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CONSULTING ECONOMISTS

CABLE ADDRESS
NATECON

December 9, 1958

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WASHINGTON 6, D. C.
EXECUTIVE 3-8660

Mr. Wes Fishel
Michigan State University
East Lansing, Michigan

Dear Wes:

It was very nice seeing you in Washington the other day and I am grateful for your having to come out to the house during the evening to talk about Viet Nam and other matters.


In accordance with my promise, I am enclosing herewith a list of the lectures or topics for discussions or seminars at the program which Johns Hopkins University is running for the training of ICA officials. As I indicated to you, these are fairly high-level officials and they are brought in to Washington for a period of, I believe, five months, during which time a small number of Johns Hopkins people handle the course and they bring in quite a number of outside lecturers.

Please don't forget to make a copy of those two volumes in French which were submitted to the IMF. The information will be most valuable to us and we will be happy to pay for the reproduction. We would like to have this as soon as possible because we have so very little information on basic economic conditions and recent developments in Viet Nam.

By the way, I checked with Saul Nelson and was rather surprised to find that we did not have the IMF report on Viet Nam in the office. Saul is taking steps to get it, but just in case you have an extra copy and Saul might encounter some difficulty in getting one, although I don't think he will, I would appreciate your sending one along. In any case, do please proceed with a copy of the Viet Name presentations and just send the bill to us.

Again, thanks for dropping by and I hope there will be a chance to see you soon.

Sincerely,



Robert R. Nathan

RRN/jr

M E M O R A N D U M

December 3, 1958

To: Messrs. Wolf, Nelson, Ganz, Creshkoff
From: Robert R. Nathan
Subject: Working Notes on the Aid and Trade Project

The purpose of this project is to have available by December 20th a report relating to new ideas and new approaches to aid and trade. The original project under discussion would have entailed several months of work. This larger project is still in prospect, but we have agreed to present an abbreviated document which will be useful prior to the opening of the new session of Congress.

It is contemplated that in size this report will probably aggregate 50 pages. It is my intention to deal with three aspects of the subject; namely (a) some dramatic observations concerning the role of the United States in world affairs and the need for liberal trade policies and an imaginative aid program; (b) available descriptive material of our aid and trade policies and programs and some comments on successes and failures; and (c) specific policy proposals for Congressional consideration as specific legislation and for getting the needed "legislative intent". Obviously, Point C is the most important in terms of the contribution to be made by this report.

It is my suggestion with respect to Part A, that this be written well after careful thought. I believe it is important that its tone be positive, rather than geared to meeting the Russian

economic offensive. In other words, we should develop and express a strong positive rationale for liberal trade and adequate aid on self interest and humanitarian grounds rather than on purely security considerations deriving from Communist penetration.

It is my suggestion that Part B indicate on the trade side the fact that the Reciprocal Trade Act was extended last year, but that there are escape clauses and other provisions which will need careful watching. Some examples are restrictive trade decisions made during recent years. Insofar as the aid side is concerned, we should confine the discussion to brief descriptions of the large number of United States and International agencies dealing with this subject; some very brief observations on the magnitudes of the aid program; and some evaluation of the programs to date.

Concerning Part C, the following are merely illustrative of some ideas which we will begin immediately to develop with sufficient description and detail so as to provide the basis for a legislative program and for implementation considerations.

1. Adequacy of Aid. We should emphasize that, in view of our tremendous resources and productive capacity, our ability to provide aid is well beyond the capacity of friendly nations to utilize foreign aid efficiently. In general, therefore, the size of our aid should be limited largely by the capacity of friendly nations to use such assistance. This will entail some observations with respect to the inadequacies of the present aid program and the need to call for the effective coordination among the various aid programs -- bi-lateral and multi-lateral. We will likely emerge with the proposal that a capital outflow

from the United States through the Development Loan Fund, the Export Import Bank, PL 480 and other economic aid should immediately increase by one to two billion dollars per year more than is presently provided and that within five years the magnitude may well be at least three billion higher than it is at present. Without attempting an evaluation of capital requirements country by country, I believe we can give a few illustrations to demonstrate the capacity of capital import countries to utilize far more resources than are now being made available to them.

2. Multi-Lateral Vs. Bi-Lateral Aid. We should urge an increase in the proportion of aid through international agencies. We should emphasize that bi-lateral arrangements ought by no means be terminated, but that there are factors at work which favor operating through the international institutions and that there is a great need for making capital available on terms less stringent than those required by the World Bank. The International Finance Corporation can serve a useful purpose but its criteria are strict and it will not flow funds into governmental projects. The Special Projects Fund of the UN. might be substantially enlarged to fill this gap. We will have to spell out the reasons for more aid through multi-lateral channels.

3. Private Investment. We should make specific suggestions, especially in the tax area, with respect to encouraging the flow of private investment which will be coupled with management. This proposal should be positive in the sense of emphasizing the importance of private investment, but it should also include

a strong note of caution with respect to the foolhardiness of relying principally on private investment, especially for the underdeveloped countries. It will be necessary to put this whole area into proper perspective as to what has been done and its consequences, as to what can be done under favorable conditions, here and in other countries, (indicating what the U.S. must do and what other governments ought to do) and the relationship between aid and trade and private investment. The impact of U.S. Private investment abroad on local free enterprise also needs evaluation.

4. Management. Here we should emphasize that the great reservoir of talent in the United States rests in our private corporations and that we have done very little to make available the managerial talent to the undeveloped and underdeveloped countries. The key to successful economic development is the ability and experience of people, of human beings. Most important of all skills is management, i.e., the ability to get things done. This skill we have, but we have not learned how to make enough of it available abroad. I would like to propose an intensive effort by our government /to finance management contracts which would provide top level teams from some of our larger industries, calling for high levels of compensation, tax exemption, possibility of bonus or profit sharing arrangements, urging companies to preserve seniority rights, etc. I think this is a proposal which will be widely accepted if properly developed and vigorously presented.

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5. Private Technicians Vs. ICA and TAA Technicians. Here, we should express the strong view that employees of the United States Government and even of the United Nations cannot be expected to play vital roles in planning and programming and working in other confidential areas within governments or the undeveloped and underdeveloped countries. We should call for increased emphasis on making available funds to these countries so that they might hire their own technicians and advisors subject, of course, to reasonable but minimum provisions with respect to salary level, security, etc. This subject matter is of great importance and needs to be spelled out in clear and meaningful terms.

6. Export Credit Facilities. The United States economy does not have many private financial instruments for the extension of credit to those who seek to purchase American equipment. The Export-Import Bank undertakes considerable responsibility in this area, but we should urge that steps be taken to facilitate the establishment and expansion of private banking instruments for medium term (3 to 8 year) credit to finance purchases of American equipment. This encouragement might take the form of a government institution for insuring convertibility of funds loaned by American exporters and banks. In other words, let the private lender determine credit worthiness, but there should be a guarantee of convertibility into dollars in case there is a default of convertibility by the borrower. It would be well to require local banks in the purchasing country to guarantee the loan and to require approval of the local government as to convertibility. Some American government instrument could, for a modest commission, provide insurance on this matter.

7. Economic Development Banks. It would be well to emphasize the need for special provision in aid legislation for loans to development banks or other development institutions in the recipient countries. Such institutions would serve to minimize the need for project by project approval by the United States Government, especially small projects. They would also serve to facilitate the development of private enterprise in the undeveloped and underdeveloped countries. They could further be useful in encouraging foreign investors by making available the local currencies needed for projects.

8. Basic Planning and Programming. It would be well to include in the legislation on foreign aid some expression of desirability of encouraging the recipient countries to develop over-all economic and financial plans within which specific projects might be developed on a sounder and better balanced basis. We will have to be careful to avoid over emphasis on "planning," but I do think that we can exercise care and come up with some positive recommendations which will be acceptable. Every knowledgeable person at the working level in our aid agencies knows that over-all planning and programming is desperately needed in most of the undeveloped countries and that our own efforts are often frustrated and minimized because of the lack of such planning work.

9. Separation of Military and Economic Aid. A strong case should be made for such a separation of military and economic aid, coupled with an emphasis on the need to coordinate defense-support activities with economic assistance. Some years ago, there was a feeling that more support prevailed for military aid than economic/aid

that the latter would be cut more substantially were it not for the combination of both types of assistance in one type of program. The opposite would appear to be true today. In any case, I believe that a separation of the programs would serve not only to make it feasible to get larger appropriations for economic assistance, but it would also serve to clarify economic needs and make possible the formulation of more constructive policies with respect to economic development.

10. Longer-Term Programming. A strong case must be made for commitments well beyond single years. We should point out emphatically that many larger projects entail expenditures over a large number of years and that our annual programming makes it difficult to meet the needs of the undeveloped and underdeveloped countries. Everyone knows that the aid program will be with us for years and it is certainly proper as well as essential for conducting an intelligent and efficient program that commitments be made for at least three-year periods.

11. Agricultural Surpluses. I think we should call for a major shift in our domestic agricultural policy with a view toward coordinating our domestic policies with our international objectives. As the situation now exists, the PL 480 program can principally be characterized as a residual or derivative undertaking.

In other words, the PL 480 program derives from the fact that our agricultural production results in a surplus of some commodities. There is nothing at all positive in our agricultural program, vis-a-vis the tremendous opportunities throughout the world to utilize our agricultural productive capacity to raise standards of living and to provide local currencies which, in association with capital goods assistance, can accelerate processes of

Larry White - "we know not what we do"
State that away
Jim Bonner
Steve Andrews

economic development. In addition to this broad approach, I feel that we should emphasize the need for better and closer coordination between the beneficiary countries and their traditional sources of supply of the same commodities.

12. Local Currency. Many of our programs now provide for the accumulation of local currencies in the hands of the United States. Probably this method of financing aid is preferable politically to direct grants, but it does have serious longer-run implications. I personally favor some program of making grants of these local currencies for educational, health and other specific welfare projects. In any case, some positive proposals are needed now for starting to deal with this growing problem.

13. Common Markets. The United States should formulate specific policies with respect to the development of common markets in specific areas of the world. We should express our support of the common markets proposals now being formulated and considered in Latin America. Also, we should encourage common market activities elsewhere in line with what should be a strong positive American policy toward trade liberalization.

14. Foreign Exchange Convertibility. We should consider the possibility of making specific recommendations concerning the role of the International Monetary Fund and the development toward regional Payments Union organizations which will facilitate our increased currency convertibility.

15. Overseas Personnel. We should try to formulate some policies with respect to improving the quality of our overseas aid personnel and encouraging not only better selection of personnel, but also improved relationships resulting from better understanding, more language adaptability, etc.

16. Atomic Energy for Peaceful Uses. We should try to develop some very specific legislative proposals with respect to this important area.

17. Stabilization Proposals. We should give consideration to possible policy measures concerning international price and marketing stabilization programs for essential mineral and agricultural commodities.