the Government of the United States, or in any department or officer thereof.

The classic interpretation of this clause was given by John Marshall in McCulloch v. Maryland, 4 Wheat 316 (1819) in which he said:

"Let the end be legitimate, let it be within the scope of the Constitution, and all means which are appropriate, which are plainly adapted to that end, which are not prohibited, but consistent with the letter and spirit of the Constitution, are constitutional."

The history of T.V.A. illustrates the modern application of the "Necessary and Proper" clause. In Ashwander v. Tennessee Valley Authority, 297 U.S. 288 (1936), constitutional authority to construct the Wilson Dam was found in the powers of Congress to provide for the national defense, the dam being useful to provide electric power for the production of nitrates needed for the manufacture of explosives. Once a hydroelectric plant had been built and was not currently needed to produce materials of war, it might, of course, be retained as a reserve.

The Constitution, Article IV, Section 3, also provides:

"The Congress shall have power to dispose of and make all needful rules and regulations with respect to the territory or other property belonging to the United States." Congress could, of course, simply maintain a large power plant in a standby position as a facility useful in the event of a later war. But it could also, provide for the use of this power plant in the production of electricity and the sale of that electricity, and that is what it did.
It would be hard to find any limitation in the Constitution or in common sense under which a properly built power plant must remain idle, a drain on the taxpayers. Congress might have handled this situation by leasing the plant to a privately owned company or by selling power at the plant to such a company. However, the choice of means of disposal under Article 4, Section 3 was left to the Congress, within a wide range of discretion and it elected to use a governmental agency for distribution.

The original dam was supplemented by other dams and power plants. Then, since hydroelectric power may be affected by drought and since to maintain customers there must be a steady supply of power, the next step was to build supplemental steam plants. This in turn led to the building of more steam plants, not to balance the supply of hydro power but to create a better balanced distribution system and to meet the increasing needs of more power customers.

Each step in this process has been justified by reference to the "General Welfare" and "Necessary and Proper" Clauses and the Section covering disposal of government property. Sooner or later, however, we must face the question of where the ultimate line of congressional discretion shall be drawn.

Once a national agency is authorized to maintain a power system and sell electric power can Congress authorize all the things which are customary or suitable to develop that system to its fullest capacity? For example, can Congress provide cooking schools to teach a community how to use electric power for their cooking? Can Congress provide stores to sell electric equipment and household appliances? Then, can Congress provide for the manufacture of such equipment as a means of having it readily available at reasonable prices?

Evidently many members of Congress think so because Congress has allowed the TVA to conduct studies in the utilization of the natural resources of the South, to study the best types of fertilizer for Southern soil and plant utilization of that fertilizer, to manufacture fertilizer and to conduct farm demonstrations in the use of fertilizer. The TVA is now selling to farmers thousands of tons of fertilizer at 45% of what it costs private manufacturers to produce it and next to furnishing domestic power for municipalities and individual homes at the cheapest rate east of the Mississippi River, the TVA distribution of fertilizer is one of its most popular activities which many farmers would like to see expanded on a grand scale.

And even the Atomic Energy Commission, which is headed by an able advocate of private enterprise, has concluded that its power to produce atomic energy and disseminate information concerning it included the right to set up a school to teach the principles of nuclear power to which it would invite students not only from our country but from all foreign lands and pay all of their expenses. In the Committee report filed with the pending bill you will see a reference to that activity and a warning to the Atomic Energy Commission that it shall not turn that school into a full-fledged college with dormitories, classrooms, etc., without the subsequent approval of the Joint Congressional Committee on Atomic Energy and the Appropriations Committees of the Congress.

If all these things are approved one might argue that Congress should go still further and provide for the mining of coal, limestone and iron ore to produce steel for the manufacture of electrical equipment and for the mining of copper and the manufacture of wires and cables.

In other words, is there not available under the broadest interpretation of these clauses a means by which Congress could take over any industry in the United States and all collateral industries which supply it with necessary raw materials or fabricated products?

The seriousness of these questions, from our standpoint, is emphasized by the difficulties which face citizens or corporations inclined to challenge our actions and by the reluctance of
the courts to define the limits of Congressional power.

Much has been written and said about the so-called "American Doctrine of Judicial Supremacy." We are inclined to think of it particularly in times like these when areas of the nation are struggling with a problem created by a court decision which will change the whole structure of social life. This does not mean, however, that Congress can leave all constitutional questions to the Supreme Court.

John Marshall held in Marbury v. Madison that the Court could exercise its independent judgment in matters coming before it involving the meaning of the Constitution, but in our tripartite system the President and the Congress have a similar right and duty to exercise their judgment on the meaning of the Constitution.

The President exercises his judgment in use of the veto power and it is interesting to recall that George Washington's first veto message was on constitutional grounds. He took the advice of Thomas Jefferson, James Madison and Edmund Randolph and these three drafted the message.

Congress exercises its judgment in considering pending bills and some of the best debates on Constitutional Law have been in the halls of Congress. It is notable that from the beginning of the Government until the end of the War Between the States, there were only two cases wherein an Act of Congress was held invalid by the Court. One was Marbury v. Madison, 1 Cr. 137 (1803) and the other was the Dred Scott Case, 19 How. 393 (1857).

Following that war there was a period in which the Court was more active in exercising its independent judgment and upsetting Acts of Congress. From 1865 until 1937 such cases averaged about one a year. Since 1937, however, there has been so sharp a change that that year has been referred to as marking a Constitutional Revolution involving a renunciation of judicial power. The authorities I consulted could find only three cases holding Acts of Congress invalid since 1936. Two of those related to improper punishment of individuals and one outlawed segregation in the schools of the District of Columbia.

It is apparent, therefore, that the Court has not relieved Congress of its Constitutional obligation. In a vast and wide range of situations a constitutional question can never come before the Supreme Court. Where the question may reach the Court, the Court will avoid it if possible and deal with it, if at all, only as a last resort. This attitude was indicated by Justice Frankfurter when he said: "The jurisdiction of a Federal Court can be invoked only under circumstances which to the expert feel of lawyers constitute a 'case or controversy.'" Joint Anti-fascist Refugee Committee v. McGrath, 341 U.S. 123, 150 (1951).

Another illustration of the Court's attitude may be found as far back as 1923 in the cases of Massachusetts v. Mellon and Frothingham v. Mellon, 262 U. S. 447. In these cases the State of Massachusetts, appearing as a champion of States' Rights, challenged constitutionality of the Federal Maternity Act under which the United States Treasury would provide appropriations for states which accepted its provisions. The court found the state had no standing to sue in its own behalf because acceptance of the Act was voluntary and that it had no basis for suit on behalf of its citizens because the relationship of citizens to the United States is direct and not through their respective states. Frothingham claimed standing to sue as a taxpayer on the ground that unconstitutional expenditures would increase the burden of future taxation, but the court ruled that his interest in revenues obtained from taxation was shared with millions of others and was so minute and indeterminable that he had no basis for appeal to the preventive powers of a court of equity.

The court concluded its opinion in this case with a declaration that to accept jurisdiction "would be not to decide a judicial controversy, but to assume a position of authority over the governmental acts of another and co-equal department."
Similar failures of complainants to gain an opportunity in court to test constitutionality of Acts of Congress were recorded in Tennessee Electric Power Company v. Tennessee Valley Authority, 306 U.S. 118 (1939) and Alabama Power Company v. Ickes, 302 U.S. 464 (1938). The court found the complainants had no standing to sue and therefore refused to pass on constitutionality of the Act.

The individual citizen, plainly can find only limited protection through court decisions and presidential vetoes from unconstitutional actions of the Congress, particularly as applied to the spending power and he must look to the consciences of the members of Congress, whom he elects, as his chief bulwark.

The dangers of unrestrained use of the spending power have been recognized from the earliest days of our government. For example Hugh Williamson of North Carolina, who had been a member of the 1787 Constitutional Convention wrote: "If Congress can apply money indefinitely to the General Welfare and are the sole and supreme judges of General Welfare, they may take the care of religion into their hands; they may establish teachers in every state, county and parish, and pay them out of the Public Treasury; they may take into their own hands the education of children, establishing in like manner schools throughout the Union; they may undertake the regulation of all roads other than post roads. In short, everything from the highest object of State legislation down to the most minute object of police, would be thrown under the power of Congress; for every object I have mentioned would admit the application of money and might be called, if Congress pleased, provisions for the General Welfare."

I would commend to your attention, in connection with this subject a book by the noted legal historian, Charles Warren, based on a series of lectures he delivered at the University of Virginia, and published in 1932 under the title: "Congress as Santa Claus."

In this book the author cites instances of expenditures which obviously were for local rather than general benefit and the manner which some of these actions evoked in and out of Congress. Warren found that the "desire of the States to participate in the political pap from the treasury spreads from state to state with every new measure" and he concluded: "If the people are to be taught to look to the government for their support, if the government is to assume to defray the needs of its individual citizens, then one result will inevitably follow: elections will become a mere barter of promises of government appropriation; competitive promises of public property will take the place of competing political principles; and those candidates for office who promise to vote us the most government support will receive the most support from the voters. . . . Certainly, only a return to strict constitutional principles can prevent such an evil in the future, if politicians continue to inculcate in the people the belief that the government must supply the people with their livelihood."

That possible condition of our government, which was suggested nearly a quarter of a century ago, has not come to pass because there have been enough members of Congress who have placed loyalty to constitutional principles above expediency. Pressures to use federal spending power for the benefit of special interest groups, localities and regions continue, however, and over the years there have been, in my judgment, too many instances in which the Congress has responded too liberally.

The struggle to preserve the essential principles of a limited constitutional government is not over. Whether the Constitution is to be a living instrument or a dead letter is, in the vast majority of situations, a problem for the Congress. Our action on the pending Public Works bill may determine whether ground is won or lost.

I, for one, shall approach our decisions on that bill believing that there is nothing we can do to promote the General Welfare of our nation so surely as limiting federal spending to those functions which are essential and which cannot be handled by private enterprise or by localities or states.
So, if Memphis wants to build a steam plant to furnish its own power, that will have my full approval. And if the Atomic Energy Commission needs more power at Paducah or anywhere else, let the Government build the plant where the power is needed for Government use. But, for the production of power solely for commercial purposes let us recognize our oath to support and defend a Constitution that is dedicated to the principle of individual enterprise.

* * * *
Page 75

Go to 11.10 am to make a survey plan to contain the
area between 90° to 110° latitude. The 11.10 am
survey will provide necessary data for the
project. The survey will be conducted during
the day to avoid haze. The survey will be
performed by experienced personnel.

Additional information:

- Conduct a comprehensive field survey to ensure accuracy.
- Ensure all personnel are adequately trained.
- Prepare a detailed report post-survey.
Dr. Murray Ross
International Bank for Development
and Reconstruction
1616 H Street, N.W.
Washington, D.C.

Dear Murray:

I was happy to learn from Marty Rosen that the Bank has approved your participation in our Economic Education Workshop.

At your request, the Underdeveloped Areas Program is scheduled for Tuesday, August 9th. Prof. Bert Hoselitz, Chairman of the Department of Economic Development and Cultural Change, University of Chicago will be on the morning session, and you will follow in the afternoon. Our method of presentation is a 50 minute talk followed by a break down into sub-groups for a discussion of the talk, and a regrouping for a question and answer period.

We are extending a cordial invitation for you to plan your visit to include more than the session in which you are participating. We would like you to sit in informally on some of the discussion groups and we can provide living quarters and meals for you as long as you are with us.

Will you let us know when you are arriving so that we may make arrangements to meet you. In addition, would you please send us a brief bibliography for our public relations director.

We look forward to your visit.

Yours truly,

Bill

William H. Knowles, Director
Economic Education Workshop

WHK:ew
June 29, 1955

Mr. Warren A. McNeill
Administrative Assistant to
The Honorable A. Willis Robertson
The United States Senate
Washington 25, D. C.

Dear Mr. McNeill:

With reference to our telephone conversations of today,

I have the pleasure of sending you a copy of Mr. Black's letter

of June 23, 1955 to Senator Robertson. This letter was in

answer to Senator Robertson's inquiry regarding economic matters

which could be discussed at the Conference of the Interparliamentary

Union to be held in Helsinki next August. We regret that the

original letter was lost in the mail.

Yours very truly,

Leopold Baranyai
Economic Advisor

enclosures
Mr. Richard H. Demuth  
Director, Technical Assistance and Liaison Staff  
International Bank for Reconstruction and Development  
1818 H Street, N. W.  
Washington 25, D. C.

Dear Dick:

I envy you your trip to Ceylon, but I certainly hope that it will not interfere with your joining us here at the Center. I will continue to hold a bed for you in the hope that you will be able to join us, but I do realize that you may find that this is not possible at some later time.

Happy landings!

Sincerely yours,

Willard L. Thorp
June 28, 1955

Mr. P.T. Bauer  
c/o Department of Economics  
University of Chicago  
Chicago, Illinois.

Dear Bauer:

I trust you will be interested in the enclosure.

I am looking forward to seeing you at the Merrill Center in August.

Sincerely yours,

Enclosure  
John H. Adler
June 27, 1955

Honorable Eugene R. Black, President
International Bank for Reconstruction and Development
1818 "H" Street, Northwest
Washington, D. C.

Dear Mr. Black:

In connection with my request of June 14th for some suggestions for material which I might use in a speech at the 44th Conference of the Interparliamentary Union at Helsinki in August, I am enclosing an expansion of the Agenda Topic which I have been assigned to discuss.

With best wishes, I am

Sincerely yours,

A. Willis Robertson

Enclosure
June 12, 1957

Honorable Eugene R. Black, President
International Bank for Reconstruction
and Development
1718 "H" Street, Northwest
Washington, D.C.

Dear Mr. Black:

In connection with my testimony of June 11th for some suggestions for correction which I might make to a proposal of the United States to the International Bank for Reconstruction of the Middle East, I am forwarding an expansion of the above topic.

With best wishes, I am

Sincerely yours,

A. Miller Hopkinson

[Signature]
THE DEVELOPMENT OF INTERNATIONAL EXCHANGES
IN THE ECONOMIC FIELD

The XLIVth Inter-Parliamentary Conference,

Recognizing that the development of economic cooperation
is one of the most important factors in peaceful coexistence between
all the nations of the world,

Bearing in mind that this is generally accepted in principle,
but difficult of application and is still hampered by certain
restrictive practices,

Whilst appreciating the splendid efforts already being made
by the various agencies of the United Nations and other organizations,

Draws the attention of all Parliaments to the necessity for
organizing as soon as possible a world-wide international conference
for the purpose of securing more effective international economic and
financial cooperation, and recommends that the proposed conference
should attempt to reach agreement upon the following measures for
immediate application.

1. No unjustified economic restriction between countries;
2. More trade agreements;
3. Encouragement of international commercial efforts such
   as trade fairs;
4. Measures for resolving adverse monetary balances;
5. Arbitration machinery for dealing with trade disputes;
6. Exchange of economic and technical experience and
   personnel.
ECONOMIC AND FINANCIAL COMMITTEE

THE DEVELOPMENT OF INTERNATIONAL EXCHANGES

IN THE ECONOMIC FIELD

THE XVIth Inter-Parliamentary Conference

Recognizing that the development of economic cooperation
in one of the most important factors in ensuring coexistence between
all the nations of the world,

resolves in the name of this Conference to express itself in principle

the wish that a new conference on the development
of relations between countries and on the establishment of certain

respective practices.

While appreciating the existing efforts already made

by the various Sections of the United Nations and other organizations

in the volume of the assistance of all Parliaments to the necessary for

draw the attention of all Parliaments to the need for

organizing as soon as possible a World-wide Inter-Parliamentary conference

for the purpose of securing more effective international economic and

financing cooperation and recommends that the proposed conference

should attempt to reach agreement upon the following measures for

immediate application:

1. No multilateral economic assistance between countries;

2. More trade agreements;

3. Improvement of international commercial relations such
   as trade fairs;

4. Measures for revaluing scarce monetary balances;

5. Appropriate mechanism for settling with trade balances;

6. Exchange of economic and technical experience and
June 24, 1955

Mr. Willard L. Thorp  
The Merrill Center for Economics  
The Orchard  
Southampton, N. Y.  

Dear Willard:

Thank you for your kind letter of June 22 and the welcome you have extended to me to the Merrill Center for the week of August 22.

I hope and am planning to come. However, I am leaving on Monday on a sudden trip to Ceylon which should not last more than two or three weeks. If my stay there becomes protracted, however, I shall have to re-arrange my whole summer schedule and this may preclude my attendance at the Center. I don't believe this will happen, however, and I certainly hope it doesn't for I would greatly enjoy being with you again.

With best regards to you and Clarice,

Sincerely yours,

Richard H. Demuth  
Director  
Technical Assistance and Liaison Staff
June 23, 1955

The Honorable A. Willis Robertson
The United States Senate
Washington 25, D. C.

Dear Senator Robertson:

This is to answer your letter of June 14 regarding the economic matters which could be discussed at the Conference of the Interparliamentary Union to be held in Helsinki next August. I find it somewhat difficult to make suggestions as to what might be said in the name of the United States, but there are some points of international interest which I feel to be important and which you may consider bringing up at your Helsinki meeting.

As I see from the agenda the subject to be considered this time has been defined as the "Development of International Exchanges in the Economic Field" which appears as a sub-item of the main heading "Conditions of a True Peaceful Coexistence between the Nations". Since the rapporteur who is in charge of this item has not yet made available his report, the delegations, as I understand, have to rely at present on the rather vaguely phrased agenda in selecting the topics which might best fit in with the purpose of the Conference.

One of the possibilities would be to speak about financial and technical assistance. This however was made a specific item of the agenda at the 12th Conference held in Washington in October 1953. Though this matter will certainly be brought up again, it might be desirable to find some other subject, preferably one which has been given little or no attention so far.

It may be assumed that the rapporteur will hold his paper in somewhat general terms so as to give the individual delegations a wide range of choice. On this assumption one possible approach to the subject might consist in emphasizing the role private enterprise has to play in international economic exchanges. Private initiative being a basic characteristic of our economy, you may find this choice appropriate from the American point of view.

In discussing this aspect of the problem, a good starting point could be found in the report the Secretary-General of the Union submitted to the 36th Conference held at Cairo in 1947. This report is an impressive summary of the rather pessimistic atmosphere that prevailed in the first post-war years in the field of economic thinking, especially with regard to the future of private business.

Many people in those days were speaking of a definite decline of private enterprise and only a few still believed in the possibility of restoring an economic system based to a large extent on private initiative. There was a wide-spread feeling that the war would be followed very shortly by a general
recession, the gravity of which would equal or perhaps surpass that of the
Great Depression of the 1930’s. It was argued in various quarters that the
only way of preventing a serious crisis and heavy unemployment was to replace
the market mechanism by a system of strict government controls. There was
a strong tendency to nationalize basic industries, transportation, and the
banking system and it was maintained that the best method of securing employ-
ment was to retain barriers to international exchange and to free competition.

Notwithstanding the difficulties of the post-war years, and in contrast
to the gloomy expectations of those past days, great progress has been made
and the economic condition of our world as it stands at present seems to
justify the hope for further consolidation and constant growth of business
and social welfare.

The industrial world, North America and Western Europe, has not suffered
any setback. Output in this area is growing at a rate of about 4.5% which is
something between 2.5% and 3% per head of population. Development in the
backward areas is assisted by satisfactory marketing conditions for raw materials
most of which command prices either equal or slightly higher than before Korea.
In the Far East, and especially in India, the rate of economic growth has
recently slightly exceeded the rate of population growth, while most of the
Latin American countries will probably be able to go on increasing their output,
though presumably at a rate somewhat lower than the rate of $\frac{1}{2}$% maintained
during the years up to 1953. There is however one important sector where further
efforts will have to be made and this is the field of convertibility. Though
substantial results have been achieved in stabilizing currencies and developing
regional payments mechanisms, most of our world is still hesitant about resum-
ing free competition in the field of trade and exchange.

The impressive improvement in overall economic conditions and international
exchanges, including international trade, is very largely attributable to
progressive readjustments resulting partly from cautious government policies
and to a large extent from unrelenting efforts of private enterprise to adapt
itself to a new situation. Since the Interparliamentary Union is to convene
in Finland, a borderland between two different worlds, it might be useful to
emphasize at the Conference the important contribution private enterprise has
made towards restoring a sound economic basis which is an essential prerequisite
to that peaceful coexistence which is the main item on the agenda.

As to the World Bank, to which some reference is usually made by the various
delegations, I would like you to know that it is our policy to enlist on a grow-
ing scale private capital for the financing of our loans. Private capital is
assisting our operations not only by subscribing to our bond issues but by
purchasing from us securities of our borrowers and also by participating to-
gether with us in various loan operations. It may interest you that from the
start of our operations to the end of the last fiscal year over 80% of our
funds available for lending have been obtained from bond issues and about 5%
through portfolio sales and direct participation. It is significant that,
though since 1953 the Bank has no longer given its guarantee either for
portfolio sales or for participations, the contribution of private capital in
these two forms has reached 25% of total loans made in the second half of 1954.
The Honorable A. Willis Robertson

The draft charter of the International Finance Corporation has been circulated to our member governments. The plans to establish this Corporation are going ahead satisfactorily. I was delighted to see that participation by the United States in this organization was approved by a voice vote yesterday. If the charter is approved in its present form the Corporation will start and carry on all of its business in close collaboration with private investors. Compared with potential requirements the basic capital of the proposed Corporation is, of course, very modest but direct participation of private capital may considerably enlarge the scope of its operations.

Finally I would like to recommend to your attention some recent inquiries by the National Planning Association into the activities of American private enterprise in underdeveloped countries. Three reports have been published so far covering the activities of Sears Roebuck in Mexico, W. R. Grace and Co. in Latin America, especially in Peru, and the Philippine American Life Insurance Co. in Manila. The results obtained by these companies clearly indicate the way in which private enterprise is able to help underdeveloped countries in creating a permanent basis for higher living standards.

I am sending you herewith our last annual report and a study on the World Bank's constitution and its activities during the years 1946-1953, together with a recent address of our Economic Director to the New York Press, reviewing briefly the overall economic situation in both the advanced and the backward areas.

I hope that the above hints, together with such other suggestions as you will have obtained from other sources, will be of interest to you, and I would like to assure you that we shall be glad to supply any further information you might need in preparing for your discussions in Helsinki.

Sincerely yours,

(Signed) Eugene R. Black

Eugene R. Black

enclosures (3)
June 22, 1955

Mr. Richard H. Demuth
Director, Technical Assistance and Liaison Staff
International Bank for Reconstruction and Development
1818 H Street, N. W.
Washington 25, D. C.

Dear Dick:

Of course we would be delighted to have you come even if for only one week. It would be disastrous if we had a large number of people who functioned on that basis, but an occasional person can certainly do it, and when it is someone who already is familiar with the Center, the problem is even less. I will, therefore, expect you for the week which begins August 22, and will be delighted if you could get up here any earlier.

I am delighted with the others who are coming from the Bank, and am looking forward to the opportunity to get to know them better myself.

Sincerely yours,

Willard L. Thorp
June 22, 1955

Dear Bill:

Thanks for your letter of June 13. The underdeveloped areas program of the Economic Education Workshop sounds like an interesting exercise and I am sure that Mr. Ross will be able to make a very significant contribution to it. The Bank will be pleased to have Mr. Ross participate and I suggest that you make definite arrangements as to date direct with him.

With best personal regards,

Very sincerely yours,

Martin M. Rosen
Assistant Director of Operations
Europe, Africa and Australasia

Mr. William H. Knowles
Workshop Director
Department of Economics
Michigan State College
East Lansing, Michigan

cc - Mr. Graves
Mr. Ross
Provisional and not for publication.

Your comments are invited and will be welcome; e.g. on the following questions: what subjects should be left out, which added; which ones clarified or treated in a more elaborate way?

Prof. J. Tinbergen
I Introduction: main features of Dutch economic policy since 1945.
1. Some foundations: private enterprise economy with fairly large public sector and undogmatic attitude towards government intervention; some basic rights of trade unions in "industry-ships" with legal powers.
2. Post-war emergencies created willingness to co-operate for "reconstruction and renewal". Understanding for economic aspects.
3. Some characteristic measures taken since 1945: monetary purge, high taxation, consolidation of short-term government paper with banks; rationing and price control until balance of payments safeguarded; policy of moderate and "harmonized" wages, under supervision of government; encouragement of private investment (cf. ch.VI).
4. Role of "Planning" (programming); advisory task only of central planning bureau; discussion of almost all important issues in Social Economic Council (with equal representation of trade unions, employers' associations and government nominated experts); examples of advice to government (1951 emergency program, 1952 employment program, industrialization memo's, education programs).
5. Relativity of success; main unsolved problems.

II Limitations to the applicability elsewhere of Dutch policy.
1. Some factors that may account for differences in welfare between countries: climate, land and capital endowment per head, interest in material wellbeing, dynamism of people, state of knowledge and training, habits and attitudes in social intercourse and towards government, institutions.
2. Direct and indirect causes: some of these factors may be due to the effects of others, more fundamental.
3. Permanent vs. temporary differences: some may be changed by training, capital imports, etc. others not.
4. Examples of policies that may not in the short run be applied in certain underdeveloped countries: centralized wage policy, requiring understanding and co-operation from trade unions; refined tax policy, requiring a well-developed and reliable tax administration and a positive attitude of taxpayers; private investment in "inactive" branches under unfavourable circumstances (lack of capital and knowledge, etc); information has to be supplied in other forms to analphabets among the population; monetary policy will be less effective in economies with large barter section.

III The use of consistent estimates on development.
1. Programming not an alternative to common sense, but a complement. Use of all information available, including information about comparable countries. Consistency an additional limitation and hence a help to narrow down uncertainty.

3. Use to be made of demand analysis for projects. Difficulties: changes in tastes; introduction of new products. Development of individual industries largely dependent on natural resources, transportation costs, special skill.

4. Danger of international duplication in certain fields (coffee, jute); desirability of negotiations on such projects.

IV The most desirable rate of development; its distribution over public and private investment.

1. The fundamental choice between present and future welfare; foreign aid may help to accelerate development.

2. Limits set to rapid development:
   (a) savings can only partly be replaced by foreign savings: home component in every investment project; is it possible to impose restrictions on consumption? (Condition for co-operation of trade unions: distribution of burden);
   (b) even marginal savings ratio may not always be high;
   (c) training and education;
   (d) a number of policy details (cf. ch. VII);
   (e) minimum rate of investment needed for maintenance of standard of life in case of increasing population.

3. Annex I: use of "capital coefficient" in programming.

4. Distribution over public and private investment. Certain sectors as a rule to be taken care of by governments, others by private initiative. Limits somewhat floating however, cf. ch. VII. Complementarity of sectors, and necessity not to disturb balance by too heavy public investments.

V Public investment: appraisal of projects.

1. Treatment of individual sectors (transportation, energy, land reclamation, etc.) appears not always to be uniform: some subsidized, others restricted. (In Italy, power lags; elsewhere it leads. Same for transportation: leading in French territories in Africa, lagging in other African territories.) Desirability of having method to appraise projects in different sectors. General principle: contribution to national income. Difficulty of immeasurable elements.

2. Fairly precise methods possible in field of transportation and power: demand for these facilities depends on general development, to be estimated relatively easily. Thumb rule found for transportation investments: usually some 20 pct. of total investment; may be due to complementary character of transportation.

3. Various possibilities to improve appraisal with the aid of further research and market analysis.

4. Social overhead projects may sometimes be appraised on health standards to be related to general welfare.

5. National income/best instrument; applicable to transportation energy, land reclamation, irrigation and possibly to more sectors. Essence. Need for
VI Methods to explore, to appraise and to stimulate private investment.

1. Exploration of possibilities very much a question of surveying national resources and transportation costs; in addition, of technical and economic research.

2. Appraisal to be based, first, on past development and demand analysis for future (cf. ch. III) and secondly, on cost figures.

3. Technology not to be copied from developed countries, but as much as possible to be adapted to circumstances. "Cheapest" method according to private calculations not always cheapest to country or best to country's credit-worthiness. Low value of labour, high value of capital and high value of foreign exchange have to influence decisions. Maintenance of roads perhaps not to be mechanized, even if "cheaper". Roads not to be built for remote future, because of high real interest rate.

4. Private investment may be stimulated by:
   (a) specific tax exemptions (examples);
   (b) existence of good intelligence services of central and local governments, big firms, independent institutes, which supply, in developed countries, a large quantity of refined information, often used for preparation of expansions or new establishments. Examples to be quoted from Dutch Economic Intelligence Service, Central Planning Bureau, Netherlands Economic Institute and some large firms. (Philips, KLM etc);
   (c) many minor facilities supplied by central or local governments: sites, improved roads, improved railway service, training facilities, special dwelling programmes. Examples from AKU, Hoogovens, Staatsmynen;
   (d) subventions; should be temporary, and adapted to cost structure (fisheries, land improvement in depression in Holland);
   (e) long-term programs made by government agencies (Dutch Investment enquiry, 1952).
   (f) protection; should be temporary; (example: typewriters in the Netherlands) even then doubtful.
   (g) government participation; may sometimes, in difficult circumstances (capital scarcity) be decisive. (Example: lack of capital: steel mill "Breedband"; heavy risks: KLM. Recent proposal to reduce government share in capital.)

5. In order to attract foreign capital clear-cut and consistent policy vis-à-vis foreign investor useful. Importance of complete information; of labour peace; examples in the Netherlands.

6. Some failures in attempts to stimulate investment.

VII General policy recommendations.

1. Clarity should exist about aims and means of economic policy.

2. Aims should primarily be maximum production with a reasonable distribution of income between groups, regions and persons and over-time, avoiding con-
flicts and leaving as much freedom as compatible with other aims. Funda-
mental tension, in underdeveloped countries, between economic rationality
of very unequal income distribution and its social undesirability. May
become major issue and even be impossible to bridge without large-scale
government intervention. Strong increase in foreign aid may be a help to
avoid extreme tensions.

3. Necessity to have as many instruments of policy as there are targets. (Ex.
balance of payments equilibrium and full employment at the same time only
possible if two instruments are used, e.g. government surplus or deficit
plus either wage policy or exchange rate policy; some more and more com-
plicated examples to be cited).

4. Independent and undogmatic attitude of government in choice of means.
Efficiency of means to be used should be main criterion. Under certain con-
ditions free pricing is very efficient, under other conditions (e.g. low
elasticities on both sides of market, as for wheat) price regulation; same
applies to exchange rates, and other parts of economic mechanism.

5. The same attitude also to be assumed as to choice between private and public
initiative. "Right man in the right place" first priority, financing of
investment secondary.
June 16, 1955

Mr. Willard L. Thorp
Director
The Merrill Center for Economics
Amherst College
Amherst, Mass.

Dear Mr. Thorp,

Thank you very much for your kind letter of June 7, inviting me to attend the session from August 15 to August 26 at the Merrill Center for Economics.

The subjects to be discussed are of direct concern to me, both personally and professionally. I shall be most interested in getting your views and those of the other participants and I'll try to make a worthy contribution to the discussion.

According to the clipping you sent me, the Center seems to be a charming place. I am very much looking forward to renewing acquaintance with you and to meeting the other participants.

Any further information you can give me on the prospective participants and on the substance of the discussion in advance of the meeting will be deeply appreciated.

Sincerely yours,

Leonard B. Rist,
Director, Economic Staff
Dr. Leopold Baranyai
International Bank for Reconstruction and Development
1818 "H" Street, N. W.
Washington, D. C.

Dear Dr. Baranyai:

As agreed in our telephone conversation of today, I am sending you a copy of the Agenda of the meeting of the Inter-Parliamentary Union at Helsinki in August.

With best wishes, I am

Sincerely yours,

Warren A. McNeill
Administrative Assistant to A. Willis Robertson

Enclosure
CONVOCATION OF THE XLIVTH CONFERENCE

MR. PRESIDENT,

We have the honour to inform you that the XLIVth Conference of the Inter-Parliamentary Union will take place at

HELSINKI

from Thursday, August 25, to Wednesday, August 31, 1955.

The invitation of the Finnish National Group, issued with the support of the Government, was gratefully accepted by the Council of the Union.

The sittings will take place in the parliament House.

AGENDA

The Agenda of the Conference was fixed by the Inter-Parliamentary Council at its meeting in Rome on April 17 last. It comprises the following points:

1. Election of the President and the Committee of the Conference.

2. General Debate.

3. The Conditions of a True Peaceful Coexistence between the Nations.

   (a) The Juridical and Moral Principles of Coexistence.

   Report to be presented, in the name of the Committee on Juridical Questions, by Mr. Henri Rolin, former President of the Senate (Belgium).
(b) International Security and Disarmament in the light of Present-day Circumstances.

Report to be presented, in the names of the Political Committee and the Committee on Reduction of Armaments, by Mr. Leo Hamon, Senator (France).

(c) The Development of International Exchanges in the Economic Field.

Report to be presented, in the name of the Committee on Economic and Financial Questions, by Mr. Harry Hynd, Member of the House of Commons (Great Britain).

(d) Cultural Exchanges and the Free Movement of Persons as Means for fostering International Rapprochement and Understanding.

Report to be presented, in the name of the Committee on Intellectual Relations, by Baron Nothomb, Senator (Belgium).

4. The Strengthening of the Inter-Parliamentary Union.

5. Immigration and Emigration Policies as related to the Distribution of Manpower and the Fight against Unemployment.

Report to be presented, in the names of the Economic and Social Committees, by Mr. Gaston Hoyaux, Member of the Chamber of Deputies (Belgium).

6. The Powers of the Chair in Legislative Assemblies.

Report to be presented, in the name of the Committee on Juridical Questions, by Mr. Auguste Medecin, Vice-President of the National Council (Monaco).

7. The Equivalence of University Degrees.

Report to be presented, in the name of the Committee on Intellectual Relations, by Prof. Raffaele Ciasca, Senator (Italy).

8. Proposed amendments to Articles 3, 10 and 17 of the Statutes of the Union.

Report to be presented, in the names of the Political and Juridical Committees, by Mr. Giuseppe Codacci-Pisanelli, Deputy, former Minister (Italy).

9. Election of new members of the Executive Committee.
The mandates of three of the present members of the Executive Committee expire in 1955. It will therefore be incumbent upon the Conference to proceed to the replacement of Messrs. Habib Abi-Chahla (Lebanon), Cihat Baban (Turkey) and Erik Hagberg (Sweden).

If the proposed amendments to Article 17 of the Statutes, which the Inter-Parliamentary Council has recommended the Conference to approve, are in fact adopted in respect of the increase in the number of elected members of the Committee from six to eight, it will further be necessary to proceed with the election of two additional members and to make appropriate interim arrangements for the renewal of the Committee in the future.

10. Communication of the names of the delegates of Groups to the Inter-Parliamentary Council for the period from the XLIVth to the XLVth Inter-Parliamentary Conference.
June 14, 1955.

Honorable Eugene R. Black, President
International Bank for Reconstruction
and Development
1818 "H" Street, Northwest
Washington, D. C.

Dear Mr. Black:

At a meeting in Rome several months ago, the Executive Council of the Interparliamentary Union formulated the agenda for the annual meeting to be held next August in Helsinki. One of the subjects listed for discussion is the establishment of international exchanges. I am a Vice-President of the American delegation and have been requested to discuss that subject at the Helsinki meeting. Your suggestions on what it would be appropriate for me to say on behalf of our country at that time will be appreciated.

You will understand, of course, that the Interparliamentary Union is composed of representatives of the National Assemblies of the fifty odd participating nations but it is understood that each representative who speaks is voicing his own views but not necessarily the views of his Government. Naturally, however, I would like to have the remarks I make on that occasion to be in line with our national policy with respect to international exchanges. Frankly, I don't know exactly what the Program Committee had in mind when it suggested this subject but I feel that you will be more familiar with what is involved than I and can give me some helpful suggestions for the preparation of my talk.

With best wishes,

Sincerely yours,

A. Willis Robertson
June 13, 1955

Mr. Willard L. Thorp  
The Merrill Center for Economics  
Amherst College  
Amherst, Massachusetts  

Dear Mr. Thorp:

Thank you for the invitation to attend the Merrill Center from August 1 to August 12. I have, of course, heard about the institution and the wonderful time the participants had there in the last two summers.

I would appreciate it if you let me know, at a later date, whom you expect during the second period. I am looking forward to joining in the discussions.

Sincerely yours,

John H. Adler
Mr. Martin Rosen  
International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C.

Dear Marty:

Growing out of our previous correspondence and discussions on the matter, I wish to invite Mr. Murray Ross to participate in the underdeveloped areas program of the Economic Education Workshop of Michigan State University.

The workshop is held every summer for graduate credit in education and is offered to sixty high school teachers in the social sciences to bring them up to date on current economic problems. While scholarships are paid for by Michigan corporations, limited funds are available for staff and we depend upon representatives of business, unions and government for our programs.

Our program calls for a day devoted to a discussion of underdeveloped areas and although other participants have yet to be selected, they will probably be drawn from our faculty. At present the underdeveloped areas program could be offered on the 9th, 10th or 18th of August. I would appreciate Mr. Ross letting me know which date is most satisfactory for him that I may make final arrangements.

Many thanks for your assistance.

Sincerely,

William H. Knwoles  
Workshop Director
Mr. Rosen:

Mr. Graves agrees.

M.C.T.
June 7, 1955

Mr. Willard L. Thorp, Director
The Merrill Center for Economics
Amherst College
Amherst, Massachusetts

Dear Willard:

Your letter of June 2nd apparently crossed in the mail Gene Black's letter to you nominating three Bank representatives to go to the Merrill Center this summer. I think we are sending you a good group; both Gene and I know what a fine opportunity the Center provides to stretch one's mind and we have therefore made every effort to send you our best.

Gene asked me whether I did not want to attend again myself this summer and I told him that, while I would love to go, I was not sure how this would fit in with my summer plans and, in any event, since I attended once before, I believed that other appropriate members of the Bank staff should be given their turn. I still have such fond recollections of my few days at Southampton, however, that I have a strong desire to repeat again for at least a few days. I have been wondering, therefore, whether, if I could arrange to join you for all or part of the last week of the Center's activities when you will be discussing the role of international agencies, this would be agreeable to you. I would readily understand it if you felt that attendance in the middle of a session was not advisable from the standpoint of the Center. If, on the other hand, you felt that I could make a contribution by coming for part or all of that week, I would make every effort to arrange to do so.

Please give me your frank reaction. Best regards to you and Clarice.

Sincerely yours,

Richard H. Demuth
Director
Technical Assistance and Liaison Staff

RHD:tf
June 7, 1955

Mr. Eugene R. Black
International Bank for
Reconstruction and Development
Washington 25, D. C.

Dear Gene:

Thank you very much for your letter of May 31st. I have just sent off formal invitations to Adler, Kamarck, and Rist. I know that they will be most valuable conferees, and I am happy that they can be in the group. It looks as though we were going to have a very good summer.

Sincerely yours,

Willard L. Thorp
THE MERRILL CENTER FOR ECONOMICS

AMHERST, MASSACHUSETTS

JUN 8 1966

Dear [Name],

Thank you very much for your kind letter of May 19. I read your latest paper with great interest, and I hope to have more opportunity to deal with the social movement of women's work later on in the summer. I think we should keep in touch and possibly share some thoughts on the subject. It would be a great opportunity for me to have a real kick-off.

Sincerely yours,

[Signature]
June 3, 1955

Professor Bertrand Fox
Administrator
Merrill Foundation for Advancement
of Financial Knowledge, Inc.
Graduate School of Business Administration
Harvard University
Boston 63, Massachusetts

Dear Professor Fox:

Dr. B. E. Matecki has been talking to me and to some of my associates in the International Bank about certain specific aspects of his research study on the impact of international agencies on the formulation of United States foreign policy. Dr. Matecki has asked me to express to you my personal opinion concerning the possibilities of this project in connection with the application filed by Princeton University with the Merrill Foundation for a grant to help finance its continuation.

In my view -- and I want to emphasize that I am writing in my individual and not official capacity -- Dr. Matecki is undertaking an interesting and worthwhile piece of research in a field in which, so far as I know, no ground has yet been broken. There is, unfortunately, a good deal of fuzzy and sometimes emotional thinking about the way in which international organizations operate, the extent of the influence they exert, and the manner in which such influence is exerted; a scholarly analysis of these matters should, I believe, be of considerable value in clarifying the problem. I want to add that, in my conversations with Dr. Matecki, I have been impressed with the thoroughness and intelligence with which he is carrying out his research.

Sincerely yours,

Richard H. Demuth
Director
Technical Assistance and Liaison Staff

RHD:tf
June 2, 1955

Mr. Richard H. Demuth  
International Bank for  
Reconstruction and Development  
Washington 25, D. C.

Dear Dick:

I wrote Gene Black several weeks ago about the possibility of some people coming up to the Center this year from the Bank. I don't want the letter to get buried, and wonder if you could follow up on it for me.

Sincerely yours,

Willard L. Thorp
Mr. L. Rist.

K. Varvaressos.

The Role of Private Enterprise in Economic Development.


A few days ago we discussed plans currently being considered in the Bank to undertake a study on the above subject. As agreed, I am stating briefly below some of my personal views on the matter.

1—It is important to define at the outset what we have in mind when we speak of private enterprise as an instrument of economic progress. I think it is always taken for granted that private enterprise means private enterprise of the western type, and in particular of the American type, i.e. an organization characterized by efficient management, good labor relations and the capacity to meet and even anticipate the needs of the public at the lowest possible cost. In my view, four factors operate in these countries to ensure that private enterprise will possess these characteristics: (a) a capacity for rational behavior, for cooperation between groups and for organization, which is found not only in the field of business but also in the field of government and in the activities of other non-profit institutions (b) effective competition between business units due not only to the existence of a relatively large number of units but also to the great diversity of demand which business must seek to satisfy (c) the attitude of the modern businessman, who has come to realize that in the long-run his own interests will be best served if he serves the public well. It is this attitude which explains the high volume-low-profit policies followed by business in the advanced countries, and especially in the United States, and which has made possible the development of a mass consumption market and mass purchasing power (d) ability of the government to regulate effectively private enterprise where it needs regulation for the protection of the public interest (pure food legislation, regulation of public utilities, bank supervision, etc.).

2—This type of private enterprise is a relatively recent phenomenon and, as already stated, it is confined to the advanced countries. Private enterprise in the underdeveloped countries as a rule presents the opposite characteristics, i.e. monopolies, exploitation, speculation, low volume-high profit psychology, non-existence or ineffective government regulation. The fact that private enterprise operates in this manner in the underdeveloped countries is, in my view, one of the major causes why these countries have remained economically underdeveloped in spite of often ample resources. It also explains the disillusionment felt in many of these countries with private enterprise and the belief, which became prevalent in the 1930's, that progress could be materially hastened through active government intervention in economic life.

3—This intervention has as a rule proved unsuccessful, not only because the fields in which governments intervened were not suited to government operation but also because these were governments which were unable to perform efficiently even strictly governmental responsibilities, let alone the complex economic tasks they had undertaken.
4—It was natural that this failure of government intervention in the economic sphere would lead to the conclusion that less government intervention would be a good thing for these countries. There is, however, a danger of oversimplifying. In the same way that government intervention has proved to be no answer to the shortcomings of private enterprise in the underdeveloped countries, withdrawal of the government from the economic field will not necessarily result in the development of progressive private enterprise.

5—The fact is that underdeveloped countries are underdeveloped in all directions, including the sphere of private enterprise, and that an essentially negative change, like the withdrawal of government from the economic field, cannot in itself make private economic activity in these countries acquire the attributes of modern business enterprise.

My conclusion is that there is no short— but: economic development, as repeatedly emphasized by the Bank, is a slow and complex process which cannot be significantly hastened through changes in economic organization alone.

6—In the light of these considerations, I doubt that stressing the advantages of private enterprise in general and of its role in economic progress in the advanced countries would have much of an impact on conditions and attitudes in the underdeveloped countries. I think that a more practical course would be to try to do two things: First, to try and foster in these countries the modern type of entrepreneur. I believe it is true that in all countries, however backward economically, there are a number of individuals who possess the drive, initiative and managerial ability needed in the modern entrepreneur and who have succeeded in organizing efficient businesses in the midst of general inefficiency. I think that the best way to promote private enterprise in these countries would be to give assistance and encouragement to this type of businessman. This is a job for the proposed International Finance Corporation. By enabling capable and forward—looking entrepreneurs to expand their businesses and enter new fields, the new institution could contribute to the spread of progressive business methods and to the realization by the public of these countries that such methods are both profitable to the individual and beneficial to the community. Second, it would be very valuable to compile concrete examples of government interference which has stifled private initiative and harmed the economy. Such a compilation would clearly indicate the type of government action which is not in the interest of economic development.

7—If my interpretation of conditions in underdeveloped countries is correct, the encouragement of good business leadership is more important than the execution of theoretically high priority business projects. It follows that it will often be preferable to assist the execution of worthwhile projects in which capable businessmen are interested even if these do not happen to have been given high priority in the country's development plans than to insist in carrying out high priority projects in which there is little competent private interest.

8—I believe that economic development depends on effective action from both governments and private business and that consequently no sector can be neglected without the general outcome being affected. There are certain sectors which clearly belong to private enterprise and there are other sectors which equally clearly are the responsibility of governments. There are also borderline cases i.e. sectors which can be operated efficiently either by private enterprise or by public agencies depending on the particular conditions prevailing in a given country. These sectors
include power, transportation, irrigation etc. It is the Bank's experience that in some cases public agencies do a creditable job in these fields while in other cases private enterprise is clearly superior to government operation.

9—My overall conclusion is that these are practical matters about which we should try not to be too dogmatic.
May 31, 1955

Mr. Willard L. Thorp  
The Merrill Center for Economics  
Amherst College  
Amherst, Massachusetts

Dear Willard:

I have given considerable thought to your kind letter of May 10, in which you invite me to designate one or two members of the Bank's staff to attend the sessions of the Merrill Center commencing on August 1 and August 15. As you know, I am convinced of the value of the discussions at the Center and am very pleased that you have given the Bank an opportunity to participate fully in them this summer.

For the session from August 1 to August 12, which is to be devoted to the problems and prospects for development in areas outside the United States, I suggest that the group include Mr. John Adler and Mr. Andrew M. Kamarak. Adler, as you probably know, was for some years a senior member of the Bank's Economic Staff and is now a member of the staff of the new Economic Development Institute. He has done considerable work on problems connected with rates of growth in underdeveloped areas. Kamarak is Economic Adviser to our Department of Operations for Europe, Africa and Australasia. He has made frequent trips to underdeveloped areas in Africa and to Australia and will, I am sure, be able to contribute greatly to the discussions.

For the session from August 15 to August 26, I am glad to designate Mr. Leonard R. Rist, Director of our Economic Staff. I am sure that you know Rist and therefore I need not tell you how well qualified he is to participate in the discussions you have scheduled for that period.

I appreciate, too, your personal invitation to me to come to the Center again this summer. I have always enjoyed my visits with you in Southampton and hope to be able to repeat this year. I will communicate with you again on this when my schedule for the summer is firmer.

With best regards,

Sincerely yours,

Eugene R. Black

cc: Messrs. Rist, Adler, Kamarak
Mr. Eugene Black
President
International Bank for Reconstruction
and Development
1818 H Street
Washington 25, D. C.

May 10, 1955

Dear Gene:

Our plans are developing very nicely for the Merrill Center operation for this coming summer. Although I know that I don't need to describe the operation to you in any detail, perhaps I should review it for the record. The fundamental idea is to use a lovely estate as a gathering place for scholars and experts to consider some fairly general economic problem. It differs from most conferences in that the group lives together for a sufficient length of time so that the conferees can come to know each other and discuss problems of common interest without the limitations imposed by publicity or the usual hurried meeting. Furthermore, all discussions are off-the-record, and the objective is merely to have as complete discussion on each subject as the conferees wish rather than the drafting of a report or preparation of a manifesto.

In the two summers for which we have experience, we have had about fifty people in each, of whom eight to ten stayed for the entire period. The others came for shorter intervals, but we try to maintain a minimum of at least two weeks. This means that at any given moment of time about twenty to twenty-five people were at "The Orchard." We have discussions five mornings in each week, and four evenings, although frequently there are special guests who lead the evening discussions. The afternoons and week-ends are free for such form of relaxation or dissipation as each individual may prefer.

Last summer's sessions were devoted to a discussion of economic stability, with particular reference to the possibility of a serious American depression and the likely world impact of such an event. Many times during last summer's sessions, questions arose concerning the process and prospects of economic growth. As a result, this has been selected for this summer's topic. It is clearly one on which a lot of thinking has been going on and where it may be worth while for us to take stock. The tentative program is to spend three weeks on the prospects and problems for growth in the American economy,
two weeks on the prospects and problems of growth in other countries, and a final two weeks on the degree to which these prospective trends are interdependent and interrelated. The three periods which I have outlined would begin on July 11, August 1, and August 15, the sessions concluding on August 26.

As before, the procedure will be that when the group is assembled, it will decide itself on which particular phases of the problem it wishes to focus its attention. The whole operation is not one of faculty and students but, rather, of a group of experts, each participating. No formal papers are presented but the operation is truly one of discussion. I am sure that we will need to consider problems of technology, including the implications of automation and atomic energy, the prospective accumulation of savings as against the prospects for investment opportunities, the possible rate of economic development in underdeveloped countries, the international flow of capital, and the part which should be played by international institutions or other international arrangements. This is by no means an agenda, and these topics may receive short shrift and each group may decide to concentrate on additional problems. All that can be predicted with certainty, other than the general subject, is that each will be a lively group discussing the problems which it wishes to discuss.

Last year when the problems centered around the possibilities of a depression, the chief conferees from Washington came from the Federal Reserve Board and from the Monetary Fund. This year when economic growth will be the subject of discussion, it seems to me that it should be of particular interest to the Bank. I don't know whether or not the first period in which we will be considering the problems of growth in the American economy would have as much relevance to the problems on which the Bank is working as the two periods in August, that from August 1 to August 12 when we will be reviewing the problems and prospects for development in other areas, and that from August 15 to 26 when we will be considering the extent to which there is an economic interrelationship and the part which should be played by international institutions. We are going to have an unusual group of foreign economists, as well as American economists from universities, the Government, and business, and I should be very happy to include one or two members of the Bank's staff for each of the periods. I should like to place the invitation in your hands because you know your staff much better than I, and also know something about availability. I am sure that you know enough about the operation to know that those who benefit most from this kind of discussion project are
those who will also be able to contribute ideas to the group. If the last two years' experience is any indication, this idea of bringing together a selected group of people for some time is quite an exciting one. We have had a wonderful time both years, and there is no reason to expect that this coming summer will be any different. All of this has no bearing on my hope that you will visit us again in Southampton some time this summer. We will not interfere with your golf and other activities, and it has always been a high point for the group when you have met with us.

Sincerely yours,

Willard L. Thorp
Mr. Eugene Block
May 10, 1955

Mr. Block,

I was pleased to receive your letter of April 16. I am very interested in your project of putting together a select group of people for some time of studying together a selected group of people for some time of putting together a select group. We have had a wonderful five days together and there is no reason to expect that this coming summer will be any different. All of this has been planned for my benefit. I hope that you will not be surprised in our report some time this summer. We will not interfere with your desk and other office affairs, and if I pass this year a trip abroad for the summer, you may see me with it.

Sincerely yours,

William L. Tharp

[Signature]
With respect to the attached letter to Mr. Black from the UN, it is difficult to comment on the list of subjects for further study proposed by the Secretariat, since the items are listed in the most general form. All of the topics are interesting and important. Whether or not useful studies can be made on these topics would appear to depend on the approach which the Secretariat has in mind.

As to Item (a), which is apparently an extension of the old League of Nations study "Industrialization and Foreign Trade", we might simply indicate to the Secretariat that we would appreciate an opportunity to discuss this project with them at a later stage.

I assume that we have no desire for the Secretariat to refer to any of the studies now being undertaken in the Bank in this field.

Draft reply to the UN is attached.
March 23, 1955

Dear Mr. Hill:

Thank you for your letter of March 15, enclosing the Secretariat’s paper E/2639. We have no comments to suggest for the statement which you are preparing on this item for the Council.

I am sure that our staff will welcome the opportunity to discuss with members of the Secretariat some of the topics on which the research program develops at a later stage.

Sincerely yours,

[Signature]
Eugene R. Black

Mr. Martin Hill
Deputy Under-Secretary for Economic and Social Affairs
United Nations
New York, New York

cc Mr. Black
Mr. Alter
**GENERAL FILES ROUTING SLIP**

**Date**

**Routing of Incoming Mail**

<table>
<thead>
<tr>
<th>Name</th>
<th>Route</th>
<th>Department</th>
<th>Route</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Black</td>
<td>1023</td>
<td>Personnel Div.</td>
<td>1213</td>
</tr>
<tr>
<td>Mr. Broches</td>
<td>1113</td>
<td>Mr. Poore</td>
<td>1220</td>
</tr>
<tr>
<td>Mr. Cope</td>
<td>402</td>
<td>Public Relations</td>
<td>1109</td>
</tr>
<tr>
<td>Mr. Demuth</td>
<td>1013</td>
<td>Mr. Reamy</td>
<td>1218E</td>
</tr>
<tr>
<td>Mr. Doucet</td>
<td>1109</td>
<td>Research Files</td>
<td>1215</td>
</tr>
<tr>
<td>Mr. Garner</td>
<td>1002</td>
<td>Mr. Riley</td>
<td>1201</td>
</tr>
<tr>
<td>Mr. Gregh</td>
<td>320</td>
<td>Mr. Rist</td>
<td>1223</td>
</tr>
<tr>
<td>Mr. Hamilton</td>
<td>1232</td>
<td>Mr. Rosen</td>
<td>405</td>
</tr>
<tr>
<td>Mr. Hoar</td>
<td>405</td>
<td>Mr. Rucinski</td>
<td>320</td>
</tr>
<tr>
<td>Mr. Howell</td>
<td>1004</td>
<td>Mr. Schmidt</td>
<td>421</td>
</tr>
<tr>
<td>Mr. Iliff</td>
<td>1002</td>
<td>Mr. Sommers</td>
<td>1113</td>
</tr>
<tr>
<td>Mr. Johnston</td>
<td>1220</td>
<td>Technical Op.</td>
<td>308</td>
</tr>
<tr>
<td>Mr. Knapp</td>
<td>421</td>
<td>Mr. Woolley</td>
<td>1007</td>
</tr>
<tr>
<td>Mr. Mendels</td>
<td>1009</td>
<td>Mr. Worthington</td>
<td>1215</td>
</tr>
<tr>
<td>Office Services</td>
<td>113</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Remarks:**

Dr. Lopez-Hernadez—Please discuss this with Mr. Rist & Mr. Lippzmoya. I have not a well prepared—what should say.

From: General Files & Corres. Section
Dear Mr. Black,

Item 5 on the agenda of the forthcoming 19th session of the Economic and Social Council deals with problems of industrialization in under-developed countries. You will have already received the major study which we have prepared entitled "Processes and Problems of Industrialization in Under-Developed Countries" (E/2670). One of the other papers submitted to the Council under this item is the short paper (E/2689) which is enclosed and which contains a list of subjects considered suitable for further study. Because of its nature, this paper is one which we would have liked to discuss with you before issuing. However, owing to the reorganization in the Department the paper could not be prepared in time to enable us to circulate it to you in draft form for comment.

If there are any particular comments you would like us to take into account in preparing our statement on this item in the Council, I should be very glad to receive them.

Yours sincerely,

Martin Hill
Deputy Under-Secretary for Economic and Social Affairs

---

Mr. Eugene Black
Managing Director
International Bank for Reconstruction and Development
1818 H Street NW
Washington, D.C.
Dear Mr. Black,

I am on the Steering Committee of the United Nations Commission on Human Rights and Development. I am writing to inform you of the recent developments in this area.

The United Nations Development Programme (UNDP) has been working closely with governments and civil society organizations to promote human rights and development. We have launched a new initiative to provide technical assistance to countries in need.

If there is any further information you would like to receive or any specific questions you may have, please feel free to contact me.

Yours sincerely,

[Signature]

Member of the Steering Committee
UNDP

[Contact Information]
ECONOMIC DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES
PROCESSES AND PROBLEMS OF INDUSTRIALIZATION

List of Subjects for Further Study

Memorandum by the Secretary-General

1. At its sixth session the General Assembly adopted resolution 521 (VI) on integrated economic development in which it recognized that "a continuing, comprehensive and methodical study of every aspect of economic development is required in order to achieve a better direction of effort and resources in promoting the economic advancement of under-developed areas and countries" and in accelerating development plans and programmes.

2. It was in the light of that resolution that the Economic and Social Council framed its request to the Secretary-General to study the processes and problems of industrialization. In paragraph 5 of its resolution - 461 (XV) - the Council also requested the Secretary-General to prepare and submit "a list of the subjects relating to the industrialization of under-developed countries which have not so far been dealt with by the United Nations or the specialized agencies."

3. In drawing up such a list several considerations have been borne in mind. In the first place, the fact that industrialization - however important - is regarded as only one element in the wider process of economic development makes it relevant to refer to the Secretary-General's working paper E/2384, the first part of which reviews briefly the work that has already been done in the United Nations and the specialized agencies on the subject of integrated economic development. Reference should also be made to the Bibliography prepared in accordance with paragraph 4 of resolution 461 (XV) and presented to the Council as document E/2538. In the first half of this bibliography there is
an annotated list of the publications of the United Nations and the specialized
agencies dealing more specifically with one or another aspect of
industrialization. Over and above these published reports, a good deal of
additional material is available in the form of records of debates in the Council
and the General Assembly and in the functional commissions and the regional
economic commissions as well as reports of expert committees and Technical
Assistance reports. Moreover, many of the subjects which require further study
are mentioned or implied in the background study "Processes and Problems of
Industrialization in Under-developed Countries" (1955.II.B.1) presented to the
Council pursuant to paragraph 2 of the above resolution.

4. Rather than draw up a more or less exhaustive list of the subjects that
have not yet been dealt with, it has been deemed more useful at the present
stage to select a few that appear to be of particular importance, an examination
of which would carry forward the programme of studies contemplated in
General Assembly resolution 521 (VI). In selecting these subjects, the
limited resources at the disposal of the secretariats of the United Nations,
including the regional economic commissions, and of the specialized agencies
have been kept in mind. The principal criteria for selection have been the
degree to which the subject lends itself to analysis within the wider frame
of reference proper to the United Nations and the degree to which research by
the secretariats and debate in the Council are likely to lead to practical steps
to help forward the process of industrial development.

5. It is difficult to suggest priorities for studies of this nature; the
relative significance of the problems tends to vary both from one
under-developed country to another and from one phase to another of the
industrialization process. The final choice lies with the Council, which,
after debating the report on Processes and Problems, may in fact consider some
other subject to be more urgent.

It might be considered worth while to keep this bibliography up to date
by the preparation of periodic supplements, or even to extend it to
include the titles of research projects in the industrialization field
that are being carried out by governments, private persons, universities
or scientific foundations in various parts of the world.
6. For present purposes, the selected subjects have been divided into four categories, corresponding roughly to the four operational levels at which the problems of industrialization are ordinarily manifested:
   a. international economic relations
   b. the domestic setting for industrial development
   c. the industrial structure
   d. the individual plant

7. Bearing in mind the complexities and character of the processes of industrialization and the limited availability of staff resources, it would hardly be practical to draw hard and fast lines in regard to the topics to be dealt with by the United Nations and the specialized agencies, or the United Nations staff at Headquarters and the secretariats of the regional economic commissions. The suggestions that follow are accordingly intended to indicate only the broad lines of responsibility. As to procedure, the first group of subjects - the impact of industrial development on international economic relations - would include the study of changes which industrialization is likely to bring about in economic relationships between industrial and under-developed countries and would fall logically within the competence of the United Nations secretariat, both at Headquarters and in the regions.

8. Most of the subjects in the second group - domestic industrial environment - could probably be dealt with in the main by the secretariats of the regional economic commissions, in particular ECAFE and ECLA, though in so far as they concern Africa and the Middle East they would be handled by the United Nations secretariat at Headquarters. Where labour problems are involved, the ILO should be requested to undertake the work, and in the case of problems of education and development of scientific research, UNESCO; while FAO would concern itself as appropriate with problems regarding the interaction between industry and agriculture. Further study of the market for industrial capital might draw on the experience of the IBRD.
9. The third and fourth groups of subjects - problems of industrial structure and problems arising inside the plant - could probably best be studied at the local level. Hence co-operation between the regional economic commissions, secretariats and technical assistance experts would seem of great importance. Where the subject involves the industrial countries - as in the case of problems of technological adaptation on the parts of under-developed countries, availability of equipment and so on - the services of the United Nations secretariat at Headquarters and of the ECE secretariat might appropriately be used.

10. Studies of this nature would probably be most fruitful if they permitted comparisons between countries classified in various categories - according to region, population density, national per capita income, degree of industrial development or other suitable criteria. In general, the most promising approach would involve the analysis of specific problems on a functional basis within a number of industrializing countries. Such studies - carried out and published at the request of the countries concerned - are likely to lead most directly to practical results both for the countries themselves and for others in which similar problems have to be faced.

11. The list of proposed subjects

a. Among the problems of international economic integration the most appropriate one for early United Nations study would seem to be the subject of industrial location and the causes and effects of shifts in comparative advantages during the process of economic growth. This would involve a discussion of the impact of industrialization upon the course of economic relations between the under-developed countries themselves and between the under-developed countries and the industrial countries. An analysis of certain aspects of this subject was made by the League of Nations in 1945; it might well be taken under consideration again after ten years of postwar economic development.
b. Among the problems of the domestic industrial environment that require further study the following would appear to be particularly important:

(i) A study of the distribution system in under-developed countries; relationships between manufacturing, transport and commerce; the co-ordination of sales and production in the manufacturing field; marketing as an industrial problem.

(ii) The concept of "balanced growth" and the possibilities of achieving it nationally, regionally or internationally during the industrialization process; programming techniques to keep the manufacturing sector in step with other sectors of the economy; the delimitation of "complementary blocks" of industrial investment, through which external economies might be maximized.

(iii) A study of the mutual adaptation of existing social patterns and industrial forms of economic organization; the effect of new factory communities in previously existing non-industrial rural and urban societies; industry as a "growing point" in an emerging exchange economy.

(iv) The organization of a system of public administration appropriate to an industrial economy; the relationship between public and private enterprise; the problem of formulating and giving effect to economic and social legislation, favouring industrial development.

c. Among the problems arising at the industry level, scale and organization (and their relationship) are subjects in which further research is needed in the special circumstances prevailing in most under-developed countries. Under this general head, four rather more specific topics would seem to deserve particular emphasis:

(i) The problem of making the best use of available entrepreneurial and managerial skills and of increasing the supply of such skills.
(ii) Competition, monopoly and co-operation in industrial development; the problem of achieving some of the advantages of larger scale operations - in research, buying, selling and so on - among factories organized on a fairly small technical scale.

(iii) The effects of mechanization on scale; the impact of new forms of power.

(iv) A study of the processing industries; the relationship between primary activities and manufacturing.

d. Some of the topics suggested under c. have their counterpart at the level of the individual plant, but two subjects stand out as especially important fields of study:

(i) The problem of mechanization in the industrial environment and the factor cost relationship commonly found in under-developed countries; the availability of capital saving and labour-intensive technologies and their suitability in different economic situations.

(ii) The problem of standards of performance and factor productivity; methods of measuring, interpreting and improving these in the conditions obtaining in under-developed countries.
Mr. H. Graves                              February 18, 1955

E. deVries

Netherlands Conference on Aid to Underdeveloped Countries

I received a letter from Prof. Dr. Thung, a former colleague from Wageningen, of the following contents (rough translation):

In connection with the Tenth Anniversary of the end of the war, the Netherlands Government plans to convert the gratitude for liberation and successful rehabilitation into action — assistance to less-developed countries. This also will demonstrate its feeling of responsibility toward these parts of the world. In this framework, addresses will be made by one of the members of the Royal House and one or more cabinet ministers to the whole nation and the diplomatic corps.

The whole program extends over 2 days in the second half of June. Leyden will be the historic meeting place. On the second day, the National Association of Research Workers will organize meetings for the universities, the student bodies and the Central Youth Council. Here, the different forms of assistance will be discussed (Point IV, World Bank, Colombo Plan, bilateral treaties, Stassen Plan, SUNFED). We would very much like to have you talk on the World Bank; We will ask other international experts. Would you be able to come over at that occasion?

I will answer next week, that I hope to be on home leave at that time and would be glad to talk to them.

cc: Mr. Aldewereld

EdeV/mmd.
Dear Mr. Myers,

I have not yet thanked you for allowing me to take part in the most interesting discussions which took place at the Statler last Wednesday. Most of the points were, I think, very well taken and if ever there was a stimulating meeting this was it.

A few months ago I was asked to set forth some of my thoughts on development problems for the French Institute of Applied Economics. They had submitted a questionnaire which I have endeavored to answer. Although the paper is to be published ultimately by the foresaid Institute, it seems to me that some of the thoughts expressed in it may be of some assistance to yourself and Mr. Cleveland. I, therefore, take the liberty of enclosing two copies of it.

I would more particularly refer you to page 2 and its footnote, in which I made an attempt to distinguish between increase in income per head and progress in its broader sense: this was one of the points which the Conference elaborated on, and I think, quite rightly.

I would also refer you to page 9, and the comments about the importance of foreign trade and terms of trade in the process of economic development. Finally, I would draw your attention to pages 14 to 19, and particularly the last full paragraph on page 19 in which a suggestion is made concerning means by which transfers of capital can have the advantages of grants and loans at the same time.

I hardly need.../
I hardly need to say that my colleagues and I will only be too glad to give you any further assistance you may require in your work.

With kind regards,

Sincerely yours,

Leonard B. Rist,
Director, Economic Staff

2 encl.
December 21, 1954

Dear Mr. Myers:

Upon my return from Brazil I have found your kind invitation to attend a study group of the Committee for Economic Development which held its session on December 15. I have also learned from Mr. Gordon and Mr. Rist, of the Bank's staff, that this was a most interesting and stimulating occasion. I am only sorry that I missed the opportunity of being with you.

Sincerely yours,

J. Burke Knapp
Director of Operations
Western Hemisphere

Mr. Howard B. Myers
Director of Research
Committee for Economic Development
1729 H Street, N. W.
Washington, D. C.
November 30, 1954

Dear Mr. Myers:

On behalf of Mr. Knapp, who is currently in Brazil, I write to acknowledge receipt of your letter of November 26, 1954, inviting him to participate in the December 15 discussion of United States foreign development policy.

According to present plans, Mr. Knapp will not return to Washington in time to be able to accept this invitation. Nevertheless, I am informing him about it, and should he, by chance, return ahead of schedule and be able to participate in the discussion, either he or I will let you know.

Sincerely yours,

Orvis A. Schmidt
Assistant Director of Operations
Western Hemisphere

Mr. Howard B. Myers
Director of Research
Committee for Economic Development
1729 H Street, N. W.
Washington, D. C.

cc: Mr. Knapp in Rio

OAS:mln
Mr. Leonard B. Rist  
Director, Economic Staff  
International Bank for Reconstruction and Development  
1618 H Street, N. W.  
Washington, D. C.

Dear Mr. Rist:

The Committee for Economic Development is undertaking a study of United States foreign development policy with a view to issuing a policy statement on that subject sometime next year. In order to initiate our study we plan to hold a one-day meeting of experts on underdeveloped countries and on problems of economic development and economic development policy. The meeting will be held in Washington, D. C., on December 15 from 10 to 5 at the Statler Hotel.

This letter is to invite you to participate in this one-day meeting. The purpose of the meeting is to help us formulate the basic issues of United States foreign investment and development policy and to suggest the kind of CED policy statement on this subject which could make a useful contribution to public understanding and to policy formation.

Attached is a list of the persons who have been invited to attend, and I will forward to you shortly an annotated agenda. Richard M. Bissell, economic consultant and a member of CED's Research Advisory Board, will lead the discussion.

I very much hope that you will be able to attend this meeting, which, I feel, can be most helpful in initiating our work on this complex and important problem. Would you be kind enough to let me know at your earliest convenience whether you will be able to attend?

The CED will, of course, pay the expenses of the participants in the meeting.

Sincerely yours,

Howard B. Myers
Director of Research
COMMITTEE FOR ECONOMIC DEVELOPMENT

Persons Invited to Discussion of
United States Foreign Development Policy

Statler Hotel, December 15, 1954, 10 A.M. to 5 P.M.

Chairman,
Richard M. Bissell, Jr.
Economic Consultant
Washington, D.C.

Charles Baldwin
Deputy Ass't. Secretary for
Far Eastern Economic Affairs
State Department

Roy Blough
Principal Director of Economic
Affairs
United Nations

H. van B. Cleveland
International Economist
Committee for Economic Development

Theodore Geiger
Chief of International Studies
National Planning Association

Alexander Gerschenkron
Professor of Economics
Harvard University

David Gordon
Department of Operations - Western
Hemisphere
International Bank

Edmund A. Gullion
Policy Planning Staff
State Department

Everett Hagen
Center of International Studies
Mass. Institute of Technology

Bert F. Hoselitz
Associate Professor of Social Science
University of Chicago

J. Burke Knapp
Director of Operations - Western
Hemisphere
International Bank

Simon Kuznets
Department of Political Economy
Johns Hopkins University

John Lewis
Assoc. Professor of Business Adm.
Indiana University

Edward S. Mason, Dean
Graduate School of Public Adm.
Harvard University

Max Millikan
Center of International Studies
Mass. Institute of Technology

Wilbert E. Moore
Professor of Sociology
Princeton University

Raymond Moyer
Regional Director for Far East
Foreign Operations Administration

Howard B. Myers
Director of Research
Committee for Economic Development

Benjamin N. Nelson
Assoc. Professor of General Studies
University of Minnesota

Ragnar Nurkse
Professor of Economics
Columbia University

Howard C. Petersen
President
Fidelity Philadelphia Trust Company
Chairman
Subcommittee on Int'l. Economic Policies
Research and Policy Committee
Committee for Economic Development

Edward Posniak
Economic Consultant
Washington, D.C.
Leonard B. Rist
Director, Economic Staff
International Bank

Theodore W. Schultz
Professor of Economics
University of Chicago

Herbert Stein
Assoc. Director of Research
Committee for Economic Development

Jacob Viner
Professor of Economics
Princeton University

Henry Wallich
Professor of Economics
Yale University
Mr. J. Burke Knapp  
Director of Operations - Western Hemisphere  
International Bank for Reconstruction & Development  
1818 H Street, N.W.  
Washington 25, D.C.

Dear Mr. Knapp:

The Committee for Economic Development is undertaking a study of United States foreign development policy with a view to issuing a policy statement on that subject sometime next year. In order to initiate our study we plan to hold a one-day meeting of experts on underdeveloped countries and on problems of economic development and economic development policy. The meeting will be held in Washington, D.C., on December 15 from 10 to 5 at the Statler Hotel.

This letter is to invite you to participate in this one-day meeting. The purpose of the meeting is to help us formulate the basic issues of United States foreign investment and development policy and to suggest the kind of CED policy statement on this subject which could make a useful contribution to public understanding and to policy formation.

Attached is a list of the persons who have been invited to attend, and I will forward to you shortly an annotated agenda. Richard M. Bissell, economic consultant and a member of CED’s Research Advisory Board, will lead this discussion.

I very much hope that you will be able to attend this meeting, which, I feel, can be most helpful in initiating our work on this complex and important problem. Would you be kind enough to let me know at your earliest convenience whether you will be able to attend?

The CED will, of course, pay the expenses of the participants in the meeting.

Sincerely yours,

Howard B. Myers  
Director of Research
COMMITTEE FOR ECONOMIC DEVELOPMENT

Persons Invited to Discussion of
United States Foreign Development Policy

Statler Hotel, December 15, 1954, 10 A.M. to 5 P.M.

Chairman,
Richard M. Bissell, Jr.
Economic Consultant
Washington, D. C.

Charles Baldwin
Deputy Asst. Secretary for
Far Eastern Economic Affairs
State Department

Roy Blough
Principal Director of Economic
Affairs
United Nations

H. van B. Cleveland
International Economist
Committee for Economic Development

Theodore Waiger
Chief of International Studies
National Planning Association

Alexander Gerschenkron
Professor of Economics
Harvard University

David Gordon
Department of Operations - Western Hemisphere
International Bank

Edmund A. Cullion
Policy Planning Staff
State Department

Everett Hagen
Center of International Studies
Mass. Institute of Technology

Bert F. Hoselitz
Associate Professor of Social Science
University of Chicago

J. Burke Knapp
Director of Operations - Western Hemisphere
International Bank

Simon Kuznets
Department of Political Economy
Johns Hopkins University

John Lewis
Assoc. Professor of Business Adm.
Indiana University

Edward S. Mason, Dean
Graduate School of Public Adm.
Harvard University

Max Millikan
Center of International Studies
Mass. Institute of Technology

Wilbert E. Moore
Professor of Sociology
Princeton University

Raymond Moyer
Regional Director for Far East Foreign Operations Administration

Howard B. Myers
Director of Research
Committee for Economic Development

Benjamin N. Nelson
Assoc. Professor of General Studies
University of Minnesota

Ragnar Nurkse
Professor of Economics
Columbia University

Howard C. Petersen
President
Fidelity Philadelphia Trust Company
Chairman
Subcommittee on Int'l. Economic Policies
Research and Policy Committee
Committee for Economic Development

Edward Posniak
Economic Consultant
Washington, D. C.
Leonard B. Rist
Director, Economic Staff
International Bank

Theodore W. Schultz
Professor of Economics
University of Chicago

Herbert Stein
Assoc. Director of Research
Committee for Economic Development

Jacob Viner
Professor of Economics
Princeton University

Henry Wallich
Professor of Economics
Yale University
Mr. P. Henry Juryan,
6100 Chancellor Street,

Dear Mr. Juryan:

I have read your letter of September 28 with interest and have discussed it with some of my colleagues.

Basically I think that there is merit in your proposal that an agency like the Bank be prepared to assist underdeveloped member countries in the planning and managing of their development programs. I say this with the reservation that the word "manage" in your document be read as meaning advise on management, since executive authority must always rest in the last analysis with the nationals of the country concerned.

In point of fact, the Bank is already doing quite a good deal of this kind of work. In Colombia, for instance, we started by organizing a general economic survey mission which made recommendations for a long-range development program; we later provided experts to help the Government interpret this program; we released a staff member on leave of absence to serve as Staff Director of the Planning Board; and we assisted the Government in recruiting various other experts. In Nicaragua we stationed a special representative, with an assistant, in the country for almost a year to assist in preparing a development program and to help in the first stages of its implementation. Thereafter in Nicaragua, and in a few other countries, we assigned special representatives to assist the Governments in working out their development plans.

I believe, however, that any great expansion of our activities into a formal program of the kind you suggest would encroach on the functions now charged to the United Nations Technical Assistance Administration and the U.S. Foreign
Operations Administration. Those are the two agencies which have been given principal responsibility for providing the underdeveloped countries with the type of technical advice your letter discusses. I believe, therefore, that the most fruitful way for you to pursue your idea is through contact with Dr. Hugh L. Keenleyside, Director General of the United Nations Technical Assistance Administration, and with Mr. Harold E. Stassen, Director of the United States Foreign Operations Administration.

With kind regards,

Sincerely yours,

W. A. B. Iliff

W. A. B. Iliff.
Assistant to the President.
TO: Mr. A.S.G. Hoar  
FROM: Walter Hill  

1. I attended last week some of the meetings of the "International Congress of Studies on the Problem of Underdeveloped Areas" that had been convened for six days from October 10-15 by an Italian Organising Committee including Ministers, Professors and others interested in the economic development of the country.

2. It became quickly apparent that the Congress had been organised partly with a view to providing an international platform for the discussion of Italy's problem and to enlisting support for Italy's case. To this extent the Congress was quite successful, for it certainly stimulated an interest in Italy's problems among the large gathering of economists. Attached is a copy of the Report of the Italian Commission of Studies on Italian Underdeveloped Areas.

3. It would be unkind, however, to overlook the stimulus given by the Congress to the study of the problems of development in its various aspects among university professors. A number of papers were read by eminent professors about the theoretical problems of development. I will forward these by sea mail as soon as a complete set reaches me here.

4. During the brief period of my attendance, little of practical value emerged from the Bank's point of view. The majority of the VIP's of the Organising Committee had already left when I reached Milan in the late afternoon of October 11. I met Professor Saraceno who told me he was still working on the long-term investment plan. I also had a conversation with Professor Dell'Amore, Chairman of the Savings Banks Association and of the Savings Banks of the Lombard Provinces. Professor Dell'Amore would like to obtain a credit from Swiss banks who informed him that, at this time, such an operation would only be possible with the guarantee of the International Bank. I explained the implications of such an operation and advised him to take his problem to Minister Vanoni and Governor Menichella who had had conversations with the Bank in Washington. I emphasised that we could only treat through official channels, and that it was for the Italian Government to decide what matters they wished to raise with the Bank. I was also approached by Mr. F. Gramatica, President of the Centro

(1) Sent by air freight.
Nazionale di Prevenzione e Difesa Sociale, who gave me the enclosed(1) copy of a scheme for the formation of a development company for Italy's mountain regions.

5. I gave to Justice Adolfo Beria D'Argentine, Secretary of the Congress, a copy of the Notes prepared in your Department; I also gave him, for purposes of information, a copy of the "Answer to a Questionnaire issued by the Institut de Science Economique Appliquée, Paris" prepared by Mr. Rist.

6. While in Milan, I was asked for an appointment by Mr. Paolo Geranzani of the Imprese Italiane All'Estero, a firm of engineers associated with the Fiat group and anxious to obtain more foreign business. Mr. Geranzani told me that he wanted to see me on the suggestion of Dr. Pick who had written to him about my visit to Milan. I amplified the information Dr. Pick had already supplied to him about the Bank's inability to intervene in the choice of firms of consultants and suppliers. I made it clear, further, that we could not keep him informed about pending operations, and that, like other firms, he would have to rely on information made available through the representatives abroad of the Italian Government, and on his own connections and representatives in other countries. I offered to put his firm on our mailing list for press releases. Attached(1) is some literature indicating the scope of his company's activities.

7. When we had exhausted this subject, Mr. Geranzani told me that, until recently, he had been in charge of the development division of the Fiat group. In this capacity he had spent three years in Southern Italy supervising the construction of plants. He felt that, rather than develop the cultivation of cereals at high costs, the Cassa per il Mezzogiorno would do better to encourage the production of crops that can be grown cheaply and "industrialised". He mentioned, as examples, his company's interest in setting up a modern plant for the production of frozen orange juice, and the advantages of creating a European pool of refrigerated transport and storage capacity for the export of early season fruits and vegetables to Northern Europe and the import of meat and dairy products of which Southern Italy is short. He is particularly keen on associating foreign companies with Italian companies in such projects. Mr. Geranzani seems to know Southern Italy well and to have interesting ideas. It occurred to me that Mr. Wheelock might find it useful to have a talk with Mr. Geranzani on his next visit to Italy. Mr. Geranzani can be reached at Imprese Italiane All'Estero, Via Gaetano Negri, 4, Milan, telephone 13-051/52.

(1) Sent by air freight.
TO: Mr. W. A. B. Iliff
FROM: R. H. Demuth

DATE: Oct. 19, 1954

SUBJECT: Basically, I think there is merit in what Jeryan proposes -- with the reservation that the word "manage" is to be read as "advise on the management of." In point of fact, we are doing a good bit of this type of work, as in Colombia and Nicaragua.

However, any great expansion of our activities into a formal program would be a direct encroachment on the functions now charged to UN/TAA and FOA. We may not think they are being well performed, but the governments which control us have allocated the responsibility for this work elsewhere than to IBRD. Moreover, what Jeryan suggests would also put us in direct competition with many private consulting firms.

Intriguing as Jeryan's idea is, therefore, I think we would, under present conditions, simply be creating confusion and conflict, were we to adopt it. Perhaps the best thing to tell Jeryan is to contact Stassen and Keenleyside.
12 Octobre 1954

Cher Monsieur,

Je vous remercie vivement de votre aimable lettre du 1er Octobre et de l'autorisation que vous voulez bien me donner d'utiliser l'étude que j'ai préparée pour l'ISFA à condition qu'il soit mentionné le fait qu'elle a été écrite pour vous.

A ce propos je me permets de vous demander de bien vouloir apporter quelques modifications à mon texte. Elles ne sont pas nombreuses mais présentent une certaine importance à mes yeux.

1°) Page 20, ligne 19, ajouter "et" après "l'Angleterre" et supprimer "et pour le Pakistan".

2°) Page 22, ligne 42, après "revendre des éléments" ajouter "à court terme".


Je vous remercie à l'avance de bien vouloir demander à vos collaborateurs d'effectuer ces quelques modifications. Je crains que vous ne soyez ces jours-ci absorbé par le concours d'agrégation et je me permets d'envoyer copie de cette lettre à M. Pujade.

Je vous prie d'agrément, cher Monsieur, l'expression de mes sentiments distingués et très respectueux.

Léonard Rist,
Directeur des Études Économiques

Monsieur François Perroux
I. S. E. A.
35, boulevard des Capucines
Paris
12 Octobre 1954

Cher Monsieur,

Je vous prie de trouver ci-joint copie
d'une lettre que j'adresse à M. François Ferroux.

Étant donné l'importance que j'attache
aux corrections que je voudrais apporter à mon texte,
j'ai cru bien faire en m'assurant que vous seriez
avisé de son contenu sans délai.

Veuillez agréer, cher Monsieur, l'expression
de mes sentiments très distingués.

Léonard Rist,
Directeur des Études Économiques

2 p.l.

Monsieur M. Pujade
Institut de Science Économique Appliquée
35, boulevard des Capucines
Paris 2e
INSTITUT DE SCIENCE ÉCONOMIQUE APPLIQUÉE
35, Boulevard des Capucines PARIS 2e
Téléphone : XOPRA 08415
Richelieu 74,03
Paris le 1er Octobre 1954

Monsieur L. RIST
Director of Economic Department
International Bank for Reconstruction
and Development
WASHINGTON D.C. (U.S.A.)

Cher Monsieur,

Reprenant la correspondance de cet été, je m'aperçois qu'il m'avait été signalé que - au cours de votre passage à Paris - vous aviez demandé s'il vous serait possible d'utiliser au prochain Congrès de Milan (15 octobre), l'étude que vous nous avez adressée en réponse à notre enquête sur le sous-développement.

Je suis tombé d'avoir tardé à vous répondre et, ainsi que M. PUJADE vous l'a laissé entendre, je ne vois à cette utilisation aucun inconvénient, à condition toutefois qu'il soit explicitement indiqué que votre Rapport a été établi pour le groupe d'étude du Sous-Développement de l'I.S.E.A. et que la publication en soit réservée exclusivement à l'I.S.E.A.

Je suis navré de vous avoir manqué à votre passage à Paris et souhaite qu'une autre occasion de rencontre nous soit prochainement donnée.

Veuillez agréer, Cher Monsieur, l'expression de mes sentiments distingués et les meilleurs

François PERROUX
Dr. Jemani

I think he wants the job!

But I'd be satisfied

if you can clear

an answer.

I was my disappointment when he came to see me.

187x
Subject and Summary: It is suggested that the IBRD establish within itself a permanent staff of technicians not only for conducting the much valued economic survey but also for planning and managing the economic development of an underdeveloped country when such a service is requested by the country in need. The writer indicates that the demand for this service now exists and that the IBRD is the most logical body to make it available because of the confidence and the prestige enjoyed by the Bank in these countries.

Dear Mr. Iliff:

Following my recent conversation with you on the general subject of economic development of lesser developed countries served by IBRD, I wish to summarize herewith the suggestion which was presented for your consideration. The observations and the appraisal of the existing conditions which led to the recommendations made to you were obtained during my close association with several Near Eastern countries as a member of a consulting engineering firm with foreign commitments. Also, during the past two years I was employed by the U.S. Department of Commerce (Foreign Economic Development Staff, Bureau of Foreign Commerce; Mr. Carl N. Gibboney, Chief.) as an industrial advisor for the FOA program in Iraq; and in this capacity also served as advisor to the Industrial Bank of Iraq. The conclusions derived represent a consensus of opinion of most observers, foreign and native, who have taken deep interest in the subject.

It was suggested by Mr. George M. Bemsky, U.S. Treasury representative in the Middle East, that I discuss this subject with you upon my return to Washington. He and I had many occasions to study together the situation while we were in Baghdad last year. The subject was also discussed in several other countries of the Middle East and it is my conviction that it applies to most of the underdeveloped countries in which the Bank is interested. I think IBRD can be of great help along the endeavor suggested, principally because of the tremendous confidence and prestige it enjoys among the governing classes of the countries it serves financially.

As we all know, in recent years there has been a great impetus for general economic development in practically all countries designated as "underdeveloped". A number of these countries have obtained important financial assistance through the development of their natural resources. Others have obtained substantial foreign loans to finance their development program. In each of these countries there is some sort of government agency (a section of an existing ministry or a newly created body) to direct the development program of the country. The main problem connected with the
functioning of a Government development agency in these countries is this: in the endeavors to assist the economic development of the Country much resort is made to foreign skill in all fields of activities; yet, perhaps the most important task of all; that of planning and conducting the administration of the program, is left in inexperienced native hands with their share of normal governmental politics and exploitation. The remedy is obvious and simple; if native pride is not an obstacle to calling foreign experts in various fields of progress, such as education, public health, public works, industry, transportation, etc., it should not be a barrier to calling an efficient foreign consulting organization to manage the Country's development program for a specified period or time.

The above observation is, of course, true and realistic when looked from outside by foreign consultants. It now looks a reasonable and preferred procedure by many native officials responsible for the economic development of the Country. The demand for such a service will, of course, emanate officially from the country requiring the service, once it is known that the Bank has established the technical staff suggested to serve a country for a fee.

The task of planning and managing a country's short and long range economic development is an important one; involving great skill, experience, and specially the handling of the funds made available for the purpose. Among native officials there will be one or more who will not wish to relinquish this authority to outsiders because of reasons best known to themselves. But for every official who thus objects to outside assistance there will now probably be a large number who will welcome the efficient work of experienced foreign experts, because they know that resort to impartial outside assistance in this particular field will also establish certain morality in the conduct of the program.

National pride cannot be an obstacle in this endeavor because the suggested IBRD technical staff requested for and hired by a country will be in an advisory capacity and never exert full authority to conduct the development program. The staff will work within the country for a specified time in collaboration with the government agency which will still be officially known as the native agency in charge of the development work.

Further details of the organization and the manner of operation of the suggested IBRD Technical Staff can be expounded once the principle is accepted as a useful and desired activity of the Bank. I will be glad to further discuss this subject with the officials of IBRD who are interested in this suggestion.

I wish to thank you for your time given me in your office for discussing this subject.

Very truly yours,

P. Henry Jeryan

cc: F.G. Bochenski, IBRD.
The importance of government development programs in the context of economic development of the country is evident. It is crucial to foster an environment where policies and practices are coordinated effectively. The government has a vital role in promoting economic growth and development. It is essential to ensure that the programs are sustainable and aligned with national objectives.

The focus on planning and managing a country's short and long-term economic development is important. Developing strategies to address environmental and economic challenges is critical. The government must take a proactive role in ensuring sustainable growth.

Without the appropriate infrastructure and policies, development may be limited. The government must work towards developing a strong and efficient infrastructure.

Further details of the organizational and personnel of the program will be provided in a subsequent report. I am committed to ensuring that the program is effective and meets the needs of the country.

I trust the support of my colleagues.

Very truly yours,

[Signature]
September 10, 1954

Mr. R.L. Garner, Vice President
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Mr. Garner:

Last May Mr. Black suggested I should attend the forthcoming International Conference on Underdeveloped Areas in Milan as the Bank's representative. He also asked me to inform Mr. Pick accordingly. While my name has not been put down for a formal Paper, it has been included in the list of members of the Presiding Commission; consequently, I am certainly expected to explain the Bank's work in this field in its various ramifications. In any case, representatives of "international bodies" are invited to submit "Notes" on their activities. I should be most grateful, therefore, to have an appropriate brief for the occasion which I could take back with me to Europe around the middle of the first week in October. Enclosed is a copy of the Agenda of the Conference, to be held from October 10-15.

I am looking forward to seeing you in Washington.

With best wishes.

Yours sincerely,

[Signature]

Encl. Walter Hill
Dear Mr. Carter, Vice President

Mr. R.I. Gartner, Assistant Secretary
International Bank for Reconstruction and Development

Dear Mr. Carter:

Last May, Mr. Black suggested I attend
the forthcoming International Conference on Under-Developed Areas in Vienna as the Bank's Representative. He also asked me to inform Mr. Black

whether my name was not been put down
for a formal paper. It has been included in the
list of members of thePlanning Commission.

I am certain you can explain the
consequences of my present position in the various

institutions in which I should be most interested, e.g., Planmeetings, to prove my support for the

numerous conferences which I could take part in the

next few weeks in Europe during the first half of the year. I am looking forward to seeing you in

Washington.

With best wishes,

Yours sincerely,

[Signature]

September 10, 1954
International conference
on
underdeveloped areas
The President of the Italian Republic, LUIGI EINAUDI, has accepted the honorary presidency of the Congress.

ORGANIZING COMMITTEE

Professor GIORDANO DELL'AMORE
Chairman of the Savings Banks Association, Chairman of the Savings Banks of the Lombard Provinces; Ordinarius Professor of Banking Technique and Director of the Institute of Business Economics, Bocconi University ex-Minister of Foreign Trade.

Professor COSTANTINO BRESCIANI TURRONI, Emeritus Professor of Political Economy at Milan University, Chairman of the Banco di Roma, ex-Minister of Foreign Trade.

Professor GIOVANNI DEMARIA, Ordinarius Professor of Political Economy and Director of the Institute of Economics, Bocconi University.

Professor GIUSEPPE DI NARDI, Professor of Political Economy at the University of Naples, Head of the Research Department of the Fund for Southern Italy, "Cassa del Mezzogiorno".

Dr RAFFAELE MATTIOLI, Managing Director of Banca Commerciale Italiana.

Professor UGO GIUSEPPE PAPI, Rector of Rome University, Ordinarius Professor of Political Economy and Director of the Institute of Economics at the University of Rome, Secretary-General of the Italian Committee of F.A.O.

Professor FERRUCCIO PARRI, Chairman of the Institute of Economic Studies (I.S.E.), ex-Prime Minister.

Professor PASQUALE SARACENO, Ordinarius Professor of Economics at the Catholic University of the Sacred Heart of Jesus, Milan, Managing Director of the Association for the Industrial Development of Southern Italy (S.V.I.M.E.Z.).

Professor ROBERTO TREMELLONI, Minister of Finance, Chairman of the Parliamentary Committee for the Investigation on Unemployment.

Rt. Hon. EZIO VIGORELLI, Minister of Labour, Chairman of the Parliamentary Committee for the Investigation on Poverty.

Professor FRANCESCO VITO, Ordinarius Professor of Political Economy and Director of the Institute of Economic Science at the Sacred Heart of Jesus, Milan, Chairman of the International Association of University Professors.

Justice ADOLFO BELIA D'ARGENTINE, Managing Director of Centro Nazionale di Prevenzione e Difesa Sociale.

Scientific Presiding Commission (*)

The rapporteurs to the Congress, as well as the chairmen of Foreign States and International Bodies Delegations, are members of the commission as specified in the statute.

N. Abbagnano, Professor of the History of Philosophy, Turin University — R. Age, Chairman of Board of Administration of International Labour Office (I.L.O.) — M. Abravani, Deputy-Director of the Department of Education of UNESCO — A. Alessandrini, Director of the Institute of Hygiene, Bologna University, Chairman of the Italian Federation of Hygiene Specialists — G. P. Alcades, Director of Hygiene Institute at the Athens University — R. Bailey, Director of Political and Economic Planning of London — G. Balandier, Director of the International Council of Social Sciences, Paris — A. Banfi, Professor of the History of Philosophy, Milan University — A. Basdevant, Head of the Research Department of the French Ministry of Education — L. Basso, Milan Barrister and Member of the Italian Parliament — E. Battaglini, President of the International Union of Magistrates, Professor of Criminal Law, University of Rome — R. Bauer, Vice-Chairman of the Humanitarian Society of Milan — R. F. Behrendt, Professor of Sociology and International Economic Organisation, Bern University — P. Bodda, Professor of Administrative Law, Turin University — G. Bresciani Turroni, Emeritus Professor of Political Economy, Milan University — G. Brontzos, Regional Officer of Health and Sanitation of Sardinia — G. Calò, President of Societa Italiana di Pedagogia — G. A. Canaparoli, Vice-President of Executive Council of World Health Organisation — S. Cappanari, Professor of Sociology and Anthropology, Wayne University, U.S.A. — G. Ghiodi, Professor of Town Planning, Milan Polytechnic, Vice-Chairman of the International Town Planning Association — G. Glauser, Director of the National School of Health at Madrid University — C.A. Colliard, Dean of the Law Faculty, Grenoble University — H. V. Cooke, Professor of Economics, University of Tasca-losa U.S.A. — P. Corigliano, Chairman of the International Criminal Law Association, General Secretary to the Belgian Ministry of Justice — S. Cramarossa, Head of Medical Services of "Alto Commissariato per l'Igiene e la Sanità" — A. D'Agostino, Executive Director of the American Resettlement Council for Italian Refugees, New York — A. da Silva Tavares, General Director of Public Health, Portugal — B. Datta, Professor of Economics at Presidency College, Calcutta, Chief of the South-East Asia Division of the International Monetary Fund — M. E. Davies, Health Visitor Tutor, The Welsh National School of Medicine, Cardiff — M. De Chigi, Director of the Institute of Hygiene, University of Padua — G. M. De Franceso, Rector of Milan University and Professor of Administrative Law — D. Delvouinis, Professor of Economics in the University of Thessaloniki — G. Del Vecchio, Professor of Political Economy, Rome University — G. Denaria, Director of the Institute of Economics, Bocconi Commercial University, Milan — E. De Martino, Director of Giunta Centrale per gli Stati Storici, Rome — G. Den Hartog, Director of the Food Council, the Hague — B. Di Tullio, Honorary Chairman of the International Criminality Society —

(*) Provisional
Adhesion has been granted and attendance to the Congress ensured by:

- COUNCIL OF EUROPE.
- FOOD AND AGRICULTURE ORGANISATIONS - F.A.O.
- INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT.
- ORGANISATION OF EUROPEAN ECONOMIC COOPERATION - O.E.E.C.
- UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE - E.C.E.
- UNITED NATIONS EDUCATIONAL, SCIENTIFIC AND CULTURAL ORGANISATION - UNESCO
- WORLD HEALTH ORGANISATION - W.H.O.
PROCEDURE

1
Aims of the Congress

The purpose of the Congress is to gather together contributions of Italian and foreign scholars on the subject of underdeveloped areas.

With this object, the Congress will deal with the theoretical side of the following aspects of the problem of underdeveloped areas: juridical-administrative, economic, sociological, demographic, town planning, health and hygiene.

The Congress will also examine investigations and studies of particular areas. National commissions and delegations of national and international organisations are invited to report on their experiences.

2
Participants to the Congress

The bodies and persons invited by the Organising Committee will take part in the Congress.

Invitations, which are strictly personal, are sent only to those persons who, thanks to their studies or professional activity, have special knowledge of the problems to be discussed at the Congress.

3
The Organs of the Congress

The organs of the Congress are the Organising Committee and the International Scientific Presiding Committee.

The International Scientific Presiding Commission consists of the Official Speakers and other members designated by the Organising Committee of the Congress as well as of the chairmen of State and International Bodies Delegations. It will meet before the Opening Session of the Congress and propose nominations for the Offices of Chairman and Secretary of the different sessions for submission to the Congress. It will then approve the Congress Agenda drawn up by the Organising Committee.

4
Agenda

The work of the Congress will be carried out in plenary session in accordance with the programme laid down and will be directed by the International Scientific Presiding Commission.

The work of the Congress will be divided into five successive days.

The first day will be devoted to the economic aspects of the underdeveloped areas, the second to the sociological aspects, the third to the demographic and employment aspects, the fourth to the health and sanitation and town planning aspects, and the fifth to the juridical and administrative aspects.

The morning sessions will be devoted to the general theoretical aspects of the problem, the afternoon sessions to investigations that have been carried out.

5
The Opening Session of the Congress

The Inaugural Session of the Congress will be opened by the Chairman of the Organising Committee. During this Session a Chairman and Secretary will be appointed for each business session on nominations proposed by the International Scientific Presiding Commission.

The general lines of the Congress programme of work will then be explained.

6
The Business Sessions of the Congress

Each session will have its own agenda. The subjects will be dealt with according to the following procedure:

a) The Chairman will open the session and will give leave to speak;

b) The official speakers will give a brief summary of the main points of their papers already in the hands of Congress members;

c) The Chairman will note the names of the delegates who wish to take part in the discussion. The Chairman has the right to limit the number of those taking part in the discussion and the length of their contributions;

d) The speakers who have handed in their names to speak will keep to the time limit allowed by the Chairman;

e) The official speakers will be given time for a brief summing-up;

f) The Chairman will close the discussion of each session.

The official languages of the Congress are: Italian, French, English, Spanish and German, with simultaneous interpretation. The papers will be distributed in the original language and in Italian, French and English.
AGENDA

Sunday, 10th October 1954

16.30
Meeting of the Scientific Commission

17.30
Opening Session of the Congress

Monday, 11th October 1954

09.00-10.30 Papers will be given by:

G. U. PAPI
Rector of Rome University and Director of the Institute of Economics.

N. KALDOR
Professor of Economics, Cambridge University

W. HOFFMANN
Professor of Economics, Munster University.

B. V. KRISHNAMURTI
Professor of Economics at Bombay University

P. VITO
Director of the Institute of Economic Science, Catholic University of the Sacred Heart, Milan.

DISCUSSION

ECONOMIC ASPECTS
Theoretical Problems

Determining Factors in Economic Development

Characteristics of Economic Development in Underdeveloped Areas.

Characteristics of Capital Accumulation in the Process of Industrialisation.

Planning of Investment in Underdeveloped Areas.

Contemporary Theory regarding Underdeveloped Areas with special reference to Italy.

ECONOMIC ASPECTS
Practical Investigations

15.00-16.30
Economic report on the Underdeveloped Areas of Italy by S.V.I.M.E.Z. (speaker Prof. P. SARACENO).

16.30-17.30
Economic Reports on underdeveloped areas in other countries.

17.30-19.30
Notes on applied economics by national and international bodies.

DISCUSSION.
SOCIIOLOGICAL ASPECTS
Theoretical Problems

09.30-10.30 Papers will be given by:

R. KÖNIG
Professor of Sociology, Cologne University.

B. HOSELITZ
Professor of Sociology, University of Chicago.

H. JANNE
Director of the Solvay Institute of Sociology, Free University of Brussels, President of the Belgian Delegation to the Economic and Social Council of the United Nations.

A. BANFI
Professor of the History of Philosophy, Milan University.

10.30-13.00 DISCUSSION

Introduction to a Sociology of Underdeveloped Areas.
Sociological Factors in Economic Development
The Influence of Economic Development on the Structure of Social Groups.
Lines for a Sociology of Underdeveloped Areas within the National State.

SOCIIOLOGICAL ASPECTS
Practical Investigations

15.00-16.30
Lines for a Sociological Survey of the Underdeveloped Areas of Italy in the light of a recent bibliography of sociological material (by the Sociological Section of the Centro Nazionale di Prevenzione e Difesa Sociale)


Report on special investigations carried out by: Senator U. ZANOTTI BIANCO (Effects and effects of the removal of villages in Calabria after the floods of 1951 and '53) G. MAGGIO, Head of the Province of Genoa (Aspects of the Formation of Depressed Areas in Liguria) Prof. G. AMBRICO (Survey at Grassano, Basilicata)

Report on the connection between Crime and Economic Depression in the underdeveloped areas of Italy (speaker Prof. E. BATTAGLINI)

Sociological Reports on underdeveloped areas in other countries.

16.30-17.30 Notes on applied sociology by national and international bodies.

17.30-19.30 DISCUSSION

WEDNESDAY, 13TH OCTOBER 1954

DEMOGRAPHIC AND EMPLOYMENT ASPECTS
Theoretical Problems

09.00-10.30 Papers will be given by:

A. SAUVY
Director of the National Institute of Demographic Studies, Paris.

R. BAUER
Vice-Chairman of the Humanitarian Society of Milan.

M. GOTTSCALK
Chairman of the International Association for Social Progress, Brussels.

H. LÉFÈVRE
Head of Research Department of the French National Research Council, Paris.

10.30-13.00 DISCUSSION

Progress or famine? Demographic problems in Underdeveloped Areas.
The Phenomenon of Migration in Underdeveloped Areas.
Economic Development and Human Relations in Industry.
Evolution of Social Relations in the Field of Agricultural Labour in Underdeveloped Areas.
DEMOGRAPHIC AND EMPLOYMENT ASPECTS
Practical Investigations

15.00-16.30
Report on the preliminary conclusions of the work of the Italian Parliamentary Committee on Unemployment (speaker prof. R. TREMELLONI)
Report on labour problems in the underdeveloped areas of Italy by Italian Trade Unions
Report on the problems of Italian emigrants
Reports on Demographic and Employment problems in Underdeveloped areas in other countries.

16.30-17.30
Notes on Employment and population problems by national and international bodies.

17.30-19.30
DISCUSSION

Thursday, 14th October 1954

HEALTH, SANITATION AND TOWN PLANNING ASPECTS
Theoretical Problems

09.00-10.30 Papers will be given by:
G. A. CANAPERIA
Vice-President of the Executive Committee of the World Health Organisation
S. PINCUS
Consulting Engineer, New York
P. GEORGE
Professor of Human Geography, Sorbonne University, Paris

LE CORBUSIER
President of Ascoral with the collaboration of J. ALLAUBERT, A. BOUIN, A. WOJENSKY, Members of Ascoral, Paris

S. N. EISENSTADT
Professor of Sociology at Jerusalem University

DISCUSSION

10.30-13.00
-

HEALTH, SANITATION AND TOWN PLANNING ASPECTS
Practical Investigations

15.00-16.30
Report on the state of health and sanitation in the underdeveloped Areas in Italy.
Report on the town planning situation in the underdeveloped areas in Italy (speaker Prof. C. CHIODI)
Reports on problems of health, sanitation and town planning in underdeveloped areas in other countries.

16.30-17.30
Notes on the problems of health, sanitation and town planning by national and international bodies.

17.30-19.30
DISCUSSION
Friday, 15th October 1954

JURIDICAL AND PUBLIC ADMINISTRATION ASPECTS
Theoretical Problems

09.00-10.30

Prof. C.A. COLLIARD
Dean of the Law Faculty, Grenoble University.

Prof. E. HECKSCHER
Professor of Political Science, Stockholm University.

Prof. R. LUCIFREDI
Professor of Administrative Law, Genoa University.
Under Secretary in the Italian Premiers' Cabinet.

Prof. F. PARRI
President of the Institute of Economic Studies, Milan.

L. BASSO
Barrister, Member of the Italian Parliament

Juridical Problems connected with Assistance to Underdeveloped Areas.
Public Administration in Underdeveloped Areas.
Administrative Decentralisation as a means of Improving Underdeveloped Areas.
The Intervention of Public Authorities for the Development of Underdeveloped Areas.
Relationship Between Laws and the Organs of their Application in Underdeveloped Areas.

0.30-13.00

DISCUSSION

JURIDICAL AND PUBLIC ADMINISTRATION ASPECTS
Practical Investigations

15.00-16.30

Juridical report on underdeveloped areas in Italy. (speakers Prof. G. M. De FRANCESCO, S. ALESSI, A. SANNA RANDACCIO, M. S. GIANNI, N. P. NUOLONF).

Juridical reports on underdeveloped areas in other countries.

16.30-17.30

Notes on juridical and administrative aspects by national and international bodies.

17.30-19.30

DISCUSSION

Offices of the Congress Secretary,
Centro Nazionale di Prevenzione e Difesa Sociale
Palazzo di Giustizia - Milan
Dr. Antonin Basch

July 19, 1954

W.D.S. Fraser

Public Enterprise in Economic Development

1. I would like to draw your attention to an article on page 125 of The Economist, dated July 10, 1954. You will note that a conference was held in Rangoon in March this year to debate the function of public enterprise in economic development, and that a report was issued after the meeting. I would be interested in knowing whether the Bank received an invitation to attend this conference and under whose aegis the conference was held. I shall try and find this out.

2. Inasmuch as the subject discussed is one that is very close to the heart of the Bank's top management I feel that the Bank should at least have obtained an invitation. I think that the Bank would have been able, as a result of its experiences in assisting development of backward areas, to make a notable contribution to this conference, and perhaps have caused different conclusions to be reached. In any event we should obtain a copy of the report.

cc: Mr. Rucinski
16 Juillet 1954

Monsieur Gérard DESTANNE DE BERNIS
Secrétaire Général du Groupe d'Étude de l'ISEEA sur le sous-développement
I. S. E. A.
35, boulevard des Capucines
Paris 2e

Monsieur,

Veuillez trouver ci-joint deux exemplaires de ma réponse à votre questionnaire "A".

Je m'excuse d'avoir été si long à vous la donner et j'espère qu'elle arrivera encore à temps pour qu'elle soit incluse dans votre enquête.

J'avais dit à M. François Perroux que je lui ferais parvenir les études publiées par la Banque qui pourraient présenter un intérêt pour votre Institut. Nous n'avons en fait rien publié mais un certain nombre d'études qui n'ont aucun caractère confidentiel peuvent cependant être de quelque utilité pour votre documentation. Je me permets par conséquent de vous les envoyer sous pli séparé. Vous y trouverez, outre un troisième exemplaire de ma réponse à votre questionnaire, une étude sur les mouvements internationaux de capitaux "officiels" entre 1946 et 1950, une étude sur la classification des industries et le texte de trois conférences que j'ai prononcées au cours des derniers mois.

Veuillez agréer, Monsieur, l'expression de mes sentiments très sincères et les plus distingués.

Léonard Rist,
Directeur des Études Économiques
REFLEXIONS ON ECONOMIC DEVELOPMENT

Answer to a Questionnaire issued
by the
Institut de Science Economique Appliquée,
Paris

by

Leonard B. RIST
Director, Economic Staff
International Bank for Reconstruction and Development

June 1954

The views expressed in this paper are the personal opinions of the author and do not necessarily represent the views of the International Bank.
CONTENTS

Introduction

I The concept of economic underdevelopment
   a) Definitions
   b) Problems of development
   c) Underdeveloped regions

II International aspects of economic development
   A - General comments
   B - International trade - (goods and services)
      - its importance in capital formation
      - the difficulties of stabilizing the markets for major raw materials
   C - International movements of capital
      a) movements of private capital
         - their present importance
         - obstacles to their growth
         - means of overcoming these obstacles
            - guarantees
            - fiscal measures
            - international agreements
      b) non-traditional forms of capital movements
         - grants
         - loans by governments or government agencies
         - The International Bank
         - Special projects: International Finance Corporation
         - Special United Nations Fund for Economic Development

Conclusion: The need to coordinate investment projects within countries

Remarks on the international coordination of investments
The inquiry organized by the Institut de Science Economique Appliquée, Paris (ISEA) could not be more timely. The problems it raises are currently a major subject of discussion in those international circles which are endeavoring to find ways of accelerating the rate of economic growth in underdeveloped countries. International movements of capital, terms of trade and the stabilization of the markets for raw materials - these are recurrent items on the agenda of most of the international conferences concerned with underdevelopment.

While capital accumulation and international movements of capital undoubtedly play an essential part in economic development - and most of the following pages will be concerned with them - the ISEA also asks at the beginning of its questionnaire for a definition of underdevelopment. In contrast with the questions relating to practical measures of financial and commercial policy, this first question has much more general theoretical aspects. Any attempt to define the principal characteristics of underdeveloped countries must deal with problems of finance and international trade in perspective. Many of the most important distinguishing features of underdeveloped countries are strictly non-financial in nature. In addition, the internal effort which underdeveloped countries must make (my friend and colleague, Mr. John Adler, will devote his whole paper to this subject) is of crucial rather than of secondary importance as seems to be implied by the place of paragraph 5 in the questionnaire. Similarly, the role of international trade is probably more important than its place at the end of the questionnaire would suggest.

For these reasons the author has taken certain liberties in the presentation of his answer in order to highlight the role of non-financial elements of international trade in economic development. International transfers of capital will be dealt with in this perspective. The first part of this paper will thus be devoted to defining the problems which are typical of underdevelopment. The second part will deal with the international aspects of economic development and the role of international trade and international movements of capital in economic growth 1/. The role of domestic policies will be dealt with in another paper as aforesaid.

1/ Movements of people are also important and would deserve a special study.
I

The concept of economic underdevelopment

Definitions - Problems

In the light of the preceding remarks, underdevelopment should be defined in as comprehensive and objective a manner as possible.

a) Definitions: All definitions of underdevelopment have one element in common: they suppose that the country or the region in question can be developed. Beyond this, the concept of economic development is complex and must remain flexible. One definition that is generally adequate may be formulated as follows: the aim of development is above all a long-term improvement in the standard of living. As the simplest way of measuring such an improvement is to assume that the income per head is an index of the standard of living, economic development may be said to consist for the most part of a continuous long-term increase in real income per head, or, in other words, of increases in productivity.

In general this definition will be satisfactory. Social conditions may complicate matters, however, when we try to determine the best policy of development under any given set of circumstances. For a country in an early stage of development, an improvement in the general social welfare rather than in the average standard of living per se may be the most important condition for a continued long-term increase in productivity. Thus the maximum possible increase in productivity need not always be the determining factor in choosing between investment alternatives. In some cases, for example, it

1/ Changes in population complicate the definition further. In drawing up their investment programs, Australia and India planned for an increase in average real incomes. If, however, as a result of a large inflow of immigrants into Australia or a rapid increase in the Indian population, the increase in total output is just sufficient to permit income per head to be maintained, shall we say that there has been no development? In our opinion, welfare will probably still have increased, but in other forms. In Australia a larger number of persons will now enjoy a standard of living already relatively high; from a global point of view, this represents an improvement in the general welfare. In India, if the increase in the population is accompanied by an extension of the average span of life, this means that there has been less infantile mortality and fewer epidemics and famines. Income per head per lifetime will have increased even if income per head per year has not changed. In both cases the investments which made possible the maintenance of incomes per head will have contributed to the general welfare even though they have not raised productivity. Though this cannot be considered economic development in the narrow sense referred to above, the investment effort will still have permitted real progress to be made, progress which could very well lay the foundation for an increase in per capita incomes at some future date.
may be decided to raise productivity less rapidly than available techniques would permit in order that the level of employment may be maintained or raised.

Different countries are capable of being developed more or less according to the abundance of their natural and their human resources. Evaluating development potential in these terms is not easy, however. The relationship between a country's known natural resources and its population, however relevant this may be to its capacity to develop, neglects the quality of the population, i.e. the ability of a people to exploit the physical resources at its disposal. Moreover, the very relationship itself is difficult to measure. Ignorance of existing natural resources is typical of many underdeveloped countries and the value of known resources is extremely difficult to assess. At any time technical progress may bring about considerable changes in the value of known resources, even in advanced countries - in the course of the last few years, some minerals, hitherto neglected, have become essential for the operation of jet engines and atomic reactors. Furthermore, geographical location may also be as important a factor in development as the abundance of natural resources, and equally difficult to measure - Switzerland and Holland are classical examples in this regard.

Though it may be most difficult to define potential development in terms of measurable factors, one simplified but useful definition is suggested by the preceding remarks: an underdeveloped country is a country that can be developed within the framework of the world economy as it is now known. If the term "underdeveloped" is to be used to help formulate economic policy, however, a more precise definition is required. In this regard, some 1/ consider that the term "underdeveloped" should be interpreted in a relative sense: countries should be compared on the basis of their existing incomes. Others 2/ prefer to compare countries on the basis of their income potential. In this second case, all countries which have a growth potential may be classed as underdeveloped, regardless of whether their present income is high or low.

From the point of view of economic growth in the world as a whole, income potential is an important aspect of underdevelopment. For practical purposes, however, attention should be focussed on countries which are poor but developable, not because these are


the only underdeveloped countries but because the problems they have to solve are peculiar to them as a group. Though the mechanics of economic growth in these countries, or even the ways in which they now function may be similar in many respects to the ways in which wealthier countries progress, some of their most important problems are very different indeed. One need only mention India and Canada to show that, though both countries have a great potential for development, the problems they have to solve to realize this potential are not at all the same. For India, the problem consists primarily of eliminating those obstacles which tend to retard economic growth, obstacles which are at once characteristic of and common to most underdeveloped countries.

b) Problems of Development: Being underdeveloped is a problem for a country, or group of countries, only when the people or their leaders consciously desire to improve their economic status. A nation which is poor but which is indifferent to possible improvements may have many problems, but no problem of development. The experts of the International Commission for the South Pacific, whose headquarters are at Noumea, have found that the desire for economic progress in the South Sea archipelagoes dates back to the period when Allied troops arrived and showed the natives, who were hitherto satisfied with their lot, the power and efficiency of mechanical devices. The common element in all the so-called underdeveloped countries today is an urgent wish to see their standard of living improve. It is this conscious drive which distinguishes our age from earlier periods and gives the problem of underdevelopment wider scope than it has ever had before.

The origins of these psychological drives are well-known. First, the spread of transport facilities throughout the world makes the great masses of people daily more aware of the differences in standards of living that exist between one continent and another. The consumption levels of the more advanced countries become the standards aspired to by less favored countries. What Professor Nurkse 1/calls the "demonstration effect" thus tends to aggravate the development problem: it is much easier to adopt new patterns of consumption than to introduce new methods of production. In the second place, feelings of national sovereignty, in long established as well as in newly independent nations, were revived during the great depression, while the Second World War emphasized that national governments had economic as well as political responsibilities. Furthermore, a number of countries which were traditionally dependent on imports for many essentials were encouraged by their experiences of supply shortages during the Second World War to make themselves economically more independent, and at the same time to use autarchic measures to raise their national incomes.

An observation is necessary here. Soviet Russia is often cited as an example of the possibilities inherent in capital formation by a central government. It also points, however, to a basic difference between the problem of underdevelopment as it appears in the Russian system and in the countries of the free world. In the latter countries, capital formation cannot be fostered at the expense of consumption. The declared purpose of capital formation is, after all, to improve welfare. It is for this very reason that the encouragement of local savings and international movements of capital is such a crucial element in any approach to the problem of underdevelopment as we know it.

Once the legitimacy of the aspirations of underdeveloped countries is recognized, the need to increase productivity to meet these needs becomes apparent. But this does not imply only that investment should be increased. Productivity can, in fact, increase only by combining capital formation with two other no less essential elements: first, improvements in productive efficiency - this implies a better allocation and more intensive use of factors of production - and second, improvements in the quality of the physical and human factors of production themselves through measures such as soil improvement, education, apprenticeship, health, etc.

This process of improvement is not free of obstacles, however. In the first place, the pace of capital formation in low-income countries is slow. In addition, human societies are reluctant to accept changes which are necessary if their capacity to absorb capital is to be enlarged and productivity increased. The first point, that a low-income country can save only with difficulty, is subject to serious qualifications. The saving capacity of the wealthiest classes may be considerable in societies where the distribution of income is very unequal. Furthermore, the actual level of savings in low-income countries can easily be underestimated. Estimates concerning Latin America, published by ECLA in the last few years, suggest that the ratio between savings and national income may be high even in poorer countries. But even after these qualifications are made, and even though savings rates may be high, the absolute level of investment in a country with a low average income can still only be modest.

It is often pointed out, correctly, that because countries of the free world refuse to lower their standards of consumption they are unable to increase their present average rate of savings. One solution that is accordingly suggested is for these countries to save an increasing proportion of the additional income that will flow from current investments: an increase in the "marginal" rate of saving will result in a steadily growing average rate of saving. While this idea is attractive, its application encounters great practical difficulties as it is almost impossible to isolate additions to income from the general income stream. This is one of the problems of fiscal policy that Mr. Adler will deal with in his paper.
The second point, that even though the rate of capital formation is increased, for example by imports of foreign capital, the capacity to absorb new investments is not necessarily unlimited in a growing country, should probably be emphasized even more than the savings question. Difficulties in combining factors of production may be due either to the nature of the factors themselves or to the way they are organized. As far as physical resources are concerned, real capital may be scarce, its accumulation slow, and natural resources may be poor in quality or difficult to exploit. At the human and social level, other obstacles appear. Specialists may be too few, their training may be poor, and the labor force may be undernourished and lacking in vigor. The political or social organization, or public, banking, administrative and industrial institutions may also be inadequate for accelerating the productive effort. One can find many examples of the way in which these physical and nonphysical obstacles combine. The inability of a people to adapt to the tasks of development is often a major factor making for stagnation.

Iraq and Nigeria are two conspicuous examples of countries whose rate of economic development is almost exclusively limited by institutional or human factors. They not only are not poor in financial resources but they can rely on considerable foreign income or possess substantial external reserves. The problem which these two countries face is not to obtain capital, but to develop their capacity to absorb it.

No development policy worthy of the name would be complete if it did not come to grips with these particular, and very difficult, problems at the same time that it coped with problems of investment, of finance, or of fiscal or commercial policy. In any broad view, one finds that financial and non-financial elements are inextricably related.

As the urge for economic improvement is related to the drive for progress felt by a people, or its leaders, the development problem appears to be less one of equalizing incomes throughout the world than of insuring a sufficient and continuous rate of growth for the developing countries. What is a sufficient rate can be measured only in terms of criteria such as political and social stability, and the intensity of expectations of a better future.

1/ An excellent description of these problems which are peculiar to underdeveloped countries has been given by Mr. Arthur Lewis in Annex II of his book "The Principles of Economic Planning", London 1952 - Though his observations apply more particularly to Africa, most of them are of general interest.
o) Underdeveloped regions: Regional differences in income generally exist within countries. There are developed regions in countries considered as underdeveloped, for example, Sao Paulo in Brazil; there are also underdeveloped regions in the so-called developed countries, for example, Southern Italy and the Southeastern part of the United States.

These regional differences within countries generally exist in spite of the absence of restrictions on the movement of people, goods and capital, and even with central governments which can make decisions affecting income transfers from one region to another. In fact, the more advanced regions are often the ones which actually develop the most rapidly. These areas tend to attract new investment because of superior natural resources, because markets are already available - including markets for labor - and because of advantages which derive from the existence in these regions of a variety of economic activities and of overhead capital. In many underdeveloped countries, governments have actually encouraged the exploitation of the most accessible resources, even though these resources were located in a relatively advanced region of the country.

As central governments can, at least to some extent, influence the direction of investment in a country, the question arises as to how a government shall allocate investment between advanced and backward regions, and whether it shall tap the savings of rich areas in order to benefit poor ones.

Decisions to allocate investment resources between regions can, of course, be influenced by purely political motives. Where this is the case, it might be more accurate to speak of assistance to people in distress rather than development. In the best-known cases, however, economic motives seem to have predominated. Stimulating investment in Southern Italy, for example, is justified less by egalitarian reasoning than by the conviction that in the long-run local resources can be developed satisfactorily once investments in overhead capital spark the development process. The goal of the Italian program is the progressive elimination in the South of those physical and human obstacles which now restrict investments by making them unprofitable. If investments in overhead capital were not able to overcome these initial obstacles to development, however, and if they could only provide temporary work for the unemployed without creating permanent employment opportunities for at least some of these people, then this capital could be used at least as well, if not better, elsewhere. Economic policy toward backward regions should in principle reflect the real development potential of each region.
II

International Aspects of Economic Development

A. - General Comments

It was during the Second World War, but especially since 1946, that all countries, whether advanced or not, became actively concerned with accelerating the rate of economic development. As both the great depression and the war pointed so clearly to the extent to which countries are economically, strategically, and politically interdependent, this new attitude is not surprising. European countries are now seeking to fulfill the natural aspirations of peoples overseas in their "Union" or "Commonwealth". Both Western Europe and North America are trying to stimulate investment in the independent countries of Latin America, Asia, and Africa. The political motive - to attempt to eliminate sources of unrest in these countries - is not primary. Neither is the need to secure new sources of supply for raw materials and foodstuffs of first importance. The most important motive derives from the now generally-held conviction that trade between countries at comparable stages of development is greater than trade between poor and rich countries. 1/ As increases in income in a single country are a prerequisite for widening markets within that country, so increases in world income, both in advanced and in underdeveloped countries, are a necessary condition for the expansion of world markets. True, this implies difficult structural changes. As new local industries satisfy more and more the needs of the Indian or Brazilian consumers, European or American producers of the same consumer goods run the risk of losing these markets. European textile producers know very well what the establishment of new textile industries throughout the world in the last 50 years has cost them in lost markets. Though the import requirements of industrializing countries, have changed in composition, however, they have also increased in the aggregate. The losses of the textile manufacturers have been more than offset by the gains of the manufacturers of machinery, equipment, and luxury products.

When firms in advanced countries no longer find in reconstruction or rearmament the stimulants to which they had become accustomed during and after the war, foreign markets assume a new importance.

1/ Professor Frank Notestein has calculated that, before the war, rich countries were buying an average of $5.80 per head of American exports whereas so-called middle-income countries were buying only $1.25, and poor countries, only $0.70. "The Long View, or Food for the World," Theodore Schultz, Editor. University of Chicago Press, 1945.
It is thus quite natural that the representatives of the underdeveloped countries in the United Nations should find a sympathetic audience when they ask for finance for an import surplus or for technical assistance, when they suggest that the markets for major raw materials be stabilized, or when they try to increase their monetary reserves to protect themselves against fluctuations in world trade. The advanced countries are not insensitive to the political and moral aspects of development, but they also recognize that it is in their own interest to contribute as much as they can to the advancement of those countries which are less developed than they are themselves.

B.- International Trade

However important capital movements may be, current exchanges of goods and services are the most important component of the balance of payment of all countries. They also have a direct bearing on the rate of capital formation within countries. Professor Kuznets has done well to draw attention to this often neglected truth in an article which was recently published in French by "Economie Appliquee". A country's current trade in goods and services is important for still another reason. To the extent that capital is transferred in the form of direct investment or official or private loans, it is primarily in terms of the balance of transactions on current account that the prospect of regular service payments on this capital will be evaluated.

Under these conditions, the volume of trade, especially exports, and the terms of trade are of crucial importance for the underdeveloped countries. Changes in the volume and the unit values of exports or imports affect the availability of resources and the ability to invest as much as large variations in net capital imports. There is an abundance of recent examples. The end of the Korean boom reminded the world that terms of trade may still fluctuate violently. Though the effect was not as disastrous as the collapse in raw materials prices during the crisis of the 1930's, the ability of almost all producers of non-ferrous metals or rubber to import, and also to save and invest was severely restricted by the fall in their

1/ With the possible exceptions of Israel and Jordan.

2/ Vol. VI, 1953, P. 371. "It may well be that satisfactory economic growth in underdeveloped countries, whatever their size, depends in part on a combination of relatively small capital imports and much larger flows of goods and services between these countries and developed countries."
terms of trade in 1953. By contrast, the increased demand for these same products during the Second World War, and the rise in their prices at the beginning of the Korean War, had directly opposite effects. Recently, countries producing coffee and cocoa have experienced a considerable improvement in their terms of trade. As far as the economic development of this group of countries is concerned, their problem is to find out how they can take advantage of this improvement in terms of trade to increase their rate of investment.

Having noted the importance of current as distinct from capital transactions, and having emphasized the very large fluctuations in income, savings and investment which result from variations in the volume and terms of trade of countries largely dependent on the export of raw materials, one should add that the terms "underdeveloped countries" and "countries dependent on the export of raw materials" are not synonymous. Many underdeveloped countries are not very dependent on raw materials exports or sensitive to external fluctuations. The foreign trade of India, for instance, is so diversified that it is difficult to attribute to its terms of trade more than marginal importance. Other countries may have conflicting interests: Ceylon is now suffering from the fall in rubber and copra prices but benefits by the fall in the price of rice which it has to import. Still others, such as the larger oil producers in the Middle East, are dependent upon the export of one major raw material but enjoy a relatively stable market.

This importance of fluctuations in trade has given rise to repeated suggestions for stabilizing the markets of major raw materials. The difficulties which have prevented such stabilization are too well known to require lengthy comment - they consist for the most part of the selection of commodities, price, and the financing of stocks. In practice, the problem is to negotiate long-term contracts in a situation where the contracting parties are reluctant to commit themselves lest by creating demand and supply rigidities, they hamper technical progress and reduce the ability of their economies to adjust to changing conditions. A policy of heavy stockpiling would also inevitably generate inflationary pressures in the countries which would finance it.

For certain products whose market is not subject to sudden shocks and for which consumption is rather stable, it might be possible to draw up agreements such as the international wheat agreement which contain no provision for stockpiling. This type of agreement has the double advantage of guaranteeing markets and prices for the producers and an equitable distribution of supplies among the consumers at the same time that it facilitates rationing in case of shortages. Even here, however, the refusal of the United Kingdom to subscribe to the wheat agreement in 1953 strongly suggests that it is very difficult to reconcile the interests of all parties. In the
recent past, during a prolonged period of shortages, the United Kingdom did obtain large amounts of supplies from Denmark, New Zealand, and Canada through bilateral "bulk purchase" agreements. Today, however, the renewal of these bilateral agreements runs up against the very same difficulties that the establishment of more comprehensive agreements encounters.

Those who dream of stabilizing the average value of a specified "basket" of goods by tying the value of international-currencies to some commodity index have very little prospect of seeing their project realized. In addition to the usual obstacles encountered in reaching agreements concerning some particular commodity, there is the separate problem of adjusting price changes as between several commodities. True, their proposals have the merit of emphasizing that the problem of stabilizing the value of major raw materials is practically the same as the problem of stabilizing international purchasing power. However, present controversies on the price of gold - i.e. the relationship between the most widely accepted international means of payment and all commodities - show all too well the extraordinary complexity of any attempt to regulate at the same time movements of commodities and terms of trade.

C. - International Movements of Capital

For any country net capital imports are a valuable means of enabling it to add to its real resources by running a deficit in its current account. But borrowing the savings of others also means obligating oneself to pay interest and thereby burdening the balance of payments.

a) Movements of private capital: 1/

However useful they may be for underdeveloped countries - or even for the world as a whole - movements of private capital do not originate from any desire to foster development but from the choices which investors make between different investment alternatives. Today, as in the past, movements of private capital are based on a comparison of probable returns and risks.

Compared to the situation before the first World War, the world has witnessed two important changes in this regard. The

1/ This general subject is dealt with in the discussion of experts which was held during the 1953 Annual Meeting of the I.B.R.D.: "Private International Investment in Underdeveloped Countries" - I.B.R.D., Washington, 1953
first is that risks are better known and the public at large is more aware of them. The second is that in all advanced and potential capital exporting countries, savings have become concentrated in a few hands with the result that risks are now scrutinized more thoroughly than ever before. As far as the risks themselves are concerned, the 1914 war and the Second World War imparted a new dimension to political and social risks, while the great depression aggravated existing and serious fears by showing that transfer difficulties could arise even without war.

Beside the risk of war, the obstacle to foreign investment that is mentioned most frequently and is by far the most serious is the risk of inconvertibility and exchange losses. The extent to which the disturbances in international payments which arose after the last war restricted movements of private capital cannot be overemphasized. Internal political risks or social unrest, and the danger of discriminatory regulations exist only in certain regions but risks of transfer and losses on exchange exist today for practically all countries with possible exception of Canada. As long as convertibility of currencies, which is one aspect of a more stable equilibrium in international payments, is remote, movements of private capital will remain limited. Monetary difficulties which are symbols of weakness in the international economy make prudent capitalists hesitate to invest abroad.

The very existence of a large surplus in the United States current balance of payments on current account, financed largely by the American Government, is an element of uncertainty. Confidence in the permanence of a global payments equilibrium would be much greater if this surplus could be reduced.

There are of course other risks besides the monetary risk. There may be political, social, legal, or financial risks. These are described objectively and in detail in "Factors Limiting American Investment Abroad" published in 1953 by the U.S. Department of Commerce.

The second difference between private capital movements today and before 1914 arises from the concentration of savings in the hands of institutional investors. In the United States, subscriptions of individuals to bonds - even American bonds - have become of secondary importance. This development has also begun to affect the stock market. Insurance companies, savings and commercial banks, retirement funds, investment trusts and, of course, long-established industrial corporat-

1/ Even for Canada, however, the absence of a fixed exchange rate is an element of uncertainty.
ions have actually become managers of savings entrusted to them. It is primarily on the decisions of these institutions that future movements of private capital now depends. The general and widespread tapping of savings that characterized security issues before 1914 is now both less necessary and less easy. One consequence of this concentration of savings is that those responsible for the management of savings demand both smaller risks and greater prospective profit if they are to commit their funds abroad.

Canada, which has received a considerable inflow of capital since the war, especially from the United States, illustrates in reverse the obstacles which private investment encounters in most countries. Because of the effective convertibility of the Canadian dollar, investors in Canada have no transfer problem. Its political stability, its fiscal policy, and the absence of any discrimination against foreign investors produce an environment which is reassuring to these investors. The capitalist who plans to participate in an industrial or mining enterprise in Canada or to buy Canadian bonds needs only compare the returns that he expects from his Canadian investments with the returns which he gets on domestic securities. For him, risks of social unrest, crises, inconvertibility, nationalization and discriminatory legislation are practically negligible. Only the usual business risks common to all countries remain.

In spite of all these difficulties, private capital movements are still more important than is generally realized. According to statistics published periodically by the U.S. Department of Commerce, their volume is far from negligible. When expressed in constant dollars, net private capital exported since the war from the United States, the most important creditor country, has been almost equal in amount to the net private capital exported from the United States between 1920 and 1930. Since the war, the London market has absorbed a number of Commonwealth and overseas territory loans. Paris has subscribed to colonial loans. Foreign bonds have been issued in Switzerland and New York. In the last few years, the International Bank has succeeded in selling short- and medium-term bonds of its debtors without its guarantee. Shares of mining and industrial companies in the Commonwealth or in overseas territories have also found subscribers in London, Brussels and Paris, though in this case the more usual form of investment has been for corporations with head offices in the capital exporting countries to establish branches and subsidiaries in foreign territories. Mining and oil corporations have been especially enterprising in this regard, but others have also invested abroad in this way. The United States has been the most important source of foreign investment of this particular type.

It is remarkable that capital has moved between countries to such an extent in the absence of special incentives. Even so, however, capital importing and exporting countries both feel that the flows are

inadequate. They have accordingly tried to stimulate them in various ways.

Some countries guarantee repatriation of earnings and principal to foreign investors. Through the Foreign Operations Administration the United States government has undertaken to guarantee American exports of capital, especially to Western Europe, against "non commercial" risks, including the risk of transfer. These measures have acted as palliatives rather than major incentives, however. Companies which were motivated by past interests or by the need to enlarge their business have benefitted from these conditions. But apart from these relatively narrow groups, the guarantees offered have been unable, in the absence of certain stability in international payments, to eliminate monetary considerations from the comparisons of prospective risks and profits.

In the fiscal field, bilateral agreements to eliminate double taxation have been negotiated. The United States government recently proposed that some tax rates be reduced to favor incomes received from abroad. Without going further into the intricate technical implications of these measures, one can only note that they were welcomed by the capitalists. They can undoubtedly overcome some of the obstacles which are restricting foreign investments by making them relatively more attractive. But fiscal advantages, and still less guarantees, cannot supplant monetary security. Not until the latter is restored can fiscal measures be entirely effective.

The International Chamber of Commerce has tried to draw up a framework for a code for foreign investment, which is to be ratified by multilateral agreement. The project deserves to be studied carefully for it lists the conditions which capital exporters would like to find. But it runs into practical difficulty because of the strictness of some of its provisions and above all because of the uncertainty arising from the fact that the sanctions which could guarantee adherence to the code are not clearly defined. In the past, movements of capital were based on confidence, which is the essence of credit. Even today, international agreements are less reassuring than stability or continuity of economic policy. In the writer's view, an arbitration treaty providing for an accepted procedure in case of difficulty might be more effective than a rigid set of rules. It should be noted that since the war the United States government has signed commerce and friendship agreements with two Latin American republics, which include some apparently satisfactory provisions concerning investments.

b) Non-traditional forms of Capital Movements:

As both capital exporting and importing countries agree that private capital movements since the war have been large but not large enough, several new mechanisms for transferring capital have been developed. Perhaps the most prominent of these is intergovernmental grants.
Grants have been a permanent instrument of international policy since the war. In this field, the generosity of the United States has earned it the gratitude of the world, and especially Europe. UNRRA, in which the American participation predominated, was set up to alleviate miseries resulting from the war. The Marshall Plan was intended to help with reconstruction. Technical Assistance and Economic Aid in various forms have benefitted the entire world. Year after year, Great Britain and France have extended considerable help in the form of grants or subsidies to their overseas territories.

It is not necessary to comment at length on the advantages for any country of a net inflow of resources and exchange that does not burden its future balance of payments. The receiving country can plan its investments without worrying about servicing foreign debt. In actual fact, grants have been given to countries precisely when their balance of payments appeared uncertain. Though this form of international assistance has now become more or less permanent as a type of capital movement, however, it is subject to two well-known difficulties. The first is that unlimited sacrifices cannot be expected of the countries which are making grants: it is on the decisions of the governments and taxpayers of these countries that the volume of grants ultimately depends.

A second difficulty arises from the fact that some countries which might be eligible to receive grants hesitate to accept assistance which might be politically unwelcome to their citizens. In order to overcome this difficulty, some representatives of countries in this situation have suggested that balance of payments effects similar to grants could be achieved with very long-term, very low-interest loans. With loans of this type, borrowing countries could feel that they borrow on their own credit. This suggestion, however, has met with strong objections in financial circles. In these circles, it is generally considered preferable to combine grants with normal term loans in proportions which reflect actual balance of payments prospects rather than create a category of second-class loans whose service would be doubtful from the start and which might therefore only make it more difficult for the debtor country to reestablish its credit.

Combinations of grants and loans have actually been used already in several instances, and they will probably continue to be used. They have the great advantage of making it possible to accumulate capital at a rate faster than the existing credit of the receiving country would ordinarily permit. In so doing the borrower's credit can be improved at the same time.

Attempts have been made to establish the relationship that loans should bear to grants in terms of the purposes for which the funds are to be used. Thus, it was proposed that grants should normally finance investments which are not financially profitable
whereas loans should finance investments which can yield a commercial return. Though this approach may have certain practical administrative or political advantages, it cannot be justified in theory. The fact is that, as investment which can be financed by foreign capital inflows can represent only a fraction of the total investments that are made each year in any one country, the amount of non-profitable investments to be included in an investment program has to be set in terms of total investment figure, not in terms of the availability of foreign capital. There is accordingly no justification for relating a judgment about the appropriateness of any loan-grant ratio to the type of investments in the program; the only satisfactory basis for judgment is given by the balance of payments prospects.

Loans extended by governments or governmental agencies are a second "non-traditional" financing device. Though governmental loans were already known before the war, they have since become much more voluminous. France and the United Kingdom, but above all the United States, have made a number of Treasury loans to other countries. The U.S. Congress has required that aid extended to the United Kingdom, India and Pakistan be in loan form. In this regard, the Export-Import Bank of Washington has been playing an important role. At one remove from loans made directly by public authorities, the governments of France, the U.K. and other Western European countries have also guaranteed exporters against risks without necessarily providing the funds. This type of operation will most probably be continued. 1/

Apart from loans made directly by governments for political reasons, loans which are made or guaranteed by governmental agencies generally have the following characteristics. With few exceptions they are tied to purchases in the lending (or guaranteeing) country. They intentionally foster the interests of the lending (or guaranteeing) country as well as those of the borrowing country. They lay as much stress on foreign trade as on development financing. Finally, they give rise to bilateral international relations and run the risk that repayments may assume a political aspect when payment difficulties arise.

Though within the category of public loans, the loan operations of the International Bank for Reconstruction and Development, which was created at Bretton Woods, are entirely different from loans made by governments. The primary purpose of the Bank is to make loans when private capital is either insufficient in amount or unwilling to

1/ Short-term advances which are made for purely commercial purposes and later consolidated into long-term debt might be added to this list. They should be considered separately, however, as they usually reflect the payment difficulties of the borrower rather than the original intentions of the lender.
assume the risk. The Bank's early loans were made to European countries devastated by the war, and its subsequent loans have all been for economic development. These operations of the International Bank are intended to help improve the credit standing of its borrowers in the hope that private capital will ultimately supplant Bank loans, just as grants made to a country may help restore its credit and thus facilitate future lending by governmental agencies or by the International Bank. Because its capital structure internationalizes risks, and particularly because of that part of its subscribed capital which is a guarantee fund in which the main participants are the traditional creditor countries, the International Bank can call on private capital; the private capital market where it sells its obligations is in fact the main source of its funds. The subscriber to Bank obligations not only places his trust in the Bank's borrowers but also in its shareholders as a group, amongst which the United States accounts for over 30% of the Bank's subscribed capital. This mechanism is not without precedent. Each of several European countries guaranteed a part of the Austrian loan that was issued in 1923. Earlier, the British government had guaranteed a Greek loan which was classed as gilt edged for a long while. Colonial issues guaranteed by the metropolitan countries can also be found on the London and Paris exchanges. These earlier arrangements were isolated, however; they in no way embodied the automatic guarantee mechanism that makes the Bank unique.

The principal characteristics of the loans extended by the International Bank may be summarized as follows: it cannot lend if private capital is available on reasonable terms. The rate of interest the Bank charges is determined by the rate at which it can itself borrow; the Bank does not distinguish between borrowers in this regard. Its loans are made either to governments, or to public or private enterprises, but always with the guarantee of the government on whose territory the project is located. The Bank does not make loans tied to exports from predetermined sources. The currency in which a borrower is obligated to repay its loan is that which the Bank actually disburses in payment for the borrower's imports. In this connection, the fact that a part of the Bank's capital was subscribed in non-dollar currencies, and that it was able to sell its bonds in markets other than New York, imparts valuable flexibility to its operations. Indeed, when studying the capacity of its prospective debtors to borrow, the Bank tries to determine not only the total service payments on foreign debt that the country can meet without undue risk, but also the currency in which this debt service can most easily be paid.

In its loans to underdeveloped countries, the Bank has always tried to tie its operations to specific projects so as to make sure that its funds would effectively contribute to increasing invest-
ment and that these investments would be made under the best possible technical conditions. This does not mean that all projects must be financially profitable; witness the number of road programs the Bank has financed. As public utilities are so important in economic development, the Bank has quite naturally devoted the largest part of its development loans to power and transportation projects.

The fact that the Bank has made loans equivalent to almost two billion dollars since 1947 does not measure adequately its contribution to international capital movements and to the progress of underdeveloped countries. The Bank played an increasingly important role both in restoring international credit and encouraging economic development. It has persuaded member countries in default on existing obligations to negotiate settlements with their creditors. By making public all its credit operations, it has shown investors that the foreign borrowers to whom they were reluctant to lend directly were honoring their engagements. As there have not been any defaults, or even delays in payment, on any Bank loans to date, the Bank has been able to resell short-term items from its portfolio without its guarantee, and thus put back into circulation signatures with which the financial market had long ceased to be familiar.

The Bank has not pursued a policy of massive financial intervention. Rather, it has tried to maintain regular contacts with its borrowers so as to be able to cooperate with them continually and constructively. By careful selection of the investments which it helped finance and by close study of the internal and external financial policies of its debtors, it has been able to act towards its members as a commercial banker acts towards his clients. This is only one step from acting as a development adviser. Many countries have asked the Bank to outline for them a program of investment and measures to help realize this program. The contribution that the Bank makes to economic development through these continuing relations with its borrowers and through the advice that it has given them is just as important as the financial assistance embodied in its loans. Still another and no less significant advantage of the Bank is that it is an international organization and can thus avoid those political difficulties which purely bilateral operations may sometimes involve.

The advantages of international action are not limited to the Bank or to the United Nations programs for technical assistance; they have also been incorporated into recent proposals to expand development financing in underdeveloped countries. As the International Bank can only make loans with the guarantee of the government concerned, two proposals have recently been debated in several committees of the United Nations to circumvent these restrictions by international measures which would have the effect of enlarging the volume of international capital movements. The first proposal relates to the creation of an "International Finance Corporation". This corporation would receive the major part of its capital from the governments of capital
exporting countries. Working under the supervision of the International Bank, it would finance private enterprises by share capital participations or with loans without requiring the guarantee of the government of the territory on which the firms are located. This project was received favorably by many underdeveloped countries. To date, however, the advanced countries upon whose contributions the implementation of the proposal depends have not yet become actively interested in it.

Another proposal which has been discussed is the "Special United Nations Fund for Economic Development". This project envisages the establishment of an international fund to provide underdeveloped countries with capital in the form of grants, or loans, with more liberal terms than are granted by the International Bank. It has been mainly around this proposed institution that the controversy about the advantages or disadvantages of very long-term, low-interest loans, to which reference has already been made, developed. Here too, as the principal contribution is to come from the capital exporting countries, the establishment of this new fund raises many problems of internal as well as of external policy for these countries.

In connection with "SUNFED", it may be of some interest to note that there are means by which some of the drawbacks traditionally associated with grants could be eliminated while preserving their balance of payments advantages. For instance, the capital of the international fund could be used to make normal-term loans to underdeveloped countries or local enterprises, but with the important proviso that interest and principal would be repayable in local currency and could be re-lent locally; no external transfer would be involved. When, however, the balance of payments of the receiving country had improved sufficiently, the international fund could ask the country for a contribution in foreign currency which could then be re-lent to other countries. Such a system, partly inspired by the "lend-lease" experience, would undoubtedly be better received by financial circles than that which consists of lending at very long term and at abnormally high rates of interest.

CONCLUSION

By facilitating international movements of capital - whether through private or public channels or through international organizations - the advanced countries which are the ultimate source of this capital can hasten the pace of economic development in less favorably situated countries. Their contribution in this field has already been considerable and, it may be hoped, will continue. It must be remembered, however, that capital movements by themselves can
solve only some of the problems encountered by underdeveloped countries. Without reviewing once more all those factors which have been described above as "non-financial" or stressing the role which technical assistance in its various forms can play, one problem - selecting investments - deserves to be mentioned again. Countries which are poor in capital are also those which can least afford to make bad choices between investments. In these countries, whether centrally-planned or not, governments can influence the allocation of investment resources: they account for a large part of all investments and they can encourage or discourage investment in the private sector by fiscal or exchange policy, and by their attitude towards private enterprise, whether domestic or foreign. Their daily burden notwithstanding, responsible statesmen in underdeveloped countries must accordingly devote as much of their time and effort as is needed to the task of selecting and coordinating public investments and stimulating those private investments which are most desirable for economic development. To help in this process of selection is the real usefulness of a development program. But it must be recognized that, however necessary a program for an underdeveloped country may be, it will be more difficult to put it into effect than in a more advanced country.

At the international level, coordinating development plans presents other problems. There are no development programs for whole regions of the world. 1/ The Colombo Plan is only a juxtaposition of national plans, though comparing these plans at least makes it possible for contradictions between them to be revealed. In the field of transport, we know that efforts have been made to coordinate road programs in Europe or in Central America. The OEEC itself, while it was able to compare national plans with each other, did not try to allocate investments according to an international plan. The European Coal and Steel Community is going to tackle this problem, but even though it will deal with only one industry, it will undoubtedly encounter many difficulties.

After all the obstacles to investment programming are enumerated, the fact remains that the goal of economic development is not to invest the maximum amount of available funds where their economic return is the highest. The purpose of development as we have defined it is to ensure a satisfactory continuous rate of growth for most countries. For the world as a whole, growth which is broadly distributed will make possible an expansion of international trade and an increase in average incomes that would be almost impossible to achieve if investments were allocated geographically only according to their economic yield. But even here there are difficulties. Though

1/ The peoples' republics of Eastern Europe, in spite of their extraordinarily strong political ties, do not seem to have accomplished much more in this regard than other countries of the world.
one may hope that an actual distribution of new investments may avoid projects which are too directly competitive with each other - and for this reason the programs and ambitions of each country should be known to the others - it is difficult to imagine that political considerations would be any less important than economic considerations in guiding any group of countries, or an international organization acting on their behalf, which would attempt to formulate an international investment program.

Though economic specialization appears difficult to achieve by coordinating investment programs, fewer difficulties arise with international monetary or commercial agreements. To the extent that liberalization of trade, convertibility, elimination of controls and multiple exchange rates, reductions in and adjustments of custom barriers, and abolition of quotas can all be realized, price incentives to specialization will be able to exert their full effects. It is in these more general ways, which leave to each country its individual freedom of action, that we may hope to see a world arise which, though it may not be ideal, will at least be somewhat wealthier than the world of today.
June 29, 1954

Monsieur Gérard Destanne de Bernis
Secrétaire Général du Groupe d'Etude
Institut de Science Economique Appliquée
35 Boulevard des Capucines
Paris 2, France

Dear Sir:

Your letter of June 10 was a timely reminder that I had failed to acknowledge the earlier letter of Messrs. Leduc, Byé, and Ferroux inviting me to take part in your enquête on under-development. I wish to thank you for the invitation, and hope to send you my contribution in a few weeks.

I discussed your questionnaire in some detail with Mr. Leonard Rist, the Director of my department in the Bank. We tentatively agreed that he would deal with some of the problems mentioned in your questionnaire, while I would confine myself to the domestic aspects of development policies of underdeveloped countries. That means that I shall address myself to points 4(b) and 5 (a through e) of your questionnaire.

Mr. Rist has asked me to inform you that his contribution should be in your hands within the next two weeks. I hope to send you my manuscript shortly thereafter.

Sincerely yours,

J.H. Adler
Mr. Lieftinck

J.H. Adler

Publications on Economic Development

Mr. Rist asked me to send you some references of recent publications on economic development. The following four are probably among the better publications:


JHAdler:at 6/24/1954

cc: Mr. Rist
Cher Monsieur,

Je me permets de vous rappeler que dans une lettre du 21 Janvier 1954 les professeurs C. LEDUC, M. BYE et François FERROUX, vous avaient fait part d'une enquête entreprise sous leur direction dans le cadre de l'Institut de Science Économique Appliquée sur le problème du sous-développement en général et ses manifestations particulières dans les divers pays du monde.

Nous serions très heureux et très honorés de pouvoir compter sur votre collaboration. Vous comprendrez, par conséquent, le désir que nous avons de connaître quels ont été vos sentiments en apprenant la création de notre groupe de travail. Je suis certain que vous ne nous tiendrez pas rigueur d'insister ainsi auprès de vous.

Je vous prie de croire, cher Monsieur, à l'expression de mes sentiments très distingués.

Gérard Destanne de Bernis
Secrétaire Général du Groupe d'Etude
de l'I.S.E.A. sur le sous-développement
March 19, 1954

Mr. Walter Hill
Special Representative in Europe
International Bank for Reconstruction and Development
67, rue de Lille
Paris 7e

Dear Walter,

I thank you for your letter of March 5 concerning the I.S.E.A. inquiry.

In fact, as you surmised, Francois Perroux and Gaston Leduc have already written to me, asking me to prepare a paper answering their questionnaire. After talking the matter over with Mr. Garner it was decided to do the work. Accordingly, I am going to write a chapter for their report, probably before the end of May. Needless to say, I will be pleased to send you a copy.

With best wishes,

Yours sincerely,

Leonard B. Rist,
Director, Economic Staff
March 5, 1954

Mr. Léonard B. Rist
Director
Economic Staff
International Bank for Reconstruction
and Development
Washington 25, D.C.

Dear Léonard:

Professor Perroux of the Institut de Science Économique Appliquée, recently presented me with a formidable questionnaire, of which I enclose a copy. He requires answers for a study group that has just been created for the purpose of examining the problem of underdeveloped countries in general as well as in specific areas. He would like the answer in three or four months. Alternatively he asked me whether I could recommend someone else who might like to undertake the job. I have informed Professor Perroux that the Bank has just completed a report on its history, its policies and its activities in the lending and technical assistance fields; while I had not yet seen it, it might assist him to answer at least some of his questions.

I imagine that you are familiar with, and have given thought to many of the questions raised by Professor Perroux. If, without too much trouble, you could let me have answers to such of the questions that you may have been considering in the normal course of your work, I would be most grateful. If this is not possible, Professor Perroux will have to be content with the Report on the Bank and any other documents we have readily available.

Depending on what we can do for him, Professor Perroux's study group might wish to use our contribution either in the form of a chapter or annex to its reports or as background to their studies.

With best wishes,

Yours sincerely,

Walter Hill
Special Representative in Europe

Encl.
February 17, 1954

W. A. B. Iliff, Esq.,
Assistant to the President
International Bank for
Reconstruction and Development
Washington 25, D. C.

Dear Mr. Iliff:

Thank you for your pleasant note of February 15.

I told Pedro that the views expressed on his single sheet of paper would be the proper medicine for Chile which, as you doubtless know, we visited during the course of the W. R. Grace & Co. trip. He smilingly said it was good medicine for everybody and was really being taken in Peru. It occurred to me afterwards that even the United States might pay a respectful bow to these principles.

I shall certainly look forward to seeing Gene when he returns from South America, and I hope, also, to have the pleasure of seeing you again before too long.

With personal greetings,

Yours sincerely,

[Signature]

Henry F. Byrnes
February 15, 1954.

Dear Mr. Breck,

As you may know, Mr. Black has just left Washington on the first stage of a longish trip in South America and we do not expect him back until late in March.

Meanwhile, he has asked me to acknowledge your letter of February 1, with which you sent a sheet of paper on which Pedro Beltran had set out some of his views about economic and financial policies in countries where there is no capital market.

Mr. Black had already had a copy of Pedro’s paper, and let me say that we think if it were adopted as a confession of faith by Ministers of Finance we should find our own job very much easier.

With kind regards,

Yours sincerely,

W.A.B. Illiff

W. A. B. Illiff
Assistant to the President

Mr. Henry Breck,
65 Broadway,
New York, 6, N.Y.

WABilliff/med.

Ref: BRECK
February 4, 1954.

Eugene W. Black, Esq.,
International Bank for
Reconstruction and Development
Washington 25, D.C.

Dear Gene:

While in Lima on the Grace Trip, I had a pleasant and unhurried luncheon with Pedro Beltran and his wife, in the course of which he handed me a sheet of paper on which he has set down a great deal of sound sense in a relatively small compass. When I told him this, he asked me to send a copy of it to you and to Allan Sproul, which I said I would do as soon as I returned.

The contrast between the fiscal management of Peru and of its next-door neighbor Chile is certainly a sharp one. I would expect some kind of trouble to occur in Chile within a year, unless, which I doubt, the government develops courage enough to check their runaway inflation.

Yours ever,

Enclosure
Unbalanced budgets, in fact any excess of expenses over revenue collections, lead to inflation in most countries where there is no capital market and the government cannot float an issue which is taken up by private investors. To meet the excess of expenditure over income the Treasury resorts to the Central Bank which can provide unlimited amounts of money by merely increasing circulation.

This is happening the world over. The consequent increase in the cost of living generates discontent and creates a fertile ground for communist propaganda. When in addition to this the governments attempt to repress the inflation by instituting ceiling prices and controls of one kind or another, including exchange control, the situation becomes more dangerous because production is stifled by rising costs and rigid prices.

Besides, exchange control stops the flow of foreign capital for no one will invest in a country from which there is no freedom to withdraw profits or the capital invested.

Furthermore, controls usually lead to corruption and a general lowering of moral standards in public administration and even in commercial dealings. A large bureaucracy develops. Opportunities for graft become prevalent.

When in such cases the government applies for a loan from some foreign source, the lender assumes a grave responsibility if he does not make it a condition of the loan that the borrower first set his house in order.

The fact of the loan being made for a specific purpose, due precautions being taken to prevent the money being used in any other way, does not relieve the lender from that responsibility; nor does the fact that the investment is self-liquidating; i.e., that the profit to be derived therefrom will provide sufficient revenue to repay the loan.

As long as inflation continues, and more so when it is a case of repressed inflation, the borrower will be on the downgrade and no investment will balance its economy.

In normal relations with a domestic bank, no banker will continue to finance a borrower who does not set his house in order. Why should not the same policy be followed in the case of foreign lending?

An appropriate example is the case of Chile where conditions continue to deteriorate despite the very large amounts loaned to the country from abroad. Inflation continues; cost of living goes on soaring; production is being stifled and controls are becoming unbearable and a bad source of corruption. No amount of industrial development will save such a country unless and until public expenses do not exceed revenues and the government no longer resorts to the Central Bank, the source of inflation is eliminated and controls are lifted so that production can develop and the cause of corruption disappears.

If the Marshall Plan had been carried out bearing in mind not only political considerations but also with a view to balancing the economy of each country, as Western Germany, for instance, has done, it would not have helped so many countries to slide downhill, as has happened to France.

The day will come in these matters as in ordinary commercial dealings, when the foreign leader who does not stipulate as a prerequisite that the borrower set his house in order will be blamed for the latter's downfall.
January 26, 1954.

AIRMAIL

My dear Pedro,

I have read with great interest your short paper on unbalanced budgets and the evil effects of inflation on the economic conditions in underdeveloped countries.

I only wish that the doctrine that you enunciate found readier acceptance in some of our member countries.

With kind regards,

Yours sincerely,

Eugene R. Black

Mr. Pedro Baltran,
Apartado 485,
Lima, Peru.
Unbalanced budgets, in fact any excess of expenses over revenue collections, lead to inflation in most countries where there is no capital market and the government cannot float an issue which is taken up by private investors. To meet the excess of expenditure over income the Treasury resorts to the Central Bank which can provide unlimited amounts of money by merely increasing circulation.

This is happening the world over. The consequent increase in the cost of living generates discontent and creates a fertile ground for communist propaganda. When in addition to this the governments attempt to repress the inflation by instituting ceiling prices and controls of one kind or another, including exchange control, the situation becomes more dangerous because production is stifled by rising costs and rigid prices.

Furthermore, controls usually lead to corruption and a general lowering of moral standards in public administration and even in commercial dealings. A large bureaucracy develops. Opportunities for graft become prevalent.

When in such cases the government applies for a loan from some foreign source, the lender assumes a grave responsibility if he does not make it a condition of the loan that the borrower first set his house in order.

The fact of the loan being made for a specific purpose, due precautions being taken to prevent the money being used in any other way, does not relieve the lender from that responsibility; nor does the fact that the investment is self-liquidating, i.e., that the profit to be derived therefrom will provide sufficient revenue to repay the loan.

As long as inflation continues, and more so when it is a case of repressed inflation, the borrower will be on the downgrade and no investment will balance its economy.

In normal relations with the domestic bank, no banker will continue to finance a borrower who does not set his house in order. Why should not the same policy be followed in the case of foreign lending?

An appropriate example is the case of Chile where conditions continue to deteriorate despite the very large amounts loaned to the country from abroad. Inflation continues; cost of living goes on soaring; production is being stifled and controls are becoming unbearable and a bad source of corruption. No amount of industrial development will save such a country unless and until public expenses do not exceed revenues and the government no longer resorts to the Central Bank, the source of inflation is eliminated and controls are lifted so that production
can develop and the cause of the corruption disappears.

If the Marshall Plan had been carried out bearing in mind not only political considerations but also with a view to balancing the economy of each country, as Western Germany, for instance, has done, it would not have helped so many countries to slide downhill, as has happened to France.

The day will come in those matters as in ordinary commercial dealings, when the foreign lender who does not stipulate as a prerequisite that the borrower set his house in order will be blamed for the latter's downfall.

PEDRO BELTRAN
APARTADO 435
LIMA, PERU
<table>
<thead>
<tr>
<th>Action</th>
<th>Note and File</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approval</td>
<td>Note and Return</td>
</tr>
<tr>
<td>Comment</td>
<td>Prepare Reply</td>
</tr>
<tr>
<td>Full Report</td>
<td>Previous Papers</td>
</tr>
<tr>
<td>Information</td>
<td>Recommendation</td>
</tr>
<tr>
<td>Initial</td>
<td>Signature</td>
</tr>
</tbody>
</table>

**From:**
GENERAL FILES AND CORRESPONDENCE, Archives Division

**Name:**
- Mr. Jennings
- Mr. Schir
- Mr. King

**Room No.:**
- 450
- 426

**Date:** Dec 30
The Colonial Secretary announced in the Commons on December 10, 1953, an £11 million aid plan for Kenya, divided into two parts:

- £4 million towards meeting the cost of Kenya's present emergency, of which £4 million will be a grant and £2 million an interest-free loan. More may have to be provided if the emergency persists.

- £5 million for the purpose of financing a five-year plan of African agricultural development to be drawn up by the Kenya Government and approved by H.M. Government.

Of the £5 million required for the five-year plan, £1 million is expected to be needed in the first year. One half of this will be added to the £6 million Emergency grant for which Parliamentary sanction will be sought, and the other half, as well as the balance of £4 million to be used in later years, will be found from Colonial Development and welfare funds. Issues up to the total of £5 million will be made against approved schemes. These grants are in addition to the extra £500,000 from the Colonial Development and Welfare Fund given earlier this year. The Kenya Government requested in addition a loan of £1 million a year for 10 years for African education. The Colonial Secretary said that in this field he did not feel the same case could be made for distinguishing between Kenya and other African colonies but he had suggested that the need be included in the Governor's reply to the request he has made to all Colonial Governments for information of their estimated needs for financial assistance for the next five-year Colonial Development and welfare period beginning in 1955.

In reply to questions in the House of Commons on December 7, 1953 urging the Government to support the setting up of the proposed special United Nations Fund for economic development of underdeveloped areas, independently of an agreement for world disarmament, Mr. Selwyn Lloyd said that while the UK delegate voted for the resolution on the subject of the proposed Special Fund the conditions for establishing machinery for the operation of such a Fund do not yet exist. The principal difficulty is that none of the potential contributors is prepared to add at present to its overseas commitments. The Minister supplied some figures
of economic assistance already rendered to under-developed countries.

He said:

"The United Kingdom, for example, spent, in the 12 months ended September 30th, £27 million through Government channels alone on economic development, relief and reconstruction overseas, and that figure does not include the figures for private investment or sums raised in London by other Governments.

"Until savings can be made in other directions—and the obvious saving would be on disarmament—I regret that I can see no prospect of Her Majesty's Government being able to contribute to a new fund of the kind proposed..."

In reply to supplementary questions he added:

"...I should like to say that we have agreed to give Pakistan £10 million, and we have agreed, under the Colombo Plan, to release sterling to the equivalent of £42 million for India, Pakistan and Ceylon. It will thus be seen that this country is doing about as much as it can."

In reply to a debate in the House of Commons on December 7, 1953 on the suspension of the constitution in British Guiana it was stated officially that political, economic and social problems contributed towards the breakdown of the constitution. Absence of peasant farming in the sugar industry has created a lack of balance in the social structure. The UK Government has sent two experts to advise on land settlement and the possibilities of introducing peasant farming. Though much has been done by the sugar companies themselves, housing conditions are shocking, and the heavy expense of irrigation and drainage handicaps improvement of the social conditions. The Government spokesman said that the first need is for more finance and it is necessary to recreate confidence here, in the United States, and elsewhere in order to get greater financial investment from private as well as public sources.

Approved: 
M. T. Pooleworth
Commercial Attaché

E. M. Hodgkinson
Economic Section
Excerpts from text of Dr. Eisenhower's report

The following are excerpts from the full text of the Milton Eisenhower Report, which I obtained this morning. The underlined passages are those contained in the official summary which has been published in the newspapers.

"Recommendation 4. That public loans for the foreign-currency costs of sound economic development projects, for which private financing is not available, go forward on a substantial scale, provided, of course, that the borrowers take the necessary measures to ensure that they are good credit risks."

"It is generally agreed that the International Bank for Reconstruction and Development should have the principal responsibility for making development loans, as compared with the shorter-range lending operations of the United States Export-Import Bank. However, it seems essential that the United States maintain a national lending institution to make sound development loans which are in our national interest, but which might not be made by an international agency."

"One difficulty here is that the Administration's efforts to balance the budget would be affected by large loans made by the Export-Import Bank, since such loans are a charge against the annual cash budget. The Bank should, therefore, consider using the means available to it to raise more of its funds from the private capital market."

"Recommendation 5. That the United States stand ready to give appropriate technical help to the Latin American countries that express a desire to work out more orderly ways of determining how their resources, including their borrowing capacity, can make the greatest contribution to their economic development. It is noteworthy that the International Bank has made valuable contributions in this field."

"Often, public loans for transportation, power, and harbor development, for example, will lay the foundation for sound industrial development and thereby encourage private enterprise, both local and foreign. The lack of coordination in planning and lending now, however, is notable in some countries."

"The purpose of technical assistance in this area should be to establish priorities of need, to develop project plans in ways that satisfy lending institutions, and to do this within the credit worthiness of each nation."
"We found misunderstanding of the policies and practices of the International Bank for Reconstruction and Development, and to a lesser extent of the Export-Import Bank of the United States, both of which have important roles in Latin American development. Though most of the countries we visited are members of the International Bank and therefore should understand its authority and operations as an international body, nonetheless among many officials and industrial leaders we discovered a belief that the United States essentially controls the Bank; that a failure of the Bank to make loans in the desired volume is really a decision of the United States Government; that conditions for loans laid down by the Bank —such as the requirement for reestablishment of their credit standing by settling defaulted external debts—are in fact United States requirements and thus constitute intervention in their affairs."

* The official summary contains the following sentence on this subject:

"Dr. Eisenhower found such misconceptions as that the U. S. essentially controls the International Bank and decides what loans it shall make and on what terms."

JBKnapp:ehb

cc: Hessars, Goner, Iliff, Somers, Demuth, Rist
Mr. Eric Johnston  
Chairman  
International Development Advisory Board  
Washington 25, D. C.

Dear Eric:

I am writing in response to your letter of October 12, asking me to supply the International Development Advisory Board with examples of projects of basic importance to the development of underdeveloped areas which have been held up by lack of local financial resources and ineligibility for International Bank financing.

I am attaching a number of such examples as an annex to this letter. In your Board's study of this material, however, there are certain important considerations which I believe you should bear in mind:

(a) Almost every underdeveloped country has some desirable development projects which it must delay because other projects have a prior claim on available resources. Yet plainly, where a country is able to finance a reasonably satisfactory rate of development through use of domestic savings and foreign public or private investment, it is difficult to make out a case for extraordinary financial aid from abroad. I have therefore assumed, in compiling the attached material, that your Board is primarily interested in those underdeveloped countries where the pace of development is unduly slow and where additional finance, effectively utilized, could serve to accelerate it.

(b) Many of the projects cited in the annex are of a type which would be eligible for International Bank financing provided the country concerned had sufficient creditworthiness. However, in view of the limited debt servicing capacity of all of these countries in relation to the financial requirements of their development programs, the projects listed seem unlikely to go forward promptly in the absence of extraordinary external assistance or unless they are pushed ahead of other, at least equally basic, projects which are presently being given priority.

(c) Some of the projects listed in the annex would not be likely to qualify for Bank financing irrespective of the particular country's creditworthiness. These are the projects such as sewage and street-paving, schools and hospitals, waterworks, etc. which, though often of basic importance, are not directly productive in the same sense as power, transportation, irrigation and similar projects. As a matter of policy, derived implicitly from the Articles of Agreement, the Bank normally confines its
loans to projects of the latter type, leaving the former type of project to be financed out of the country's other resources. Most underdeveloped countries have projects of this former type which are retarded by financial limitations but, for the reason already mentioned in (a), I am listing such projects only in countries with low domestic savings and external credit-worthiness.

(d) In the case of colonial areas, I have gauged financial capacity on the basis of resources presently expected to be available to them, without any attempt at a judgment as to whether the mother country could or should so arrange its affairs as to make additional financing available.

As you know, I do not believe that the underdeveloped countries have the necessary technical and human resources to absorb, quickly and effectively, any massive injections of foreign capital, whether it be supplied on a loan or a grant basis. On the other hand, as I have said on several occasions, in the case of some of the poorer nations, particularly in Asia, domestic capital formation, supplemented by the present modest inflow of foreign capital, is barely sufficient to maintain a growing population at prevailing low living standards. Even in such countries, measures to promote and effectively mobilize savings and to make more efficient use of such capital as is available may help, but I think we must face up frankly to the fact that their rate of development is not likely to accelerate substantially if the only external capital they receive consists of loans which have a reasonable prospect of repayment.

I should add that, to the extent that the more developed countries may decide to give these poorer countries additional assistance, I feel strongly that it should be in the form of grants, plainly marked as such, and not disguised as loans by the addition of a nominal interest rate and a due date many decades hence. Pseudo loans of this type can only serve in the long run to impair the integrity of all international obligations.

Should there be any further information desired by you or your Board in connection with your study of this important problem, please do not hesitate to call on me.

With kind regards,

Sincerely yours,

Eugene R. Black

Attaches.

RH Ebanks: ra: jm

cc: Central Files
BOLIVIA

At the present time, Bolivia does not appear to be in a position to assume any additional foreign indebtedness. In fact, it is still in default on its obligations to foreign bondholders, although it is maintaining service upon Export-Import Bank loans.

The country is almost completely dependent for its foreign exchange earnings upon exports of tin, in which it is a high-cost, marginal producer. Under more normal world trade conditions, in which strategic factors played a lesser role, it would have great difficulty in competing with other world suppliers. Furthermore, it is heavily dependent upon imported foodstuffs; something like 40% of its consumption requirements are now being purchased abroad.

Diversification of the economy, particularly through increased food production, is urgently needed; this is entirely feasible since Bolivia possesses good agricultural land capable of greatly increased domestic output. The requirements have been studied intensively several times by foreign experts, notably by the Bohan Commission in 1941-42 and by a large UN Mission, headed by Dr. Keenleyside, in 1956. As a result, the main requirements on the land, and in transport to gain access to suitable land, have been blocked out in economic and technical terms. Yet no serious attempt has been made to move many desirable projects toward execution, partly because finance from both domestic savings and foreign capital is lacking, and partly because Bolivia's political life has so far been so unstable and her governmental administrative machinery so weak that no effective economic policies have emerged.

The U.S. Government has recently extended to Bolivia substantial grants of both foodstuffs and dollar funds. With the local currency counterpart from food sales, and with imported equipment and supplies purchased with the dollar funds, it should be possible to launch an investment program in the agricultural and transport field which would constitute a first step toward a basic reorientation of the Bolivian economy. But lack of financial resources is likely to remain for some time a serious obstacle to any substantial development progress.

CEYLON

Ceylon's domestic savings, together with the external loans it is likely to be able to secure, are insufficient to enable it to carry out a development program of the magnitude required to provide even a modest increase in the standard of living of the rapidly growing population. Some of the more obvious basic improvements in Ceylon are: more adequate water supplies, more ample power, improved highways, improved harbors, a more rapid rate of jungle clearing, more irrigation, better flood control, and more housing and hospitals.

Improved water supplies provide an example of one of the more necessary developments that is unlikely to be financed by either the International Bank or private capital. An adequate and safe supply of water is essential both for urban development and the expansion of industry. At the present time,
none of the major cities of the country has such a supply, and this despite
the fact that the average annual rainfall for the island is over 75 inches,
amost 64 inches in the dry zone and over 175 inches in the wet zone. As a
result, the incidence of water-borne diseases, such as dysenteries,
diarrhoeas, enteric fevers, and hookworm, is high. Work is in progress to
improve the water supply, but it has proceeded slowly. At the end of 1951,
the Public Works Department had about 45 city and town water schemes and
87 village schemes on its priority list. The estimated cost of one scheme
alone to supply the thickly populated area south of Colombo was Rs. 16.5
million (U.S. $9.7 million). The total cost of a five-year program of
improving water supplies, drainage and sewage in cities, towns and villages
throughout the island is approximately Rs. 300 million (U.S. $63 million).
A more modest program for water supplies alone was set by a World Bank tech-
nical mission at Rs. 105 million (U.S. $22 million). This sum contains a
considerable foreign exchange component for pipes and heavy machinery, such
as pumps. Other phases of the Ceylon program, such as jungle clearing,
flood control and irrigation, are similarly retarded by lack of capital,
among other reasons.

EGYPT

In Egypt the most important development possibilities depend on a greater
water supply from the Nile during the low water season. This supply can only
be obtained from a further harnessing of the river through large-scale
reservoirs. The foreign exchange cost of the total investment involved
(including one or several new huge reservoirs, irrigation and drainage canals,
pumping stations, power stations to use the hydroelectric potential of the
dam(s) and transmission lines to permit the use of this power where it is
most needed, etc.) exceeds $250 million. Although Egypt's capacity to
service foreign debt is estimated to be fairly high, the country could not
be burdened with debts of this magnitude. As external loans would not even
cover fully the needs of the top priority Nile development scheme, no loan
funds would remain for other projects which also may be found worthwhile,
such as modernization of railways or new roads, or for projects of a pre-
dominantly social importance like village welfare centers.

INDIA

India has a Five-Year Plan of Development which covers the period
1951-56 and envisages a total outlay of Rs. 20,688 million (U.S. $4,341 million)
in this period. The projects included within this Plan have been carefully
selected to meet the most pressing needs of the country. They are directed
chiefly towards an increase in production of food and electric power and the
improvement of communications, but include also substantial expenditures on
social welfare schemes. As far as possible, total outlay has been carefully
estimated to be within total resources, domestic and foreign. The Plan
has been assisted during its first years by modest loans from the Bank, the
U. S. Wheat loan, and grants from the U. S. Government and under the Colombo
Plan. For the remaining years of the Plan, there is a substantial gap be-
tween proposed expenditures and resources known to be available, and the
Government hopes that a part of this gap will be filled by external assist-
ance. It is estimated that, when completed, the Plan will effect only a
modest increase in the real per capita income of the country.
In some sectors of the Plan, it is clear that lack of financial resources is not the only limitation; the inadequate number of technical personnel also places a limit on the rate of investment. But in other sectors, shortage of funds is by far the most important limiting factor. For example:

(a) The Plan proposes an expenditure of Rs. 315 million (U.S. $69 million) on National Highways and of Rs. 735 million (U.S. $155 million) on State Roads. The road system in India, especially in rural areas, at the start of the Plan was very poor and even after the investment proposed under the Plan it will be quite inadequate to the needs of the country, especially as production will be increasing. Given the needed financing, a much larger program should be undertaken with available skills.

(b) Expenditure on social welfare schemes (e.g., public health, schools) is set at Rs. 3100 million (U.S. $717 million) in the Plan. In view of the country’s needs the rate of investment in this sector is much below the level that is desirable. The principal reason is the lack of available resources.

(c) The Community Development Program, which was sponsored by TCA and started in 1952, is one of the very important and promising schemes in the Plan. Its concept is to create a country-wide service to teach villagers to help themselves and involves the training of men who will be able to demonstrate better methods of agriculture, to encourage the use of improved seeds and fertilizers, and direct the construction of dirt roads and minor irrigation works. If successful, this program should cause a marked improvement in agricultural output. However, it places a severe strain on local financial resources and for this reason alone the speed at which the program is implemented may be below the optimum.

PAKISTAN

Pakistan’s development since the establishment of its independence in 1947 has been retarded by a number of factors, primarily administrative inexperience in the Government, an acute shortage of managerial and technical skills, problems arising out of political differences with India and, at least since the end of the Korean commodity boom, a lack of financial resources. The shortage of technical and managerial personnel is reflected in the relatively small number of projects, out of the many meritorious projects under consideration, which have been worked out to the point where they are ready for execution. The Government has been able to finance most of the productive projects which have been technically worked out so far, either by use of its own resources, loans from the International Bank or the U. K. Government, or by grants from the U. S. and governments participating in the Colombo Plan. However, as more projects are prepared, insufficient funds will become an increasingly important limitation. For example, the Pakistan and East Bengal Governments are beginning to prepare detailed engineering plans to implement the Brahmaputra-Ganges multipurpose scheme which, at an estimated cost equivalent to $500 million and through improved irrigation, drainage, flood control and power generation facilities, is designed to increase considerably agricultural output and the standard of living of the East Pakistanis. The Ganges-Kobadak project, the first phase
of this scheme, will irrigate 2,200,000 acres of land in the Southeastern portion of East Bengal by the use of water from the Ganges River. It is roughly estimated that this project alone will cost the equivalent of about $57 million, and that the value of increased agricultural production (mostly food crops) from this area will amount to the equivalent of $180 million each year. Although part of the cost of this project can probably be met from local resources and external loans, it is not unlikely that the Government will have difficulty in financing the remainder in the absence of grant assistance from abroad.

Projects in the social sectors, particularly in the fields of health and education, are already being deferred because of insufficient resources. For example, financial limitations have held up, for several years, a badly-needed water supply and sewage project for Karachi, estimated to cost the equivalent of $63 million. Water supply and sanitation facilities are also needed in other rapidly-growing communities throughout East and West Pakistan. Another type of development held up for lack of funds is exemplified by a program, estimated to cost the equivalent of $2.2 million, for the expansion of the East Pakistan Veterinary College at Mymensingh.

THAILAND

While Thailand's capacity to service additional external debt is substantial, the insufficiency of its domestic savings places a severe limitation on its ability to carry out many important investment projects. The list of projects which the Government has in mind covers the whole spectrum of the usual needs of an underdeveloped country. If given the close study they have not yet received, many would undoubtedly justify financing provided resources were available. Among them, in fields in which the Bank has already extended or proposes soon to extend assistance, are expansions of present programs in irrigation, highways and railways. The Korat Railway Project is a case in point. This 260-kilometer line would open a new and productive area in Northeast Thailand and would reduce the overload on the existing rail line which skirts the edge of the Korat Plateau. Its construction has had to be subordinated to railway projects of higher priority, because the available capital has been insufficient.

For the time being, technical considerations are the primary obstacles to essential large-scale power projects, but limitations on local financial resources may well become a block when the Yan-Hee hydroelectric project is worked out (probably next year). This project, whose cost is now roughly estimated at the equivalent of $88 million, would relieve Bangkok's present critical power shortage and the shortage of Central Thailand, supply their needs for years to come, be the first step in the creation of a national power grid, provide large irrigation and flood control benefits, and improve navigation facilities on the upper Chao Phya River. Even if loans could be found for the estimated foreign exchange cost of $35 million, the Government would have difficulty in providing the remaining funds.

A third project, distinctly outside the range of the Bank's usual interest, is in the critical field of rice production and marketing. That project, requiring expenditures equivalent to $26 million, would provide
550,000 tons of badly needed storage facilities in conjunction with a farm
credit program designed to stabilize paddy prices and safeguard the small
rice grower.

AFRICA

Nyasaland is economically stagnant and needs capital (a) to open up
the country by building roads and lake ports; (b) to survey a project for
stabilizing Lake Nyasa and damming the Shire River for power and irrigation
purposes; and (c) eventually for other projects to complete a major change
in the present dead-end economy. It would take a long time before investment
in these fields would improve Nyasaland's ability to repay debt to the point
where it could be adjudged creditworthy for loans for these purposes. Up
to now, it has not even been able to service the debt on the railroad that
originally opened up the territory. Nyasaland could probably use around
$10 million initially to begin its development.

Bechuanaland also is economically stagnant. The bulk of the population
still live in the same primitive pastoral economy that existed when the
country was first explored by Europeans. Bechuanaland's debt-carrying capacity
is close to nil. The territory needs help in order to finance agricultural
extension services, communication facilities, education, and technical
studies and surveys in such fields as irrigation, mineral development, and
land reclamation. The total governmental revenue of the territory is around
$600,000 a year. It could probably use an initial development fund of around
$1 million to be spent over a number of years to begin work in this field
properly.

In Basutoland, because of the lag in development, the main export is
men who leave the country periodically to work in the Union of South Africa
to support their families. At the existing level of development, the country
is over-populated and, as a result of over-use and abuse, land resources
are tending to diminish still further. Like Bechuanaland, it has little or
no creditworthiness. It needs capital to develop the hydroelectric potential
of the territory, to begin a little industry, import transport and communications,
and to finance land reclamation, agricultural extension, pest
eradication and education. Like Bechuanaland, an initial capital fund of
around $1 million would be needed for the first stage of a development program.

Since the war, the French have made and are making large investments
in providing basic facilities in French West Africa. Growth of production has
not yet been sufficient to make it possible for the territorial governments
to provide the local funds for the other investments needed to take advantage
of the basic facilities being provided and to secure well-rounded development.
Funds are needed for agricultural extension services, public housing, and
education.

There is also in Africa a need for funds to finance projects which are
not directly productive but which will benefit many areas and are beyond the
resources of any one to carry out. Examples of these are:

(a) Eradication of the diseases borne by the tse-tse fly, bilharzia,
and other widespread debilitating diseases. The tse-tse fly
dominates most of Africa below the Sahara. It makes livestock raising an impossibility over most of this area. If the diseases carried by it could be eliminated, the economy of Africa would be transformed. Other African debilitating diseases also hold productivity to a low level. Capital is needed to set up an inter-African center to coordinate the work that is already going on in this field and to provide funds to the most promising lines of research and of action.

(b) Research into tropical agriculture. We still do not know the best way to use tropical lands. Some areas have swung from use of the hoe to the plow and back again. Very little is known about the kinds of fertilizer needed and how to apply it. This type of research is beyond the capacity of most of the African territories to finance on a sufficient scale to bring effective results. Yet it is not the type of project the Bank can finance. Both the Gold Coast and the Belgian Congo have begun programs in this field. The Gold Coast program in particular is in need of financial help.
November 2, 1953

Mr. Harvey S. Perloff
The University of Chicago
1126 East 59th Street
Chicago 37, Illinois

Dear Harvey:

I am sorry to have taken so long to reply to your letter. Partly it is my own fault for letting other things get put ahead of your request and partly it is because I have been scouting around the Bank to see how much material we might make available to you.

I am sending separately a bundle of materials from our Economic Staff and our public relations people. I don't know how much use you will be able to make of them but I hope that a few of them may be useful.

Beyond this kind of material, it is a little hard to say just how much help we will be able to render to your project; it will depend a good deal on just what kind of information you want. We could probably give you more details about certain loan projects if there are certain ones in which you are especially interested. We could also give you more information about the status and progress of the various projects.

One problem in supplying detailed background materials, such as country studies and creditworthiness reports, is that most of our working papers contain information which we have received from our member countries on a confidential basis. You can see that an organization like ours is in a particularly delicate position when it comes to making the details of loan negotiations or the reports of our operational missions available outside the Bank.

I suppose that what we need here is someone to do a job like that which Jim Feeler did in WPB. It might well be possible to build up a file of information which would not have to be kept confidential and which could give a pretty good picture of our operations. As a matter of fact, the idea has been discussed around here and I would hope that some day we might get around to it.

As your project takes shape so that you can specify certain definite things that you want, why don't you let me know and I'll get anything I can. Or even better, why don't you come to Washington and talk
Mr. Harvey S. Perloff  

November 2, 1953

To the principal people involved? That would be an excellent reason for getting you to visit Washington, which you certainly should do oftener.

Sincerely yours,

Patterson H. French
Technical Assistance Officer

PHF:tf
Mr. Richard H. Demuth  

J. Burke Knapp  

Draft letter to Mr. Eric Johnston  

October 29, 1953  

With regard to your excellent draft letter to Eric Johnston, I have only one suggestion, namely, that you consider remarking upon the unfortunate disincentive effect which would be exercised if grants-in-aid were extended to countries whose lack of creditworthiness is due primarily to their own failure to pursue sensible economic and financial policies.

I give you below suggested notes on Paraguay and Bolivia:

**Paraguay**

The Bank has to date made one loan to Paraguay, $5 million for agricultural development, and is about to send a mission to Paraguay shortly to discuss with the Government the country's most urgent requirements for the further development of the economy. However, Paraguay's capacity to service additional foreign debt is presently very limited, both in absolute terms, and in relation to the country's development needs, which are many. It should be added that this is due in large part to remediable faults in the economic and financial policies which the country has been pursuing.

A project which has been in the forefront of Paraguay's development plans for many years is the provision of a running water supply for the capital city of Asunción. The Paraguayan authorities feel that the city's present supply of water is seriously inadequate both for domestic and industrial purposes and maintain that a water project is an urgent necessity for reasons of hygiene.

In 1944, a waterworks project was prepared for the Government by the U.S. firm of Parsons, Brinckerhoff, Hogan and MacDonald. No action was taken, however, and the Government recently commissioned the Frederick Snare Corporation to bring the earlier project up to date. Their new estimate is that the project would cost about the equivalent of U.S. $7 million, of which roughly $7 million would be in foreign exchange. It seems probable, however, that other less ambitious projects could be devised which would be adequate for the immediate purposes of the city, but would be considerably less costly in foreign exchange. Several unsuccessful attempts have been made to get the International Bank and the Export-Import Bank interested in its financing.

The Bank has explained to the Paraguayan Government its policy regarding the financing of projects in the field of community services and has consistently pointed out that however urgent the need of the water project on grounds of social welfare, Paraguay would derive far greater benefits by using her limited foreign borrowing capacity for projects of a directly economic productive nature.
BOLIVIA

At the present time, the Bank does not consider that Bolivia has any creditworthiness for external loans. She is, in fact, still in default on her obligations to foreign bondholders, although she is maintaining service upon earlier Export-Import Bank loans.

Bolivia is almost completely dependent for her foreign exchange earnings upon exports of tin, in which she is a high-cost, marginal producer. Under more normal world trade conditions, in which strategic factors played a lesser role, she would have great difficulty in competing with other world suppliers. Furthermore, she is heavily dependent upon imported foodstuffs; something like 40% of her consumption requirements are now being purchased abroad. This is a hazardous situation for a foreign investor.

Yet a great deal could be accomplished by diversification of the economy. Bolivia's outstanding need is for increased food production, and she possesses good agricultural land capable of greatly increased domestic output. The requirements have been studied intensively several times by foreign experts, notably by the Bohan Commission in 1921-22 and by a large UN Mission, headed by Dr. Keenleyside, in 1950. As a result, the main requirements on the land, and in transport to gain access to suitable land, have been blocked out in economic and technical terms. Yet no serious attempt has been made to move many desirable projects towards execution, partly because finance from both domestic savings and foreign capital is lacking, and partly because Bolivia's political life has so far been so unstable and her governmental administrative machinery so weak that no effective economic policies have emerged.

Recognizing the logic of the situation, the U.S. Government has recently extended to Bolivia substantial grants of both foodstuffs and dollar funds. With the local currency counterpart from food sales, and with imported equipment and supplies purchased with the dollar funds, it should be possible to launch an investment program in the agricultural and transport field which would make a good start toward a basic reorientation of the Bolivian economy.
Mr. Richard H. Demuth  

October 29, 1953

S. R. Cope

African Examples for the Letter to Eric Johnston

1. Nyasaland is economically stagnant and needs capital (a) to open up the country by building roads and lake ports; (b) to survey a project for stabilizing Lake Nyasa and damming the Shire River for power and irrigation purposes; and (c) eventually other projects to complete a major change in the present dead-end economy. It would take a long time before investment in these fields would improve Nyasaland's ability to repay debt to the point where she could be adjudged creditworthy for loans for these purposes. Up to now, she has not even been able to service the debt on the railroad that originally opened up the territory. Nyasaland could probably use around £10 million initially to begin her development.

2. Bechuanaland also is economically stagnant. The bulk of the population still live in the same primitive pastoral economy that they had when the country was first explored by Europeans. Bechuanaland's debt-carrying capacity is close to nil. The territory needs help in order to finance agricultural extension services, improvement in communications, education, to survey the territory properly and to work out the possibilities of projects such as irrigation, mineral development, and land reclamation to start the territory developing. The total governmental revenue of the territory is around £600,000 a year. It could probably use an initial development fund of around £1 million to be spent over a number of years properly to begin work in this field.

3. In Basutoland because of the lag in development, the main export is men who leave the country periodically to work in the Union of South Africa to get enough to support their families. At the existing level of development, the country is over-populated and with the over-use and abuse of land that goes on the land resources are tending to diminish still further. Like Bechuanaland, it has little or no creditworthiness. It needs capital to develop the hydroelectric potential of the territory, to begin a little industry, import transport and communications, and to finance land reclamation, agricultural extension, pest eradication and education. Like Bechuanaland, an initial capital fund of around £1 million would be needed to begin an initial development program.

4. Since the war, the French have made and are making large investments in providing basic facilities in French West Africa. Growth of production has not yet been sufficient to make it possible for the territorial governments to provide the local funds needed to finance the other investment needed to take advantage of the basic facilities being provided and to secure well-rounded development. Money is needed to finance agricultural extension services, public housing, and education.
5. There is also in Africa a need for funds to finance "unbankable" projects that will benefit many countries and that are beyond the resources of any one country to carry out. Examples of these are:

(a) Eradication of the diseases borne by the tse-tse fly, bilharzia, and other widespread debilitating diseases in Africa. The tse-tse fly dominates most of Africa below the Sahara. It makes livestock raising an impossibility over most of this area. If the diseases carried by it could be eliminated, the economy of Africa would be transformed. Other African debilitating diseases also hold productivity to a low level and are brakes on African progress. Capital is needed to set up an inter-African center to coordinate the work that is already going on in this field and to provide funds to the most promising lines of research and of action.

(b) Research into tropical agriculture. We still do not know the best way to use tropical lands. Some areas have swung from use of the hoe to the plow and back again. Very little is known about the kinds of fertilizer needed and how to apply it. This type of research is beyond the capacity of most of the African territories to finance on a sufficient scale to bring effective results. Yet it is not the type of project the Bank can finance. Both the Gold Coast and the Belgian Congo have begun programs in this field. The Gold Coast program in particular is in need of financial help.
October 27, 1953

Dean W. J. Waines,
Chairman, Department of Economics and
Dean of Arts and Science
The University of Manitoba
Winnipeg, Canada

Dear Sir:

Mr. Rist has referred to me your letter of October 23, requesting a list of the studies on underdeveloped countries which have been published by the International Bank. I am enclosing a list of these publications, all of which can be obtained from the Johns Hopkins Press.

Very truly yours

Gerald M. Alter
Economic Staff

Encl:

GMAAlter:at
Leonard B. Rist, Esq.,
Director, Economic Staff,
International Bank for Reconstruction and Development,
Washington, D.C., U.S.A.

Dear Sir,

I am attempting to obtain material on under-developed countries and the various steps which have been taken to assist in their progress. I find I have not the list of the studies of the International Bank which have been published. Could you supply me with such a list indicating where they can be obtained. In addition to the published material, are there any memoranda which would be available on this topic?

I would be obliged to you for any assistance you can give me.

Yours very truly,

W. J. Wayne,
Chairman, Dept. of Economics and Dean of Arts and Science.
Letter from Eric Johnston

Please refer to your memorandum of October 14, 1953.

Your request has raised several questions in the minds of my colleagues. John deWilde raised a fundamental problem and I thought you might wish to read his memorandum on the subject. I am attaching it. Also, John Exter has made some general comments in his paper. The very limited time available for this work, combined with the pressure of our normal duties, has not allowed us to give more attention to this important problem. However, I believe that the attached memoranda will give you some useful material for Mr. Black’s reply to Mr. Johnston.

Attachments

JRucinski:mem
I believe Ceylon provides an exceptionally clear example of the sort of problems of economic development with which Mr. Johnston and his Board are concerned. In some respects, Ceylon is not an underdeveloped country at all. In the late 19th and early twentieth centuries, there were great bursts of economic development under the impetus of British enterprise and capital that left the country with relatively developed tea and rubber industries. For instance, although Ceylon is only approximately the size of the state of West Virginia, it has about 950 tea factories. There is also a large number of rubber factories and many coconut oil mills, desiccated coconut mills and so on. From Mr. Johnston's point of view, the difficulty is that, except for a certain stimulus that was provided by the Second World War and more recently by the Korean War, the economy has been going through a period of relative stagnation ever since the 1930s. British enterprise and capital are no longer forthcoming and Ceylon enterprises and capital have not yet taken their place. Even without another burst of development, the standard of living has been rising over the past 20 or 25 years. It could rise still more rapidly, in my opinion, if enterprise and capital were again forthcoming as they have been in the past.

The present shortage of capital in Ceylon may be attributed in part to the fact that the country is having a try at democracy. The rising standard of living has given the Ceylon public enough of a taste of the amenities of the Western world (automobiles, radios, electric light, movies, soft drinks, etc.) to make it want still more of them, and the democratic government is therefore faced with a public demand to maintain the level of consumption higher than the country can afford. Yielding to this demand, which the present independent Government probably does more than a colonial government would do, reduces the country's capacity to provide internal savings. Thus Ceylon could itself finance a substantial increase in its expenditure on economic development, if only the Government could see its way politically to increasing domestic saving by lowering the level of consumption by as much as, say, even 5%. And there is an obvious connection between the determination of a Government to live within its means and a country's creditworthiness for International Bank loans.

For Ceylon, the answer to Mr. Johnston's letter is therefore this: there are numerous projects that have been studied sufficiently to show that they are worthwhile and ought to be undertaken, and some of these are projects that the International Bank would not finance. If undertaken, they could accelerate development. Many of these projects are found in the Report of the IBRD General Survey Mission to Ceylon.

The Mission divides development expenditure in Ceylon into the following categories: agriculture, irrigation and colonization; power; industry; transport and communications; public health and education. There are obvious relationships between many phases of this total program; the holding back of one part of the program restricts the expansion of another. For example, the
Mission makes the statement that "schemes of development involving heavy power demand should be deferred for some years at least." And with respect to the proposed irrigation and general development in the Walawe Ganga Valley, it states that it "would absorb too large a proportion of the available development resources for the returns expected." In the selection of industries, the Mission warns that industries should be considered which "do not require abnormal amounts of fuel, power or fresh water."

Unfortunately for the point that Mr. Johnston is trying to make, it is difficult to pick out of the total program specific projects for which Ceylon neither has sufficient funds of its own nor is eligible for loans from IMF. What is needed is a stepping-up of the whole program by something like 50 to 100 percent. For this, domestic funds are insufficient under present conditions, nor can the International Bank alone fill the gap.

Some of the more obvious basic improvements in Ceylon are: more adequate water supplies, more ample power, improved highways, improved harbors, a more rapid rate of jungle clearing, more irrigation, better flood control, and more housing and hospitals.

From this list I would pick improved water supplies as one of the more necessary developments that is unlikely to be financed by the International Bank and is unsuitable for private capital. An adequate and safe supply of water is essential both for urban development and the expansion of industry. At the moment, not a single one of the major cities of the country has such a supply, and this despite the fact that the average annual rainfall for the island is over 75 inches, almost 64 inches in the dry zone and over 103 inches in the wet zone. It is not surprising, therefore, that the incidence of water-borne diseases, such as dysentery, diarrhea, enteric fever, and hookworm, is high. Work is in progress to improve the water supply, but it has proceeded slowly. At the end of 1951, the Public Works Department had about 45 city and town water schemes and 57 village schemes on its priority list. The estimated cost of one scheme alone to supply the thinly populated area south of Colombo was Rs. 46.5 million. The total cost of a five-year program of improving water supplies, drainage and sewage in cities, towns and villages throughout the island is approximately Rs. 200 million. A more reasonable program for water supplies alone was set by the Mission at Rs. 105 million. This sum contains a considerable foreign exchange component for pipes and heavy machinery, such as pumps.

Other phases of the Ceylon program might also be used as examples, such as jungle clearing, flood control and irrigation, but water supplies is perhaps the most striking.

In closing, it should be pointed out that finance is not the only bottleneck to development. There is almost always incomplete or inadequate planning, engineering, and administration. Ceylon suffers from this as much as a great many other underdeveloped countries.
Mr. Rucinski

Harold Folk

Material on Pakistan for Mr. Eric Johnston

1. KARACHI WATER SUPPLY.

(a) Construction of water supply facilities in greater Karachi.

(b) The cost of the project is estimated at the equivalent of $21 million, of which approximately $5 million is in foreign exchange, and is exclusive of the Karachi water distribution system costing the equivalent of about $17 million.

(c) Improved facilities for handling, purifying and distributing water would provide a continuous supply of water suitable for drinking and would improve health conditions.

(d) This project does not provide sufficient returns and security for private foreign investment and is not directly productive economically.

2. KARACHI SEWAGE SCHEME.

(a) Construction of facilities for handling and disposing of sewage in greater Karachi.

(b) Cost of project is estimated at the equivalent of $15 million, of which $5.4 million is in foreign exchange.

(c) Better sanitary facilities would improve health conditions.

(d) This project does not provide sufficient returns and security for private foreign investment and is not directly productive economically.

3. BUILDING AND TOWN PLANNING.

(a) The construction of community buildings and the improvement in the layout and planning of towns in East Bengal.

(b) The cost of the project is estimated at the equivalent of $13.3 million, of which $1.9 million is in foreign exchange.

(c) This project would provide recreational facilities and permit training in skills and crafts.

(d) This project does not provide sufficient returns and security for private foreign investment and is not directly productive economically.
4. DACCA SEWAGE SCHEME.
   (a) Constitution of facilities for handling and disposing of sewage in Dacca.
   (b) Estimated cost of project is the equivalent of $4.5 million, of which $0.5 million is in foreign exchange.
   (c) Better sanitary facilities would improve health conditions.
   (d) This project does not provide sufficient returns and security for private foreign investment and is not directly productive economically.

5. SHAH LATIFABAD AND HYDERABAD WATER SUPPLY AND DRAINAGE SCHEME.
   (a) Construction of water supply facilities and drainage ways in the Shah Latifabad and Hyderabad community.
   (b) The estimated cost of the project is $6.8 million, of which $2.3 million is in foreign exchange.
   (c) Better sanitary facilities would improve health conditions.
   (d) This project does not provide sufficient returns and security for private foreign investment and is not directly productive economically.

6. EAST PAKISTAN VETERINARY COLLEGE.
   (a) Expansion of East Pakistan Veterinary College at Mymensingh.
   (b) Cost of the project is estimated at $2.2 million of which $0.6 million is in foreign exchange.
   (c) Additional veterinarians would contribute to improved health of livestock and lessen transmittal of disease to humans.
   (d) This project does not provide sufficient returns and security for private foreign investment and is not directly productive economically.

7. ANIMAL HUSBANDRY RESEARCH SCHEME.
   (a) The setting up of a research laboratory in animal husbandry.
   (b) The cost of the project is estimated at the equivalent of $2 million, all or substantially all of which is in foreign exchange.
c) The project would be devoted to improving and developing livestock in Pakistan.

(d) This project does not provide sufficient returns and security for private foreign investment and is not directly productive economically.

8. KALRI RESEARCH AND DEMONSTRATION PROJECT ON WATERLOGGING.

(a) Establishing research facilities, conducting applied research in waterlogging, and conducting an extension service program on the basis of the research.

(b) The cost of the project is estimated at $1 million, of which $0.2 million is in foreign exchange.

(c) The project is designed to provide ways and means of preserving land against waterlogging and demonstrate those methods to farmers.

(d) This project does not provide sufficient returns and security for private foreign investment and is not directly productive economically.
Mr. Joseph Rucinski

Antonin Basch

Letter from Eric Johnston

October 22, 1953

There are of course many projects in India, within and outside the Five Year Plan, the implementation of which could be accelerated if sufficient local currency funds were available.

1. Perhaps the most important is the road program. The Five Year Plan proposes an expenditure of Rs. 275 million for national highways and of Rs. 735 million for State roads. The rate of road building will probably not keep pace with the rate of expanding production, particularly in rural areas. Nearly all expenditures are in local currency (steam-rollers are produced in India, but the demand for them has decreased over the last year because of a slow rate of road building).

The expansion of the Five Year Program, the details of which we do not know yet, includes an increase in road building. This, however, will hardly be of any significant size and will probably not expand at a higher rate the road building program.

2. The Five Year Plan proposes an expenditure of Rs. 3100 million on "Social Services," i.e., health, schools, housing. It is doubtful whether the present rate of expenditures, especially in the States, has reached the estimated figure mostly for lack of local funds. The size of the program in this wide field has been determined by the estimate of available resources.

3. Finally, the Community Development Program which was sponsored by TCA and started in 1952 places heavy strain on local finances, and if more funds are not available it is doubtful whether this very important program will be carried out at the rate envisaged in the Plan.
Mr. Davies, Mr. Grayson, Mr. Mason, Mr. Sandelin
J. Burke Knapp

Letter to Mr. Black from Mr. Eric Johnston

October 22, 1953

Will you please prepare a brief note regarding any cases which have come to your attention in the Bank's operations which would fit the circumstances described in the attached letter to Mr. Black from Mr. Eric Johnston. Also attached for your information is a preliminary memorandum on this matter which I have addressed to Mr. Demuth.

J.BKnapp:ehb
Encl.
Mr. Richard H. Demuth

J. Burke Knapp

Letter from Mr. Eric Johnston

In response to your memorandum of October 14th regarding the letter from Mr. Eric Johnston, may I give you the following preliminary reactions. Some further comments on specific projects will be forthcoming shortly.

1. The only country in the Western Hemisphere which completely lacks creditworthiness, in our eyes, is Bolivia. I believe that an excellent case could be made (the only qualification would be the possible dangers of creating a precedent for less deserving cases) for giving grants-in-aid to Bolivia to finance agricultural development, thus diversifying the economy and diminishing Bolivia's present ruinous dependence upon minerals exports to finance imports of essential foodstuffs. Such a program has, in fact, been initiated on a small scale by the U. S. Government with $5 million worth of surplus foodstuffs and $1 million from FOA funds. I do not know whether you want to go into more detail on this subject in your response to Mr. Johnston since he can obtain full information on this subject from the U. S. Government, but if so, please let me know.

2. Going into countries which have some over-all creditworthiness, I think your reply to Mr. Johnston might refute the mistaken notion which somehow remains widely prevalent, that "non-self-liquidating" projects are not "bankable." I catch in Mr. Johnston's letter some echo of this idea.

3. It may still remain true that in countries with limited creditworthiness (and no country has unlimited creditworthiness), there may be projects in the field of community services such as public markets, sewage and street-paving, schools and hospitals, waterworks, etc., which, since they make only a limited and indirect contribution to productive output, must be subordinated in any foreign borrowing program to more directly productive operations. We will give you some examples of such projects which have been presented to us and have been turned down. I do this with the warning, however, that we would not necessarily recommend a grant-in-aid in each of these cases. There remains the alternative of the country meeting this need out of its own resources without any reliance upon external aid.

J. Burke Knapp

cc: Messrs. Davies, Grayson, Mason, Sandalin
Mr. J. Rainsbok
J. G. de Wilde

Mr. Demuth's Request for Information to be Supplied to Mr. Johnston

I assume that the divisions in the Department will provide whatever information is available on specific projects which have not been carried out owing to inadequate financial resources.

I would like, however, to point out that it is very difficult to answer Mr. Johnston's inquiry in terms of concrete and meaningful cases.

While many factors obviously condition the pace of economic development, the shortage of capital is a limiting factor in most underdeveloped countries. "Shortage," however, is not an absolute, but a relative concept. Capital is short in relation to the goals which are generally set up, and these goals are themselves determined in relation to the growth of population and certain assumptions regarding necessary increases in per capita standards of living. If one ignores limitations on the ability to "absorb" capital, it is safe to conclude that the amount of capital available always falls far short of what is desirable.

In many underdeveloped countries, particularly in Asia, domestic capital formation, supplemented by a modest inflow of foreign capital, is barely sufficient to maintain a growing population on prevailing living standards and certainly inadequate to provide for a very rapid expansion of consumption. Measures to promote and effectively mobilize savings and to make more efficient use of such capital as is available may help, but they are unlikely to alter the basic deficiency of domestic savings in relation to demand for investment. Under these circumstances it is impossible to finance enough hospitals, schools, roads, irrigation projects, etc. Just what is left undone for want of capital will depend on the financial and economic policies pursued in each country, and particularly on the priorities attached to different kinds of investments.

It should be noted that before the war we were by no means as preoccupied with the problems of underdeveloped areas as we are now. The basic reason for this difference, I suspect, is that there has been a great political, social and economic awakening in the underdeveloped portions of the world. There is considerable political ferment which finds expression in demands for higher standards of life which in turn require a higher rate of investment than in the past. At the same time the pressures for higher consumption by growing populations may make it difficult for underdeveloped countries to save enough out of a rising national income to service a continuously increasing volume of foreign investment. Under such circumstances foreign "grant" capital may be necessary to produce a higher level of investment and thereby contain to some extent existing discontent. The real problem, however, is to provide grants in such a way (1) as not to create a conviction by underdeveloped countries that they have an inalienable right to such assistance (and perhaps even in growing volume), and (2) as to still give the recipient countries every possible incentive to maximum self-help.
Attached is a copy of a letter which Mr. Black has received from Eric Johnston, Chairman of the International Development Advisory Board, in which Mr. Johnston asks for specific cases which have come to the attention of the Bank where worthwhile projects cannot go forward because of insufficient local resources, unavailability of foreign private capital, and ineligibility for International Bank financing. I infer from the letter that the new International Development Advisory Board is considering its position on the proposal for development grants made by the old Rockefeller Board in its report "Partners in Progress."

In order to prepare a reply for Mr. Black, I would appreciate it if each of you could give me specific examples of worthwhile projects of which you or members of your staff are aware which are now held back for lack of financing and which might usefully go forward if additional financing were available. I do not believe we should limit ourselves only to projects which have come or are likely to come to the Bank in the future for possible financing, such as the large irrigation projects in the Middle East, but that we should also include other projects (e.g. roads programs, waterworks, hospitals, land reclamation schemes, etc.) which may never have been under consideration for Bank financing but about which we have learned during the course of our study of various member countries.

I would appreciate your replies by the beginning of next week, if possible.
October 12, 1953

Mr. Eugene R. Black
President
International Bank for
Reconstruction & Development
Washington 25, D. C.

Dear Gene:

As you know, the various reports on international development, including this Board's report, Partners in Progress, have made the statement that there are many projects of basic importance to the development of underdeveloped countries that cannot be financed entirely on a loan basis. The reference is usually to basic public works such as roads, port facilities, irrigation and water systems and certain other "base building" facilities. It has been said that without such basic economic developments, private capital will not flow into the areas and the over-all economic development of such a country is therefore retarded.

The Board is currently studying certain matters relating to development of less advanced areas. We believe there are important underdeveloped areas which require such basic improvements before they can begin or accelerate their economic development, but which neither have sufficient funds of their own nor are eligible for loans from the International Bank. They are also not attractive to other private lenders. In your studies of the economies of various countries, you undoubtedly have had such cases brought to your attention. Would it be possible for you to supply the Board with a number of such instances so that we might discuss this matter with reference to specific cases instead of in the abstract.

Sincerely yours,

Eric Johnston, Chairman

CC: R.H. Denmite
October 14, 1953

Mr. G. Habeler
Harvard University
Cambridge, Mass.

Dear Habeler:

When we met at the house of Paul Rodan just before last Christmas I promised you a copy of a manuscript on "The balance between agriculture and industry in economic development." I surmised that Rodan gave it to you a day or so after Christmas when you came back through Washington. I now am beginning to doubt whether you have received the paper as I got no acknowledgement or criticism from you. Owing to a long trip around the world and home leave to Europe, combined with the departure of Rodan, I had little opportunity to check with him whether it has been given to you. Rodan's secretary cannot recall having it handled.

Would you be so kind to let me know whether you have it and in that case what you think of it and, alternatively, if you have not received it, whether you still would be interested in having a copy.

Sincerely yours,

E. deVries

Edvries/mmi
Prospective development of the U.S. economy

In view of the impact of economic conditions in the United States on the rest of the world, you will be interested in the attached analysis by Mr. E. H. Bernstein of the Fund on "The Prospects for Business in the United States". You will note that his conclusion appears to be that we can anticipate some decline in business activity sooner or later but that this decline is unlikely to be much more prolonged or sharper than that which took place in 1949.

This week the Economic Staff Committee discussed the Bernstein paper and, as is often the case when a number of economists come together, there was some difference of opinion regarding the economic outlook in the United States. There was general agreement that some recession is inevitable, and the majority of the members, including myself, felt that the recession might well be somewhat more serious than Mr. Bernstein anticipates. In particular, most of the members felt that, while each of the factors which Mr. Bernstein analyses as possibly instrumental in bringing about a recession might not of itself contribute significantly to a recession, the coincident operation of many of these factors might produce a somewhat more serious recession than Mr. Bernstein anticipates. There was also general agreement in the Economic Staff Committee that a depression of the magnitude which took place in the thirties should certainly not be anticipated, if only because governments are today much more prepared to take anti-cyclical measures. At the same time, I feel one should not discount the dangers inherent in the possibility that the government might not adopt measures to prevent or combat a depression sufficiently early, or that there might not be a consensus within government about the best means of dealing with an incipient depression.

1 enclosure to: Messrs. Rudinski, Tolley, Bochenski, Pollan, Sticker, Gilmarin, Chakravarti

1 enclosure to: Messrs. Basch, Exter, Cargill, Antoine, Bolis

Jude W/mm
Mr. R. L. Garner
Vice-President, International Bank for Reconstruction and Development
1818 H St., N.W., Washington 25, D.C.

Sept. 21, 1953

I have just sent in the revised manuscript to the Council on Foreign Relations for the study on "The Future of the Underdeveloped Areas" and want to take this occasion to thank you most sincerely for your very helpful comments on the earlier draft. Mr. Bidwell passed your letter along to me, and I have made alterations to try to take account of every point you made -- except one. After some experimentation I gave up trying to define "Western World," because it seemed that to exclude Latin America would hardly be right in some cultural respects, even though in some economic and other ways Latin American countries have characteristics like those of underdeveloped areas that are distinctly non-'Western.' For some purposes they are more "Western," for others less. So, rather than discussing the point in any detail and possibly offending them, I decided this might be a case where a rather fuzzy concept was best.

By the way, there was a typographical error in the outline of types of financial aid in the former Ch. 17. I had written: "1. Agencies of a single government . . . 2. Intergovernmental agencies. . . ." but the second of these points, with its reference to the International Bank, was omitted. This has been corrected, of course.

I think you were right about the manuscript being too uncritical in its references to technical assistance under Point 4 and other programs, and I've tried to adjust this here and there. Especially where much of the discussion concerns aims rather than details of execution it is hard to avoid the impression of glossing over weaknesses. This and other comments you made were very useful, therefore, and while I probably haven't succeeded to the full, I have tried to change several passages in ways that would counteract that impression.

Again I want to thank you for taking the time to run through the draft and to make these helpful comments. Also, I want to say what a pleasure and privilege I count it to have been able to sit in on the discussions of the Study Group with you and the others. I was continually impressed with the breadth of view as well as the practical sagacity which you brought to these problems, and the opportunity to share thoughts arising out of your experience was one of the most valuable features.

Sincerely yours,

Eugene Staley
Dear Mr. Gardner,

I have just seen in the New York Times of the 29th instant an article by Mr. T. R. Harriman, president of the Union Pacific Railroad Company, and feel that this occasion to express my appreciation of your many kindnesses to me and my associates. I want to take this opportunity to express my appreciation of your many kindnesses to me and my associates.

I have the pleasure of being able to call on you at your convenience. I want to express my appreciation of your many kindnesses to me and my associates.

Sincerely yours,

[Signature]
August 31, 1953

Mr. Walter Hill
Special Representative in Europe
International Bank for Reconstruction and Development
67, Rue de Lille
Paris (7e), France

Dear Walter:

I wish to thank you very much for your letters of August 25 and 28 regarding the documents of the sixteenth session of ECOSOC. I realize that because of the difficulties due to the general strike in France it was not possible for you to send us before all of these documents.

We have read with interest the resolution adopted by ECOSOC on the financing of economic developments, as well as the statement by the President of the Council at the closing session. In this regard I wish to call your attention to two articles which appear in the United Nations Bulletin of August 15 which cover the highlights of the session of ECOSOC dealing with financing, as well as an article by the President of the Council which embodies most of these statements at the closing session.

Hope to see you here shortly to discuss these things.

Sincerely yours,

Enrique Lopez-Herrarte

E Lopez-Herrarte: jm
cc: Central Files
<table>
<thead>
<tr>
<th>TO-</th>
<th>Name</th>
<th>Room No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mr. Lopez Navarre</td>
<td>1004</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FOR-</th>
<th>Action</th>
<th>Initialing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Approval</td>
<td>Preparing Reply</td>
</tr>
<tr>
<td></td>
<td>Comment</td>
<td>Previous Papers</td>
</tr>
<tr>
<td></td>
<td>Filing</td>
<td>Noting and Returning</td>
</tr>
<tr>
<td></td>
<td>Full Report</td>
<td>Recommendation</td>
</tr>
<tr>
<td></td>
<td>Information</td>
<td>Signature</td>
</tr>
</tbody>
</table>

REMARKS

F 1- GENERAL FILES AND CORRESPONDENCE, Archives Division
Mr. Enrique Lopez-Herrarte
Technical Assistance and Liaison Staff
International Bank for Reconstruction and Development
Washington, D.C.

Dear Enrique:

We have now received additional papers of the 16th Session of ECOSOC, which closed on August 5. Among them is the final text of the resolution on the question of the International Finance Corporation, which I am enclosing. You will note that the final resolution represents a compromise between the original Indian draft and the version proposed by the United States.

I also enclose the provisional summary record of the last meeting of this session, held on August 5. You will see on page 27 that in his concluding remarks the President (a Belgian!) expressed the view that the Bank should have "a larger part of its statutory capital at its disposal."

We are mailing under separate cover other documents of possible interest to the Bank.

Best wishes.

Yours sincerely,

Walter Hill
Special Representative in Europe
August 28, 1952

Mr. H. H. Mcgesic, Lord-President
Technical Assistance and Financial Support
International Bank for Reconstruction and Development
Washington, D.C.

Dear Mr. Mcgesic,

We have now received all additional papers of
the 10th session of the Board of Directors, which opened on
the 7th of August. Among them is the final text of the
Resolution, on the subject of the International
Finance Corporation, which I am enclosing. You
will notice that the financial resolution presents
a compromise between the original idea of Mr. Giffen
and the revision proposed by the United States.

I also enclose the Provisional Summary
of the 10th session of the Board of Directors.
You will find on page 28 the Resolution on the continuing reserves of the Executive
Board, expressing the view that the Bank shall have "a larger part of its expenditures in capital of the above.

We are making every effort to speed up
documents of bonds to be issued to the Bank.

Yours sincerely,

Walter Hiltz
Special Representative in Europe
<table>
<thead>
<tr>
<th>Date</th>
<th>Secretary’s Memo No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>8/27/53</td>
<td>974</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Executive Directors and Alternates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>President</th>
</tr>
</thead>
<tbody>
<tr>
<td>RM</td>
</tr>
<tr>
<td>2/10</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Vice President</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Assistant to President</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Department and Office Heads</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>From The Secretary</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>
RESOLUTIONS OF UNITED NATIONS ECONOMIC AND SOCIAL COUNCIL ADOPTED AT ITS 16TH SESSION GENEVA, AUGUST 1953

I
The Economic and Social Council,

A.

Having taken into consideration the document entitled Report on a Special United Nations Fund for Economic Development (E/2381), prepared by a Committee appointed by the Secretary-General pursuant to resolution 416 A (XIV),

Having in mind the General Assembly resolutions 520 A (VI) and 622 A (VII) requesting the Council to submit to the General Assembly a detailed plan for establishing, as soon as circumstances permit, a United Nations Fund for the financing of economic development of underdeveloped countries,

1. Expresses its great appreciation to the Committee for its work;
2. Transmits the Report of the Committee to the General Assembly, together with the pertinent records of the sixteenth session of the Council;
3. Recommends that the General Assembly consider, in the light of the Report of the Committee (E/2381) and the records of the sixteenth session of the Council, what other preparatory steps might usefully be taken towards the establishment, when circumstances permit, of an international fund designed to assist development and reconstruction of the underdeveloped countries.

B.

Desirous of strengthening the United Nations in its mission of guarding the peace and security of all peoples and of making the United Nations a more effective institution for the promotion of higher standards of living and of conditions of economic and social progress and development in underdeveloped countries,

Sec. 7-281
Looking forward to the time when sufficient progress in internationally supervised world-wide disarmament will make it propitious to devote additional resources to assist development and reconstruction, particularly in the underdeveloped countries,

Recommends that governments consider joining, at the eighth session of the General Assembly, in the following draft declaration:

"We, the member governments of the United Nations, in order to promote higher standards of living and conditions of economic and social progress and development, stand ready to ask our peoples, when sufficient progress has been made in internationally supervised world-wide disarmament, to devote a portion of the savings achieved through such disarmament to an international fund, within the framework of the United Nations, to assist development and reconstruction in underdeveloped countries."

II

The Economic and Social Council,

Having considered the further report of the International Bank for Reconstruction and Development on the proposal for an International Finance Corporation (document E/2441),

Noting that the Bank intends to continue to explore the question with its member governments,
Believing that it would be desirable to have from the Bank a further study of the IFC proposal, which would be directed towards clarifying and analysing the questions that have been raised and the different points of view that have been expressed with regard to the merits of the proposal and the basic purposes and functions of the proposed institution, so as to assist the various interests concerned in determining their attitude towards the proposal,

1. **Commends** the Bank for the useful contribution it has made to the study of the question;

2. **Invites** the Bank to present as soon as possible the results of a further study along the lines mentioned above, namely, a study with a view to clarifying and analysing the questions that have been raised and the different points of view that have been expressed, continuing at the same time further exploration of the matter with its member governments, and in so doing to take into account the comments on the Bank's further report during the sixteenth session of the Council:

3. **Further invites** the Bank to report on the progress made in these respects to the Council at its seventeenth session.
August 25, 1953

Mr. Enrique Lopez-Herrarte
Department of Technical Assistance
and Liaison
International Bank for Reconstruction and Development
Washington, D.C.

Dear Enrique:

Thank you for your letter of August 14. Owing to the strike in the French Post Office we have received no ECOSOC documents since early in August. Our last dispatch of documents to Washington was on August 5. As soon as we receive the remaining documents of the Sixteenth Session we shall send to Washington those of interest to the Bank.

Best wishes.

Yours sincerely,

Walter Hill
Special Representative in Europe
August 25, 1952

Dear Mr. Kindele:

The new telephone number for the I.B.R.D. in Washington, D.C. is 479-0000. We have received your letter of August 1st regarding the change of address.

I am sorry for the inconvenience caused. Our new address is:

International Bank for Reconstruction and Development
20th Street and E Street, N.W.
Washington, D.C.

Thank you for your patience.

Yours sincerely,

[Signature]

Water Hill
Special Representative in Europe
August 14, 1953

Mr. Walter Hill
Special Representative in Europe
International Bank for Reconstruction
and Development
67, Rue de Lille
Paris, France

Dear Walter:

In accordance with your letter of July 28, 1953, we have received documents of the Sixteenth Session of ECOSOC which you were kind enough to send us.

We appreciate very much your kindness and will be glad to receive any further documents that you care to send us.

Sincerely yours,

Enrique Lopez-Herrarte
<table>
<thead>
<tr>
<th>Action</th>
<th>Note and File</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approval</td>
<td>Note and Return</td>
</tr>
<tr>
<td>Comment</td>
<td>Prepare Reply</td>
</tr>
<tr>
<td>Full Report</td>
<td>Previous Papers</td>
</tr>
<tr>
<td>Information</td>
<td>Recommendation</td>
</tr>
<tr>
<td>Initial</td>
<td>Signature</td>
</tr>
</tbody>
</table>

Remarks

Fr.

GENERAL FILES AND CORRESPONDENCE, Archives Division
3 August 1953

Dear Demuth,

Working Party of Experts on Financial Aspects of Economic Development

Thank you for the paper entitled "The Use of Special Assessments to Finance Development Projects", sent under cover of your letter of 16 July 1953. I believe it will be very helpful and of course wish that someone from the Bank could be here to help in the discussion on this and other items of the agenda. We are making clear on the cover that the views expressed are not necessarily those of the Bank and should not be quoted as such.

Yours sincerely,

Norman L. Gold
Chief, Trade and Finance Division

Mr. Richard H. Demuth
Director
Technical Assistance and Liaison Staff
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington 25, D.C.
3 March 1953

Dear Mr. Demetri,

Thank you for the letter entitled "The Use of Special Assistance to Finance Development Projects." I have made every effort to cooperate with your letter of 10 July 1952. I believe it will be very helpful and of course will not be a new experience. We are making a closer study of the question and other items of the report. We will endeavor to develop policies and procedures which will not necessarily be subject to constant modification.

Yours sincerely,

Morley C. Cole
Chief, Trade and Finance Division

[Handwritten note: "Mr. Richard H. Demetri"
"Director General Assistance and Technical Affairs"
"International Bank for Reconstruction and Development"
"18th Street N.W." "Washington 25, D.C." ]
<table>
<thead>
<tr>
<th>Action</th>
<th>Note and File</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approval</td>
<td>Note and Return</td>
</tr>
<tr>
<td>Comment</td>
<td>Prepare Reply</td>
</tr>
<tr>
<td>Full Report</td>
<td>Previous Papers</td>
</tr>
<tr>
<td>Information</td>
<td>Recommendation</td>
</tr>
<tr>
<td>Initial</td>
<td>Signature</td>
</tr>
</tbody>
</table>

**Remarks**

As per your request.
July 28, 1953

Mr. Richard H. Demuth
Director
Technical Assistance and Liaison Staff
International Bank for Reconstruction and Development
Washington, D.C.

Dear Dick:

We are sending by sea mail today, addressed to the Archives Division, further documents of the present session of ECO30C. We will continue to mail, as long as the session lasts, papers likely to be of interest.

Best wishes.

Yours sincerely,

Walter Hill
Special Representative in Europe
International Bank for Reconstruction and Development
Washington D.C.

July 29, 1953

Mr. Richard H. Damuth
Director
Technical Assistance and Liaison Staff
International Bank for Reconstruction
and Development
Washington, D.C.

Dear Dick:

We are sending by sea mail today, a brigade of memos to the Archives Division for further comments on the present session of ECOSOC. We will continue to mail as soon as the session issues begin to look likely to be of interest.

Best wishes.

Yours sincerely,

Walter Hill
Special Representative in Europe
Attached is a letter prepared for your signature to Gunnar Myrdal, Executive Secretary of the ECE. The letter is merely an acknowledgment of a note from him, following up the conversation Mr. Black had with him in Geneva.
Dear Dr. Myrdal,

Thank you for your letter of July 3, 1953 addressed to Mr. Black who is at present out of the country. We are extremely grateful to you for keeping the Bank informed of the Commission's work and in particular for the brief review of the various possibilities for integrated development of European resources mentioned in the conversation which you had with Mr. Black in Geneva last month. I need hardly repeat to you that the Bank will be ready to discuss any of the proposals whenever your studies have reached a sufficiently advanced stage.

We shall be pleased to see Mr. Lary at the Bank. Our Economic Staff and members of our European Department will be at his disposal for consultation and will be glad to help him in every way possible in connection with the Southern European Development Study which is being done by his Division. I am sure that we also can benefit from such informal discussions of questions of mutual interest.

Yours sincerely,

R. L. Garner

Dr. Gunnar Myrdal  
Executive Secretary  
Economic Commission for Europe  
Palais des Nations  
Geneva, Switzerland

cc: Messrs. Rist  
Rosen  
Stevenson  
Ross  
Fajans

July 20, 1953
STAFF LOAN COMMITTEE

Memorandum from the Director, Economic Staff

Subject: Special Assessments in Economic Development Financing

From time to time there has been discussion within the Bank as to the possibilities of using some form of special assessment to finance all or part of the local currency costs of certain types of projects. The attached memorandum, which is circulated for your information and comments, appraises the suitability of the special assessment form of financing for those projects in the fields of irrigation, drainage, and highway construction which lend themselves to IBRD financing.

In view of the possible applications of special assessments to the broader problems of financing economic development, I am planning to circulate this memorandum to the Executive Directors. A copy has also been promised to ECAFE by the Director, Technical Assistance and Liaison Staff for use by a Working Party of Experts on the Financing of Economic Development in Asia and the Far East. In view of an imminent deadline for this purpose, please forward your comments directly to Mr. Schlesinger (Room 1228, Extension 2079) by the close of business on July 13.

Leonard B. Rist
July 9, 1953

Dear Walter:

I have your letter of July 3rd enclosing the translation of a letter from Mr. Chapsal. I have read Mr. Chapsal's proposals and believe his idea for a study group on underdeveloped countries is an interesting one. The program is described in such general terms that it is difficult to make any detailed comments on it. I believe, however, that your suggestion is a good one that when some official of the Bank familiar with development problems passes through Paris, you might arrange to have him meet Mr. Chapsal and his associates and talk over the project directly with them.

Concerning the Bank's proposed Economic Development Institute, we have decided to try to go ahead with that Institute on a trial run basis, commencing either in the fall of '54 or early in '55. Whether we do go ahead with this trial run, however, depends on whether we can secure an agreement from the Rockefeller Foundation to share in the cost, upon finding a suitable Director and staff for the Institute, and upon reasonable assurances from member countries that a sufficient number of qualified officials will be made available for the trial run to justify our undertaking it. As you can see, the matter is still in a very preliminary stage and it is not by any means sure that we will even have a trial run, although we are working toward that end.

With best regards,

Sincerely yours,

Richard H. Demuth
Director
Technical Assistance and Liaison Staff

RHD: rha

Mr. Walter Hill
Special Representative in Europe
67 Rue de Lille
Paris (7e) France
Mr. Richard H. Demuth
Director
Technical Assistance and Liaison Staff
International Bank for Reconstruction and Development
Washington, D.C.

Dear Dick:

Attached is a translation of a letter from Mr. Chapsal, Head of the Institut d'Etudes Politiques of the University of Paris, the principal centre in France of the study of economics. I should be grateful to have your views on Mr. Chapsal's project. I suppose it might be possible for an official of the Bank familiar with development problems, who happens to pass through Paris, to meet Mr. Chapsal and his associates and give them some guidance based on the Bank's experience.

Mr. Chapsal also asked me about the proposed Development Institute and I would appreciate your bringing me up-to-date on your plans.

With warm regards.

Yours sincerely,

Walter Hill
Encl. Special Representative in Europe
Mr. Richard H. Demattich
Director
Technical Assistance and Information Service
International Bank for Reconstruction and Development
Washington, D.C.

Dear Dick:

Attached is a translation of a letter from Mr. Charles' Head of the Industrial and Economic Policies of the University of Paris, the principal center in France, I should be grateful for your views on Mr. Charles' letter.

I suppose it might be possible to have an official of the Bank familiar with the French Report to meet Mr. Charles and his associates and give them some guidance based on the Bank's experience.

Mr. Charles also asked me to report the proposals for Development Institutes and I would appreciate your printing me up-to-date on your plans.

With warm regards.

Yours sincerely,

[Signature]

Water Hill
12th Floor, 542 Fifth Avenue
New York, N.Y.

Dean, 9th Floor
International Bank for Reconstruction and Development
Washington, D.C.
Mr. Walter Hill  
International Bank for Reconstruction and Development  
67, rue de Lille  
Paris (7e)

Dear Sir,

Following our conversations on the problems of technical assistance, I would be happy to have your opinion on the plan described in the enclosed memorandum.

This plan might be of interest to staff members of the International Bank for Reconstruction and Development.

Thanking you in advance for your consideration in this matter, I remain, dear Sir, etc., etc.

The Director of the Institute

(signed) J. Chapsal
Translation

National Political Science Foundation
Paris

STUDY GROUP ON UNDER-DEVELOPED COUNTRIES

There have been numerous requests that the National Political Science Foundation examine to what extent it might contribute to the study of the problems of underdeveloped countries and of technical assistance; these problems are of mounting concern to administrators, financial experts and technicians, in connection with both the development of the Overseas Territories of the French Union and the assistance given by international organisations (United Nations and specialised agencies) where the role of France is likely to increase considerably in the coming years.

Several months ago the Foundation undertook, as a first step, the assembly of as complete a documentation as possible on these problems; the Documentation Centre, whose files of periodicals and press clippings already contained a large quantity of material, has established a special file on technical assistance which at the moment contains more than a thousand pieces. This documentation service constitutes the first section of an organisation which should also include a training section and a research section.

As regards training, the Institute of Political Studies already offers a number of pertinent courses, including those on population problems, geography, regional studies as, for example, the courses on Middle East and on the French Union, as well as the course created in 1952-53 dealing with the general problems of under-developed countries. However, there are two problems in this connection. In the first place, it is necessary to expand these courses of study and to make them more specialised. In the second place, students other than those working for the diploma of the Institute of Political Studies should be given access to this training without tying them to the normal programme of the Institute. At the same time a centre should be created to attract persons from various backgrounds interested in these problems (for example students in the scientific schools, French civil servants, foreign trainees sponsored by international organisations, present or future French technical assistance experts,
future executives in under-developed countries, etc.). Because points of view will vary, because the students will have a variety of interests and will not all be able to devote the same amount of time to study, because of the uncertainty of finding continuously a sufficiently large group of students to maintain extensive facilities, it does not seem possible to plan as elaborate a programme of studies as that offered, for example, by the Institute of Social Studies at The Hague. The National Political Science Foundation would like, as an experiment, to try next year the formula of a "study group on under-developed countries".

The group would function throughout the university year (from November 1 to June 1, about 25 weeks) during one 2-hour period a week, preferably between 6 and 8 p.m. in order to allow the participation of men engaged in other occupations and of students pursuing other courses in political science. These 50 hours of work would include:

(1) Introductory lectures on fundamental problems (about 20 hours) grouped around three topics

(a) Sociological and anthropological problems in under-developed countries (Mr. Georges Balandier, a research worker at the National Scientific Research Centre and lecturer at the Institute of Political Studies);

(b) Technical assistance and international organisations (Mr. Pierre Laurent, Maître des Requêtes au Conseil d’État);

(c) Problems created by economic development and industrialisation in under-developed countries (Mr. Gaston Leduc, Professor at the Law Faculty of Paris).

(2) Consultations (5 to 10 hours) with French and foreign specialists who might describe their experiences in overseas territories or in foreign countries as technical assistance experts.

(3) Seminars (20 to 25 hours) under the guidance of the three instructors in charge of the course with various assistants. In these seminars the members of the study group would examine a given
region in order to find specific applications of the general problems studied under heading 1. The region would be examined from various points of view: geographic, sociological, political, administrative, economic, financial, etc. The nature of the work would be determined by the number and the training of the participants. It would seem desirable to form two seminars; one devoted to the Middle East and the other to Central Africa. The Foundation intends in any case to establish the first of these seminars next year. The work of this group would be practical because it would be concrete and focussed on specific current problems. It would also be designed to complement the knowledge of students already trained as scientists, agriculturists, administrators, economists, etc., allowing them to add to their previous specialised training the general information needed to apply their training in under-developed countries.

The work might be supplemented, on the one hand, by outside lectures open to a larger audience and, on the other, by research groups headed by qualified specialists.

The plan for this study group as outlined above is necessarily modest, and is subject to modification in the light of its reception by those interested. It might constitute the beginning of a larger organisation which could increase France's role in a field undergoing rapid change. The National Political Science Foundation would appreciate receiving expert opinions on this subject.
Dear Mr. Black,

When I had the pleasure of your visit here last month, we discussed certain investment possibilities involving integrated economic development of an entire region in Europe which may eventually emerge from the work of the Economic Commission for Europe.

I informed you that there were several projects now being studied here which might, in due course, reach the stage where such practical propositions could be put before the Bank:

(1) Under the auspices of our Committee on Electric Power, Governmental experts are working out plans for regional development of electric power resources.

(2) Under the auspices of our Inland Transport Committee, we are studying (a) the possibility of reaching an agreed international plan for increasing investments in standardised railway rolling stock, using a technique similar to that in the United States whereby banks rent such equipment to the railways under an "Equipment Trust" or "Hire-Purchase" arrangement, and (b) the possibility of developing major roads in Europe into an integrated network.

(3) Under the auspices of the Timber Committee of the ECE and the Forestry Commission of the FAO, and based upon the study recently made by the Joint Secretariats of the two organizations on "European Timber Trends and Prospects" certain possibilities for integrated development of forest industries and a rather vast regional afforestation programme are being explored.

(4) Our Research Division has two studies in progress which may also prove to be of eventual interest in this connection: (a) a study of the present possibilities of expanding and accelerating the economic development of the less developed countries in Southern Europe, and (b) a statement, together with proposals for possible action, on adjustments in the agricultural policies in European countries which might materially contribute to the improvement of the European economy. These studies which were requested at the 8th Session of the Commission last March, should be completed by the end of this year.

Before such ideas can even be considered as a banking proposition they would have to be worked out in precise and detailed form. I shall be glad to keep you informed of the progress which is made here with a view to discussing at an appropriate time the suitability of any projects which may emerge for financing by the Bank.

As I told you when you were here, Mr. Hal B. Lary, Director of our Research and Planning Division, will be in the United States on home leave from mid-July to mid-August. You were so kind as to suggest that he should call at the Bank to consult your people and to look over your documentation with regard to the Southern European Development Study which is being done by his Division. I should be grateful if you would arrange for this. Mr. Lary will probably be in Washington towards the 1st August.

Mr. Eugene Black,
President, International Bank for Reconstruction and Development,
Washington, D.C., U.S.A.

Very sincerely yours,

Gunar Nydal
Executive Secretary
Economic Commission for Europe

3 July 1953.
Annotated Bibliography of Current Literature on Economic Development

Mr. Dalla Chiesa has suggested that we set up in a card catalogue a selected annotated bibliography of current books and articles on economic development.

The cards should be prepared according to the attached sample. Each card should contain the usual bibliographical reference, brief summary of contents, and a code classification in accordance with the attached outline.

Each staff member should feel free - and is urged - to contribute to the catalogue whenever a book or an article attracts his attention. However, in order to provide reasonably wide coverage and to limit duplication, Mr. Alter will call to the attention of each staff member specific books and articles on which the staff member may wish to prepare a card. The catalogue will be maintained by Mrs. Frye (Room 1229) under the supervision of Mr. Dalla Chiesa.

Attachments

cc: Mr. Bist

Contains an appendix on planning in backward nations where the author discusses some of the problems of economic development, emphasizing the mechanics of planning and the lack of the necessary conditions for efficient planning.

CROSS Reference: None
A. General Studies

B. Development Planning:
   (1) Development projects and national development programs
   (2) Appraisal of costs and benefits
   (3) Methods of forecasting

C. National Income:
   (1) Size
   (2) Distribution
   (3) Fluctuations

D. Financial Capital Formation:
   (1) Institutions
   (2) Savings

E. Real Capital Formation:
   (1) National income and investments
   (2) Investments and output ratios
   (3) Investments composition

F. Monetary and Fiscal Policy

G. Balance of Payments:
   (1) Foreign trade
   (2) Public capital movements
   (3) Private capital movements
   (4) Foreign exchange

H. Population and Labor Force

I. Agriculture, Industry and Trade

J. Areas and Countries Studies:
   (1) Africa
   (2) Latin America
   (3) Middle East
   (4) Southern and Eastern Asia
   (5) Southeastern Europe
Mr. F. D. Gregh
J. C. de Wilde

Report of NEA Advisory Committee on Underdeveloped Areas

June 23, 1953

Basically the report of this Committee reflects a balanced and sound
approach to the problems of economic development. The report shows a proper
appreciation of the institutional factors limiting and conditioning economic
development. While the report in general is unexceptionable, it might
be appropriate to comment on (1) the views of the Committee on industrializa-
tion and (2) the Committee's suggestions on greater flexibility in the
policies and practices of international public investment institutions.

With respect to industrialization, the Committee admits that
"industrial growth and diversification are likely to be an important part
of a sound development program in most cases". Industrialization, in particu-
lar, may be necessary to satisfy a growing demand for industrial products
arising from higher incomes and standards of living and to give employment
to excess population in agriculture. At the same time, the Committee warns
against embarking on industrialization as a matter of principle and points
cut that the terms of trade have generally moved in favor of primary materials
producing countries since prewar years. It favors, therefore, continued
emphasis on the production of primary materials, particularly in the light
of a growing demand by industrialized countries, but concedes that positive
steps will have to be taken to stabilize the demand for, and purchasing power
of, major primary commodities and also to ensure that the countries producing
primary materials will have access to manufactured goods, particularly capital
equipment, in times of shortage. The Committee does not indicate, however,
what these "positive steps" should be; nor does it specifically recommend
a modification of the past opposition of the United States Government to
international agreements which would provide/more stable market for primary
commodities.

The Committee states that it is "probably a sound general policy not
to underwrite with government funds projects for direct (industrial) production
but to leave such financing to private capital" and also that countries should
undertake industrial development only in those fields "in which they have
competitive advantage". The first statement, in my opinion, does not reflect
an adequate appreciation of the fact that in many underdeveloped countries
sufficient private capital and entrepreneurial talent are not available for
industrial development. The validity of the second statement depends on
one's construction of the words "comparative advantage". Certainly this
should not be interpreted to mean that countries should not protect
indigenous industry against foreign competition. In many cases the cost
to the economy of employing manpower and material resources now wholly or
partially idle is much less than the market price of labor and materials.
The Committee is quite critical of the lack of flexibility in the existing machinery for providing public capital for investment abroad. Such capital, it comments, can now generally be provided only in the form of grants or bankable dollar loans. It suggests that there ought to be greater flexibility in the period for which capital is provided and in the currency of the repayment. Thus it would apparently extend the duration of at least some loans to as much as 50-60 years, provide means for repayment in other currencies for investments originally made in dollars, and explore means for making investments in forms which would make the income from investment fluctuate more in accordance with economic conditions. Unfortunately the Committee's suggestions in this field are not very specific except insofar as it tends to favor more equity investment and obviously takes a favorable view of the proposed International Finance Corporation which the IBRD has shelved for the time being. Thus the Committee does not address itself to the obvious question: what would happen, for instance, to the credit standing of the IBRD if it made dollar loans which were not repayable in dollars. Apparently the Committee believes that repayment in dollars is not so vital because it thinks (and rightly so) that the net value of international public investment should expand continually and that accordingly there should be opportunity for re-investment for any repayment on or income from already existing investments. In my opinion the Committee has broached an interesting idea in this field without, however, fully examining it. I think the Bank might well give some study to the question of the extent to which it might be able to accept repayment on dollar loans in other currencies both in the light of the possibility of re-investing these currencies and of the future possibility of attaining some measure of convertibility between the dollar and other currencies.

cc: Dr. Rasch

Jclas:1da/nn
June 24, 1953

Dear Mr. Adams:

I have your kind invitation of June 12, 1953 to take part in your conference on "Human Resources and Labor Relations in Underdeveloped Countries" to be held at Cornell University from November 12 to 14, 1953.

I have discussed the matter with my superiors and barring circumstances beyond our control, I shall be glad to attend your conference. Kindly let me have the papers dealing with problems of ownership and management of enterprises in periods of industrialization as soon as they are available so that I may prepare my comments in advance for the discussion at the Thursday evening session.

Sincerely yours,

Murray Ross

Mr. Leonard P. Adams
Acting Director
Institute of International Industrial and Labor Relations
Cornell University
Ithaca, New York
<table>
<thead>
<tr>
<th>Action</th>
<th>Note and File</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approval</td>
<td>Note and Return</td>
</tr>
<tr>
<td>Comment</td>
<td>Prepare Reply</td>
</tr>
<tr>
<td>Full Report</td>
<td>Previous Papers</td>
</tr>
<tr>
<td>Information</td>
<td>Recommendation</td>
</tr>
<tr>
<td>initial</td>
<td>Signature</td>
</tr>
</tbody>
</table>

**Remarks**

I feel this is worth doing and Ross tells me that Desmond and Graves agree. Is this an appropriate official travel expense for the Bank?
<table>
<thead>
<tr>
<th>Action</th>
<th>Note and File</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approval</td>
<td>Note and Return</td>
</tr>
<tr>
<td>Comment</td>
<td>Prepare Reply</td>
</tr>
<tr>
<td>Full Report</td>
<td>Previous Papers</td>
</tr>
<tr>
<td>Information</td>
<td>Recommendation</td>
</tr>
<tr>
<td>Initial</td>
<td>Signature</td>
</tr>
</tbody>
</table>

Remarks

From: [Signature]

Name: [Mr. Rosen]

Room No.: [Mr. Rosen]

Date: [Signature]
<table>
<thead>
<tr>
<th>Action</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Note and File</td>
<td>Mr. Wheelock</td>
</tr>
<tr>
<td>Note and Return</td>
<td></td>
</tr>
<tr>
<td>Prepare Reply</td>
<td></td>
</tr>
<tr>
<td>Previous Papers</td>
<td></td>
</tr>
<tr>
<td>Recommendation</td>
<td></td>
</tr>
<tr>
<td>Signature</td>
<td></td>
</tr>
</tbody>
</table>

Remarks:

Does our Department wish me to take part? If yes, should Cornell or FIBRD defray the costs of my trip?

From: Murray Ross
Mr. Murray Ross
International Bank for Reconstruction
and Development
1818 H Street, N. W.
Washington, D. C.

Dear Mr. Ross:

The School is planning a conference at Cornell University on "Human Resources and Labor Relations in 'Underdeveloped' Countries" from November 12 to 14, 1953. Our purposes in calling this conference are to provide for an exchange of views among representatives of labor, management, government, and universities and to stimulate interest in, and sense of direction for, research work on international labor problems.

We would like to extend an invitation to you to attend and participate in the conference. We also wonder whether you would be willing to serve as a discussant of papers to be presented at the Thursday evening session. This session will deal, in general, with problems related to ownership and management of enterprises in periods of industrialization. Other topics to be covered at the conference are outlined in the enclosed agenda. We hope that you will let us have the benefit of your reaction to the tentative program.

A small amount of money has been set aside from School funds to assist the Institute in sponsoring this conference. We are not in a position at the present time to offer honoraria to those who are being asked to read papers or serve as discussants but we can arrange, in a few cases, to help defray travel and hotel expenses if necessary. We plan to publish papers presented along with a summary of the remarks by discussants and others.

We hope you will accept our invitation and look forward to hearing from you in the near future.

Sincerely yours,

Leonard P. Adams
Acting Director
AGENDA

June 6, 1953

Conference on Human Resources and Labor Relations in Underdeveloped Countries

Time: The conference will begin on Thursday morning, November 12, and end Saturday noon, November 14.

Place: Cornell University, Ithaca, New York

Participants: About 50 representatives of government, universities, labor and management, plus selected representatives of foreign countries who might be in the United States.

Objectives: To serve as a forum for the analysis and discussion of certain problems connected with economic development of "underdeveloped" countries including:

1. Recruitment, utilization, training, organization and motivation of workers;

2. The development and effects of unionization, business enterprise and social legislation;

3. The operation, effectiveness and acceptability of technical and other types of foreign aid as seen from the standpoint of people in the underdeveloped areas.

These discussions are expected to develop better understanding of the process of economic change and the human resource problems connected with such changes. Better appreciation of the problems should in turn have an important bearing on the development by American colleges and universities of instructional programs and research in the field of economic growth. It is expected that this will be only the first of a series of annual discussions among those concerned with educational and research programs in this field.
Program

Thursday, November 12, 10:00 A. M. to 12:30 P. M.

HUMAN RESOURCES OF UNDERDEVELOPED COUNTRIES: CHANGES IN THE ECONOMIC AND SOCIAL LIFE OF PEOPLES IN UNDERDEVELOPED COUNTRIES

A. Characteristics of the Agricultural and Industrial Labor Force prior to and during early Industrialization.

B. Problems of the Labor Market in early Industrialization.

Thursday, November 12, 2:00 P. M. to 4:30 P. M.

LABOR PRODUCTIVITY AND INCENTIVES.

A. Education and Training for Industrial Jobs and Efficiency.

B. Monetary and Nonmonetary Incentives.

C. Systems of Payment in Industry and Agriculture.

Thursday, November 12, 7:30 P. M. to 10:00 P. M.

OWNERSHIP AND MANAGERIAL PROBLEMS.

A. The formation of Entrepreneurial and Managerial Classes.


C. Industrial Relations Problems from the Management Side.

D. Ownership Patterns and Industrial Relations Policies.

Friday, November 13, 10:00 A. M. to 12:30 P. M.

PROBLEMS OF LABOR MOVEMENTS.

A. Organizational Aspects.

B. Political and Ideological Aspects.

C. Union Impact on Economic Growth.

Friday, November 13, 2:00 P. M. to 4:30 P. M.

EFFECTS OF OUTSIDE AGENCIES.

A. Productivity Programs of the International Labor Organization.

B. Impact of International Trade Union Organisations on Local Labor Movements.

C. Activities of the U. S. Technical Cooperation Administration.

D. American Labor's Work in Underdeveloped Areas.
Saturday, November 14, 9:30 A.M. to 12:00 Noon.

RESEARCH PROGRAMS AND POTENTIALS.

A. Current Research Programs—Their Aims and Methods.


C. University Contributions to Educational Programs.
ECIA Paper "Preliminary Study of the Technique of Programming Economic Development".

Attached are two memoranda, one prepared by Mr. Fazos summarizing the programming paper of ECIA, and one by Mr. Alter presenting an appraisal of the ECIA paper.

As agreed at the last meeting, the two memoranda are to be discussed at the next meeting of the Economic Staff Committee.

Attachments.

JHAdler/med.
Mr. F. D. Oreh

Antonin Basch

June 1, 1953

Paper on "Measures to Promote Economic Development of Underdeveloped Countries"

The attached paper on "Measures to Promote Economic Development of Underdeveloped Countries", prepared by Mr. John Parke Young of the Department of State, will be circulated as a general guide to TCA missions in various countries. Most probably, it will also be given to the governments in countries where TCA operates.

The annex of the paper, called "Graphic Presentation of Development Planning," was prepared by Mr. Jacques Torfs of IBRD who is now working on the economic program of Colombia. Please return at your convenience.

Attachment

ABrd
Mr. John H. Adler

April 2, 1953

A. E. G. Hoar

"The End of the Postwar Period"

1. Thank you for sending me your admirable attempt to take a bird's-eye view of the present world economic situation.

2. It should be of considerable use to the staff. I have some doubt, however, whether it should be generally distributed to the Executive Directors. Certainly before such action is taken, there should be a careful review and discussion of the study.

3. I am not quite ready to agree, for example, that the present dollar gap of Europe "has become amenable to general fiscal and monetary controls." There is no doubt that proper fiscal and monetary action would help greatly. But I feel it wrong to give the impression that it alone could eliminate the dollar gap and not cause very great, if not impossible, difficulties. How much deflation and unemployment would be necessary now in the United Kingdom for her to balance her dollar accounts? Or in Italy with her already existing two million unemployed? A good fiscal and monetary policy in France would improve her balance of payments greatly, but wouldn't an exchange rate adjustment also be necessary?

4. For quite a while in the postwar period it was the fashion to believe that monetary policy didn't matter. This was clearly wrong. Now there seems to be growing up a tendency to believe that fiscal and monetary policy can do everything. This also, I think, is wrong. Would you not agree that, in addition to the countries pursuing the right financial policy, there are some structural changes to be made in the pattern of world trade if the dollar gap is to be eliminated.
OFFICE MEMORANDUM

TO: Mr. A. S. G. Hoar
FROM: A. M. Kasarak

DATE: March 30, 1953

SUBJECT: Attached Memorandum by Mr. Adler, "The End of the Postwar Period"

Thank you for sending me your admirable attempt to take a bird's-eye view of the present world economic situation and should be of considerable use to the staff.

I would question, however, whether it should be generally distributed to the Executive Directors. Certainly before such action is taken, there would need to be a careful review and discussion of the study. I am not quite ready to agree, for example, that the present dollar gap of Europe "has become amenable to general fiscal and monetary controls." There is no doubt that proper fiscal and monetary action would help greatly. But it is wrong to give the impression that it alone could eliminate the dollar gap and not cause very great, if not impossible, difficulties.

How much deflation and unemployment would be necessary now in the United Kingdom for her to balance her dollar accounts? Or in Italy with her already existing two million unemployed? A good fiscal and monetary policy in France would improve her balance of payments greatly but wouldn't an exchange rate adjustment also be necessary?

For quite a while in the postwar period it was the fashion to believe that monetary policy didn't matter. This was wrong. There is now a tendency to believe that fiscal and monetary policy can do everything. This also, I think, is wrong: in addition to the countries pursuing the right financial policy, there are some structural changes that have to be made in the pattern of world trade if the dollar gap is to be eliminated.
Mr. A.S.C. Hoar

John H. Adler

"The Contribution of the International Bank towards Postwar Recovery"

Attached is a draft of two sections of your speech which I hope will be satisfactory to you. I do not want to delay you by modifying other sections of the draft to make them conform more closely with the text of my paragraphs. As a matter of fact, only very minor changes may be necessary.

Please let me know if this is what you wanted and whether you want me to do anything else on the draft.

Attachment.

JHAdler/med.
I had lunch in New York yesterday with Mr. Dean Rusk, President of the Rockefeller Foundation; Mr. Edward Robinson, Treasurer of the organization; and Mr. Warren Weaver, Director of the Division of Natural Sciences and Agriculture. This lunch had been arranged as a result of earlier contacts between Mr. Robinson and Mr. Stanley Hoar. The purpose was to have an informal discussion regarding the practical possibilities of collaboration between the Foundation and the Bank.

I spent about 2 1/2 hours in the office of the Foundation during and after lunch. I was called upon to describe in considerable detail the organization and the operations of the Bank, on which my hosts were surprisingly little informed. (Incidentally, the Foundation has bought about $1 million worth of our Bonds, so some of my conversation was directed particularly toward the Treasurer.)

I also learned a good deal about the work of the Foundation, which devotes an annual budget of some $20 million largely to technical assistance work and training programs on behalf of foreign countries. A great deal of their work is directed toward scientific research and broad studies in the field of the social sciences. In at least one field, however, their activities have been developed along lines which might well offer possibilities of practical collaboration with the Bank.

I refer specifically to their programs for agricultural development in Mexico and in Colombia, which they hope will be forerunners of similar activities elsewhere in Latin America. The Mexican and Colombian programs center largely around the development of superior strains of bread-grains. This involves a great deal of laboratory research work, but also a great deal of practical work in that field in building up seed supplies and assuring dissemination of seeds and information as to their cultivation. According to Mr. Weaver, one of the major efforts which they may undertake before long would be to develop yielding-potatoes in the Andian countries of Colombia, Ecuador, Peru and Bolivia. Another possible program would be centered in Southeast Asia and directed toward improving rice strains. In general, their thought is guided by the increasing need for developing indigenous foodstuffs to meet the needs created by expanding populations.

No actual proposal regarding a collaborative project emerged from our discussion but I said that we would consider most sympathetically any suggestion which they might develop where external capital was needed to assure effective implementation of one of their technical assistance programs. I gave them the names of Mr. Richard Demuth, Mr. Patterson French, Mr. Egbert de Vries, and Mr. Paul Craig-Martin, with a description of the respective interests of these people. They gave me the name of Mr. J. G. Harrar, now Deputy-Director for Agriculture under Mr. Weaver, and formerly.
Director of the field party in Mexico which carried out the very successful program of improving wheat and corn strains in that country. Mr. Harrar, who was prevented by illness from attending the luncheon, may call upon us in Washington in the near future.

JBKnapp:ehb

cc: Mr. Garner, Mr. Hoar, Mr. Craig-Martin, Mr. French, Mr. Schmidt, Mr. deVries, Mr. Gregh.
March 31, 1953

Dear Mr. Weaver:

It was a great pleasure to discuss with you yesterday the possibilities of collaboration between our institutions. I do hope some specific opportunities will arise.

As promised, I am taking this opportunity to send you a copy of the report recently rendered to the Chilean Government by the Bank and the FAO, dealing with the problems of agricultural development in that country.

Sincerely yours,

J. Burke Knapp
Director of Operations
Western Hemisphere

Mr. Warren Weaver, Director
Division of Natural Sciences
and Agriculture
The Rockefeller Foundation
49 West 49th Street
New York 20, N. Y.
Mr. John Adler

March 25, 1953

Felipe Pazos

Reading Material in Spanish on Fiscal Aspects of Economic Development

In addition to the papers listed by Dick Schlesinger, I would suggest the following:

1. Victor L. Urquidi - El progreso economico de Mexico: problemas y soluciones
   El Trimestre Economico, Vol. XIII, Abril-Junio, 1946, and

2. The chapter on public finances of the Waterston-Urquidi Report - Problemas Agricolas E Industriales de Mexico
   No. 3, Vol. IV, Mexico, 1952

In the next issue of the Problemas Agricolas E Industriales de Mexico there will be an article entitled "Una Politica Financiera Dirigida a Estimular el Desarrollo Economico", which you may also suggest if you find it worth while.
Jeff: 

Is there anything useful to do about that? I think we've put great doubts on the only account to be designated. But however, I've put great doubts about what could be done! Any kind of thing with the Iven?

3/12

Arvin

Do I understand that Dennith's outfit will follow this one up? I would suggest he move down there. This is Basel, he may have some useful ideas.

I agree

3/29

3.16.3
OFFICE MEMORANDUM

TO: Mr. R. L. Garner
FROM: A. S. G. Hoar
DATE: March 11, 1953

SUBJECT: Collaboration with the Rockefeller Foundation

1. As you are aware, I took advantage of my presence in New York last week to see Mr. Edward Robinson, the Treasurer of the Rockefeller Foundation.

2. Mr. Robinson explained that the Foundation has four operating departments:
   (a) Medicine and public health
   (b) Natural sciences and agriculture
   (c) Humanities
   (d) Social sciences.

Of these departments, (a), the function of which is obvious, and (b), which does such things as working with the Mexican Government to improve yields of corn and beans, are active in fields which can lead to their work being directly complementary to that of the Bank. It would be very useful, for instance, for them to know what parts of India the Bank was likely to be interested in in the near future; they might then have the opportunity of concentrating their health or other activities in that area so that the activities of the two institutions could be made doubly effective. Mr. Robinson asked whether the Bank would be willing to talk with technicians from the Foundation generally about the areas in which the Foundation might be working or thinking of working. Could some kind of simple consultative machinery be set up?

3. I told Mr. Robinson that there were occasions when we had to keep our intentions confidential for a time, and that there were occasionally certain areas of information which we would have to keep confidential also, but that in general I could see only benefit from the mutual exchange of information. The Bank's interest in its member countries was very wide and it was often of direct interest to us to know what might be done in the areas of health, education, and so on. On the other hand, I could quite appreciate how the Foundation's humanitarian activities could have added force if they could be deployed in an area of Bank-financed development. I did not, however, see any need to set up any formal machinery: the Bank's doors were open to any responsible and informed person to come in and discuss matters with the operating officers.

4. Mr. Robinson said he was very glad to hear this. He emphasized that he was speaking purely personally and could not commit his institution at this stage (I remarked that I was, of course, in exactly the
same position) but that he would like to discuss the matter further and perhaps would ask me to meet some members of his Board a little later on.

cc Mr. Cope
Mr. Rosen
Mr. Demuth
Mr. Knapp
Mr. 


**ROUTING SLIP**

<table>
<thead>
<tr>
<th>Action</th>
<th>Note and File</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approval</td>
<td>Note and Return</td>
</tr>
<tr>
<td>Comment</td>
<td>Prepare Reply</td>
</tr>
<tr>
<td>Full Report</td>
<td>Previous Papers</td>
</tr>
<tr>
<td>Information</td>
<td>Recommendation</td>
</tr>
<tr>
<td>Initial</td>
<td>Signature</td>
</tr>
</tbody>
</table>

**Remarks**

**From**
20 January 1953

Dear Mr. Black,

During its seventh session the General Assembly, under agenda item 25, on 21 December 1952 adopted resolution 622 (VII) on financing of economic development of under-developed countries. Part B of this resolution, the text of which is enclosed (document A/RESOLUTION/85) deals with the question of establishing an international finance corporation and states that the General Assembly "looks forward to the early completion of their tasks by the International Bank for Reconstruction and Development and by the Economic and Social Council".

In this resolution the General Assembly also requests the Secretary-General to make available to the International Bank the records of the discussion on this subject at the seventh session of the General Assembly. Under agenda item 25, "Economic development of under-developed countries", the subject of financing economic development and the question of an international finance corporation were referred to, both in the general debate on item 25 and when the Committee came to the consideration of the specific proposals which were before the Second Committee; consequently we are sending to you under separate cover summary records A/C.2/SR.195-240 which cover the discussions on the economic development of under-developed countries.

Yours sincerely,

Roy Blough
Principal Director
Department of Economic Affairs

Mr. Eugene Black
President
International Bank for Reconstruction and Development
1618 H Street, NW
Washington 25, D.C.