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April 3, 1951

MEMORANDUM

To: SA - Mr. [illegible]
SA - Mr. [illegible]
SA - Mr. [illegible]
SA - Mr. [illegible]
SA - Mr. [illegible] ✓

From: SA - Wilfred [illegible]

Subj: Draft Reaction on Rockefeller Report.

Attached is an initial reaction on the major substantive points in the report of the International Development Finance Board (the Rockefeller Commission). The attached draft has been prepared in a preliminary manner and will be subject to a review of the Commission. It is suggested that the Commission be advised of the need to facilitate a comprehensive review of the report. The report is being prepared in a preliminary manner, and it is suggested that the Commission be advised of the need to facilitate a comprehensive review of the report.

The attached draft has been prepared in a preliminary manner and will be subject to a review of the Commission. It is suggested that the Commission be advised of the need to facilitate a comprehensive review of the report.

Attachment

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MEMORANDUM

March 10, 1951

To: I - Mr. Tracy
 - Mr. Lister
 - Mr. Egan
 CWD - Mr. Starnes
 - Mr. Conroy
 IV - Mr. Tamm
 - Mr. J. Edgar
 - Mr. Quinn
 - Mr. Egan
 - Mr. Tamm

From: ED - Wilfred Malachuk

Subject: Attached Position on Rockefeller Report.

The attached is for comment. In view of the fact that the Department should have a position finally established by April 13, in preparation for discussion with the IAB, I would request comments and proposed changes by Friday, April 6.

Attachment

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Draft Position on the Report of the International Development
Agency Board

I. Major Points in the IDA Report

I. The thesis is aggressive support of development in the underdeveloped areas.

The IDA urges the U. S. to consider development of these areas an integral part of our stepped-up defense activities. While it stresses the importance of action by private individuals and organizations, it recognizes the complementarity of governmental assistance, both financial and technical, and points up in particular the leadership that must be supplied from the government.

II. The immediate goals are expanded output of food and strategic materials.

The IDA feels that our efforts should be set upon making increases in food output (an expansion in output of at least 25%) and in strategic materials (an increased output of about \$1 billion annually) in the underdeveloped areas. It recognizes that to attain these objectives there will have to be not only special action in the specific fields of agriculture and minerals, but general pressure to broaden the industrial base of underdeveloped countries, particularly transportation and power. It makes a specific recommendation for expanding national mineral output (\$2 billion of private investment over the next 4 or 5 years), and general recommendations for expanding technical assistance in agriculture, and also capital investments at the amount of 7.5% annual assistance that will be necessary to ensure the needed expansion in the fields of food and power. It also states the Board's position on the desirability of increasing the availability of monetary resources to the underdeveloped areas.

countries in order to accomplish these programs, and stresses the need for a new operating agency which, among its other responsibilities, will be in a position to assess and implement the necessary flow to these countries of U. S. output in short supply.

III. Action is needed in the form of governmental and inter-governmental financial and technical assistance, and of aggressive participation by private investment.

U. S. assistance to underdeveloped areas should increase from the present level of \$280 million (fiscal 1951) to a rate of \$500 million per year. This would help finance technical assistance projects in the field of health and agriculture, as well as public works considered essential both to the production of critical materials and to the preservation of the economic strength of nations under pressure of aggression.

A considerable part of this public works assistance should be administered under international auspices. Accordingly, there should be created, as soon as possible, an International Development Authority managed through bilateral agreement with the ICA. The authorization of ICA will be \$500 million, \$200 million of which will be administered by the United States, out of the \$500 million authorized above to the extent that those funds are still available when the ICA is created. The ICA will provide funds on a grant basis, but only to "fill out" the financing of projects undertaken with local resources or with inter-governmental and other sources of foreign financing.

With respect to private investment, the ICA program is designed to:

- a. The immediate operating losses sustained from foreign investment in U.S. loans, either by general legislation or by individual law

treaties. The IIAE suggests that this exemption apply only to new investment during the present emergency period; thereafter to all investment.

b. Commercial treaties—embodying the development principles stated in the Act for International Development.

c. Insurance of transfer risk on new foreign dollar securities purchased by U.S. investors—involving underwriting by the Export-Import Bank to the possible extent of \$100,000,000 of the Bank's existing authority.

d. An IIAE affiliate to serve private enterprise—thus creating the International Finance Corporation which would make loans in local and foreign currencies to private enterprises abroad without requiring government guarantee, and would also make participating equity investments in participation with private investors, American and foreign. The United States would contribute \$50 million to the Corporation which might have about \$100 million in total authorized stock.

e. The appointment of a top level U.S. official whose sole responsibility would be securing maximum participation of private enterprise.

IV. Action not to be considered.

The IIAE recommends the immediate creation of an Overseas Economic Administration to conduct all U.S. foreign operations. It will implement all laws as the direct agency for materials in short supply, allocate short supply among foreign countries and secure effective development and production of critical materials abroad.

B. Discussion

I. General

The IDB Report bears the earmarks of a quick and superficial treatment of a highly complex set of problems. It gives little evidence of careful analysis of the problem of economic development; it sheds little new light on the subject. Most of its proposals have long been the subject of discussion in national and international groups; the Report does not summarize these discussions, pro and con, and fails to indicate the reasons why particular proposals are advocated.

Nevertheless, as a polemic designed to attract support for a stepped-up economic development program, the Report is an effective document. It is brief; it specializes in short sentences and in such phrases as "short-term planning" and "flexible analysis"; it buttresses its arguments with neat charts and figures; and it offers in general organizational suggestions for putting the program into action on a governmental basis.

It is the report of an important group of citizens. Its philosophy, and even many of its conclusions (however qualified), correspond with governmental thinking. Either the fault or the inadequacy and superficiality of the Report, the Government would accept to the greatest extent possible. The IDB recommendations show there are essentially three or four, and that a cooperative attitude toward the other recommendations is in effect to facilitate national discussion with and by the IDB in the hope of obtaining the Government's support for more meaningful proposals in the development field.

Essentially, there follows below the discussion of the various parts of the IDB position in A.I through III, showing what is done and what is not done.

views. Rather, the recommended position (see C below) even attempts to adopt the specific formulations suggested by the IDAS. However, there is considerable doubt as to the wisdom, at least at this time, of setting up an international grant agency. Several points in the private investment section must be flagged. The arguments used to substantiate the need for an overall agency in the field of foreign economic operations are not obviously sound. These three points are discussed below in an attempt to support the position recommended.

II. Specific Points:

a. The International Development Authority:

Creation of the IDA implies that the Congress will appropriate funds for foreign grant assistance to be administered through an international body. This conception seems unrealistic, at least at the present time. In addition, it is doubtful that the need for grant assistance in development has been demonstrated enough to warrant the establishment of a permanent international institution for that purpose. The IDA believes that unilateral foreign grant assistance carries political overtones which are disadvantageous. Since the role of economic development can be accomplished in every underdeveloped area through a grant program, and since the volume of such grant aid must of necessity be limited, the very process of allocating these resources which are to receive grants implies special interests. It is thus essentially a tool for bilateral action motivated by special political or economic considerations. However, in the immediate future it seems that only these considerations could be valid even countries other than the United States. Hence, it would seem impossible to avoid any implication that a new international agency created at the present time was anything but a tool of special interest which would be

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B. Private Expropriation

Among the proposals for stimulating private investment, particular consideration should be given to the single administrator idea and to the International Finance Corporation. Action responsibility within the government on the matter of private investment abroad has been divided. A top level official, one with the respect of private enterprise, as well as the Administration, could certainly be effective in getting action on measures to encourage private investment flow.

The International Finance Corporation offers a flexible financing device which could, with enlightened direction, adapt itself to the special capital formation problems in individual countries and might well become a catalytic agency which would actually multiply the rate of new investment. Its ability to raise both dollars local, as well as foreign, capital and its authority to make equity as well as loan investment, really mean the introduction of a new public tool to the international financial field. The recommendation to attach this agency to the International Bank has merit: the two types of financing thus available will complement one another. However, it should be pointed out that establishment of this new function for the IFC may require international action to verify the Bretton Woods Agreement, as well as new national legislation and an appropriation.

The proposal covering new investment flow function is difficult to administer, is contrary to our basic principles of financing, and is probably politically unworkable at this time. While we should indicate our willingness to continue to explore the matter, we should also note that the IFC may be proposed, both now and later, with regard to the Government. In January 1954 we received little support for the IFC proposal. The IFC is not a new function for creating public investment funds.

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evision, signed with 7 countries between 1946 and 1950, which are awaiting Senate confirmation, again without active private support. With respect to commercial treaties, the Department has in fact been negotiating on the very principles suggested by the IAB; it intends to continue its activities in this regard.

With respect to guarantees, the U. S. Government recommended to the Congress a much more far-reaching proposal to guaranty transfer risk than that of the IAB. It failed of enactment primarily perhaps because of active opposition by business groups. There is basis for doubting the effectiveness of the present guaranty confined to the transfer risk on private lending abroad. There is also some doubt as to whether the government should be prepared to underwrite guaranties for transactions which the government might itself be willing to underwrite on a loan basis, and which private enterprise is undertaking at a significantly higher rate of interest. However, the real risk involved to the government in the years ahead and the possibility of expanding the private U. S. market for foreign securities do prompt support of this recommendation. If at all possible, our support should regard the problem of obtaining guaranty legislation to cover private equity investment also.

2. Administration

The single agency recommendation raises basic problems as regards authority for the conduct of foreign affairs. While the Department probably is an appropriate operating agency in the foreign economic field, the Department of Economic Operations is our foreign policy picture which must be kept in mind in the event of a new general economic operating agency. The only likely the establishment of the Department of State, the IAB recommendation

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raise similar problems with respect to the operations in our missions abroad. It is proposed that the A area will discuss these problems comprehensively.

However, it is appropriate here to point out that the IMAE Report speaks of a single operating agency but discusses the problem as though this agency were operating only for underdeveloped areas. There does seem to be merit to unifying the grant-for-development operations, the procurement function, and the allocating function for underdeveloped areas. Such a unified group should have an important voice in loan activities for underdeveloped areas, and hence should be represented on the Board of the Export-Import Bank as well as on the National Advisory Council. However, it is questionable that these problems of the underdeveloped areas are sufficiently akin to the problems in administering the European aid program as to warrant single agency control. Thus, the European problem will be primarily military and defense; it will involve inter-agency relationships in this government which are quite distinct from those involved in the development problem. The material needs of Europe will be analogous to the defense and production needs in the U. S.; responsibility for allocations for such European needs, as well as for equipment for the underdeveloped areas, will raise within the agency exactly the same questions of relative priorities which the IMAE seeks to avoid. Given also the relatively small amount of aid for the underdeveloped areas compared to that contemplated for Europe, it is probable that single agency responsibility will be superior in the underdeveloped areas, for it implies no "percentage" problem for these needs. It might also have been appropriate for the IMAE to study the IMAE experience in the other countries between the COM (underdeveloped area) program and the European (developmental) program. Are there any real advantages to having administration of such different programs

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The IIAE recommends the creation of regional corporate agencies analogous to the IIAA in Latin America. (Specific TSI accounts have been requested on this point.)

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The Department should: ^{6.} **Expanded Developmental Initiative**

1. Support the main thesis of the IDAB Report; in particular it should take every opportunity to stress the IDAB recommendation on timing of U. S. action in the underdeveloped areas.
2. Concur in the specific proposal of expanded food output and expanded strategic materials production in the program for the underdeveloped areas. ✓
3. Accept the IDAB recommendation for \$500 million in grant assistance in fiscal 1954 as a reasonable approximation to the need for such assistance in that year.
4. Support the establishment, perhaps as an assistant administrator in the pertinent operating agency, of a key official charged solely with expanding the role of private U. S. investment abroad. H
5. Detail the position that U. S. grant aid must continue to be provided on a bilateral basis, at least until other countries of the world are in a position to make more than token contributions to a multilateral organization for financing economic development with grant funds. X
6. Support the establishment of an International Finance Corporation and take the lead in procuring interagency discussion of terms of reference for such an organization, legislative steps needed, etc.
7. Accept the guaranty recommendation but urge the broadening of it to include similar guaranties for some equity financing. /
8. Concur in the need for tax liberalization, both through new trade treaty negotiations and through legislation, at least to the extent of the proposals which the Administration has made to the Congress.

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5. Support the establishment of a single agency responsible for operations, other than loan activities, in underdeveloped areas, the agency to be separate from agencies operated in developed areas.

10. . . . Proposed positions #7, 10, etc. . . . to be supplied on the basis of a more complete Departmental evaluation of the administration section of the IAS Report.