PARTNERS IN PROGRESS
A REPORT TO THE PRESIDENT
by the INTERNATIONAL DEVELOPMENT ADVISORY BOARD
MARCH 1951 (Summary)

In writing this report concerning the well-being of the peoples of the so-called underdeveloped areas of the world, the Advisory Board on International Development has been guided by the conviction that we free peoples are faced with two main threats. One is military aggression and subversion. The other is hunger, poverty, disease and illiteracy.

Renewed to your instructions on December 24, 1950, the Advisory Board has considered "our policy toward the underdeveloped areas" including the "types and aims of programs which it considers desirable for the United States to undertake" as well as how these programs can be realized "with maximum speed and effectiveness." Immediately after we began our assignment, a national emergency was declared. In these circumstances, the Board felt its first responsibility was to seek and examine what is the proper place of international development in relation to defense.

Our first imperative must be to rebuild sufficient military strength to resist aggression. Today the production of the free world is not sufficient to meet both the human and defense needs of its people, nor can these needs be met by any one nation alone. The people who live in what have been termed the underdeveloped areas of Latin America, Africa, the Middle East, Asia and Oceania need our help and we need theirs.

The Board also recognizes, that to achieve lasting peace, security and well-being in the world, we must join forces in an economic offensive to root out hunger, poverty, illiteracy and disease. Only by working together in common interest can we produce the necessary increase in foods, raw materials and manufactures.

As a result of these findings, the Advisory Board feels that strengthening the economies of the underdeveloped regions and an improvement of their living levels must be considered a vital part of our defense mobilization.

Considered from the point of view of the strategic dependence of the United States on these regions, it must be emphasized that we get from them 72% of the strategic and critical materials we import -- tin, tungsten, chrome, manganese, lead, zinc, copper -- without which many of our most vital industries could not operate. They send us more than half of all our imports.
The importance of the following facts must also be weighed when the strategic importance of these areas is considered:

An average food deficiency 30% below minimum subsistence standards.

Populations increasing faster than food output.

An abnormally heavy dependence on imports.

The danger to these countries is that in the absence of stabilization their need may be forgotten. Thirty-one percent of all their imports are provided by the United States, and 40% by Western Europe. Currently, with the demand for their products high, most of these countries can pay for what they need. Without a flow of essential foods and materials, spare parts and other equipment, their economies could collapse and the flow of vital materials to the United States and Western Europe would be disrupted. The forces of malnutrition would be strengthened.

The question confronting us is not shall we help the underdeveloped areas? The chain of interdependence is so inextricably forged that we cannot avoid helping.

The question really is how are we to organize ourselves so that the truly essential needs of these underdeveloped areas are protected along with our own? So that the immediate urgencies of defense are balanced with the objectives of steady economic development? So that we free nations continue to invest in the future?

Recommendations

To meet this double challenge -- of strengthening the defenses of the free nations while still promoting the economic progress essential to lasting peace -- the Advisory Board has made these major recommendations:

I. Appropriation of $500,000,000 in economic assistance to these areas apart from emergency requirements arising from military action, as recommended in the Gray Report -- these sums to be directed towards overcoming specific problems with specific targets set for specific time limits.

II. Prompt creation of one overall agency for major foreign economic operations, including those of the Economic Cooperation Administration, and the Technical Cooperation Administration and Institutes of Inter-American Affairs, both of which are now in the State Department.

III. A realistic program balanced against our defense needs, for strengthening the economies of the underdeveloped areas and improving the living standards of their people.

IV. An all-out food-for-independence production drive in the underdeveloped areas, including a 20 percent increase in rice output.

V. A development program to boost the flow of strategic materials from abroad by 50 percent, and to develop substitute sources for things now coming from Russia and her satellites.

VI. A policy and program for securing the underdeveloped areas all truly essential imports, treating their needs on the same first things first basis as our own.
VII. Creation of a new International Development Authority, which should operate under a manage-
ment contract with the International Bank for Reconstruction and Development, to help finance
public works vital for economic progress.

VIII. Adoption of the general principle that all U.S.
assistance programs should provide for some
measure of cooperative local services and
financing.

III. A five-fold program to increase U.S. investments
in foreign countries from the present $1,000,000,000
a year to a minimum of $2,000,000,000 a year.

The issues really is one of economic development versus
economic subversion. Soviet imperialism is seeking to chop off
country after country in order to isolate us. There must be a
positive strategy of strengthening the ties of cooperative progress
which bind the free peoples together.

The Advisory Board holds to the concept of "Point Four"
as originally announced by the President and as declared by the
Congress in the Act of International Development. The Advisory
Board believes that economic development, when brought within the
necessary broad strategy of a total foreign policy, will play an
important role in our mobilization for defense.

Economic development means much more than merely increas-
ing the production of food and raw materials. It also means a re-
 lentless war on disease. It means improved educational opportunities,
and other reforms, where people want them, fair and rising
labor standards, a living wage, full participation in the benefits
accruing from increased wealth or income, the removal of discrimina-
tion based on race, color, nationality, religious belief, caste, or
sex. The concept of economic development also includes treating
in democracy to enable all of the people to take active part in public
affairs; to have the right of trial by jury, the right to work, the
right to self-organization, to strike, to vote, as well as steady
progress towards freedom from want.

Pressing these objectives ahead while mobilizing for defense at
home may seem contradictory. But the more deeply we
have explored this relationship of economic development to defense,
the more impressed we have been with how truly inseparable they are.

The nature of the conflict in which we are engaged re-
quires our reaffirming the faith that built the United States, the
faith in people, in their ability to govern themselves and in their
capacity to advance themselves through their own labor. It must
remain our aim continuously to strengthen human freedom and the
inherent dignity of man throughout the world.

We are moving into a new period of national accountancy
in which a waste of resources now may have to be paid for later in
lives. Whatever is proposed must be measured against the avail-
ability of scarce materials, scarce labor and scarce production
facilities; against the need to limit money costs at a time of
heavy taxes and inflationary pressures, and in terms of the direct
contribution to defense. By the same strict accountancy, these
programs of economic development which do make a significant
contribution to world security should be pressed with all vigor.

Of course, it will not always be possible to strike a
best balance between these objectives. However, the Advisory
Board does not feel it should be too difficult to assign the
proper priorities for guiding the disposition of available re-
sources, provided two things are done:
1. That our mobilization for defense include the basic objective of the steady strengthening of the free world.

2. That the machinery of government be set up effectively to weigh the contributions of economic development to world progress and security against the resources necessary to see the progress through.

The Advisory Board believes its nine major recommendations can provide the effective means to accomplish the goals:

3. Appropriation of $500,000,000.

A balanced program of economic development calls for simultaneous progress in three broad fields of economic endeavor. Along with the production of goods - which is a job for private enterprise — must go public works, such as roads, railways, harbors and irrigation works; also improvement in the basic services, like public health and sanitation, and training people in basic skills. The financing of both the public works and these basic services are largely governmental functions.

The Gray Report on U. S. foreign economic policy, submitted to the President last year, recommended that U. S. economic assistance to the underdeveloped areas be increased “up to about 500 million dollars a year for several years, apart from emergency requirements arising from military action.” The Advisory Board believes that the expenditure of $500,000,000 in these areas is justified.

XI. One overall administration

As our mobilization gathers momentum, the same acute becomes the need for centralizing all major U. S. foreign economic operations. Failure to create one, overall foreign economic agency now invites the scattering of functions which eventually will have to be brought together.

A unified agency with a new point of view is needed. It will not be sufficient to transfer additional functions to the Economic Cooperation Administration. ECA, and the Technical Cooperation Administration and the Institute of Inter-American Affairs, both of these now in the State Department, should all be brought into the new administration. Existing legislation provides a tested foundation for essential operations of the new agency although amendments will be needed. But there should be a truly unified organization planned from the ground up to deal with present and future problems, not the problems of the past.

A tabulation prepared for the Advisory Board lists thirty-three different foreign agencies and twenty-three U. S. agencies with some foreign economic operations. Most of these work in well-defined fields. In some cases there is duplication.

The problems of economic defense and economic development must be dealt with together, hand-in-hand. Controls may be used to prevent items of strategic value from reaching a possible aggressor and also to insure the continued flow of truly essential exports to the underdeveloped areas. The new agency will also be charged with making the most effective use of private enterprises
and of the varied international agencies and voluntary groups active in the field of economic development. We recommend two special assistant administrators to head these respective activities.

The Advisory Board recognizes that some of the administration’s powers would be of an emergency character and should be terminated on the expiration of the emergency. But the Advisory Board also feels that the United States needs a permanent governmental agency which will give continuity and constancy to U.S. foreign economic policy.

In all matters of foreign policy the Administrator would be guided by the Secretary of State in the mobilization policy by the Director of Defense Mobilization. We recommend that the Administrator become a member of both the National Security Council and the National Advisory Council on International Economic and Monetary Policy.

III. Strengthen Underdeveloped Economies.

The Advisory Board has stressed the importance of organizing the new Administration on regional lines. We have placed this emphasis on regional planning and operations because only in regional terms would it be possible to do a hard-headed analysis of each country’s problems and possible contribution to defense.

What are the greatest difficulties confronting each country and what is required to overcome them? What are the available resources in the country itself, from the United States, from other nations? How can the overall job be spread over the years so that the maximum use is made of all available resources and priority is given to those projects which make the greatest contribution to expanded production and defense?

These questions must be answered if the most economical and effective use is to be made of available resources. The time for vague promises in administrative objectives has passed. Simply to allocate U.S. funds for something “worthwhile” is not good enough. Whatever is undertaken should be aimed at overcoming specific problems, with targets of accomplishment clearly set forth within set time limits.

The first requirement is a carefully worked out overall country by country development program for these underdeveloped areas. Efforts to stamp out disease or to train young people vocationally should be integrated with what is attempted in the way of expanding the production of strategic materials and food. Before a new crop body can be tapped in any countries, malaria control may
be necessary. The ease improved rail or highway facilities required to transport ores could enable farmers to move crops to nearby markets.

IV. Food Production.

Perhaps the first major objective of the new Administration should be to apprise, in cooperation with these underdeveloped regions, an all-out food production drive which would break the back of hunger and famine. It would strike at the greatest single cause of the suffering and discontent on which subversion feeds.

In Asia, where rice makes up half the diet, populations are ten percent higher than before the war. But rice production is below pre-war levels. Famine threatens many, hunger many more. As with India, the rice shortage is forcing these countries to turn to the West for wheat and other grains. The food economy of much of the world has been damaged by the drop in rice exports. Moreover, the principal rice-exporting countries -- Burma, Thailand and Indo-China -- are most directly exposed to possible Soviet aggression.

In Latin America, the Near East and Africa, as well, specific targets for food output rises should be worked out with the interested countries and pressed with all resources available.

A really fundamental and lasting improvement in the agriculture of all these areas must be considered as a long-term proposition. But a start toward its realization should be made immediately. The base of technical skills and farming know-how must be extended. Land reform is needed in some cases; reclamation and irrigation in others.

Along with this progress must go certain health and sanitation projects. For example, in Central Africa, the discovery of new drugs to combat sleeping sickness holds out the hope that several million acres of new land may be brought under cultivation. Perhaps the annual health revenues are being infected by the chronic sleeping-sickness infections, like-


V. Short Strategic Materials

With our material shortages developing rapidly, an immediate step-up in the production of key minerals is vital if we are to be able to meet the growing military demand, without harsh civilian curtailments.

The billion dollars energetically and strategically invested over the next few years could swell the outflow of vital materials from the underdeveloped regions by $1,200,000,000 a year.

This increased production can best be carried out under private auspices and wherever possible local capital within the country should be encouraged to enter into partnership with U.S. investors in these projects.

Both immediate and longer-range plans need more of these consequences unless such a development program is undertaken promptly. Although the United States accounts for more than half of the world’s heavy industry production, it uses only about a third of the world’s annual output of the fifteen basic minerals. Soviet shipments to the United States of chrome and manganese, so essential for steel-making, have already been curbed back. The Advisory Board hopes that the people in the Soviet controlled areas will be able to reclaim their freedom. However, today their trade is tightly controlled.

In the manganese and bauxite deposits of Latin America, Africa and Asia, the chrome production of Turkey and the Philippines, the timber stands of Brazil and Chile, the pulpwood of Labrador the resources for developing substitute sources for materials which come from areas now dominated by the Soviets or most vulnerable to aggression. Continued dependence of the free nations upon imports and markets of Soviet controlled areas threatens not in enforcing measures of economic defense.

Pean, rice institutions and home well-being can be assured only within the terms of an expanding world economy. With an expanding productive base it will become possible to increase individual productivity, raise living levels, increase international trade, meet the needs of the growing populations in the underdeveloped areas and perhaps even make people from the industrial areas under growing population pressures.

Our objective should not be to “aim and get out” but to arrive for a balanced economic development which will lay an enduring base for continued economic progress. Workers should receive a fair share in the benefits as quickly as possible.

Improving the standard of living of the people of the underdeveloped areas is a definite strategic objective of the United States foreign policy. The Advisory Board recommends the continued encouragement of the free labor unions in the underdeveloped areas. And that the International Labor Organization’s recommendations as to fair labor standards be used as a guide for minimum labor standards in the underdeveloped areas.
VI. Assuring underdeveloped areas essential imports.

Unless an adequate flow of necessary materials, equipment, and spare parts is maintained, our aim of mobilizing the strength of the free world will fail. The materials are indispensable to keep those economies going.

To encourage exports effectively, the new Administration should serve as the central agency for all foreign countries before all of the allocating bodies. We would expect highest priority to be given those nations which cooperate most effectively with the other free peoples in mutual defense against aggression.

Exports of around $5,200,000,000 to these countries, which was the value of their purchases from the United States in 1949, would represent less than two percent of our present gross national production.

VII. Creation of International Development Authority.

The defense emergency makes the construction of essential public works incredibly urgent. If the flow of strategic and critical materials is to be safeguarded and enlarged and food output raised.

What is the most efficient way for financing such public works?

The Advisory Board has weighed this question most carefully. In the case of public works of a strategic or defense nature, in which the United States has a direct interest because of security considerations, it is logical for the United States Government to negotiate directly with the country involved.

As to the essential public works, not primarily defense projects, it is the Advisory Board's considered judgment that such public works could be most effectively financed and developed through a new International Development Authority which should be administered by the International Bank under a management contract.

Although on the whole the programs of economic assistance have been handled well in the past, there is urgent need to devise new financing to which we can add other co-operative efforts among the free nations.

The new International Development Authority would be set up with a total fund set to exceed $500,000,000, to be subscribed by the United States and other countries in proportion to their subscriptions to the International Bank for Reconstruction and Development.

In no case should the Development Authority make grants covering the full cost of any project. In every case there should be some degree of matching of the grant by the beneficiary country in terms of local materials, local labor or other local resources. In many cases it may be possible for the International Bank to provide part of the funds needed for a project through a medium loan.
VIII. Local Cooperation.

If the basic services, such as health, education and agriculture are to be successful they must reach down to the people.

This nation has always stood for a people to people approach to the problem of mankind.

A highly effective means of accomplishing this has been worked out in Latin America over the last eight years under the auspices of the Institute of Inter-American Affairs, which is a U. S. Government corporation.

In sixteen Latin American countries "Servicios," (cooperative service agencies) have been set up. There are three main advantages: they are part of the governmental structure of the local country; they are jointly financed; and they are jointly staffed by U. S. and local personnel. According to a recent estimate, 10,000 nationals in the Latin American Republics were working with the "Servicios," while the total United States personnel was 110.

The United States financial contribution to these "Servicios" has declined steadily in proportion to the contribution of the foreign countries. At present most of the Latin American Republics are putting up more than twice as much money for these programs as is the United States.

The Advisory Board recommends the creation of similar jointly-financed regional institutes for each of the four other underdeveloped areas.

Only by broadening the human base of technical skills in the underdeveloped countries can United States assistance from these programs be realized. Only in growing numbers of the people of these countries must the various techniques and skills will they be able to carry on for themselves.

That is one of the major reasons why we have urged that all United States assistance programs, as a matter of principle, require some measure of cooperative local financing. From the outset of a program, the people in the country must feel they have a stake in the program and are prepared eventually to carry it on with their own resources.

IX. Private U. S. Investments.

The Advisory Board has sought to place prime reliance upon private enterprise and private capital. The use of public funds necessarily involves either higher taxes or additional borrowing by the government, both of which should be avoided in these times of dangerous inflationary pressures.

If the capital needs of the underdeveloped areas are to be met, the Advisory Board estimates this flow of U. S. private capital should be at least doubled and perhaps tripled. Such a scale of investment, joined with a smaller public investment,
through national and international agencies and local
capital, could give a revolutionary lift to the
economies of the underdeveloped areas.

To stimulate the flow of private capital from the present
$1,000,000,000 a year to a minimum of $2,000,000,000, the
Advisory Board recommends a full kit of financial tools:

1. Tax Incentives. Adoption of the principle
that income from business establishments
located abroad be taxed only in the country
where the income is earned and should there-
fore be wholly free of U. S. tax.

To avoid any drop in tax revenue during the
emergency we recommend that only new invest-
ment should be freed of U. S. tax during the
present emergency. As soon as the emergency
is lifted the exemption should be extended to
future income from investments abroad regard-
less of when the investment was made. This
would apply to corporations. Individuals
would receive only partial exemption.

2. Bilateral Tax and Commercial Treaties. To
obligate discriminatory taxes levied upon
U. S. corporations abroad, negotiations should
be pressed for tax treaties with other countries.

3. Insuring Transfer Risk in Foreign Dollar
Borrowing. The Advisory Board recommends
that $250,000,000 of the loan and guaranty
authority of the Export-Import Bank be em-
ployed to underwrite for a fee the transfer
risk on new foreign debt obligations pur-
chased by private United States investors.
This would require no new legislation. The
foreign borrower would continue to bear all
risk of fluctuation in foreign exchange.
This coverage would be selective at the
discretion of the Export-Import Bank.

4. The United States take the initiative in
creating a new International Finance Corpo-
ration, an affiliate of the International
Bank with authority to make loans in local
and foreign currencies to private enterprise
without the requirement of government guar-
antees and also, to make non-voting equity
investments in local currencies in partici-
pation with private investors.

The Corporation would have perhaps a
$400,000,000 authorized capital, of which
the U. S. would subscribe $250,000,000 as
its share in proportion to its holdings
in the International Bank. This sum
would not be a grant, but an investment on
the part of our government.

5. Special Export Administration to Encourage
Exports: Some Law of Private Enterprise. It
should be channeled with facilitating in every
possible way the maximum use of private capital
in furtherance of economic development. It
would be a "trouble shooter" for private
enterprises.
In Conclusion

The Board wishes to emphasize that although current international tensions give special urgency to our recommendations, the world-wide task of economic development would still remain to be done even if there were no threat of aggression. The problem of constructing a lasting peace is not one of preserving an existing order in the world but of building a new structure in which all nations can work together, exchanging their skills, labor and capital to mutual benefit.

The essential test of statesmanship in this whole area might be described as one of finding the means to forget the past and to get on with the future.

In miracles should be promised -- none can be expected. Still, it should be pointed out that the job before us is not as big as it may seem. It is also true that the economic output of the Western nations, measured in national income, is five times that of all the underdeveloped areas taken together. The Advisory Board believes that this is an accurate measure of the job before us. The whole current economic pattern of underdeveloped regions could be revolutionized through a consistent investment flow from the Western industrialized world of three billion dollars a year, less than one percent of the national income of the United States and the countries of Western Europe.

If the program recommended in this report is carried through, the Advisory Board feels that the United States and the other free nations will have been strengthened against any possible aggression and for the building of a lasting peace.