

GROUP DISCUSSION OF THE ALTERNATIVES FOR ECONOMIC COOPERATION

Led by Dale E. Hathaway

At this point the participants were broken into small groups and given one of the four alternatives of economic cooperation to discuss. The following material was submitted to each group to furnish extra information and stimulate discussion.

V. THE ALTERNATIVES IN ECONOMIC COOPERATION

A. *Continued Long-Term Economic Aid in the Form of Gifts.* Lend lease and UNRRA were emergency programs of relatively short duration. The ECA program superseded both and is still in operation. Let's get better acquainted with ECA.

ECA means Economic Cooperation Administration but is usually referred to as the Marshall Plan because it grew out of a proposal by General George C. Marshall, then Secretary of State. Its immediate goal was the restoration of Europe, but it has developed into a dynamic program of global dimensions closely integrated with the total foreign policy of the United States. Through ECA, Europe hoped for viability by 1952.

In the first three years it has cost some 12 billion dollars. This represents a considerable burden for the United States taxpayer but in all fairness, it should be pointed out that three-fourths of the cost of all projects was contributed by the European taxpayer and worker.

1. *Benefits to the United States.* It is impossible to measure the real costs and benefits but a few observations can be made to clear up some of the misconceptions concerning them. Since dollars are good only in this country, our real cost was the goods and services we exported for which we received no goods and services in return. It can well be argued that the benefits to the United States far exceeded the cost. We maintained old markets and tapped some new ones. Europeans give ECA much of the credit for halting the spread of communism in Western Europe. There is no way of calculating the cost of such an alternative.

In spite of publicized criticism in Europe of the implementation of the program, all of the public opinion polls indicate that not only do most Europeans have considerable knowledge of the program (far more than our own people), but also they greatly appreciate the effort of the United States in their behalf. The surveys in Norway, Denmark, the Netherlands, France, Austria and Germany revealed that about 80 percent of the public knew about the Marshall Plan and that only 5-9 percent were opposed to it while most strongly endorsed it. This good will the world over cannot be measured in dollars.

2. *Benefits in Receiving Countries.* It is difficult to discuss the benefits without knowing how ECA functions. The individual recipient gets nothing free and few recipients realize that although they paid out cash, the merchandise was a gift to their country. An example will best explain how this is so.

M. Jolivet of France needed a tractor. He had the necessary

500,000 francs but in the postwar economy they were no good in the United States -- the only place tractors were available. But when the French farm organization decided he was eligible under the allocation program, he paid his money to the French government and the ECA paid the American manufacturer in dollars. M. Jolivet got his tractor.

What happens to the 500,000 francs? They are set aside by the foreign government as "counterpart funds." Five percent of these funds is allocated to ECA to pay administrative costs in that country, and to secure scarce materials for stock-piling in the United States. The remaining 95 percent must be used for financial stabilization, for stimulating productive activity, or developing new sources of wealth. The ECA does not dictate use of counterpart funds but must give approval.

Thus, the receiving country has from this country the equivalent of the gift in their own money for rehabilitation purposes. It has been estimated that an average expenditure of between four and five billion dollars a year of ECA money has enabled Europe to increase production by approximately 30 billion dollars per year. Certainly not all of European recovery can be attributed to ECA; on the other hand, many of the benefits, such as the improvement in health and morale, cannot be demonstrated with statistics.

With ECA aid, Western Europe has accomplished more in the four years following World War II than it accomplished in seven years after World War I. The average increase in agricultural production for all participating countries (prewar = 100) was from 85 in 1947-48 to 109 in 1950-51. Industrial production (1938 = 100) was 101 in 1948 and 127 in 1950, and was running over 140 by 1951 -- in Western Germany it about doubled in the three years and by the end of 1950 was above 1938. Export volume has risen more than 50 percent above prewar. The success of the European Payments Union, progress in the Schuman Plan, and other evidences of cooperation are all indications of better relationships in Europe.

Much remains to be done. Inflation has been checked but is still a great problem. A massive increase in output in the next few years must be achieved if adequate defense against communist aggression is to be attained and at the same time a satisfactory level of living is to be made available for the people.

B. A Technical Assistance Program. One of the alternatives of economic cooperation is the Point IV proposal, so called because it is the fourth point of President Truman's inaugural address, the essence of which is briefed as follows: "Fourth, we must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas."

"----- we should make available to peace-loving peoples the benefits of our store of technical knowledge in order to help them realize their aspirations for a better life. And, in cooperation with other nations we should foster capital investment in areas needing development."

In August 1950 Congress passed the Act for International Development which contains this section: "The peoples of the United States and other nations have a common interest in the freedom and in the economic and social progress of all peoples. Such progress can further the secure

growth of democratic ways of life, the expansion of mutually beneficial commerce, the development of international understanding and good will, and the maintenance of world peace."

The Act provided that the President should appoint a board of citizens to be called the International Development Advisory Board -- known as the Rockefeller Board because Nelson Rockefeller is its chairman.

The Board in its report to the President proposed specific plans for world economic development, and in view of the national emergency stressed the urgency of these plans for our own defense. In carrying them out, it recommended cooperation with other governments, the United Nations, voluntary agencies and private citizens.

Some of the recommendations were as follows:

1. Unification of major foreign economic activities of the United States into one over-all agency, an Overseas Economic Administration. There are now 23 agencies with some foreign economic operations.
2. In order to stimulate the participation of private enterprise the program should include:
 - (a) A tax incentive by which income would be taxed only in the country where it is earned;
 - (b) Bilateral tax and commercial treaties;
 - (c) Underwriting by the Export-Import Bank of the transfer risk on foreign dollar obligations;
 - (d) Creation of an International Finance Corporation as an affiliate of the International Bank to serve private enterprise abroad.

The minimum of investment should be 2 billion dollars per year -- about three times the postwar flow.

3. The first major objective would be to cooperate with the underdeveloped countries in a vigorous food production drive which would break the back of famine and hunger by increasing their production by at least 25 percent.
4. The second major objective should be an increase of about 50 percent in the production of materials essential to defense.
5. The United States Government, in the present emergency should appropriate \$500,000,000 to the new Overseas Economic Administration for joint basic services, emergency public works, and basic program services such as health and sanitation, education and vocational training, agriculture and public administration.
6. Create a new International Development Authority of all free nations to be financed by many nations for promotion of public works essential to development but not primarily defense projects.
7. All development programs in which the United States takes part should be on a cooperative basis with local participation - financial and administrative.

Point IV is not intended to be a "give-away" program. It does not mean shiploads of tractors and combines to areas where manpower is still

the cheapest commodity available. Technical assistance -- "know-how" -- will be emphasized. Just a steel point on the stick that is used for a plow, some improved seeds, fertilizer, and insecticides could work wonders. This was demonstrated by an American county extension agent on an area of 100 square miles in India. Just a few of these simple practices increased the yield 66 percent in the second crop year under less favorable growing conditions.

Only part of the answer lies in agricultural improvement. Industrialization, with its secondary and tertiary benefits, would help absorb the unemployed or underemployed and raise the level of living.

No grants would be made to cover the full cost. Active interest and participation would have to be displayed by local people. In order to have continuity, the program should try to work with peoples as well as governments. Governments are unstable. We have often been on the "wrong" side of a revolution. By working with independent institutions, groups, and individuals, this might be avoided.

The Advisory Board concludes their report to the President by a statement on "Why the Job Must Be Done":

"The problem of building a society where lasting peace is possible is not one of preserving an existing order of the world but of building a new structure in which all nations and all mankind can work together, exchanging their skills, labor and capital to their mutual benefit. The essential task of statesmanship in the whole underdeveloped area might be described as one of finding the means for getting on with the future."

"-----No miracles can be promised, none should be expected. Still, in reality the job before us is not as hard as it might seem. One must remember that the economic output of the Western nations, measured by national income, is five times that of all the underdeveloped areas taken together. The whole current economic pattern in these regions could be transformed through a consistent investment flow from the Western industrialized world of less than one percent of the national income of the United States and the nations of Western Europe."

C. Freer World Trade Without Economic Aid. The position of the United States in world trade changed during World War I. Before that time we were a debtor nation. This meant we exported more than we imported, with the difference going to pay the interest and principal of foreign loans to us. After the war our position was changed. Other countries in the world, especially in Europe, owed us money and we became a creditor nation. The only method that those countries had to pay their debts was to sell goods to get dollars to pay the interest and principal of their debts to us. But--we refused to take their goods and erected high tariffs to keep them out. The countries could not make their payments and defaulted.

World War II made the United States an even heavier creditor as we financed a large portion of the war and the postwar reconstruction. Now we are faced with the problem of promoting economic progress in the world without too severe a drain on our vitality. One method of promoting economic progress that has been suggested is encouraging the growth of international trade.

Many persons say that a revival of world trade on the basis of comparative advantage will do more than any other program to restore a healthy world economy and to encourage the economic progress needed throughout most of the world. They say that to build a world economy on any other basis is false and misleading. Some persons say that much of our direct aid merely continues maladjustments that must be corrected. Let us examine what a policy of international trade would mean to us and to the rest of the world.

1. *U. S. Domestic Policy in International Trade*

a. PRICE POLICY. In several areas, notably agricultural products, the United States has attempted to maintain domestic prices higher than world prices. In some cases we have been forced to restrict the entry of foreign products to prevent them from benefiting from our domestic support prices at a high cost to our government.

If the United States intends to aid world development through better trade, we must be prepared to compete in the world market. It does not make sense to ask other countries to put their faith in the world market when we refuse to do so. By refusing either to sell our goods at world prices or to buy goods of other countries, we are saying essentially that we do not want world trade unless it benefits us more than the other countries.

b. TARIFF POLICIES. Our tariff policies are closely allied to domestic price policies. We have used tariffs to prevent imports and to bolster domestic prices in many industries. If we ask other countries to make internal adjustments to strengthen their economy, then we must be prepared to do the same. It will do the rest of the world little good to try to increase international trade if we as the world's major dollar market refuse to take their goods. Thus, we must realize that high protective tariffs are inconsistent with a policy to encourage other nations to expand trade.

c. INTERNAL STABILITY. One of the most important conditions needed to make sound international trade feasible is internal domestic price and employment stability in the United States. Since our economy dominates the world, its stability is vital. If we have a rapid inflation, it means that our exports may cost other countries much more without a corresponding rise in their export prices. If we have a recession or depression, it has world-wide effects as our demand for imports declines. Thus, if we suggest that other countries throw themselves on the mercy of free trade, we must do all in our power to stabilize our economy.

2. *Domestic Policies of Other Nations*

a. IMPORT RESTRICTIONS. If a policy of free trade is to be followed by the world, many countries will be required to make severe internal adjustments. Many countries now have import restrictions on goods from dollar areas to protect their dollar reserves. If these restrictions were removed and trade initiated without direct aid in dollars, these same areas would be forced to take large cuts in living standards. There is some question as to the wisdom of such a policy in areas where living standards are already low and we are competing with communism for the people's support. The productive capacity of the countries

may need to be improved before their restrictions to international trade are removed.

b. NATIONALIST SELF-SUFFICIENCY. Some countries have deliberately refused to participate in international trade because they do not want to become tied to any other country's foreign policy. They feel that by avoiding dependence on world markets, they can remain neutral in the world power struggle. They are willing to have somewhat lower standards of living on a self-sufficient basis rather than risk being drawn into a world war.

If we want a free international trade, we will have to persuade such countries that they will not lose by participating. This may require assurances on our part that we will provide effective help for them in event of war. They will undoubtedly also want some assurances that they will get a fair share of the world's raw materials in times of world pressures. Without such guarantees some nations may prefer to remain nationalistic and self-sufficient. If many nations choose such a policy, there is little chance that a strong international trade program will contribute to economic progress in the world.

3. *Investment and International Trade*

Along with benefits from international trade, the world needs large increases in productivity. The productivity increase is dependent on capital investment. Thus, the world faces the problem of attracting large capital investments to underdeveloped areas.

The problem of investment is no simple one in these areas. In most of these areas the population is at the subsistence level. This means there is little or no saving to generate private capital in those countries. In this case the investment must come from the foreign government, our government, or our private investors. Most economists think that other nations would get the most rapid growth and greatest benefits if they could attract outside private investors. The United States is the only nation in the world where sufficient investment capital to aid world development materially is available, but our investors have always been extremely reluctant to make foreign investments. On one side there have been the attractive and relatively safe investment opportunities at home. Other countries with large investments abroad have always stood ready to use their foreign policy to protect or further their investments. Our foreign policy has never been disposed to protect foreign investments.

If we wish to strengthen the world through a policy of free trade, we must be willing and able to furnish the investment capital to help other countries become productive. If we furnish capital we may be called economic imperialists and provide ammunition for communist propaganda. If we do nothing, the underdeveloped nations may feel forced to turn to state socialism to get the necessary capital to develop.

A further factor that prevents outside investment in many underdeveloped countries is lack of political stability. There have been many cases of capital expropriation of foreign investments. Iran is the most recent example. Unless some kind of protection can be provided to cover the risk, it is unlikely that the necessary private investment capital can be attracted from the United States.

Another problem often overlooked in international trade theory is the problem of sunk investment. Economic theory assumes that each country has internal mobility and can quickly adapt to changes in the competitive position in world trade. This is not as simple as it sounds.

Once a relatively poor country has made some investment, it cannot easily abandon it. The Japanese silk industry is a case in point. Much of the world market for silk cloth has been destroyed by nylon and other substitutes. However, the Japanese have major investments in silk mills and lack the necessary capital to develop new industries to replace them. Thus the problem of sunk investment is a major factor creating friction in the adjustment of international trade.

D. *A Combination Program.* Many persons say that no single program will be enough to bring the desired world development soon enough. They suggest a combination of the programs, tailored to fit each area, as the best solution to the world development problems.

1. *Direct Aid.* Since capital for economic development is the most urgent requirement of some areas, it has been suggested that it might be to our national interest to furnish some of it in the form of direct aid. For those areas where there was war devastation, we have already made direct loans and gifts. Further aid of this type may be necessary to forestall communism. In some areas the people have awakened to the possibilities of a better life. They are not going to be content to wait 100 years to get economic progress. Any aid we give these people may save many times its cost in future wars.

It is likely that neither technical assistance nor free trade will help some parts of the world unless they are supplemented by some direct aid. Economic development is a complex process requiring all the tools at our disposal.

2. *Technical Assistance.* No program of aid to underdeveloped countries will be successful if it is not firmly based on methods to increase productivity. Our technical knowledge cannot be given as a package export; it must be taught. Our direct aid would have been largely wasted if it had not resulted in increased productivity.

3. *Trade.* Neither direct aid nor technical assistance will be of much avail if we do not encourage and participate in expansion of international trade. We will be foolish if we refuse to take the goods other countries produce in payment for our loans, and we must be prepared to buy some of the products that result from our technical assistance programs. Thus, a wise trade policy is a necessary part of any program that we participate in to better world economic conditions.

Since the needs and conditions of each country in the world vary, a program which combines aspects of all forms of economic policies may best support our foreign policy. By tailoring each program, we can help each country help itself without becoming economic imperialists or supporting a permanent give-away program. The policy toward each country can be varied to fit political conditions, and the maximum effort toward world progress and world peace will be achieved.